

Egypt

Chamber of commerce:

Federation of Egyptian Chambers of Commerce
4 Midan El Falaky Street
Cairo
Egypt
Tel: +202 795 1136
Fax: +202 795 1164
Email: fedcoc@menanet.net

Professional body:

Egyptian Bar Association
49a Ramses Street
Cairo
Egypt
Tel: +202 572 1055
Fax: +202 574 7488

New legislation – an overview

Mohammed Gomaa
Zaki Hashem & Partners
Cairo

2005 ushered in a significant contribution to Egypt's legal framework. A package of new laws and regulations aimed at creating a more coherent legal environment (the development of which had already started a few years earlier) was passed. Prominent among those are the amendment to the Constitution, the Law on the Organization of Presidential Elections, the Law on the Protection of Competition and the Prevention of Monopolistic Practices, and the Income Tax Law.

The amendment to the Constitution and the Elections Law

President Hosni Mubarak issued a presidential decree on May 26 2005 amending the constitution after the majority of Egyptian voters approved (in a referendum on May 25 2005) the amendment to Article 76 of the Constitution and the addition of Article 192, which allows for secret, multi-candidate presidential elections. The amendment replaced an old referendum-based system, under which the People's Assembly designated a sole candidate who was put to a referendum. The significance of the Article 76 resides in the nature of the article itself, touching as it does on the fulcrum of the entire system of government. Amending Article 76 to provide for the free and fair direct popular election of the president from more than one candidate alters the nature of the system, and renders its legitimacy above suspicion.

To put the new amendment into effect, the People's Assembly passed the Law on the Organization of Presidential Elections (Law 174 of 2005, the Election Law). The Election Law sets out the rules for campaigning, funding and monitoring of the campaigns of presidential candidates. It establishes an independent Presidential Elections Committee for the supervision of presidential elections in accordance with the terms of the law. The Election Law therefore regulates the process whereby all political parties must nominate their candidates for the forthcoming presidential election, to be held in the light of the amendment of the Constitution, in accordance with the statutes of each party.

At the time of writing, Egypt's presidential elections are expected to take place in September 2005. The term of office of the Egyptian president is six years.

The Competition Law

The Law on the Protection of Competition and the Prevention of

Monopolistic Practices promulgated by Law 3 of 2005 came into force in May 2005. This long-awaited law has rid the Egyptian market of trade practices that undermine competitiveness or that are considered unfair. The philosophy behind the Competition Law was to maintain a balance between the freedom of practicing economic activities while eradicating conglomerations of economic resources that create monopolies or concentrations of wealth in the hands of a few, thus causing injury to the public and individuals through (among other things) undesirable price controls.

The Competition Law is expected to reverse restraints on trade or commerce and on competition, which lead to market stagnation, and to enhance individual initiative. The Competition Law, which is backed by heavy monetary sanctions, applies to all transactions and business involved in commerce (covering both trade and services). It also applies to any actions committed abroad if those actions result in the prevention or restriction of the freedom of competition in Egypt. It does not, however, apply to public utilities managed by the state. The Competition Law also provides for a conditioned exception from its application in the limited case where the public interest and the interests of the consumers are obviously affected in such a manner beyond any considerations of free competition.

The application and implementation of the Competition Law (and its executive regulations) will be monitored by the Authority for the Protection of Competition and the Prevention of Monopolistic Practices, created under the Competition Law.

The Income Tax Law

The People's Assembly passed the Income Tax Law (Law 91 of 2005), aimed at, among other reforms, enacting tax cuts and widening tax brackets. The Income Tax Law is based on a philosophy of trust between the state and the taxpayer, to put an end to the long-standing climate of mistrust between taxpayers and the Tax Authority, in addition to the need to enhance Egypt's open-economy policies. It aims at reducing the discretionary powers of the Tax Authority by simplifying the rules and relying on random audits as opposed to intrusive annual audits.

The Income Tax Law relies on a category-based taxation system for individuals, depending on income, where the tax reaches up to 20% according to each category. For companies too, the Competition Law caps corporate tax at 20% – down from 32% or 40% under the previous law depending on the type of activity – with certain exceptions, namely: the Central Bank of Egypt and the Suez Canal, which are taxed at 40%, and oil exploration and production, which is taxed at 40.55%. Also of note is the elimination of the 2% state development tax.

