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Transport and transit

Expanding the infrastructutre to create an "intelligent" network Page 5

Meeting rising demand

New plants planned to satisfy the increasing need for electricity Page 6

INSIDER VIEW

Wednesday, May 7, 2008

Saudi Arabia

Location: Middle East, bordering the Persian Gulf and the Red Sea, north of Yemen

Capital: Riyadh

Area - comparative: Slightly more than one-fifth the size of the U.S.

Population: 28,161,417(July 2008 est.)

GDP (purchasing power parity): $572.2 billion (2007 est.)

GDP - real growth rate: 4.7% (2007 est.)

GDP - composition by sector:
agriculture: 3%
industry: 61.8%
services: 35.2% (2007 est.)

Industries: Crude oil production, petroleum refining, basic petrochemicals; ammonia, industrial gases, sodium hydroxide, cement, fertilizer, plastics; metals, commercial ship repair, commercial aircraft repair, construction

Exports: $215 billion f.o.b. (2007 est.)

Exports - commodities: Petroleum and petroleum products 90%

Oil production: 11 million bbl/day (2007 est.)

Diplomatic representation in the U.S.:
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Adel al-Ahmad al-Jubeir
Chancery: 601 New Hampshire Avenue NW, Washington, DC 20037
Telephone: [1] (202) 342-3800
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The Middle East's largest economy is using its massive oil wealth to secure a prosperous future for its rapidly increasing population, spending huge sums developing its infrastructure and planning new economic cities from scratch. Growth is accelerating, and ongoing structural reform and liberalization has made the Kingdom a magnet for foreign investment

Time of transition as the Kingdom looks to the future

Generally perceived as a deeply conservative country, Saudi Arabia is going through a notable period of change, driven by the need to compete in an age of globalization. The initiator of this gradual transformation is King Abdullah Bin Abdulaziz Al-Saud, who has initiated an ongoing process of reform and economic development designed to secure the long-term prosperity of his Kingdom.

As the location of the two Holy Mosques, Mecca and Medina, Saudi Arabia stands at the center of the Islamic religion. It is also the largest economy in the Middle East and the world's leading exporter of crude oil. Inevitably, that has brought great wealth, yet economic, political and social change has been slow to come.

First visit: King Abdullah Bin Abdulaziz Al-Saud greets President George W. Bush, who made his first trip to Saudi Arabia in January.

This is starting to change, however, as the Kingdom opens up to the world and embarks on a series of bold spending plans, pouring state revenues—boosted by record international oil prices—into key development projects, including industrial development schemes, expansion of the transport system and the building from scratch of seven new economic mega cities.

King Abdullah has determined that Saudi Arabia must become a more diversified and knowledge-based economy, so that in the longer term it becomes less dependent on a single commodity. It is the private sector, not the state, that is now seen as the future engine of growth. State-run enterprises are gradually being privatized, and the door to foreign investment outside the oil industry is being opened wider.

In order to broaden the country's economic base, the government is promoting natural gas, downstream oil industries, such as oil refining and petrochemicals, mining for solid minerals, agriculture and even tourism as high potential sectors for investment.

An important step forward has been accession into the World Trade Organization, after long years of painstaking negotiation. The reforms this has required the Kingdom to make have made investing in the country easier, leading to a big increase in investment from abroad.

It has also brought greater opportunities for growth in international trade, both in petrochemicals and non-petrochemical products. By 2010, Saudi Arabia aims to be among the 10 most competitive economies in the world. The banking system and capital market have been overhauled, business confidence is high, and the stock exchange is the most active market for initial public offerings in the Middle East.

The private sector, not the state, is seen as the engine of future growth

Saudi Arabia has by far the largest population in the GCC region, and it is increasing rapidly; by 2020, it is expected to grow by 40 percent. With 50 percent below the age of 20, creating jobs for upcoming generations is a priority. More than a third of those in the 15-64 age group are non-nationals, and the government has introduced a program to Saudiize the labor force and reduce the number of foreign workers in the country.

Among the most important changes being made are those in education and training. Developing the country's human potential is crucial, not only to satisfy the hopes and aspirations of the rising population, but also if Saudi Arabia is to close the widening knowledge gap with economies in the West. The education system is being reformed to produce Saudis with the skills and knowledge they need to contribute to the development of the nation and society.

Meanwhile, technology is changing the way the Kingdom does business and the way everyday life is lived. Saudi Arabia is at the forefront of a growing regional computer and IT market, where it accounts for almost 50 percent of sales. Use of the internet has increased dramatically, prompting the rapid development of e-commerce and e-banking. Sales of mobile telephones are also booming, with a third operator about to start competing for business.

ECONOMY

Investment and record oil prices fuel growth

Over the last six years, Saudi Arabia has seen its economy double in size, boosted by the surge in the international price of oil and a big increase in public and private investment. This year, the Kingdom's nominal gross domestic product is forecast to rise to around SR1.74 trillion ($465 billion).

The mainstay of the economy is the production and export of crude oil, of which Saudi Arabia possesses the world's largest reserves. Oil accounts for 90 percent of exports and 75 percent of government revenues. And with the price currently at well above $100 a barrel, it is estimated that revenues of more than $200 billion could flow into the Kingdom's coffers this year.

Saudi Arabia is the dominant force in OPEC, which plays a leading role in fixing global levels of production and supply. The Kingdom has every intention of remaining the world's leading oil exporter, and investment in oil and gas production capacity is being ramped up. According to Oil Minister Ali Al-Naimi, there are plans to increase crude-oil reserves by 76 percent, from 264 billion barrels to 464 billion barrels. Gas reserves would be increased by 40 percent.

Crown Prince Sultan Bin Abdulaziz
Deputy Premier and Deputy Chairman of the Supreme Economic Council

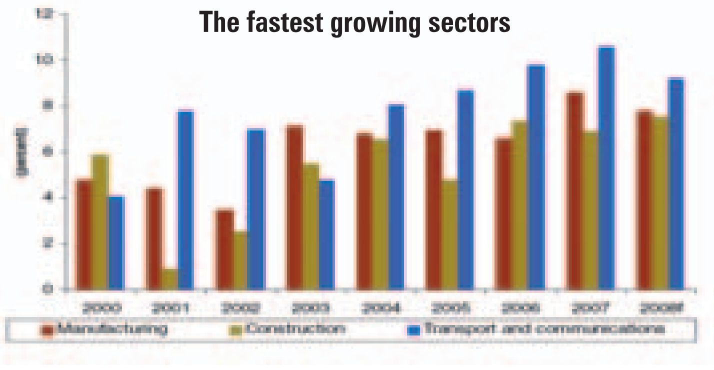
Production of oil this year should average around 9.25 million barrels per day, a 6.3 percent increase on output in 2007 when Saudi Arabia bore the brunt of OPEC's production cutback. The forecast comes from the Riyadh-based Samba Financial Group, whose recent report on the economy says the oil sector's contribution to real GDP should rebound in line with the pickup in production and the extra investment in capacity. "In nominal terms the sector is expected to grow by as much as one third, as global oil prices are buoyed by market demand, supply concerns, and speculative activity," it says.

According to the report, Saudi Arabia's nominal GDP should be around $465 billion this year, rising to to $517.3 billion in 2009. Growth is forecast to increase to 6.7 percent in real terms, and is expected to be sustained at a rate of around 6 percent in the coming years.

The report also notes the increasingly important contribution from the expanding non-oil sector. "Inspired by properly sequenced and thoroughgoing economic reforms, both private and foreign investment is surging ahead, most notably in utilities, manufacturing, telecoms, financial services, and the Economic Cities," it observes.

The government's plans to spend SR410 billion ($109.33 billion) this year—$8 billion more than in 2007—reflect its focus on moving towards a more diversified and knowledge-based economy. Introducing the 2008 budget last December, the King said, "We have given instructions that the country's revenues must be utilized to achieve sustained development in all sectors."

More than a quarter of the total has been allocated to education and technical and vocational training projects.



A letter from the Chairman of the AMEEAC

International forum brings together American and Middle Eastern leaders to build business relations in a variety of industries

We thank you for attending the 3rd biennial U.S.-Arab Economic Forum, May 7-9 in Washington D.C. We hope that you will take part in the USAEF and that you will engage with your colleagues from around the world to address political, economic and social issues related to both the U.S. and the Arab world. It is a critical time in history and it is necessary for us to forge long-lasting bonds which positively impact the Western world and the Arab world together.

