



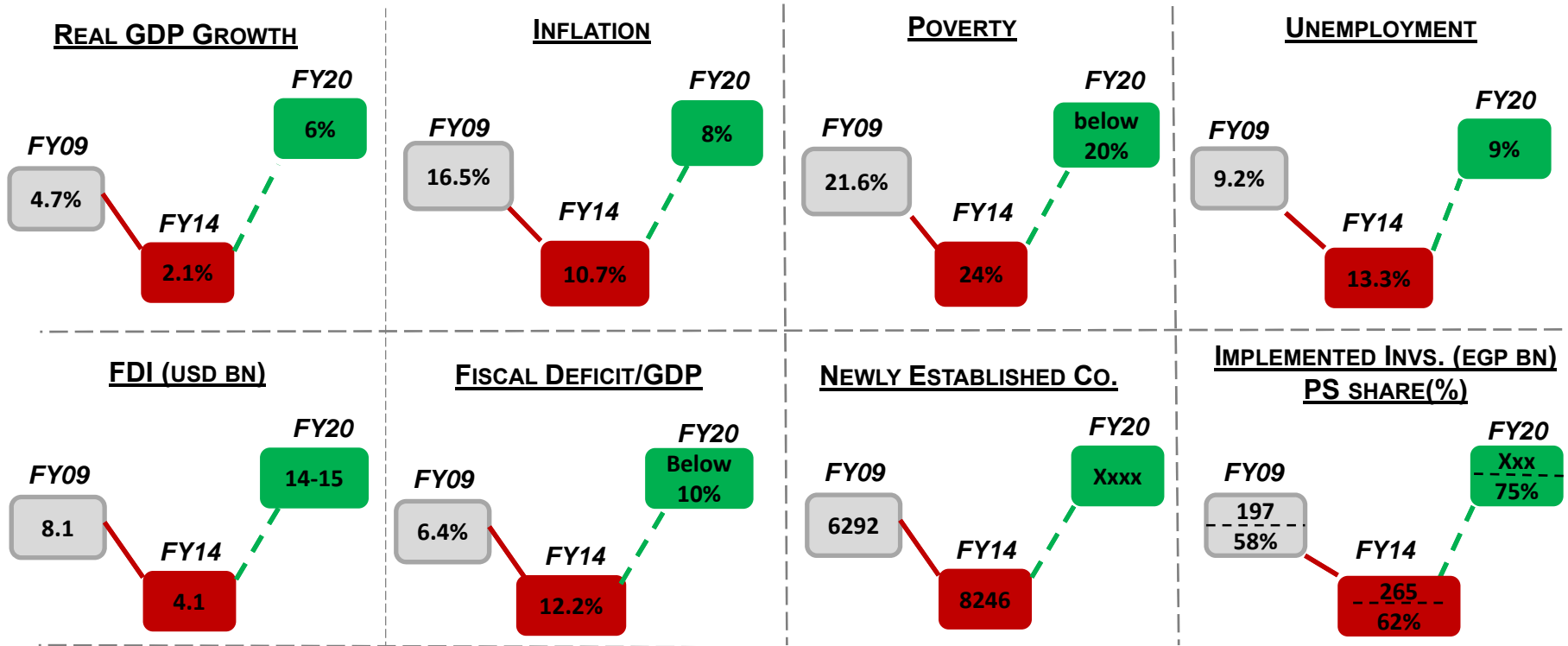
وزارة الاستثمار
Ministry of Investment

Economic and Social Reform A New Chapter in Egypt's History

*A Popular Leader with an Entrepreneurial Vision
A Technocrat Prime Minister to Execute the Vision*

