MENA ECONOMIC OVERVIEW 2010

- **Will MENA's resilience be proven amid the current ailing economic conditions?**
- **Is MENA's growth story tied to fiscal prudence?**
- **Will oil continue to be a key factor in driving liquidity?**
- **How important is infrastructure in shaping the non-oil story going forward?**
- **How is the recovery heading in MENA's banking sector?**
- **Is the MENA stock market correction an opportunity?**
- **Is MENA more attractive as compared to other EM blocks?**
- **Are regulatory controls in place in MENA?**
- **Has the Dubai debt crisis highlighted the lack of transparency in MENA's corporate governance?**
- **Will MENA be the new BRIC?**

Introduction

In these seminal economic times, for a firm grasp of future strategy, it sometimes helps to step back and paint the big picture and account for the major triggers yet to come. In the case of MENA, we stand at a critical juncture, the credit crisis and global recession having opened some doors and closed others. While the unity of the region as a trading block and under a single currency remains too far in the future for it to be currently relevant, the positioning of the region as one of the primary areas of economic growth now and in the foreseeable future, make it an intriguing prospective for global money managers. Taken in its entirety and as an economic block in its own right, MENA positives outweigh the negatives. For us to paint the bigger picture, we are looking at 3 triggers going forward, 3 areas that will draw the sand lines for current and future direction:

Sovereign Debt Power

Numbers have the ability to provide stark pictures. When Saudi Arabia's debt to GDP is 4% and Japan, U.S and UK is 200%, 84% and 75% respectively, one has to wonder where will there be more energy spent on debt management and where will most of the focus be on growth and expansion. One of the true storylines already being played out is that while Europe and the US deal with the ramifications of the credit crisis, petro-dollar fuelled surpluses (MENA) and genuine economic growth engines (Indo-China) are taking advantage of the shift in economic power. How well this short term advantage is turned into long term superiority is still being played out, but for money managers looking for a simpler, easier way to make above average returns, MENA is a place they now cannot avoid.

Cost Competitive Oil

The black gold is synonymous with MENA. The past, the present and the future of this region will always be linked to the fluctuating price of oil. Recently, however, a vociferous school of thought has predicted the power of alternative energy eclipsing the stranglehold of oil, with even President Obama lending his weight behind the argument. The question is not if this will happen, (it most likely will as technology and advancement in knowledge will eventually provide an answer,) but most importantly how much change will happen. For MENA supporters, the answer lies in recent research that reveals that at current consumption levels, MENA as a block will become the second largest consumer of its own oil. This organic demand, along with dedicated R&D designed to increase margins and make oil more cost competitive, will ensure governments continue to generate surpluses which are then pumped into hungry engines popping up in multiple industries across the region.

Dynamic Compliance and Regulation

At a time when the US and UK are grappling with the potential fallout from an EU backed hedge fund law, we are beginning to see the direct effects of aggressive government intervention. Scarred and shaken to the core by the severity of 2008, the knee jerk reaction of the developed world has been to go to the extreme and put in place compliance and regulatory frameworks that have the potential to slow everything down to a crawl. If we take the current Hedge Fund Law being steamrolled through by the EU as an example, we see the direct impact on MENA. With both US and UK experts predicting an outflow of hedge fund activity from London if these laws come into place, a certain piece of this gigantic pie will look elsewhere for a friendlier regulatory body. With both Qatar and Dubai having cherry picked the best parts of the developed world's regulatory system and with both being highly cognizant of the potential movement of money, we see in the MENA region a framework that is much more conducive to a dynamic, evolving system rather than a cumbersome, leaden one.

The enclosed MENA Economic Overview 2010 takes the potential of the above three triggers and translates that into hard facts and clear examples. The fundamentals of the region, the dynamism of the region and the true potential of the region can be seen in the research displayed and when taken as a whole, it provides the foundation for the above triggers, amongst others, to actually be activated.