Building on the success of previous Forums, the USAEF will again unite over 1,000 high level corporate leaders, heads of state, ministers, academicians, politicians, policy makers, and concerned citizens from the United States and the Arab World. We will discuss opportunities in industries ranging from: energy, financial services and healthcare, to information technology, trade and tourism. Our hope is to find solutions to some of the region's most concerning and pressing issues, while enhancing the role of women, improving the access to education and building regional peace.

The U.S.-Arab Economic Forum, sponsored by The American Middle East Economic Affairs Committee (AMEEAC) is dedicated to engaging public and private partnerships between the U.S. and Arab World, to stimulate and promote sustainable economic growth, while fostering the emergence of knowledge-based societies. Through initiatives such as the U.S. Arab Economic Forum, AMEEAC provides one of the world's premier platforms for partners and participants to highlight their commitment to and vision of a strengthened civil society and improved economic environment between the U.S. and the Arab World.

Ahmad Chebbani
Chairman and CEO of AMEEAC

Focusing on business and economics builds mutually beneficial partnerships to promote economic growth and integration, free trade, entrepreneurship, public/private partnerships and a modern, innovative and more competitive Middle-Eastern society. We at the USAEF will provide each participant the opportunity to network with global colleagues and attend thought-provoking lectures and discussions of today's business economy. We hope you will take maximum advantage of the USAEF.

To date, there have been over 430 corporate leaders present, 170 government officials, 30 ministers, 90 speakers, and over 120 organizations from 35 countries at each Forum. In addition, the USAEF will reach approximately 50 million people worldwide through global media outlets including CNN, MSNBC, FOX, Al-Jazeera, BBC, LBC, and Al Arabiya.

We thank you for being with us in Washington, D.C. Lasting partnerships will be forged here and it is these relationships that will propel the exchange of ideas and bolster commercial development. What we do today will make all the difference in the world tomorrow.

We invite you to visit our website at http://usaef.ameeac.org for additional event information.

Regards,

U.S.-Arab Economic Forum
One World. Two Cultures. Endless Possibilities.

Saudi Arabia

Touching lives around the world

Prince Turki Al-Faisal
Chairman of the King Faisal Center for Research and Islamic Studies

Prince Khalid Al-Faisal Bin Abdilaziz Al-Saud
Director General of the King Faisal Foundation

Established after the death of King Faisal in 1976, the King Faisal Foundation is a philanthropic organization with an international reach dedicated to fulfilling the late ruler's desire that the Kingdom should become "a well-spring for humanity."

Lead by Prince Khalid Al-Faisal Bin Abdulaziz Al-Saud, the foundation undertakes philanthropic projects around the world, particularly in underprivileged countries. Financial grants are disbursed for scientific research, full scholarships for postgraduate studies, and technical assistance is provided. Free research facilities are also provided in the organization's extensive libraries. The common thread is the determination to preserve Islamic culture and improve the human condition.

"For the past 27 years, foundation activities have touched countless lives around the world," says Prince Khalid. "Our many diverse programs have directly or indirectly brought a rare gift of hope to men, women and children who might otherwise have few opportunities that could alter the paths of their lives."

One of the foundation's first acts was to found the King Faisal International Prize, which over the last 30 years has been awarded to scholars and scientists from all over the world. This year's winners included two U.S. professors, Donald Trunkey and Basil Pruitt, who shared the prize for medicine. King Abdullah was awarded the prize for service to Islam.

The foundation also funds the King Faisal Center for Research and Islamic Studies, a cultural and educational institution that aims to bridge the cultural gap between Muslims and non-Muslims. "We invite speakers from all over the world to come and speak on any topic that they wish," says the center's Chairman, Prince Turki Bin Faisal Bin Abdulaziz Al-Saud.

The center holds conferences, workshops, seminars and exhibitions. Cooperation with other academic and research institutions in the Kingdom is extensive, and there is an active program of coordination with think tanks and research institutions. The center also houses the King Faisal memorial exhibition and maintains an extensive collection of Arabic Islamic and non-Islamic manuscripts.

Investment. The number one destination in the Middle East

Foreign investment floods in

Already the largest recipient of foreign investment in the Middle East, Saudi Arabia's 10x10 objective is to take its place among the top 10 most competitive nations by 2010—and the signs are that it is on its way

Saudi Arabia is one of the world's top 20 destinations for direct foreign investment, and the most successful in the Middle East, according to the United Nations Conference on Trade and Development (UNCTAD). The Kingdom succeeded in attracting FDI of $18 billion in 2006, an increase of 51 percent over 2005, with only Turkey doing better in the West Asian region.

"Our mission is to put Saudi Arabia among the top 10 most competitive nations by 2010 through the creation of a pro-business environment, a knowledge-based society and by developing world-class economic cities," says Amr Abdullah Al-Dabbagh, Governor of the Saudi Arabian General Investment Authority (SAGIA).

"Saudi Arabia and Turkey alone account for 60 percent of the entire FDI flow into Western Asia," he adds. "This is what we have achieved so far by implementing the 10x10 initiative—and there is a lot more to come."

Amr Abdullah Al-Dabbagh
Governor of SAGIA

Strong economic growth, high international oil prices and the Kingdom's improved business climate have all been factors in pulling in increasing amounts of FDI, particularly into oil and gas and related industries. "Our foreign investment code is one of the most advanced available," says Mr. Al-Dabbagh. "We offer national treatment to our foreign investors, and we have plenty of opportunities."

SAGIA's task is to attract sufficient inward investment for Saudi Arabia to achieve rapid and sustainable economic growth, capitalizing on the Kingdom's competitive strengths as the global capital of energy and as a major hub between East and West. The authority, which acts as a one-stop shop for investors, has established a National Competitiveness Center (see article, right).

SAGIA aims to attract investment into the sectors in which the Kingdom has a competitive advantage, namely energy, transportation and knowledge-based industries. According to a report by Global Investment House of Kuwait, the Saudi authorities are targeting a total of $300 billion in investment into "energy intensive industries" over the next 13 years, and a further $100 billion in knowledge-based industries and transportation.

Development of the new mega cities–special economic zones to attract leading international companies–plus a variety of impending transport developments, oil and gas ventures and liberalization initiatives will give a further boost to the Kingdom's appeal as an investment destination.

According to SAGIA, a record 1,438 joint ventures valued at SR334 billion ($89 billion) were licensed last year, an increase of 32 percent compared with 2006. This represents a remarkable advance from just two years earlier, when the value of investment licenses issued was just SR18 billion ($4.7 billion). The most popular sectors were telecommunication and information technology, energy, real estate and healthcare.

The United States is the Kingdom's largest foreign investor, followed by Japan and the United Arab Emirates. U.S. investors are particularly prized for transfer of know-how technologies and intellectual capital. Mr. Al-Dabbagh argues that, at a time of economic uncertainty in the U.S., more American firms should be taking a close look at Saudi Arabia. "Corporate America should be seeking to invest in booming and emerging markets to generate profits to compensate for the economic slowdown," he says.

SAGIA estimates that the seven new economic cities will be a magnet for investment, and will boost Saudi Arabia's GDP by $150 billion per year and create up to 1.3 million jobs by 2020.

He highlights the enormous changes that have taken place in the Kingdom, and in particular, the emergence of a strong private sector. "We now have a very sophisticated private sector," he says. "In the seventies, we did not, and therefore the government had to get engaged in the development of the infrastructure and to provide the services. Today, we have gone ahead with multi deregulations, in telecommunications, aviation, power and water. Today, the business of the government is to get out of business, work as a regulator and let the private sector take the lead and provide the services.

"This is quite a shift from where we were previously as a country to where we are now, which is in the position of a global powerhouse for energy-intensive industries, and a true hub between the East and West."

Competitiveness will attract more investment

In its latest annual global Doing Business report, the World Bank recognizes Saudi Arabia as one of the world's top reformers, moving it up fifteen places to rank 23rd out of 178 countries as one of the easiest countries in which to conduct business.

The ranking—placing the Kingdom ahead of mature economies such as France and Austria—is a major step towards achieving the Kingdom's 10x10 goal, according to Dr. Awwad Al-Awwad, Deputy Governor of SAGIA and President of the National Competitiveness Center (NCC).

Intended to operate as an independent body, the NCC was established last year. One of the most important initiatives taken by SAGIA, its task will be to complement the drive to attract investment by stimulating competitiveness.

The center monitors, assesses and gives objective data-based advice on opportunities to enhance competitiveness. It highlights business environment priorities and facilitates dialogue between the public and private sector on key issues. Its activities include setting up collaborative advisory councils of key public and private stakeholders to work on high potential sectors such as energy, financial services and tourism.