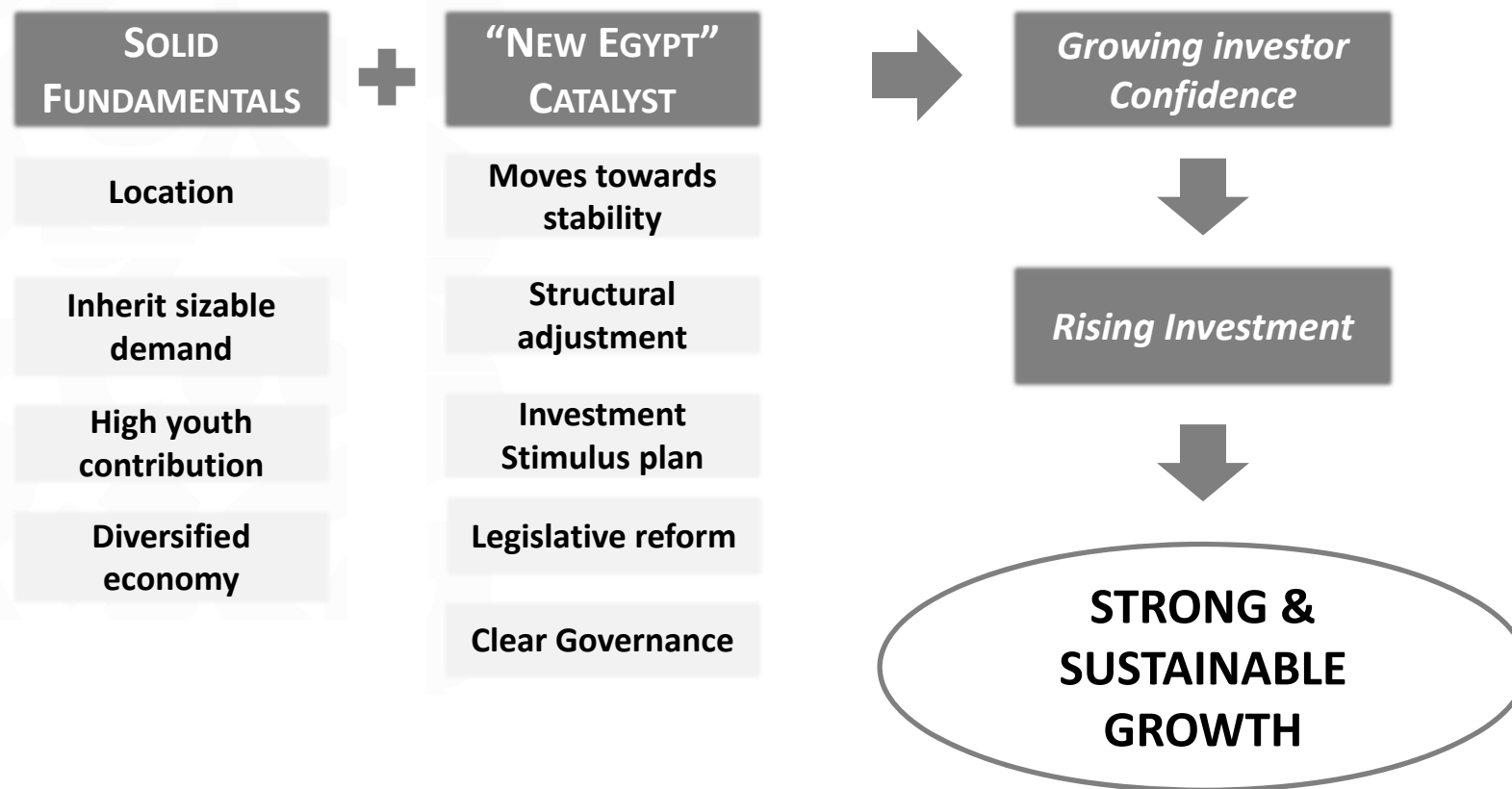


Egypt, pre & post-revolution ... then what's next!





Aggressive targets, yet achievable with Egypt's new formula...



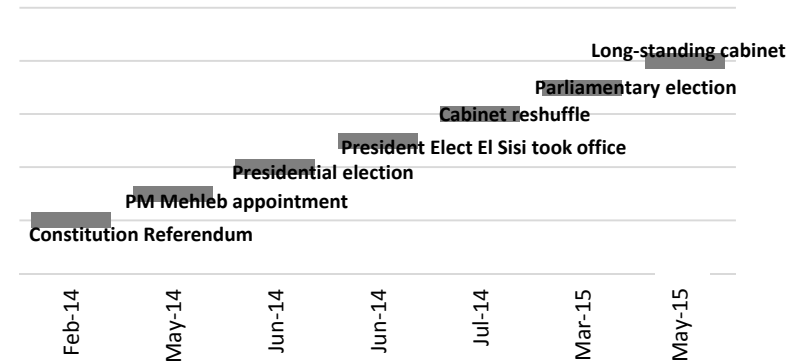
... especially as Egypt already kicked-off with its checklist

- ✓ **Commitment to Political Roadmap**
 - ✓ Constitution referendum
 - ✓ Presidential election
 - ✓ Parliamentary election kicking-off March 2015
- ✓ **Consensus building, moves toward stability and improved security**
- ✓ **Structural Adjustment**
 - ✓ Taxation reform
 - ✓ Phasing out oil subsidies
- ✓ **Investment stimulus plan**
- ✓ **Legislative reform**
 - ✓ New regulations and amendments
 - ✓ settling investors disputes
 - ✓ Payment of dues to oil companies
 - ✓ Full coverage of FX backlog
- ✓ **Social welfare program**

✓ Commitment to political timeline with a more inclusive scene - a conducive investment climate

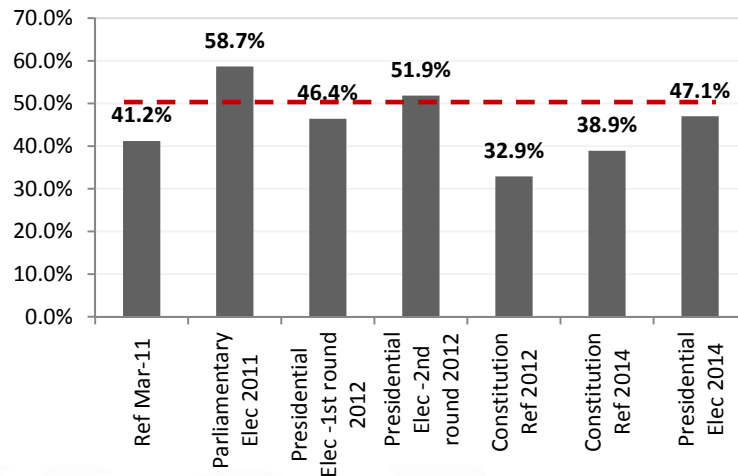
- With recent announcement of running parliamentary election by March 2015, commitment to political roadmap is confirmed ensuring a full-fledged political system by 1Q15.
- With President-elect Abdel Fatah El-Sisi gaining 97% of votes with a considerably high turnout ratio of 47.1% suggests consensus building, a key factor in achieving stability – already evident in the reduced number of strikes.
- A recent poll, conducted by Baseera, assessing President El-Sisi 100-day performance shows that 82% approves his performance which further confirms public consensus.