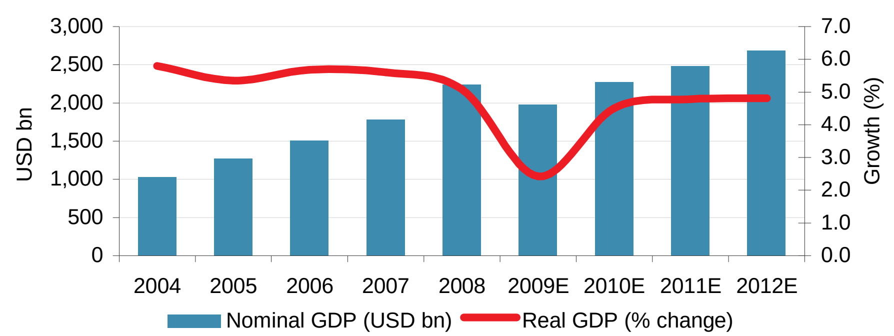
MENA ECONOMY – SUSTAINING RECOVERY

Absorbing shockwaves of the worst postwar recession

Hike in oil prices until 2008 enabled MENA economy to grow at a CAGR of 20.8% in nominal terms during 2003-2008

Countries in the Middle East and North Africa (MENA) region have enjoyed years of strong economic growth mainly due to solid petrodollar revenues. With oil prices skyrocketing until 2008, annual growth in the MENA region's nominal GDP averaged 20.8% during 2003-2008. Although the growth had largely been driven by the region's abundant oil reserves, efficient channeling of this oil windfall into diverse sectors enabled MENA economies to benefit from growth in non-oil sectors and reduce their dependence on oil.

Exhibit 1: Nominal GDP (USD bn) and real GDP growth rate, 2004-2012E

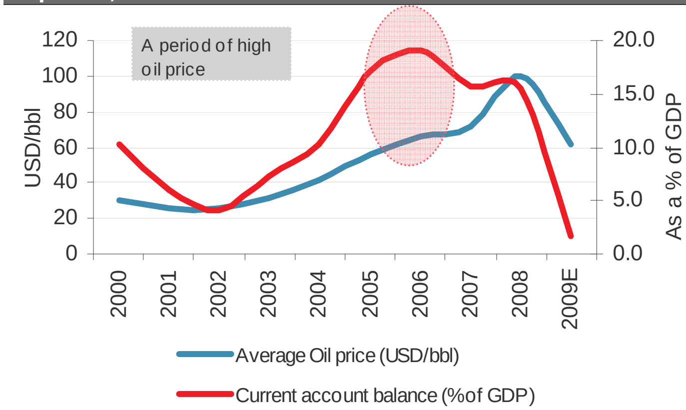


Source: IMF

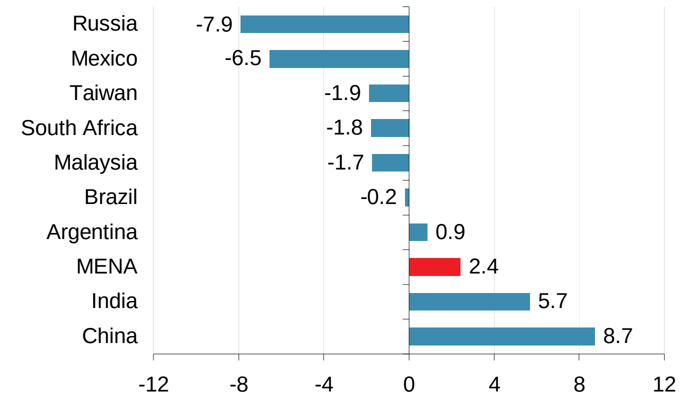
MENA to record positive GDP growth in 2009; weathering the worldwide recession reasonably well

The significant oil revenues generated during the oil boom increased the petrodollar reserves of MENA economies, enabling them to withstand the worst recession after World War II. This is evident from the positive GDP growth recorded in 2009. According to the International Monetary Fund (IMF), the MENA region grew approximately 2.4% during 2009, compared to the widespread negative growth seen in most other countries and trading blocks. Even though the 2009 figure is lower than 2008, it bucks the global trend, reflecting the inherent growth potential.