SAGIA has also launched a series of Global Competitiveness Forums, to be held annually. They are designed to create a discussion platform for international business leaders, political leaders, non-governmental organizations, intellectuals and academics. The second forum of the series was held in Riyadh in January.

Dispelling myths and building bridges between peoples

Waleed Al-Yahya, the Chief Executive Officer of Friends of Saudi Arabia International, likes to point out that good relations have existed between the Kingdom and United States for a very long time.

Waleed Al-Yahya
CEO of Friends of Saudi Arabia

He quotes the famous meeting in 1945 between King Abdulaziz and President Franklin D. Roosevelt on board the USS Quincy, at which they discussed the future of the Middle East. In 2005, 60 years after that historic occasion, the two men's grandsons, Prince Abdulaziz Bin Abdullah and Delano Roosevelt, met to commemorate the vision of their grandfathers and continue forward with their promotion of friendship.

Founded in 2003 by Prince Abdulaziz, who is also its chairman, FSA International is a not-for-profit association that exists to promote cooperation and understanding between Saudi Arabia and the international community.

Post 9/11, says Mr. Al-Yahya, fostering better people-to-people relations between the U.S. and the Kingdom is increasingly important to help correct misconceptions that exist about Saudi Arabia. "Educational and cultural efforts become that much more imperative," he says. "There is a lot of stereotyping and myths, not based on fact, that need to be dispelled. We need to continue to foster our relationships, to promote the fact that Saudi Arabians are like people from the U.S. and from all over the world, and have similar aspirations."

FSA International stages an array of cultural and educational programs designed to reflect what Mr. Al-Yahya calls "the real picture, the real Saudi Arabia", and covers subjects such as the role of women in Saudi society.

A recent event he singles out is the first FSA International Gala, held at the Al-Athriyah Farm in Riyadh, which hosted over 1,000 guests from around the world, including leaders from business, government, academia, media and the diplomatic corps. "We were able to showcase traditional foods, dance, and architecture, alongside old village crafts, trades and professions that together helped to make Saudi Arabia what it is today."

Those who experience the country first hand tend to undergo a 180-degree change of heart, he observes. He looks forward to making the FSA International Gala an annual event to coincide with the Saudi Arabia General Investment Authority (SAGIA)'s Global Competitive Forum in January, and encourages people to visit the Kingdom.

Mr. Al-Yahya recognizes that there is also a need to bring other parts of the world to the Saudis, and hopes to organize delegations abroad from the Kingdom. "Just as there are preconceived or stereotypical notions about Saudi Arabia, so there are also preconceived or stereotypical notions here in Saudi Arabia," he says. "We would like people to base their decisions on knowledge, and not just stereotypes. Our work has just begun."

Saudi Arabia

Chambers of Commerce. Leading the way

Promoting investment and encouraging enterprise

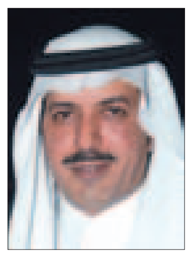
As the economy develops, Saudi chambers of commerce and industry find themselves with an increasingly important role to play, providing support and encouragement to the private sector

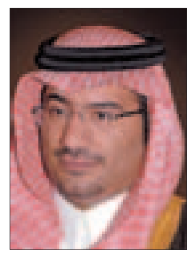
While each is understandably eager to promote its own area as a destination for investment and joint ventures, the Saudi chambers of commerce and industry share a common—and positive—view of the national picture, and are pursuing much the same goals, whichever part of the country they are based in.


Saleh Ali Al-Turki
Chairman of Jeddah Chamber of Commerce


Abdulrahman Al-Jeraysi
Chairman of Riyadh Chamber of Commerce


Hussein Al-Athel
Secretary-General of Riyadh Chamber of Commerce


Abdul Rahman Al-Rashid
President of Eastern Province Chamber of Commerce


Adnan Al-Nueim
Secretary-General of Eastern Province Chamber of Commerce

Their activities range from identifying investment opportunities and collecting and disseminating business information, to building good relations between business and government agencies, the promotion of small and medium-sized firms (SMEs), the encouragement of women in business, and running training programs for potential young entrepreneurs. All stress that Saudi Arabia is, by long tradition, a free trade country.

"Our goal is to promote business, to service the business community, and represent the business community before the government and before society," sums up Hussein Al-Athel, Secretary-General of Riyadh Chamber of Commerce and Industry.

Riyadh, Mr. Al-Athel points out, is the center of government, banks and business, and home to more than one-third of the population. Nevertheless, it is as regional enterprises that the chamber promotes local businesses. "We promote our companies as not representing just Saudi Arabia. They have a very wide angle and a strong arm to reach all Islamic and Arab countries."

'Our goal is to promote business and represent the business community'

The Chamber provides research, information, and training centers for SMEs and would-be entrepreneurs. "We are about to line up with the municipality of Riyadh and have an incubator in the least privileged parts of the city in order to teach the young that you can start a business with very limited capital, and that there are government entities that will lend you that capital."

As Saudi businesswomen participate more directly in running their own businesses, rather than through a third party or a representative, the Chamber has responded by creating a one-stop shop for businesswomen. "We make available all our resources to them. We are connected through various means, and they use the database that we have."

In Jeddah, Saleh Ali Al-Turki, Chairman of Jeddah Chamber of Commerce and Industry, emphasizes that his city is open to the world and is historically the trade center of the Kingdom.

"Our location is vital," he says. "For international companies, Jeddah is more relaxed than other cities, its people are more oriented towards the business sector. We are closer to Europe and other international countries. We have a good seaport. We are a big city."

The Chamber has introduced a program for the small and medium-sized business community, providing help with matters ranging from training and IT to insurance and financial problems.

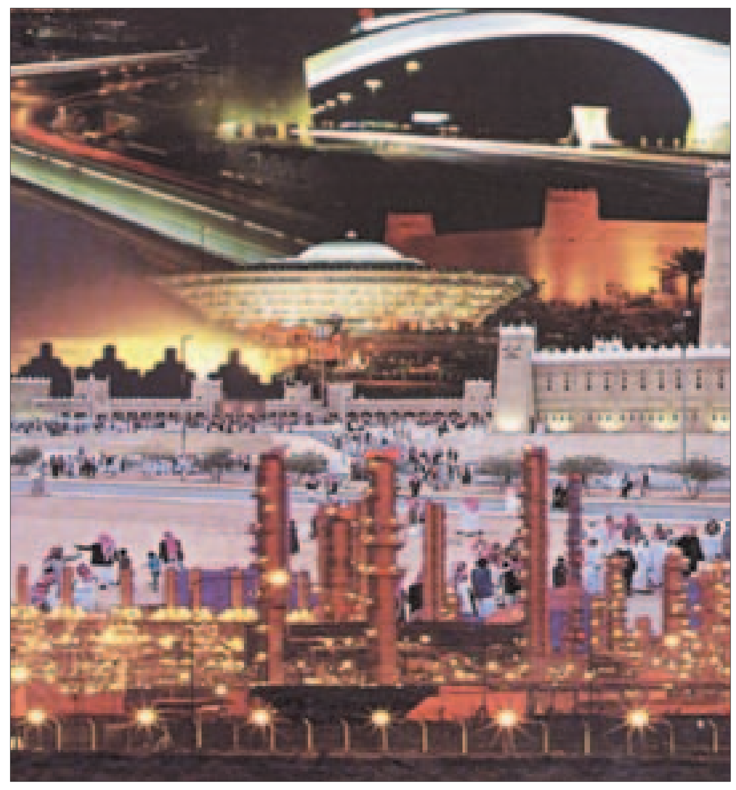
The Chamber places great emphasis on empowering women, and on developing corporate social responsibility programs. It also organizes the well-established annual Jeddah Economic Forum, known as the "Think Tank of the Middle East", which attracts world leaders to its deliberations.

In Eastern Province, business opportunities tend to center on the oil and gas and petrochemical industries that give the province its prominence. Eastern Province accounts for a quarter of the world's oil reserves and natural gas reserves, and for two-thirds of Saudi Arabia's total export trade.

"There are many opportunities, whether in the main or complementary industries," says Adnan Al-Nueim, Secretary-General of Eastern Province Chamber of Commerce and Industry. "We have had the honor of facilitating billions of dollars worth of investment deals and joint ventures with global firms."

The Chamber offers a variety of services to promote and encourage businesses at different levels of growth. "Our Economic Research Department offers studies on investment opportunities and their economic feasibility," says Mr. Al-Nueim. "It also provides information on obstacles faced by businessmen, and solutions for them."