Commitment to political roadmap



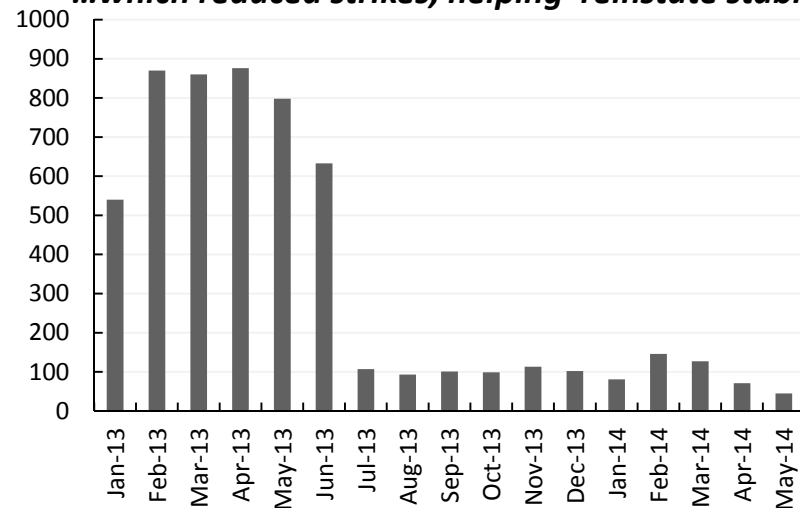
Source: Official sources and Ministry of Investment database

High turn out ratio confirms consensus building...



Source: Supreme committee for elections

...which reduced strikes, helping reinstate stability



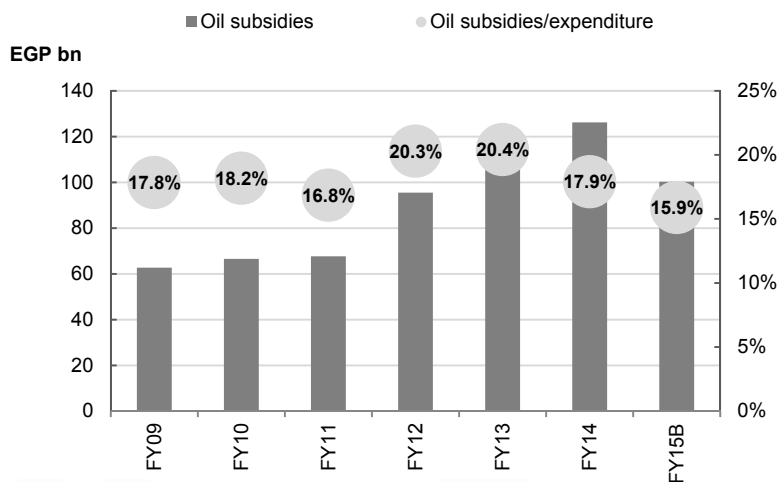
Source: ECESR

✓ Adoption of long-standing policies to restore confidence...

PHASING OUT OIL SUBSIDIES

- The massive increase in energy prices in July 2014 – a 73% increase in transport cost; a 26% hike in electricity prices; and a 59% rise in petroleum products extended to the industrial sector - confirms the government commitment to reform.
- A move that show serious steps towards fundamental budget restructuring; which is reflected in the targeted EGP30.1bn slash in oil subsidies in FY15 budget, bringing down the fiscal deficit to 10% of GDP.
- It is worth highlighting that the drop in international oil prices should reflect favorably on the state budget.

Targets a reduced oil subsidies bill...



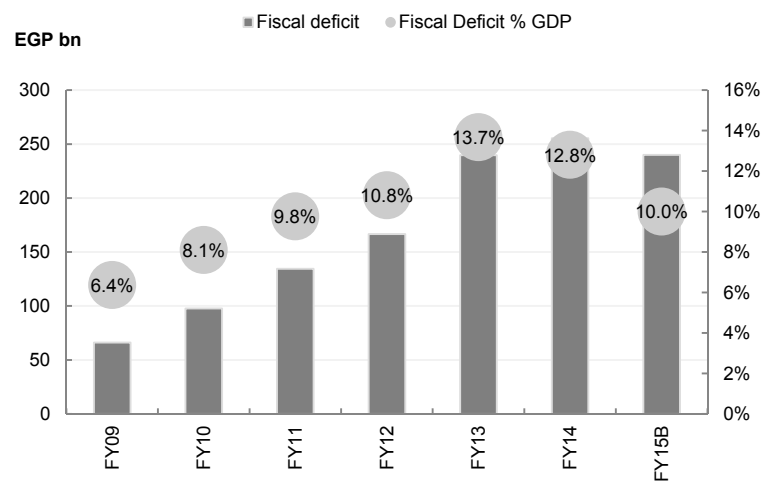
Source: Ministry of Finance

New oil prices

Gasoline	Old tariff (EGP/Liter)	New tariff (EGP/Liter)	% increase
Octane 95	5.85	6.25	6.84%
Octane 92	1.85	2.60	40.54%
Octane 80	0.90	1.60	77.78%
Diesel	1.1	1.8	64%
NG for Vehicles	0.4	1.1	175%
Av. gasoline Price increase, 41.7%			