Exhibit 2: Current account balance (% of GDP) and average oil prices, 2000-2009E	Exhibit 3: Real GDP growth rates (%) compared with emerging markets, 2009E



Source: IMF



Source: IMF

Effective channelization of oil windfall and prudent policy and structural reforms proved key in sustaining growth

Fiscal measures helped sustain economic growth in 2009

The resilience of MENA economies to the global financial crisis can be ascribed to the robust policy and structural reforms adopted by regional governments in the pre-crisis years. Most governments utilized the significant oil windfall gains to reduce their debt burden during the pre-crisis period. For instance, Saudi Arabia's debt burden declined from over 130% of its GDP in 1999 to around 13% in 2008. This allowed the Saudi government to adopt an expansionary fiscal stance during the crisis. Saudi Arabia's USD126.7 bn budget for 2009 and USD146 bn budget for 2010 were the largest in the country's history. These expansionary budgets primarily focused on job creation and accelerating development to prevent economic slowdown. UAE also announced large budgets for 2009 and 2010—the country's AED42.2 bn budget for 2009 is 21% higher than the previous budget. The AED43.6 bn budget for 2010 devoted a sizeable chunk (AED7.6 bn) to the new projects planned in FY2010.

Dubai increased budgeted spending by 11% to AED135 bn in 2009. Other GCC countries also followed suit. Qatar unveiled a QAR30.6 bn budget for 2009, the largest in its history. The government of Qatar has earmarked 40% of its total expense outlay (USD10.4 bn) to infrastructure projects. Egypt, announced it was increasing planned expenditure by 26.1% to EGP356.8 bn in the 2008-09 budget.

Significant stimulus packages by governments in the Middle East to infuse liquidity as well as support troubled sectors also helped pull the domestic economies through the recession. Saudi Arabia provided the highest stimulus package of USD49.6 bn among G20 nations. Kuwait (USD5.17 bn) and Oman (USD2 bn) too doled out large aid.

Egypt, Lebanon, Qatar and Morocco were the most resilient economies in terms of GDP growth in the MENA region. Almost all MENA countries, except Kuwait and UAE, are likely to end 2009 with positive economic growth. Qatar is expected to record the largest growth rate (9% in 2009) backed by its huge natural gas reserves.

Social infrastructure – A key theme for 2010

The non-oil sector growth story in the Middle East so far has been led by expansion in infrastructure, primarily significant investments in real estate and construction. The strategy also helped to contain the fall in growth and keep the economy afloat during the economic crisis in 2009. While infrastructure growth continues, it is time to take stock of the situation and focus on sustaining growth rates and prioritize long-term health of the economy. With this view, Middle Eastern governments are concentrating on investments in developing the social infrastructure, including education, health, and retail. Although large-scale core infrastructure development projects are still on the radar, increasing attention is being given to employment generation as a means to boost consumption, aid economic growth, and improve the social infrastructure. Saudi Arabia's 2010 budget allocates 25.5% and 11.3% of the total expenditure to education & training and health & social affairs, respectively, up 13% and 17% over the 2009 budget. The UAE too has earmarked 22.5% of the outlay for education projects in its 2010 budget. Kuwait plans to spend an estimated KWD1.92 bn annually on education over 2010-11 to 2014-15. In its 2010 budget, Oman allocates 27.5% of the total planned expenditure for the year to the education sector and 34% to the health sector. The Government of Oman has set aside OMR937 mn for new projects, which include construction of new schools, health centers and operation & maintenance of the Al Ghubra desalination plant. Dubai has allocated AED8.1 bn to the social sector and public services, which include health, education, social development and Islamic affairs, in its budget for 2010.

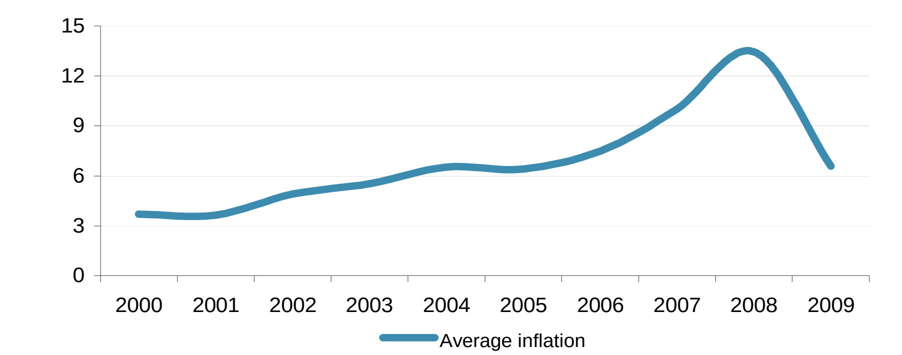
Higher budget allocation to social infrastructure development including education, health and retail sectors are being made in 2010