The Income Tax Law provides for three notable exemptions. First, professionals are granted a three-year grace period, after which

they must pay taxes under the Income Tax Law like any other taxpayer. Secondly, companies that have undergone key establishment steps under the old incentives law have been granted a three-year grace period even if they have not yet begun operations. And thirdly, new business that have received loans from the Social Fund for Development are not required to pay taxes on the profits of those loans (although other sources of financing are taxable) for a five-year period starting from the beginning of operation.

One of the major changes in the Income Tax Law affecting investment in Egypt is the elimination of investment incentives, including permanent tax exemptions and tax holidays. Furthermore, exemptions have been almost entirely abolished for certain categories, including interest on paid-up capital for companies listed on the Cairo and Alexandria Stock Exchanges, capital gains that are shown in accounts, asset revaluation gains, interest on deposits, and rents from real estate. Capital gains are taxable, and losses are no longer deductible. For companies, interests from banks are taxable like any other form of revenue.

As a result of the new regulations and the associated tax cuts, the government expects to lose an estimated E£3.5 billion (\$606 million) in revenue over the next three years. However, it expects to make up for its losses in the years afterwards because of an increase in compliance with the tax rules, resulting in taxpayers making full tax payments and more individuals and companies paying their taxes.

Banking and capital markets

Recommended firms

Tier 1

Helmy Hamza & Partners/Baker & McKenzie
Shalakany Law Office

Tier 2

Denton Wilde Sapte
Zaki Hashem & Partners

Tier 3

Al Kamel Law Office
Ibrachy & Dermarkar

Tier 4

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

Mergers and acquisitions

Recommended firms

Tier 1

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

Tier 2

Denton Wilde Sapte
Trowers & Hamblins

Tier 3

Al Kamel Law Office
Ibrachy & Dermarkar

Tier 4

DLA Matouk & Bassiouny
Hassouna & Abou Ali
Ibrachy Law Firm
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

Al Kamel Law Office

Al Kamel Law Office is a medium-sized domestic law firm that offers a wide range of advice in financial law. It has a main office of seven partners and 34 associates in Giza, but it also has a two associate presence in Alexandria. Market observers have noticed that "Al Kamel frequently acts as local counsel for many lenders in projects" and in particular, the firm has earned respect for its involvement in the Egypt LNG project. In this, Al Kamel is acting as legal counsel to the European Investment Bank and a syndicate of international and local banks in granting a loan facility to the sponsors of the \$950 million construction of train one – the El Behera Natural Gas Liquefaction Company, and the \$800 million construction of train two – the Idku Natural Gas Liquefaction Company.

In banking, the International Finance Corporation (IFC) is a frequent client of the firm. At the time of writing, Al Kamel was advising it on a \$20 million loan to EFG Hermes Holding, the leading investment bank in Egypt. It is also representing the IFC

in a \$5 million extension loan to Alexandria Carbon Black. The firm is also adept in structured finance, as seen by its counsel to the European Bank for Reconstruction and Development in a \$45 million aircraft financing transaction, which involved complex interrelated financial and commercial transactions between entities in Egypt, France, Russia, China and the Cayman Islands. Tamim Foda played a major part in this deal, and commentators note that his experience of working at Egypt Air for years makes him “technically very good” and therefore a “rising star” at Al Kamel.

The firm is also beginning to make an impact in the M&A market. In late 2005, it represented Franke Holding in the E£42 million acquisition of shares in Nile Metallic Industries Company and advised Vicat in purchasing a €22 million shareholding in Sinai Cement Company. In addition, Al Kamel counselled the Juhayna Group, one of Egypt’s leading dairy products manufacturers, in the acquisition of one of its competitor’s establishments in Egypt called Domti. While Mohamed Kamel takes the lead in most of these transactions, the market has noticed the rise of Rasheed Kamel, who is gaining “good M&A experience.”

Key contact partner

Mohamed Kamel

Denton Wilde Sapte in association with El Oteifi Law Office

Denton Wilde Sapte has over forty years’ experience in Cairo and is made up of two partners and 15 associates thanks to the addition of Sameh Kamal Mohamed. He joined the firm in November 2005 from his position as legal advisor to the government of Qatar Supreme Council for Economic Affairs and Investment.

After last year’s loss of the influential John Matouk, it was feared that Denton Wilde Sapte’s M&A department would suffer. However, there are signs that the firm is making a good recovery. In 2005, it advised Oil Search in its \$27.5 million, 100% acquisition of Geopetrol Eastern Desert and represented AIG Global Investment Group in its purchase of a minority stake in Sokhna Port Development Company. 2006 has continued to be busy for the firm. In February, it served as counsel to Aramex International in the 100% acquisition of Freight Professional for \$8 million. More recently, and more impressively, the firm was hired by Powertech to manage a \$300 million financing.