Source: Official sources

...and a narrowed fiscal deficit



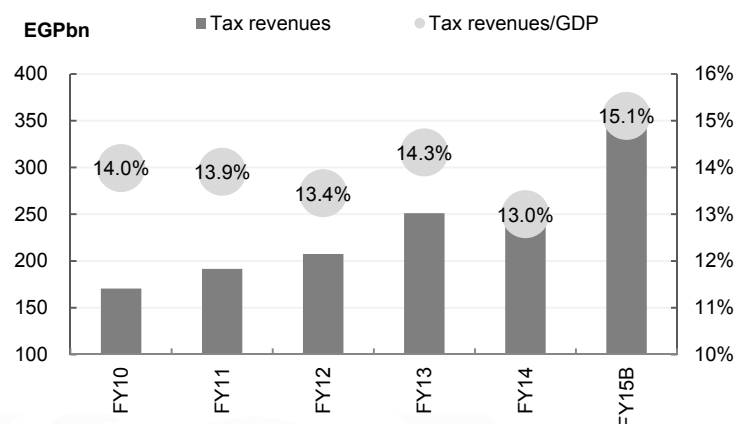
Source: Ministry of Finance

✓ ...more of long-standing policies to restore confidence

EXPANDING THE POOL OF REVENUES

- With Egypt's budget revenues/GDP 22.9% falling far below its regional peers average of 39%, expanding the country's taxation pool (averaging 67% of total budget revenues over the past five years) remains key to reduce the high fiscal deficit.
- Imposing cash dividend and capital gain tax (CGT); the real estate tax law; and an additional 5% temporary tax on wealthy individuals with annual income above EGP1mn are vivid examples – which are expected to add EGP13.5bn to revenues.

Low tax revenue/GDP



Source: Ministry of Finance

New tax reform

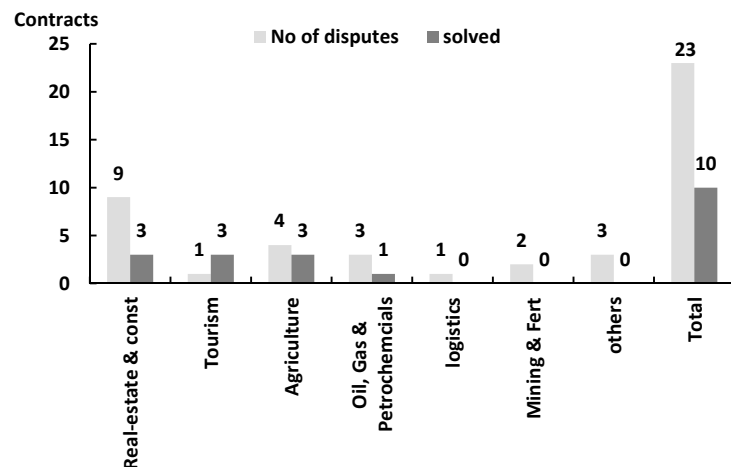
New tax	Tax Rate	Details
Capital gain & Dividends taxation	10%	<ul style="list-style-type: none"> *10% capital gain tax on realized profit at the end of each year; while losses will be carried over for 3 years. * Investors with a minimum of 25% stake will be charged 5%. * Cash dividend tax of 10%; while those investors below EGP15k are exempted. * Foreign investors are charged 10% for the transaction with 6% to be taxed instantly. * CGT will be calculated based on the difference between exit price and the higher of either; historic buying price or price at time of law implementation. * Bonus shares are tax-exempt.
Additional Income tax	Increment of 5% - for 3 years	<ul style="list-style-type: none"> *30% on individuals with annual income exceeding EGP1mn. *25% for corporate income below EGP10mn. *30% for corporate income at EGP10mn and above.
Real Estate	10%	<ul style="list-style-type: none"> * Residential units with market value up to EGP2mn will be exempted; while tax will be applicable above this threshold. * Non-residential units will be tax-exempt if net annual rental value is below EGP1.2k, after deducting 32% maintenance expense.

Source: Official Sources

✓ ...more of long-standing policies to restore confidence

- Legislative reform involves Investment Law; Bankruptcy Chapter 11; Labor Law; Title Registration; Industrial Law; Commercial Law; and removing red tape. It is worth noting that a law has been issued that prohibits a third party to file an appeal to contracts between the government and investors, as it restricts it to the parties involved only.
- Settling investor's disputes; which increased 22% since last committee meeting – reaching 411 resolution.
- With the Egyptian Tax Authority's (ETA) independent appeals committee ruling in favor of OCI N.V.'s subsidiary — Orascom Construction Industries (OCI S.A.E.) — in the tax dispute dating back to 2012 (EGP7.1bn paid on installments until 2017), this confirms the government positive stance to support investments. It is worth highlighting that following that statement, Sawiris announced a commitment to maintain the company's presence in Egypt through construction services and large-scale investments in infrastructure.
- Settling dues to international oil and gas companies to boost investors' confidence – as already Egypt settled USD2.1bn (40% of its dues to oil companies). Likewise, settling dues with contractors.
- CBE covered the backlog of FX owed to foreign investors seeking to repatriate funds through the repatriation scheme which started in March 2013.