The Chamber has established a women's center and runs training courses for women entrepreneurs. "Our efforts help women to be more informed about how to conduct business and therefore help them to compete effectively," he says.


The Saudi Chambers of Commerce unites the Kingdom's many local businesses into an integrated regional enterprise based on national advancement.

Banking. International expansion

Size matters for ambitious financial group Samba

As financial institutions are among the first to benefit from a rapidly growing economy, the Samba Financial Group has every reason to be cheerful. The latest report from the office of its own chief economist on prospects for the Saudi economy is decidedly upbeat, predicting that growth and diversification are continuing apace and that momentum "should be maintained in the period ahead."

Noting that the pace of economic reform is also likely to be kept up, the report adds, "the prospects for sustained private investment growth are excellent."

One hundred percent Saudi owned and managed since 2003, Samba is the Kingdom's market leader in corporate banking. Its Corporate and Investment Banking Group (CIBG) deals with clients from both the public and private sectors.

Size matters in the world of corporate finance, and as the second-largest bank in the Middle East by market value, Samba is in better position to get involved in sizeable project deals than many of its rivals in the region. In December, it signed an agreement with the National Chemical Carrier (NCC) for a SR1,470 ($392 million) facility to finance 80 percent of the total cost of 10 new chemical tankers. Eisa Al-Eisa, Samba's CEO and Managing Director described it at the time as the largest single shipping deal in the history of the local market in terms of amount and number of ships funded by a single bank for a single borrower.


Eisa Al-Eisa
CEO and Managing Director Samba Financial Group

The group has also been active in the area of underwriting initial public offerings, a notable example being its successful management of the IPO of the telecom company Etihad Etisalat, which was the first under the new Capital Markets Authority listing rules, and was 51 times oversubscribed.

Samba is also the Kingdom's third-largest broker and top share sale manager, holding more than 12 percent of the market.

"Samba Financial Group proceeds with its prominent role in the local financial and banking industry through its ambitious strategy and global approach in developing its programs as well as its banking and financial products and services," says Mr. Al-Eisa. "Our facility programs are ranked number one in the local market as evident from our conventional and Shariah-compliant deals, which have won many accolades."

Formerly managed and part-owned by Citibank, Samba has gone from strength to strength under Mr. Al-Eisa's leadership, achieving strong financial results across all its businesses and garnering awards and accolades; last year The Banker named it Saudi Arabian Bank of the Year.

Samba serves more than one million customers through a network of 66 branches and 450 ATMs across the country. The group provides commercial, corporate and investment banking products and services, Islamic investment banking services and mutual funds that are compliant with the principles of Islamic law. Known as an innovator, it was the first to provide the Kingdom with telephone and internet banking. Its wholly owned subsidiary, Samba Fund Management Limited, established the first local equity fund, SAIF; open to overseas investors, the fund is listed on the London Stock Exchange.

In March it raised its paid-up capital by 50 percent to SR9 billion ($2.4 billion) through a bonus share issue. The bank has embarked on a strategy of geographical diversification and is expanding its business into markets in the Middle East and in Asia either by purchasing shares of other banks or establishing its branches. It also has a branch in London.

At present Samba is developing new ventures in Pakistan and the United Arab Emirates, where it has opened a branch in Dubai. In Pakistan, where last year it acquired 68 percent of Crescent Commercial Bank for $100 million, it has begun an aggressive program of branch expansion as part of its plan to become the country's premier financial institution.


Samba is expanding into new markets in the Middle East and Asia.

Finance. Investor enthusiasm

Mega share offerings oversubscribed as trickle becomes a flood

In April, the recently established Inmaa Bank launched a SR10.5 billion ($2.8 billion) initial public offering on the Tadawul, the Saudi stock exchange. Eager investors jumped at the chance to buy the 1.1 billion shares made available, and the offer was oversubscribed by one and a half times. Some 7.7 million subscribers handed over an impressive total of SR15.865 billion (more than $4.2 billion).

Oversubscription is the norm with IPOs on the Tadawul, reflecting the very high level of investor confidence in the Saudi economy.

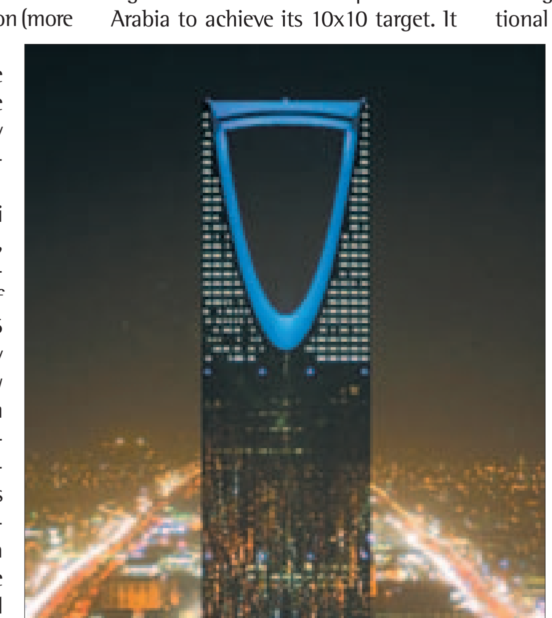
In February, the IPO of Saudi Arabia's latest GSM operator, Zain Saudi Arabia, was oversubscribed by two and a half times, raising more than SR17.5 billion ($4.6 billion) to help pay for its new network. A few weeks earlier, the SR4.6 billion ($1.2 billion) IPO of petrochemicals company PetroRabigh was four times oversubscribed, with 5.4 million investors scrambling for a share of the joint venture between Saudi Aramco and Japan's Sumitomo Chemicals. That offer raised just over SR16 billion (again, more than $4.2 billion)

Success stories like these will encourage other companies to seek to raise funds on the market. With the number of companies launching IPOs this year expected to reach 40, the stock exchange is the focus of intense investor interest. Other major enterprises waiting in line include Saudi Arabian Airlines and the Saudi Arabian Mining Company (Maaden), as well as the Tadawul itself.

And there are many more IPOs to come. More than 100 are planned by 2010, making the Tadawul the most active IPO market in the Middle East. By comparison, in 2006, just nine companies sold shares through IPOs. In 2007, there were 26, raising an estimated $4.8 billion.

Although the economy is gradually opening up to foreign investment, and although WTO rules require it, foreign investors are not yet allowed to invest directly in Saudi equities—with the exception of nationals of GCC countries, who were allowed into the market last December.

Analysts regard the opening of the region's largest stock exchange to foreign investors as a vital step for Saudi Arabia to achieve its 10x10 target. It would also balance the Tadawul more towards institutional investors and less towards retail investors.


The tallest skyscraper in Saudi Arabia, Riyadh's Kingdom Center, has 45 floors and stands at 992 feet. It will be dwarfed, however, by a mile-high tower planned by Saudi Prince al-Walid bin Talal for a new city near the Red Sea port of Jeddah, which is intended to be the world's tallest building.

Moves have been made to overhaul and strengthen the capital market in recent years. The Capital Markets Authority (CMA), which has replaced the Saudi Arabian Monetary Agency (SAMA), the central bank, as the regulator, has taken steps to curb fraud, manipulation and insider trading, and to broaden and deepen the market.

The Tadawul, which has become a joint stock company, has introduced a new trading system designed to uncover fraudulent transactions. The launch, in April, of a new market structure and indexes was hailed by its CEO, Abdullah Al-Suweilmy as "a major milestone." He said, "The change comes in line with international practices in calculation of market indexes. Only free-float shares are included in the calculation of the main market index (TASI) and the sector indexes."

According to Hamad Al-Sayari, Governor of SAMA, the financial system is "continuing to develop and grow in strength and sophistication." Under SAMA's proactive monitoring and guidance, Saudi banks have developed a reputation for soundness and stability, as well as turning in an impressively profitable performance, with several years of strong returns.

Most banks offer both conventional and Islamic banking services, and huge progress has been made in the variety of products on offer, including ATMs, and internet and telephone banking. With the assistance of SAMA, advanced payment and settlement systems have been set up, including automated clearing houses and real time gross value electronic funds transfer systems such as SPAN and SARIE.

More recently, SAMA has been working with the banks to bring them into compliance with the requirements of Basel II, which is intended to further strengthen the soundness and stability of the international banking system by modernizing the existing capital requirements framework and making it more comprehensive and risk-sensitive.