Expansionary monetary measures to support credit markets

At 13.5% in 2008, inflation in the MENA region was a concern; however, it eased to 6.6% in 2009

Inflation, a key concern until 2008, has now eased: Until 2008, inflation was a key concern for MENA economies. Central banks in the region are especially concerned during Inflationary cycles as most MENA economies are run at a dollar-peg. Central bankers can only use reserve requirements (as opposed to benchmark rates) to control inflation through monetary measures. According to the IMF, inflation in the MENA region averaged 13.5% in 2008. Inflation ranged from 5.1% (Bahrain) to 14% (UAE), and even exceeded 18% (Egypt). Rising food prices during the agri-commodities boom in 2007-2008 was an important contributor to inflation in MENA economies, many of which depend heavily on imports to meet their food requirements. The economic crisis in late 2008 led to a sharp fall in food prices and decreased housing costs, effectively reducing inflationary pressures in the MENA region. Inflation in the MENA region is estimated to have dropped to 6.6% in 2009.

Exhibit 4: Average inflation (%) in the MENA region, 2000-2009E



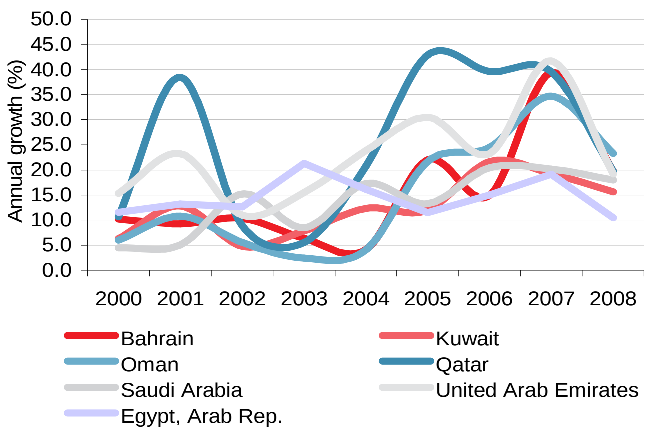
Source: IMF

Monetary polices reversed in late 2008 to restore credit markets

Interest rates in MENA region fell to sub-1% levels by December 2009

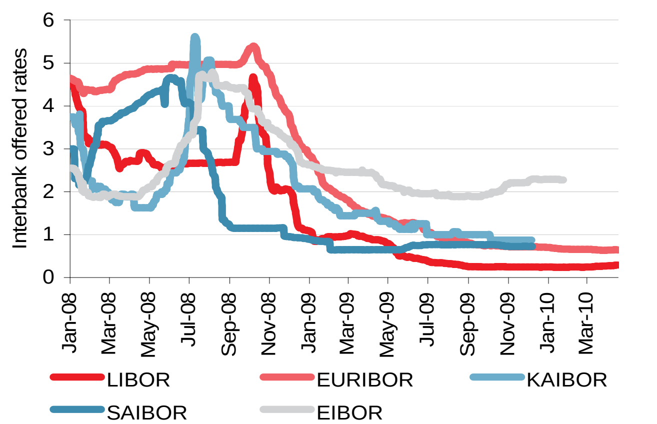
The central banks across the MENA region reversed their tight monetary polices in order to thaw credit markets and enable banks to restart lending. Authorities undertook a spate of measures to support the dwindling financial sector, including a series of interest rate cuts, reducing reserve requirements and central bank swap facilities. Cash reserve requirements in Saudi Arabia decreased from 13% to 7% in November 2008. The Saudi Arabian Monetary Agency (SAMA) also offered local banks a USD40 bn lending facility in October 2008. Consequently, the Saudi inter-bank offer rate, more than 4.5% in October 2008, dropped to sub-1% levels by December 2009. In line with its monetary easing efforts, the UAE government provided an AED50 bn lending facility and temporarily suspended the six-day rule of current account overdrafts. Central Bank of Kuwait guaranteed the deposits and raised the loan-deposit ratio from 80% to 85%. Oman also brought down the reserve requirement from 8% to 5%. Monetary easing in other MENA countries also gathered momentum. The Central Bank of Egypt eased monetary policy by cutting policy rates four times by a cumulative 250 basis points since early 2009. In October 2009, Central Bank of Jordan announced a full guarantee of all bank deposits until the end of 2009. In late November, policy interest rates were cut by 50 basis points and the reserve requirement by 100 basis points.