Contracts reconciliation committee



Source: Ministry of Investment

Ministerial dispute settlement committee

Authority	Resolution
Governorates and affiliates	198
Ministry of Finance and affiliates	126
New Urban Communities Authority	56
General Authority for Reconstruction Projects and Agricultural Development	17
Tourism Development Authority	8
Others	6
Total Settlement	411

Source: Ministry of Investment

✓ Investment stimulus plan to support growth

- The government already allocated EGP50bn in Investments – 47% YoY increase.
- The government allocated an investment stimulus of EGP29.7bn in 2013, mainly targeting the labor-intensive infrastructure projects (c56%). An off-balance sheet spending should help alleviate high unemployment and achieve the targeted GDP growth of 2% in FY13/14.
- Another stimulus of EGP34bn was introduced in early 2014.
- This is beside the huge flow of Mega projects.

First stimulus package - EGP29.7bn

Projects	EGP bn
Upgrading roads and transportation network	6.74
Supporting and developing national industry program	4.35
Upgrading water, sanitation, and natural gas networks	4.06
Social housing program	3.05
Supporting power networks	2.92
Settling contractors' arrears with the government	2.2
Upgrading health services network	0.63
National land reclamation program	0.52
Investment stimulus	24.48
Social justice stimulus	5.26
Total	29.74

Source: Ministry of Planning & Ministry of Finance

Second stimulus package – EGP34bn

Projects	EGP bn
Construction of 50 k housing units	10.40
Government investments	5.60
Government contribution in Suez Canal corridor project	2.00
Others	4.60
Investment stimulus	22.60
Minimum wage implementation	10.00
Allocation to subsidies and social grants	1.40
Social justice stimulus	11.40
Total	34.00

Source: Ministry of Planning & Ministry of Finance

Mega Projects– EGP401bn

Projects	EGP bn
1 million housing unit	280
New Suez Canal	60
3600 KM of roads infrastructure	36
1 million Feddan project	25
Total	401

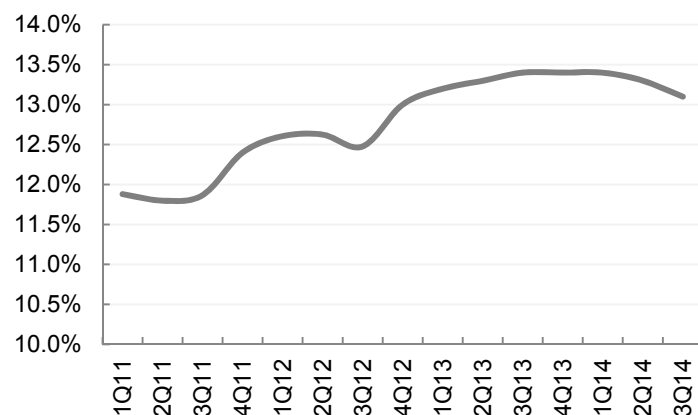
Source: Ministry of Planning & Ministry of Finance

✓ Social welfare program to ensure sustainable growth

The government embarked upon several social measures including:

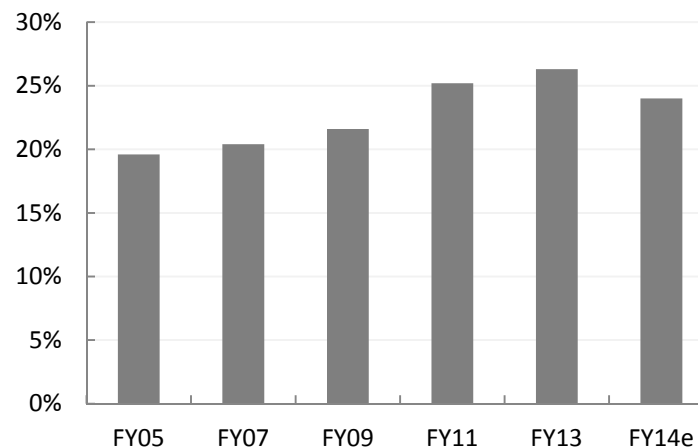
- A one-time hike in the minimum wage for public sector workers starting January 2014;
- the launch of labor-intensive projects to address unemployment ushering for stability;
- the government plans to allocate cash transfers to the needy – which was raised from EGP450/month/household to EGP300/individual with around 2-3 mn families benefiting from such distribution;
- expanding the contribution of health, education and social support spending to an aggregate of 35% of total budget expenditure in FY15 up from 32% a year earlier; and
- a housing program to fill the supply gap of 2.5mn apartments, costing EGP250bn over 10 years.