The sector is becoming more competitive for local banks with the arrival of international institutions, such as Deutsche Bank and BNP Paribas. Half a dozen foreign banks have already entered the market.

Saudi Arabia

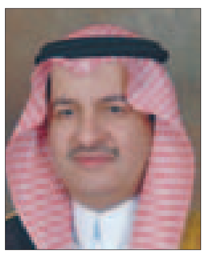
Trade. U.S. is largest partner

A new era for exports and investment

Membership in WTO has given economy a boost, says private sector chief

Saudis have been traders for thousands of years. The Arabian Peninsula was the crossroads of the ancient world, with its Red Sea ports linking Asia and Europe, and stately camel caravans moving across the desert carrying almonds, dates, frankincense, myrrh and Indian spices to Mesopotamia, the Nile Valley and the Mediterranean Basin.

Today, Saudi Arabia owes its enormous wealth to its trade in the world's most sought-after commodity—crude oil. Oil represents 98 percent of its exports to the United States, its largest trading partner, with the Kingdom supplying around 1.6 million barrels per day. Bilateral trade between the two countries amounts to $40 billion annually. In turn, Saudi Arabia is the 17th largest export market for the U.S., which holds 23 percent of FDI stock in the Kingdom, most of it relating to the oil and gas industry.



Omar Bahlaiwa
Secretary-General of the Saudi Committee for the Development of International Trade

With its accession to the World Trade Organization in 2005, Saudi Arabia has integrated further into the global market, giving it the opportunity to make its products more competitive abroad, and making the Kingdom more attractive to foreign investment.

Omar Bahlaiwa, Secretary General of the Saudi Committee for Development of International Trade (CIT) at the Council of Saudi Chambers, argues that Saudi Arabia has always had an open economy based on free trade and market concepts. Nevertheless, he describes joining the WTO as an excellent move, as it has led to a number of important reforms.

"Since new foreign investment laws have been adopted, our economy has become even more attractive to foreign investors," he says. "The whole business climate changed when we began to emphasize the international arena and the need to attract a broader group of investments and investors, as well as increase FDI in general.

"Since joining the WTO," he adds, "our GDP has grown to $373 billion, which puts us on the front line after Turkey."

The Council of Saudi Chambers represents the private sector and 23 Chambers around the country. Established in 1983, it participates in international seminars and forums, and has sponsored numerous trade missions and business delegations to the United States, Canada, the United Kingdom and other countries. Mr. Bahlaiwa believes the role of CIT has been particularly important since 9/11. "Its trade and business relationships have helped to defend and improve Saudi Arabia's reputation and image," he says.

He points out that Saudi Arabia is the largest market in the Middle East and says its economic boom is sustainable. "It is a good base for the region, with state-of-the-art infrastructure. We have an open market for expatriates, and Saudi Arabia is a multinational country with strategic partnerships all over the world. The Saudi economy is open for America and for the whole world."

Economic reforms will ultimately reduce the country's reliance on oil, he adds. "We are still dependent on oil revenues, but are actively working to not only add value to our petrochemical industry, but to diversify across industries.

"We are seeing enormous growth in a number of sectors. Services in general, for example, minerals, water and power projects, fertilizers and other downstream petrochemical industries, transportation initiatives such as highways and railroads, and enormous construction projects."

Education. Setting new standards

The key to progress and development

Increasing the knowledge and skills of Saudi citizens is a priority

Last October, at a massive coastal site of some 36 million square meters to the north of Jeddah, King Abdullah bin Abdulaziz, the Custodian of the Two Holy Mosques, laid the foundation stone for the King Abdullah University for Sciences and Technology.

Benefiting from an endowment fund worth more than $10 billion, the university, which is due to open in 2009, is intended to become a center of excellence where men and women study together in an atmosphere of academic freedom, and specialized research advances the economic, social and environmental development of the Kingdom.

The establishment of KAUST, as the university is known, reflects the importance now being placed in Saudi Arabia on the development of human resources and research capabilities as crucial elements in a more knowledge-based economy.

In higher education, this translates into a 25-year development strategy, the opening of 12 new universities and the signing of cooperation agreements with leading universities in the United States, Europe and Asia. The number of Saudi universities has already risen from eight to 20 over the last four years. The first university for women was launched in Riyadh last year, and more are set to follow.

Academic advancement is key to the Kingdom's future and a top government priority.

There are more engineering and computer science colleges, medical colleges and community colleges, and more Saudis are being sent to study abroad—currently around 40,000.

In March, five-year partnerships worth at least $25 million were announced with three leading American research and teaching institutions: the University of Texas at Austin, the University of California, Berkeley, and Stanford University.

All of this is part of a major overhaul of the education system currently taking place. More than a third of this year's budget, a record SR105 billion ($28 billion), is being channeled into education and training. A total of SR39 billion ($10 billion) will be spent on building schools, universities, and training centers and institutes.

The King Abdullah Project for the Development of Public Education aims to upgrade the whole educational environment, train teachers, develop academic curricula and provide modern information technology. International standards will be the benchmark for the quality of education services.

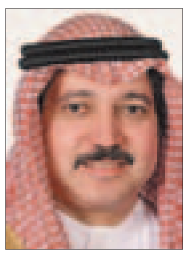
According to Prince Turki Al-Faisal, Chairman of the King Faisal Center for Research and Islamic Studies, recognition of the need to reform education is the result of a dramatic process of self-examination that covers every aspect of Saudi society and culture.

"We have recognized that a comprehensive, modern and open educational system—with new and revised textbooks—is fundamental to the growth and prosperity of our country," he says. "A thoughtful revision of this system is necessary, and indeed well underway."

Diversification and the right connections bring success

As an example of a Saudi company with a proven track record of successful collaboration with foreign firms, it would be hard to beat Juffali & Brothers. One of the Kingdom's largest business enterprises, it has the trust of more than 100 foreign companies.

And if the sheer number of connections is impressive, so is the quality and range of the firms with which Juffali & Brothers is associated. They include prestige names like Bosch, Siemens, Mercedes-Benz, IBM, Ericsson and Dow Chemicals. Appropriately, the company operates under the banner 'Progress through diversity.'



Khalid Juffali
Vice Chairman and Managing Partner of Juffali & Brothers

"Our success has been due to our diversity," says Khalid Juffali, the firm's Vice Chairman and Managing Partner. "We have gone into many different fields. Choosing the right partner is very important."

Many of these partnerships go back a long way. Juffali & Brothers has been forming close business associations with international corporations since 1948.

"We have joint ventures and associations that have been going on for at least the last forty or fifty years," says Mr. Juffali. "First and foremost, we are clear and cooperative, and we add value, because we know the country and we know the people. And, of course, we have full transparency."

Like most of the family businesses that have become giant conglomerates in the Arab World, Juffali & Brothers started small, beginning with three brothers sharing a small shop. Today, the company has interests in manufacturing, engineering, construction, insurance, oil and gas, and IT and telecommunications.

Mail undergoes a transformation

Door-to-door delivery and the introduction of state-of-the-art electronic services

Until fairly recently, Saudis had to travel to their local post office to collect their mail. With no street signs or house numbers in many parts of the Kingdom, home delivery was impossible. This has all changed, however, with the introduction of one of the world's largest radio frequency identification (RFID) projects.

Millions of individual post boxes have been installed at homes and businesses, fitted with RFID-enabled chips that allow postmen to identify the address using handheld devices, providing Saudis with door-to-door delivery for the first time.

Known as the Wasel project, it is part of the transformation of the postal service that is being brought about by the national postal carrier, Saudi Post.

"Mail is an important form of communication among people," says Mohammed Benten, the company's President and CEO. "People often forget the power which mail has. It's personal, it's intimate and it's exciting for people to receive envelopes addressed to them. People are always looking for the intimate touch, and companies should try to reform that intimate connection with customers."

Dr. Benten was named Multiple Industry CEO of the Year at this year's Middle East CEO of the Year Awards.

Until 2002, the postal service was state controlled. Its progressive privatization is rightly regarded as one of the great successes of the country's modernization and transfer of state-run businesses to the private sector. Today, Saudi Post is in the process of becoming a diversified company with operations not limited to the delivery of mail, but extending across a wide range of activities. National postal revenue has increased by more than 37 percent.

The company has formed successful relationships with international firms. To support its Wasel project, it turned to Oracle for e-business software, while Cisco has provided the communications infrastructure for its 6,000 branches across the Kingdom. In 2006, it established a long-term strategic partnership with Microsoft to integrate traditional mail with state-of-the-art electronic services.