The standout transaction for Denton Wilde Sapte in banking and capital markets ran from May to August 2005. During this time, the firm acted as Egyptian legal counsel to Banca San Paolo on the €1.2 billion equity financing of the Weather Wind consortium. In another notable deal, the firm represented Standard Chartered Bank in a \$210 million syndicated borrowing facility in October 2005. The department remains well respected among clients, one particularly mentioning that he was “very impressed with their due diligence work”. Although the consensus is that there is some work to do before Denton Wilde Sapte can break into the top tiers, it is certainly seen as increasingly well-established.

In project finance, meanwhile, Denton Wilde Sapte assisted Methanex with the negotiation and documentation of and establishment of a private free zone \$900 million greenfield project for the manufacture of methanol, and helped establish a project company (EMethanex) for Echem, the Egyptian public sector petrochemical holding company.

The firm remains in association with local outfit, El Oteifi Law Office.

Leading lawyer

Rami Bichara

Key contact partner

Bridget McKinney

Helmy Hamza & Partners/Baker & McKenzie

Helmy Hamza & Partners comes of age in 2006 as the firm is celebrating its 21st birthday. The firm, which acts as the Egyptian arm of international firm Baker & McKenzie, is well renowned for its in-depth local knowledge and it is equally respected for the experience it has gained from roles on many of Egypt’s privatization and debt conversion programmes over the last two decades. It is for these reasons that commentators consider that “Helmy Hamza absolutely deserves to be in tier one.”

The star of the show at Helmy Hamza is without doubt Mohamed Ghannum. Peers describe him as “a very good negotiator” who “certainly has experience – we rate him.” More importantly, it is observed that Ghannum is “one of the few people with legal experience at how to deal with western clients ... he gives clear and precise advice.” This is confirmed by one such client who believes that because of the “excellent Mohamed Ghannum” it perceived the “very professional and timely” Helmy Hamza as one of the “strongest law firms in Egypt with the capability to represent and deal with international companies and banks.” In addition, clients believe that the firm “has more depth” in comparison to its competitors.

2006 has proven to be an extremely strong year so far for Helmy Hamza in the equity markets, where its reputation is already exemplary. In March, it acted for Telecom Egypt regarding the initial public and private, local and international share offering of certain percentages of government shares in the company. This eventually became the largest public subscription offering in the Middle East with a value of E£5 billion. The firm is also advising Al Ezz Group Egypt in connection with Al Ezz Industries’ corporate restructure and increase of capital through an IPO that is valued at E£4 billion. In structured finance, Helmy Hamza acted as local counsel for Morgan Stanley and the arrangers in respect of a \$1.6 billion oil forward sale and securitization transaction.

Project finance is historically a speciality of the firm, and this year the firm has once again failed to disappoint. From representing the sponsors of a \$600 million ammonia plant owned by Egypt Basic Industries Company to counselling the National Bank of Egypt regarding the \$240 financing of the Egyptian Linear Alkyl Benzene Company’s project, Helmy Hamza has been kept extremely busy. At the time of writing it was advising EAgrium in connection with the development of its \$800 million petrochemical complex, and acting for Egypt LNG regarding a liquefaction project in Egypt along with the project finance of Behera Natural Gas and Idku Natural Gas. It is obvious to see why competitors say that Helmy Hamza “is usually seen on the other side” of project finance transactions.

Helmy Hamza’s M&A practice should not be underestimated either, as it once again wins a place in the top tier of the rankings. In February 2006, it represented Calyon/Crédit Agricole Bank in the E£3 billion acquisition of the Egyptian American Bank. This impressive transaction was quickly followed by the firm’s preparation for Ready Mix Beton in Suez Cement Company’s \$150 million planned purchase of a majority stake in the group. Such tight deadlines prove the exceptional depth of talent at the firm

and large capacity for big workloads. Indeed, at press time Helmy Hamza was acting as seller's counsel in connection with the privatization of the Bank of Alexandria.

This year, the firm lost two associates in the form of Tarek Ismail and Hussein Marei to British American Tobacco and Orascom Industries respectively. However, in response, Helmy Hamza has hired nine associates to drive the firm forward in the future. Such aggressive hiring proves that the firm is insistent on improving on its already strong position in the Egyptian legal market.