High unemployment rate



Source: Ministry of Investment

High poverty rate

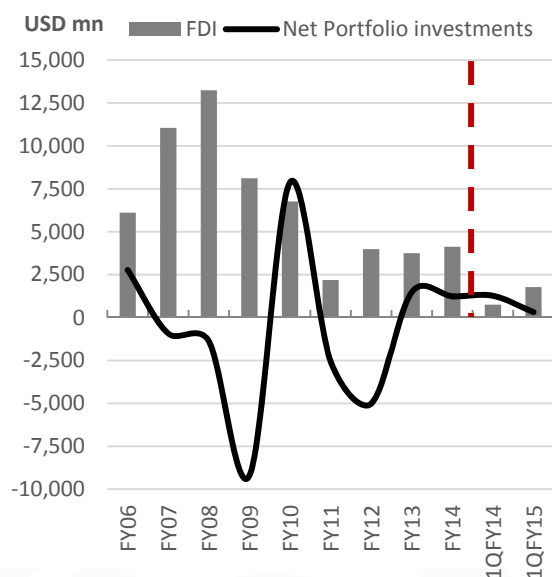


Source: CAPMAS & Ministry of Planning

Signs of improved investment indicators started to show

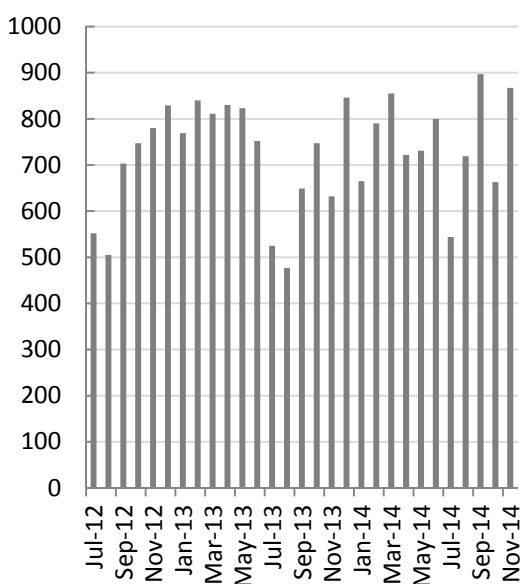
- FDI inflows recorded USD4.1bn in FY14 up from USD3.8bn a year earlier, driven by the rise in the net inflow for oil sector investments from USD1bn to USD1.6bn. 1QFY15 saw 138%YoY increase driven by the rise in the net inflow for oil sector investments from USD377.6mn to USD948.1mn. Net inflow for greenfield investments also picked up to USD734.9mn (from USD339.5mn).
- Recent figures show monthly average number of established companies picking up to 808 companies over August and September compared to 2014 monthly average of 730 companies .
- Loans continued to increase – growing at an average of 8.4% since July compared to 5.2% since the beginning of 2014.

Net portfolio investment and FDIs



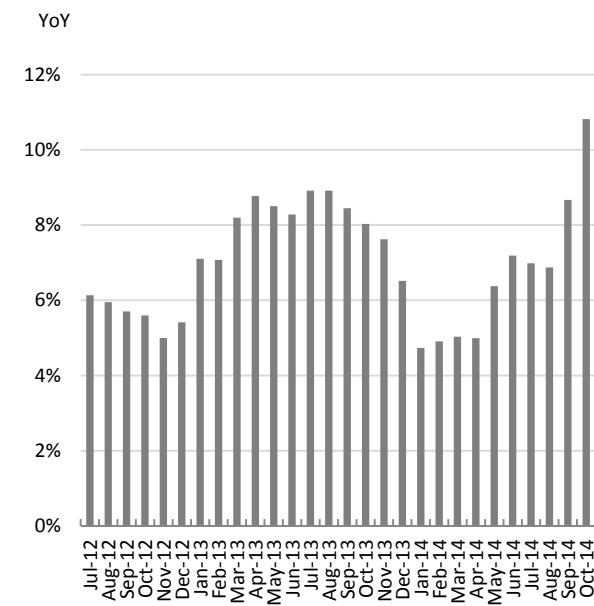
Source: Central Bank of Egypt

Newly established companies



Source: GAFI

Loans growth



Source: Central Bank of Egypt

Announced FDI include,

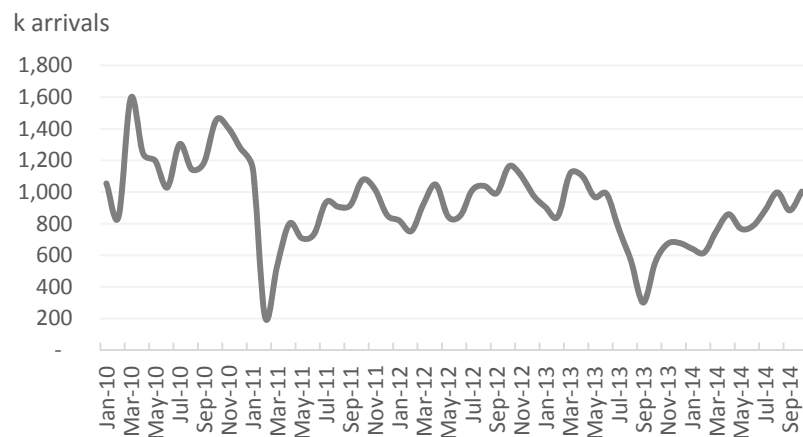
Sector	Company	Country of Origin	Project	Targeted Investment (USD)
Food/Infrastructure/financial services	EBRD	EU	Development projects	EUR1.25bn
	Almarai	KSA	Beverage Facilities	345mn
	Aujan	KSA	Beverage Facilities	100mn
	Beyti	KSA	Beverage Facilities	4bn
	Pepsi Co	USA	Beverage Facilities	34mn
Food & Beverages	Coca Cola	USA	Beverage Facilities	500mn
	Trans Energy Corp	Canada	Oil and Gas	115.5mn
	Snopec	China	Exploration	8bn
	Gaz de France	France	Exploration	300mn
	Dana Gas	UAE	Exploration	270mn
Oil & Gas	British Petroluem	UK	Gas Fields	10bn
Real Estate	Arabtec Holding	UAE	Housing Projects	39.83bn
Retail	Al Futtaim	UAE	Carrefour	2.3bn
Shipping	DP World	UAE	Logisitics Zone	500mn