Majed Mosa Al-Esmail, Saudi Post's General Manager of IT and Communications, says, "We are increasing our IT services by being a service hub for business and connecting all our postal service locations together. We are working hard with Microsoft to reach 3.5 million emails, and will build a lot of services upon these."

In one of the most recent developments, Saudi Post has linked up with Saudi Research & Marketing Group (SRMG) and Direct Mail Services (DSM) to provide a direct mail service for advertising mail campaigns and direct marketing.

Saudi Post is in the process of dividing itself into distinct business units, of which it will be the holding company. Separate units have already been established for distribution and transport. The delivery service, Naqel, in partnership with Hala Express, has become the largest land logistics network, serving 5,000 towns and villages.

Saudi Arabia

Transport. Upgrading travel and transit

Developing an 'intelligent' transportation network

Efficiency, safety and conserving the environment are among main objectives of plans for sector

Although Saudi Arabia is the world's 14th largest state, its 27 million inhabitants live mainly on the eastern and western coasts, as well as in a few densely populated settlements based around interior oases. Large areas have no population at all.

This means that a viable and coherent transport infrastructure is of vital importance to stitch together the fabric of the desert state. "The transport sector plays an important role in any country's socio-economic development," notes Transport Minister Jabarah Al-Suraisy. "We consider the Ministry of Transport one of the most important, as other ministries depend on us to reach their objectives."

The kingdom is currently halfway through the eighth of a series of five-year plans for economic development. The Eighth Development Plan, which runs until 2010, has a number of objectives for the transport sector. These include contributing to balanced socio-economic development, boosting efficiency and safety, and conserving the environment. It also has specific requirements to provide better transport services for visitors and residents who travel on the annual Hajj and Umrah pilgrimages. The Hajj alone saw the number of visitors to Mecca rise by more than two million in 2007.

Jabarah Al-Suraisy
Minister of Transport

Aside from physical development of the highway network—which has more than 50,000km of paved roads with 16,000km under construction—the Ministry is eager to foster a more intelligent transportation network.

To this end, the Saudi Arabian Public Transport Company (SAPTCO), which runs intra- and inter-city buses, as well as international routes to the UAE and Bahrain, has implemented an intelligent monitoring system to keep track of the speed and location of each of its vehicles and the ministry is pressing others to follow suit. Urban public transportation is also being upgraded, in both the number and design of buses.

But according to the Minister, his main objective is to develop the country's commercial ports infrastructure and compete strongly internationally. "Our geographic location, together with our solid economy, makes Saudi Arabia an excellent location for international ports," he says.

In all, Saudi Arabia has eight commercial and industrial ports, and development is proceeding apace. The new King Abdullah Economic City, under construction on the Red Sea coast north of Jeddah, will include a port that the developer, real estate company Emaar, claims will be "similar in size to the world's top 10 ports, such as Rotterdam, that would allow even the world's largest super vessels to drop anchor."

But in the meantime, the existing ports are busy. Total containerized cargo shipments increased by 8.21 percent in 2007 compared with 2006, while the total amount of cargo, excluding crude oil, reached more than 140 million metric tons, an increase of 5 percent on the previous year.

Jeddah Islamic Port took the biggest share of cargo at 42.15 million metric tons, an increase of 4.36 percent, but this is before a planned new $450 million container terminal is completed that will boost capacity at the port by 45 percent. The development promises to upgrade its facilities to cope with the most advanced container ships with a capacity of more than 14,000 TEUs, including new super quay cranes, berth depths of more than 60 feet and an independent navigation channel 540 feet deep.

Saudi Arabia's airports aniticipate a 50 percent increase in passengers by 2020.

Consortia bid to build rail link across desert

A $5 billion project to span the Saudi desert between the Red Sea and the Gulf by rail is up for tender, with an announcement of the winner expected by June. Dubbed the Saudi Landbridge project, the rail link is part of a major overhaul of the railroad infrastructure by the Saudi Railways Organization (SRO) that should add 1,800 miles to the Kingdom's existing capacity, which mainly consists of 280 miles of passenger line between Riyadh and the oil port of Dammam.

The Landbridge will include 590 miles of track connecting the Riyadh with the container port at Jeddah, while a shorter, 70-mile stretch will link Dammam to the industrial city of Jubail.

The new lines will be single-track, but track infrastructure such as tunnels and bridges will be designed to allow subsequent upgrade to twin-track. The Landbridge will save around five or six days for freight traffic on the sea route around the Arabian Peninsula and will also provide fast passenger services between the east and west coast.

Four consortia are bidding for the Build Operate Transfer contract—one of the largest such schemes ever undertaken in Saudi Arabia. The winner will be the one requesting the least in government grant for the project.

Two U.S. firms are in the contest, KBR and General Electric Co., in a group led by Kuwait-based logistics operator Agility. It is a bold move for the country, which has never before allowed private capital to participate in railway development.

Two other rail projects are currently underway. A high-speed rail link will connect the holy cities of Mecca and Medina, and ease the pressure of a projected 50 percent increase in travelers by 2020 to 30 million a year. Meanwhile, the 1,500 mile North-South Railway will primarily transport minerals from mines located in northern Saudi Arabia to the industrial city of Jubail, and it may share part of the Landbridge network between Riyadh, Dammam and Jubail.

Competition gives a lift to the air travel industry

National airline Saudia is modernizing to stay ahead as licenses are issued to commercial carriers

Because of the sheer size and challenging terrain of the Kingdom, Saudis have historically relied largely on air transport to open up their country. For more than 60 years, this role has fallen to the national carrier, Saudi Arabian Airlines, known as Saudia.

Khalid Abdullah Al-Molhem
Director General of Saudi Arabian Airlines

Now all that is changing, as the government pushes through a radical plan to shake up the industry with new airlines and new airports, as well as pursuing a gradual policy of privatization that will see Saudia unbundled into five profit-generating firms.

Liberalization is already under way, under the auspices of the General Authority of Civil Aviation (GACA), which issued two licenses to commercial carriers last year, with up to four more due to follow by 2010. The airline is also undergoing an extensive program of modernization, as Saudia prepares for a new era of competition.

Youssef Attiah
Vice-President of Customer Services Saudi Arabian Airlines

"We are taking a great leap forward into the future," says Saudia Director General Khalid Abdullah Al-Molhem. The airline's strategy includes upgrading its technical infrastructure, expanding the network, simplifying its sales and reservations operation and improving airport and on-board services, plus a complete facelift for the Al-Fursan flyer rewards program.

E-ticketing is progressing quickly, with more than 1.3 million issued so far, reaching 50 percent of passengers. Employees are also in line for an upgrade, with new training programs planned for both front-facing and technical staff.

As a result, Saudia has already increased the number of flights to Dubai to 44 a week, and switched to year-round service for the Red Sea resort of Sharm Al-Shaikh. Sales are up too, thanks to the move to new technologies. "Our culture encourages people to accept technology," notes Youssef Attiah, Vice-President of Customer Services at the airline. But its success has surprised even him. "It was a big achievement, so successful that it went beyond the expectations of senior management."

Encouraging more passengers on to Saudi Arabia's burgeoning airlines will be counter-productive if the country's airport infrastructure cannot cope, which is why GACA is investing around $11.3 billion in projects, including a new Hajj terminal at King Abdulaziz International airport in Jeddah, a new international airport in Medina, and expanded facilities at Tabuk. Plans are also being considered for a fifth international airport at King Abdullah Economic City, currently under construction 125 miles north of Jeddah.

Work at King Abdulaziz is set to be completed by 2010, boosting capacity to 21 million passengers a year, though a new contract aims to increase this further to 80 million by 2035.

Telecommunications. Regional leader

Competition steps up in mobile market

The pace of expansion in the Kingdom's mobile phone market is outstripping all expectations. Last year, it grew by almost 40 percent—nearly twice as much as analysts had forecast.

Set to launch into this highly profitable market is Zain Saudi Arabia, a subsidiary of Kuwait's Zain telecoms group, formerly known as the MTC Group, a leading telecommunications mobile provider in 22 countries across the Middle East and Africa. Zain successfully outbid rival firms with a $6.1 billion offer to win the Kingdom's third mobile telecom operator license, putting it in direct competition with the current mobile operators, Saudi Telecom Company (STC) and Etihad Etisalat (Mobily).

The Kingdom already accounts for around 70 percent of GCC telecom business.

Nokia Siemens and Motorola will roll out a state-of-the-art 2G and 3G network. Marwan Al-Ahmadi, Zain Saudi Arabia's Chief Executive Officer, says the company will fully depend on its own infrastructure within three years.