Leading lawyers

Mohamed Ghannum
Taher Helmy

Key contact partner

Taher Helmy

Ibrachy & Dermarkar

According to one market commentator "the main change is Egypt at the moment is that the market is fragmenting, not consolidating." Surely there can be no finer example of this than Ibrachy & Dermarkar. The firm has always been seen as an excellent small to medium-sized operation, and over the past few years the *IFLR1000* has charted the steady rise of the firm in the rankings to coincide with its growing respect in the market.

However, over the past year, changes at the firm have had a big impact on proceedings. Firstly, the influential Jim Wright left the firm to set up Sharkawy & Associates with Ahmed El Sharkawy. In April 2006, another key development saw Ashraf Elibrachy separate from the firm to set up his own practice – Ibrachy Law Firm. Elibrachy was one of Ibrachy & Dermarkar's leading lawyers. The market is waiting to see what affect this will have on the firm and it is extremely interested to see which side of the fence clients fall on.

Ibrachy & Dermarkar now consists of three partners and 14 associates who have kept the practice going over the past 12 months. In banking, the firm advised on Egyptian regulatory issues surrounding investment and solicitation for the asset management arm of a multi-billion dollar multinational corporation. It also counselled Deutsche Bank on a large trade agreement, and guided WestLB through a currency option confirmation with OTH.

Ibrachy & Dermarkar has also been active in capital markets. Among the highlights, it was hired to act on a credit facility by Orascom Telecom, and also represented the same client in a bond offering by Weather Capital Finance in a highly structured equity-linked deal. In another notable deal, the firm advised on the validity and enforcement of collateral arrangements under credit support documents for a bulge-bracket investment bank.

M&A work has also kept Ibrachy & Dermarkar busy this year. In October 2005, it counselled Union National Bank on the acquisition of Cairo Far East Bank, and April 2006 the firm performed due diligence on a potential E£63 million equity investment by Savola Packaging in New Marina Plast. It then arranged the share purchase agreement and advised on the transfer of title.

Self evidently, Ibrachy & Dermarkar has been performing well this year. The coming year will be extremely interesting, however, as the recently-departed Elibrachy was involved in the majority of the deals mentioned above. On the positive side, the market notes that "Bahieldin Elibrachy will be back in August 2006 from his year out in Canada, and he will lick them back into shape." The shape of the Egyptian legal market in this regard will be much easier to see come next year, when all three firms have affirmed their positions in the market.

Ibrachy & Dermarkar is the exclusive Egyptian member of TagLaw and the Employment Law Alliance.

Leading lawyer

Bahieldin Elibrachy

Key contact partner

Bahieldin Elibrachy

Shalakany Law Office

"Shalakany Law Office is as strong as ever" according to market opinion and once again, the firm has comfortably retained its position in the top tier of all the *IFLR1000* rankings. With roots extending back to 1912, Shalakany is firmly planted as one of the leading financial law firms in Egypt and the Middle East as a whole. The firm is made up of eight senior partners, eight partners and 48 associates in Cairo, which makes it the largest firm in Egypt too. Such capacity means that, although it operates a generalist approach in the services it offers, Shalakany can boast numerous strong specialist areas. These include banking, capital markets, intellectual property, M&A, privatization, tax, IT and telecommunications. Indeed, competitors admit that "Shalakany's size and capabilities mean that it is definitely tier one."

The consensus in the market agrees that Shalakany is hard to rival in banking, and there is little doubt as to why this is. The "very knowledgeable and capable banking lawyer" Mona Zulficar is the head of the department and has a fantastic client base. Commentators note that her presence on the board of directors at the Central Bank of Egypt gives Zulficar "a monopoly over the Egyptian banks." However, it is not just a good contacts list that leads Zulficar's big reputation in banking, because peers can see that she "is without doubt very talented and very experienced." One client summarized the head of department in one word – "excellent." It is for these reasons that Shalakany can list international banks such as ABN Amro, Bank of America, BNP Paribas, Citibank, Goldman Sachs, HSBC and Merrill Lynch as frequent clients. However, Zulficar is also seen as "a leading figure in capital markets too." This was seen in the firm's involvement in the private placement of 30% of shares in El Sewedy Cables worth E£300 million in an international and local offering to qualified institutional and high-net-worth buyers.

While it lives a little under the shadow of the banking and capital markets department a little, the M&A arm of Shalakany does have some serious muscle in Egypt. Two deals in particular this year prove that is punching in the right class considering its tier one status. Firstly, it advised American Express and Bank of Alexandria in the sale of Egyptian American Bank to Crédit Agricole and Mansour and Maghrabi Investment Development Company for E£2.2 billion. Even more impressively, the firm represented Société Générale on the E£2.43 billion acquisition of Misr International Bank. Other notable deals saw Shalakany counsel Blom Bank in its E£200 million purchase of Misr Romania Bank, and advise Bank Audi in relation to its purchase of Cairo Far East Bank for over \$94 million.