Source: Official sources

External sector showed some improvement, stabilizing FX

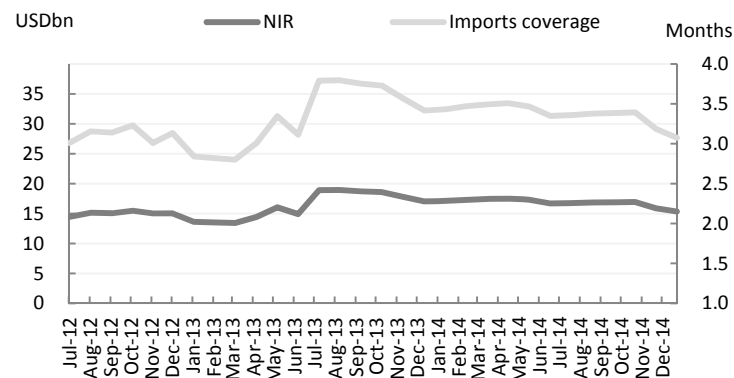
- Thanks to GCC support (USD10.6bn in FY14), which managed to maintain net international reserves at above the 3M imports coverage. With the recent USD1bn grant from Kuwait and the pledged USD5bn from UAE should further support reserves – especially with USD2.5bn payment of Qatari deposit this month.
- Improved security resulted in 28 countries lifting their travel ban; which raised monthly ITA to cross 1mn in October, a level that was not reached since May 2013. ITR increased more than 2x over 1QFY15 to USD2.1bn compared to USD0.9bn in 1QFY14.
- A stable NIR supports FX market.

International tourist arrivals



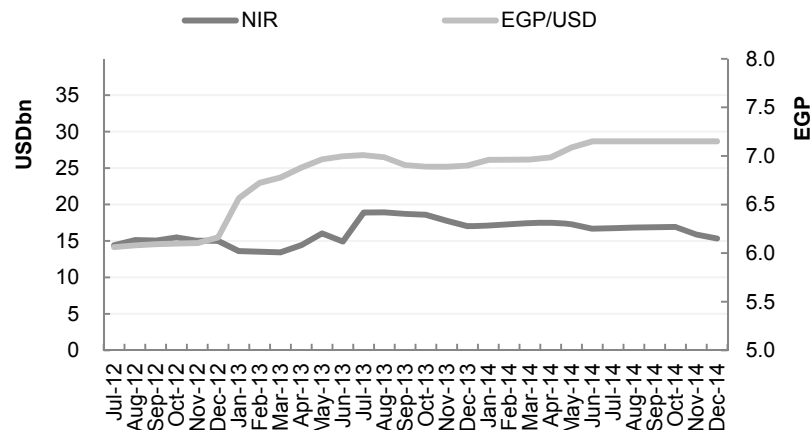
Source: Central Bank of Egypt and CAPMAS