"From day one, we will be covering about 95 percent of the population. Our own networks will cover 53 percent of the population, including 34 cities and 4,000 kilometers (2,485 miles) of highways. The rest will be covered through an agreement with national roaming. However, we will accelerate the expansion of our network so that we will cover the whole kingdom within two to three years."

Dr. Al-Ahmadi says the company expects to sign up its first customer by the end of June. "The time has come to reap the results we have been working on for the past few months and to turn our dream into a reality".

More than eight million Saudis bought into Zain Saudi Arabia when it launched its initial public offer, floating 45 percent of its equity on the Tadawul stock exchange earlier this year. Of the 700 million shares offered, 630 million were snapped up by individual investors and 70 million were allocated to the Kingdom's Public Pension Fund. The IPO, which raised more than SR17.5 billion ($4.6 billion), was oversubscribed by 269 percent. The proceeds will be used to build Zain's infrastructure and finance the organization.

Marwan Al-Ahmadi
Chief Executive Officer of Zain Saudi Arabia

Dr. Al-Ahmadi says the Saudi market is one of the fastest growing markets in the telecom sector, and the most attractive when it comes to investments. "At Zain, we believe that Saudi Arabia is one of the most important global markets. It is the jewel in the crown, with the largest telecommunication industry in the region. Last year, the size of the mobile telecommunication business was $8.7 billion, which represents 70 percent of the total telecommunication business in the GCC region. The population represents 70 percent of the region. GDP is about 60-70 percent of the total GDP of the region."

He predicts that the telecommunications market in Saudi Arabia will expand by 140 percent over the next five years. "Why? Mobile penetration is the lowest in the GCC, broadband penetration is 4 percent—again, one of the lowest in the GCC. Moreover, the strategic fitness of Saudi Arabia in the overall geographic footprint for Zain to become a global operator is optimal."

The biggest challenge, he says, is the enormous size of the country. "The impact of this challenge is intensified because we are adhering to our own standards of quality, our network build-up has to comply with the key performance indicators of the group."

Petrochemicals. New complex IPO oversubscribed

Downstream industries are moving up

Scheduled to start production in October, the huge new Petro Rabigh complex located at the Red Sea port of Rabigh symbolizes Saudi Arabia's drive to develop the downstream sector of its oil and gas industry. One of the world's largest integrated oil refining and petrochemical complexes, Petro Rabigh will have a refining capacity of 400,000 barrels per day, in addition to producing 95 million cubic feet of ethane and about 15,000 barrels of butane. Full capacity is expected to be reached by the first quarter of next year.

Oil Minister Ali Al-Naimi reaffirmed the Kingdom's commitment to adding value during the visit of George W. Bush in February, ranking downstream industries alongside oil production and export. "Saudi Aramco is undertaking major expansion programs, both upstream and downstream, in oil and gas as well as petrochemicals, with a total investment of more than $90 billion over the next five years," said the minister.

Much of this investment will be undertaken in partnership with foreign investors. Petro Rabigh, a $10 billion project, is a 50-50 joint venture between Aramco and Japan's Sumitomo Chemical Company.

When the Rabigh Refining and Petrochemical Company launched its initial public offering on the Tadawul stock exchange in January, Saudi investors responded enthusiastically. Approximately 5.4 million individual subscribers pumped a total of SR16 billion ($4.2 billion) into the company, while institutional investors stumped up more than SR 6.8 billion ($1.8 billion).

One of the biggest local players downstream is the Saudi Basic Industries Corporation (Sabic), now one of the world's leading manufacturers of chemicals, fertilizers, plastics and metals with close to 5 percent market share of the global petrochemicals business. Sabic owns a number of sophisticated production sites, mainly around Al-Jubail industrial city, and in Dammam on the Arabian Gulf and Yanbu on the Red Sea. Its total production is expected to reach 60 million metric tons this year with key products including ethylene, ethylene glycol, methanol, MTBE (Methyl Tertiary Butyl Ether) and polyethylene.

Ali Al-Naimi
Minister of Petroleum

The company, 70 percent owned by the Saudi government with the rest held by private shareholders, has been in operation since 1981.

A measure of Saudi Arabia's growing reputation in the downstream area is Sabic's overseas portfolio, with investments spanning Europe, Asia and the Americas. One recent tie-up will see Sabic and China's Sinopec build a one million metric tons per year ethylene derivatives complex in Tianjin.

Another Saudi player with good prospects is the privately owned Saudi International Petrochemical Company (Sipchem). It has its own mega project on the go, an olefins and derivatives complex for producing ethylene and propylene, plus 16 integrated plants for various value added products.

With a start date set for 2013, the complex forms a crucial part of Sipchem's strategy to raise its annual production capacity up to five million tons. This aggressive expansion program supports the company's goal to become one of the biggest fully integrated private sector petrochemical players in the Middle East. During the first quarter of 2008, Sipchem realized net profits of SR232 million, a 54.6 percent increase over the same quarter of 2007.

Saudi Aramco is expanding both its upstream and downstream activities.

Saudi Arabia

Power. Key role of Saudi Electricity Company

New plants planned to meet rapid rise in demand

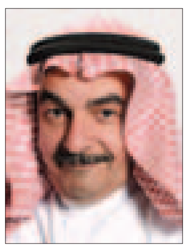
With its need for electricity rising by 7 percent per year, the Kingdom must boost supply to keep pace with expansion of the economy and its fast rising population

A sufficient and reliable supply of electricity is a basic essential for the economic development that Saudi Arabia wants to fund with its record oil revenues.

With massive energy, industrial and real estate projects underway or planned, it is estimated the Kingdom needs to increase its power generation capacity threefold over the next 25 years in order to meet future needs. In light of the massive investment this would require, moves are being considered to reform and privatize the sector.

Demand for electricity is increasing at a rate of 7 percent per annum. In highly populated areas such as Riyadh, it went up by 10 percent between 2006 and 2007.

According to a long-term forecast by the Ministry of Water and Electricity, by 2015 the Kingdom will need to increase its power generating capacity by at least 20,000MW to 55,000MW. By 2032, when the population may have risen to 39 million, and the new economic cities are completed, consumption could rise to the equivalent of 140,000MW, says the study.



Ali Saleh Al-Barrak, President and CEO of Saudi Electricity Company

New power plants and transmission projects are being developed by the state-owned Saudi Electricity Company (SEC), which dominates the sector. SEC owns and operates the entire national electricity transmission and distribution network, and accounts for almost 90 percent of total power generation capacity.

The company serves 4.95 million customers, delivering power to all regions of the country and playing a vital role in ensuring the security of the national power supply. "SEC is the government's key vehicle for delivering national energy policy targets," says Ali Saleh Al-Barrak, President and Chief Executive Officer.

Over the period 2006-2015, SEC's total investment spending on new plants will be SR46.5 billion (more than $12 billion). A further SR30 billion ($8 billion) will be invested in transmission lines.

In addition to developing its own undertakings, SEC will also be a prominent partner in several independent power projects (IPPs). In March, it released the request for proposals (RFP) for a planned 1,200MW plant at Rabigh on the Red Sea coast to 24 pre-qualified parties. Bids are due to be submitted to SEC by the end of August. This is the first of three IPP projects that SEC plans to launch under its IPP program. The second one will be the Riyadh IPP and the third will be the Qurayah IPP.

The successful bidder will own 80 percent of a special purpose project company that will build, own, and operate (BOO) the Rabigh IPP project. The remaining 20 percent of the shares in the project company will be held by SEC, which will provide the heavy fuel oil used to operate the plant. The entire capacity and output of power will be sold to SEC by the project company under a 20-year power purchase agreement.

SEC is 74.3 percent owned by the Saudi government. A further 6.9 percent is owned by Saudi Aramco, the state-owned national oil company, which is required by royal decree to maintain an adequate supply of fuel to the utility. The remainder of the company's shares are held by the public.

In December, Moody's Investors Service assigned long term local and foreign currency issuer ratings of A1 to SEC, the first time that it has assigned ratings to the company.

More recently, it was revealed that plans to unbundle and privatize SEC's generation and transmission assets have been approved by the Kingdom's electricity regulator ECRA, and were awaiting the go-ahead from the Kingdom's Supreme Economic Council.

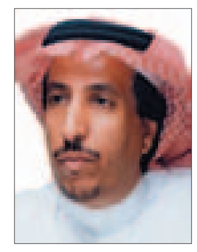
According to Abdullah Shehri, Deputy Governor of ECRA, the idea is to attract private sector investment and competition into the sector. "We want additional investment to curtail future financial challenges," he said.