In a crossover with the capital markets department, the M&A team caused waves in the Egyptian legal network by advising EFG Hermes Holding this year on its E£1 billion capital increase and \$500 million acquisition of a 20% stake in Bank Audi.

Shalakany remains the Egyptian member of Lex Mundi – a global network of 160 independent law firms.

Leading lawyer

Mona Zulficar

Key contact partners

Ashraf Ihab
Mona Zulficar

Zaki Hashem & Partners

Zaki Hashem & Partners is made up of 55 fee earners and continues to grow in size on a year-on-year basis. It has over 50 years of experience since its foundation in 1953 and is recognized for its work in arbitration, telecommunications, oil and gas, intellectual property and real estate, among others. Crucially, the firm is also active in corporate work, M&A and project financing.

Unfortunately, Zaki Hashem had to deal with decision of Nagla Nassar to leave the firm this year to set up her own business. However, this has been compensated by Nabil Elaraby's return to his senior partner position after five years of being a judge at the International Court of Justice. Despite this activity, the market still sees Yasser Hashem as the firm's "star in banking and capital markets." Highlights in this area have seen the firm represent the Egyptian Fertilizers Company in a \$600 million loan, counsel Vodafone Telecommunications Egypt in a E£1.6 billion loan, and advise EGPC on the securitization and forward sales of crude oil and petroleum. The latter of these transactions was groundbreaking in its field and was worth \$1.5 billion.

In addition to earlier praise, one competitor said that "Hashem understands what he is doing, has a good grip on the issues and is technically quite good" with respect to M&A. This year, he has been involved in Blom Bank's acquisition of Misr Romania Bank and Bank Audi's takeover of Cairo Far East Bank. In addition, the M&A department represented the sellers in the \$100 million acquisition of Ecanco by Rexam.

Zaki Hashem has a growing reputation in project finance and at the time of writing was involved in some impressive transactions. Among these, it was advising a developer of a \$9 billion crude oil refinery and petrochemicals industry complex, and counselling another developer on a variety of crude oil cracking and distillation facilities valued at \$1.1 billion.

Leading lawyer

Yasser Hashem

Key contact partner

Yasser Hashem

Other notable firms

DLA Matouk & Bassiouny is a young firm of two partners and 15 other fee earners. As the name suggests, the local entity entered into a formal association with international firm DLA Piper Rudnick Gray Cary which was made public in September 2005. Commentators have demanded the firm's inclusion on the rankings this year as it "is a serious player despite its size ... both partners are quite prominent, personable and are rainmakers." Indeed, former Denton Wilde Sapte lawyer John Matouk is described as "excellent" with "a very strong star billing" and Omar Bassiouny "has a lot of flare" in the market.

In April 2006, Ashraf Elibrachy left Ibrachy & Dermarkar to set up **Ibrachy Law Firm**. This brave move sees the establishment of a five lawyer firm that offers services in banking and finance, capital markets and M&A. Elibrachy is the only partner at the new firm, and he is widely recognized as "very smart with a lot of experience." One competitor went as far as saying that "for complex questions, it is hard to think of someone better to get answers from." As mentioned above, it is too early to tell what affect his decision will have on the new firm or Ibrachy & Dermarkar, but early indications look good for Ibrachy Law Firm. It can already boast Credit Suisse First Boston, Orascom Telcom Holding and Commercial International Bank as clients.

Sharkawy & Associates is the firm Jim Wright has set up with Ahmed El Sharkawy after 10 years at Ibrachy & Dermarkar. In

addition to these two partners, there are also three associates who are helping to offer general corporate and commercial advice. Whilst the firm is not affiliated to any formal networks, it is hoping to benefit from a close working relationship with Allen & Overy, for whom Wright formerly worked for.

Trowers & Hamblins' one-partner, four-associate Egyptian outpost has worked in association with Nour Law Office since 1999. It offers advice on a variety of corporate and commercial matters including banking, capital markets, M&A, IT, oil & gas, telecommunications and construction. Highlights this year include advising automotive cable manufacturer Leoni on the expansion of its Egyptian arm, representing HSBC as global manager of Lecico's global offering, and counselling Finbi in relation to the establishment of a local credit bureau. The office is headed by Sarah Hinton, who now has a decade of experience in Egypt.