Net international reserves stabilized



Source: Central Bank of Egypt

A stable NIR supports FX market

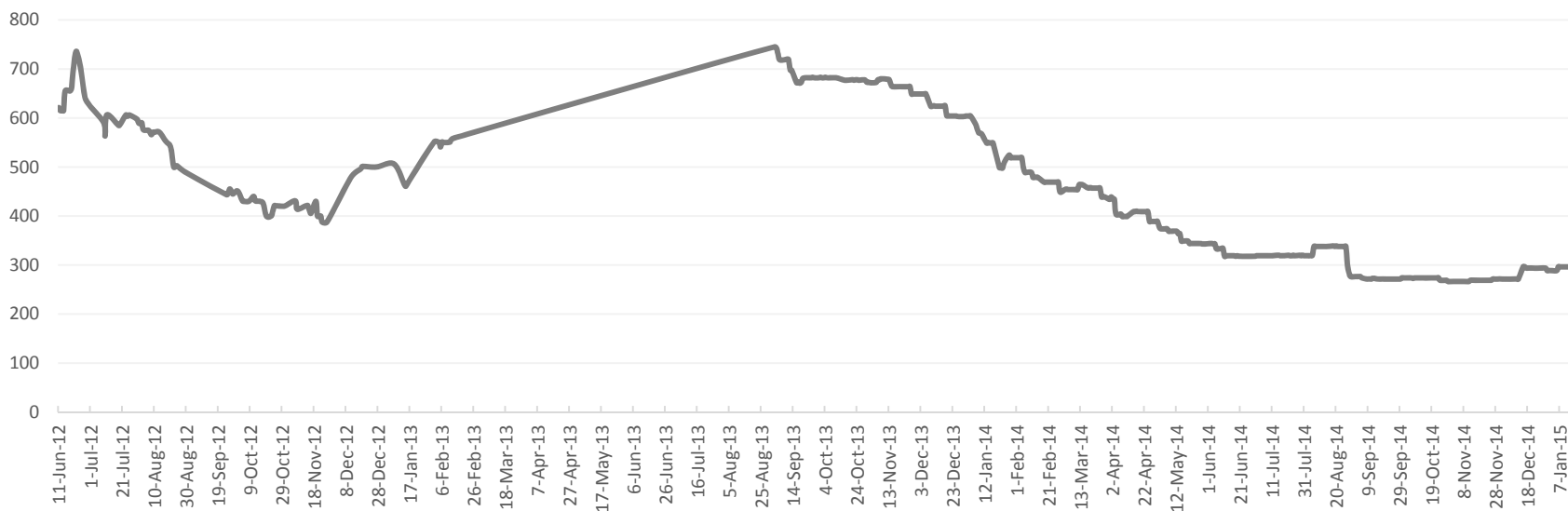


Source: Bloomberg and Central Bank of Egypt

...and default risk subsided

- USD 5-year CDS has reached its 46-month low of 266.4 on 29 October 2014 and relatively stabilized around that level since then.
- Fitch upgraded Egypt's credit rating one rank to "B" with a "stable" outlook; which supports a positive fiscal and macro outlook.
- With Moody's seeing a better credit prospects for Egypt as parliamentary elections approach following its upgrade of Egypt's outlook to stable from negative, affirming Caa1 rating, reflects Moody's expectations of an improving fiscal and economic environment.

USD 5-year CDS

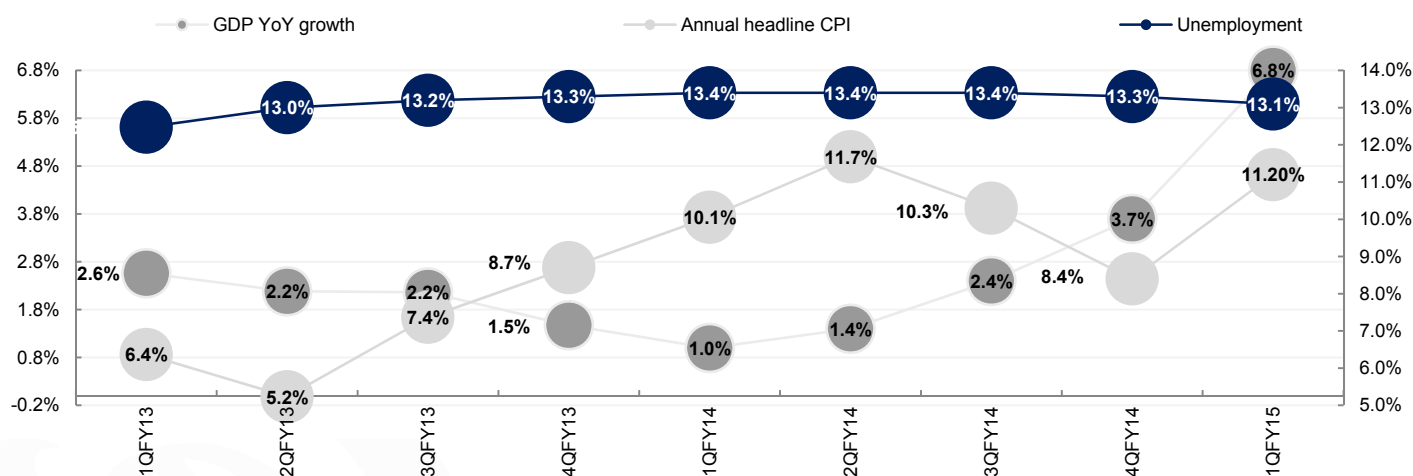


Source: Bloomberg

Yet, stagflation remains a major risk – however subsiding

- Over 2H14, monthly CPI reading reached an aggregate of 5.9%; which is 74% of the total increase in FY14. This comes on the back of the first and second round effects of energy hikes that took place in July 2014. Since the beginning of FY15 annual headline CPI registered an average of 10.8% compared to 10.9% over the same period last year.
- Unless FDI starts to flow into the country, given the low saving to GDP ratio, the risk of stagflation will escalate.
- Energy is a key target sector to invest in, especially with aggravated power cuts during the summer season. It is worth mentioning that power cuts, risks a smooth business operation further adding to inflationary pressure - given disrupted production - and restricting potential investment from being materialized. A risk that is subsiding given the recent agreement signed with Algeria for six LNG cargoes in late December in addition to the UAE announcement of extending petroleum support to Egypt for 12 months, in addition to the energy mix strategy and the new 4.3 GW that was announced by the government in renewable energy.

Stagflation risk subsides



Source: Ministry of Investment, Central Bank of Egypt and CAPMAS

T H A N K Y O U