The SEC would become a holding company for what would eventually be four separate units. It would continue to own at least one of the units and transmission units after privatization.

Marafiq prepares for expansion of industrial cities

Marafiq, the company that supplies the two industrial cities of Jubail and Yanbu, has been operating as a private integrated power and water utility company since the beginning of 2003, and is one of the major success stories of Saudi Arabia's privatization initiative. Its main owners are the Royal Commission for Jubail and Yanbu, Saudi Aramco, Sabic and the Public Investment Fund.

Some SR 22 billion (almost $6 billion) will be spent over the next ten years, expanding the company's facilities, building new ones and replacing some existing assets. Prince Saud Bin Abdullah Bin Thunnayan Al-Saud, Marafiq's Chairman, says, "With its sound commercial foundation, state-of-the-art technology and extensive infrastructure, Marafiq is well positioned to provide efficient, economical and reliable utility services as a self-sufficient enterprise."



Prince Saud Bin Abdullah Bin Thunnayan Al-Saud, Chairman of Marafiq and the Royal Commission for Jubail and Yanbu

The company is undertaking two major independent water and power projects (IWPPs), one for each city. The Jubail project will be the world's largest greenfield power and water plant. Originally intended to meet the local demand for power and water in Jubail Industrial City, it has been upgraded to produce 2,500MW of electricity and 700,000 cubic meters of desalinated water per day in order to extend supply to other parts of Eastern Province as well. Marafiq has a 30 percent shareholding in the project, which will be developed by a consortium comprising Suez Energy International, Gulf Investment Corporation, and ACWA Power.

The company's other major project is its plan to build a greenfield Independent Water and Power Project (IWPP) at Yanbu Industrial City that will produce 1,500 to 1,700MW of power and 150,000 cubic meters of water per day. Marafiq will retain a 40 percent stake.

Demand for space in Jubail and Yanbu, which were built 30 years ago, is so great that both are being massively expanded with the development of new twin cities. Infrastructure projects for heavy and light industries worth billions of dollars are planned by the Royal Commission. In turn, both the Jubail 2 and Yanbu 2 projects are expected to attract billions of dollars-worth of private investment.

Prince Saud, who chairs the Commission as well as Marafiq, says, "The two cities have been a resounding success in establishing an industrial support base and infrastructure to encourage investment in primary and secondary industries, provide job opportunities for Saudi nationals, and diversify the Kingdom's income to reduce its dependence on oil."

The projects, which will be carried out in stages, will include residential buildings, commercial areas, schools and colleges. The first stage of Yanbu 2 is expected to be completed in 2010, and the second phase in 2018. Key contracts for Jubail 2 will be awarded this year.

New oil refineries will be built at each new city by Saudi Aramco as part of its drive to increase the Kingdom's refining capacity by 50 percent. Total is Aramco's partner in the Jubail project, and ConocoPhillips for the Yanbu project. Each refinery will have a capacity of 400,000 bpd and will produce products for export.

Tourism. Rules relaxed

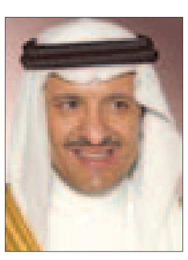
Targeting European and Asian visitors

Historically, Saudi Arabia has not been the most welcoming of tourist destinations. Potential visitors were stymied by strict visa rules that hampered obtaining a non-religious travel visa. The kingdom also had little in the way of a tourist identity—heat, desert and oil were perhaps the overriding perceptions of those ignorant of its rich history and more varied landscape.

The government is keenly aware that it must alter such perceptions and make things easier for visitors if it is to boost the tourism sector. The strict visa requirements have been loosened somewhat—travel agencies have been given the right to sponsor tourists since 2006, and the industry is increasingly targeting European and Asian visitors to broaden the sector's base.

Saudi Arabia has made it easier for tourists to visit the country.

As part of this drive to take part in the worldwide growth of tourism, Riyadh, the capital, recently held the first Saudi Travel and Tourism Investment Market. In attendance was Prince Sultan Bin Salman Bin Abdulaziz, Secretary General of the Supreme Commission for Tourism, who said: "Saudi Arabia's tourism industry is currently passing through a transitional stage following the approval of the cabinet to reform the sector." He predicted the Kingdom would see rapid growth in tourism, creating between 1.5 million and 2.3 million jobs by 2020 from a current base of 342,000.



Prince Sultan Bin Salman Bin Abdulaziz, Secretary General of the Supreme Commission for Tourism

As a result, Saudi Arabia joins Egypt as among the leading regional destinations in terms of growth in visitor numbers, which saw 46 million tourists to the Middle East in 2007. The capital's hotels have enjoyed a steady growth in occupancy, with the greatest rise in four-star hotels. Prices for five-star hotel rooms shot up 58 percent between 2005 and 2007.

It is hardly surprising, then, that international hotel chains are eager to grab a slice of this booming business. Radisson SAS plans to open two Park Inn Hotels by 2009, while Intercontinental Hotels Group has signed a deal with Siraj Capital to develop 12 Holiday Inn Express properties by 2013. Meanwhile, Accor Group aims to expand its upper mid-range Novotel brand and lower-end Ibis chain.

The industry itself has called on the government to maximize the development of historic and cultural sites for tourism. Potential attractions include the 17th century Barzan Towers at Hail in the Shammar Mountain region, ancient castles in Al-Jouf, Wadi Aldawasir and Al-Kahrj, the summer greenery and archaeological sites of Taif near Jeddah on the west coast, and the Red Sea coastline. The government also has its sights set on boosting leisure tourism, such as shopping.

But it is religious tourism that continues to be the backbone of the sector here. Given the growing popularity of the annual Hajj and the less prominent but still important Umrah pilgrimages, Saudi Arabia anticipates a 20 percent rise from the current more than two million pilgrims over the next decade.

It all adds up to a healthy and growing investment opportunity. According to the annual report of the Saudi Arabian Monetary Agency, the Kingdom expects to see total income from domestic tourism nearly triple from $9.5 billion in 2005 to $27 billion by 2010. "I see the future of the tourism sector as bright and promising, and the opportunity to create jobs is enormous," says Prince Sultan Bin Salman.

Mining. International interest

Giant complexes planned

Joint ventures are preparing to exploit major deposits of phosphates and bauxite

International mining companies are showing notably increased interest in mineral exploration in the Kingdom, which is blessed with generous deposits of phosphate and bauxite, as well as smaller quantities of gold, silver, copper, lead, zinc and tantalum.

Zohair Nawab, President of the Saudi Geological Survey (SGS) attributes this directly to the new mining code introduced three years ago, which greatly improved the environment for investment. "We are seeing the wheels moving, whereas before it was as if they were stuck," he says. "Now we have plenty of different international mining companies looking for opportunities."

A number of deals were set up with foreign companies in January at MENA-Ex 2008, Saudi Arabia's first international exhibition for mineral exploration, sponsored by the Saudi Arabian Mining Company (Maaden).

According to Dr. Nawab, the two most promising mineral commodities in terms of sheer quantity are phosphate and bauxite. "Saudi Arabia is the third largest country in the world in terms of phosphate deposits, and maybe in a few years we can be the major producer of phosphate and fertilizers, especially if we direct our efforts to exporting it to huge countries in the East, like India and China."

The Kingdom has the region's only bauxite.

The Kingdom possesses the Middle East's only known deposits of bauxite, the raw material for aluminum. "We have made a huge investment to integrate these industries," says Dr. Nawab.

Maaden has a $3.4 billion joint venture project with Saudi Basic Industries Corporation (Sabic) to produce fertilizers in the Minerals Industrial City at Ras Az Zawr on the east coast, using raw material transported by a new railroad from the phosphate reserves in the north of the Kingdom. The complex, which will be one of the world's largest single phosphate fertilizer complexes, is scheduled to go on-stream by mid-2010.

Last year, Maaden agreed a joint venture with Alcan—since taken over by Rio Tinto—to produce aluminum at Ras Az Zawr, using bauxite mined in the north. In April, Maaden announced that it expected to complete a joint venture deal with Rio Tinto by August for a new $7.5 billion aluminum complex. This too would be one of the largest projects of its kind in the world. Production is due to begin in 2012.

Maaden aims to finance its plans by selling shares to the public later this year. Chief Executive Abdullah Dabbagh says it is hoped to raise 9.25 billion riyals ($2.4 billion) through an initial public offering of 40 percent of the company's equity, and the sale of a 10 percent stake in two state funds.