Exhibit 5: Annual growth in Money supply dropped in 2008



Source: World Bank

Exhibit 6: : Interbank offer rates have declined since 4Q 08



Source: The Baltic Exchange

Slow recovery in banking activity

Lending by MENA banks is improving once again as the risk of economic recession seems to have abated

The banking sector in the MENA region was not spared by the global financial meltdown. The effects were visible towards the end of 2008 in terms of balance sheet contractions and bottom-line growth. However, the impact was relatively less compared to banks in advanced countries. Favorable monetary measures aided the recovery process. Qatari banks witnessed a sharp recovery, with credit growing 11% YoY in 2009, the strongest such growth within the MENA region, although most of the growth was driven by government-sponsored projects and investments. Saudi Arabia managed to grow its total banking sector assets by 5.2% YoY in 2009 to SAR1,370.3 bn (21.1% YoY growth in 2008). Credit growth in Saudi Arabia, however, was marred by Dubai's debt crisis, which emerged during October 2009. Claims on private sector decreased to SAR734.2 bn in 2009 from SAR734.6 bn in 2008. However, private sector credit has shown some improvement since the start of 2010, increasing 1.6% from 2009-end to SAR745.8 bn by the end of 1Q 10. Bahrain's banking sector also experienced a slowdown, with total assets falling sharply to USD220 bn in November 2009 from USD270 bn in June 2009. The banking sectors in Egypt and Lebanon displayed resilience to the global crisis. The consolidated domestic assets of operating banks in Lebanon grew significantly from USD94.3 bn at the end of 2008 to USD115.3 bn towards the end of 2009. The total assets of Egyptian banks grew 10.2% to USD210 bn towards the end of December 2009. The growth was mostly driven by the uptrend in deposits accumulation rather than accelerated lending activity.

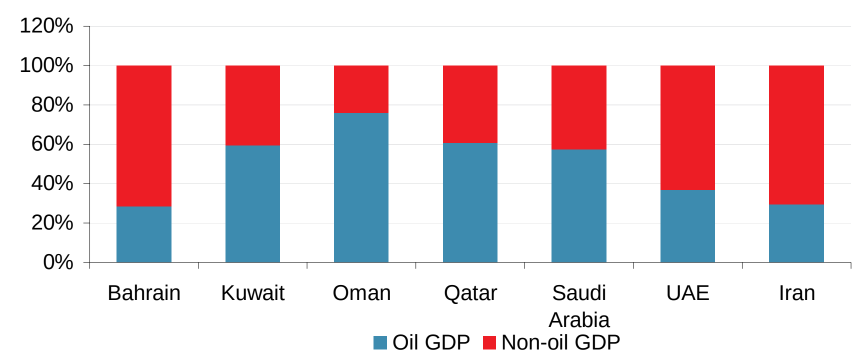
Hydrocarbons – the backbone of MENA economies

Oil GDP dominates national accounts

Oil GDP contributes more than half of the total GDP in four of the six GCC countries

Oil has been the major driver of economic growth in the MENA region, especially for GCC countries. Oil accounted for more than half of the GDPs of four of the six GCC countries. In 2008, oil GDP contributed around 76% to Oman's GDP. It was followed by Qatar (60.8%), Kuwait (59.3%), and Saudi Arabia (57.3%). Although oil GDP accounted for just 28.5% (the lowest among GCC nations) of Bahrain's total GDP, it accounts for more than 85% of government revenues. The uptrend in oil prices until the first half of 2008 boosted the oil GDP growth of GCC nations. In terms of oil GDP growth, Qatar recorded the highest CAGR (34.9% during 2001-2008) within the GCC region, while Iran (CAGR of 42.6%) stood first among non-GCC nations.

Exhibit 7: Oil and non-oil GDP contribution to total GDP (%),2008



Source: Bloomberg

Oil prices bottomed out at USD31.41/bbl in December 2008 from a high of USD145.29/bbl in July 2008

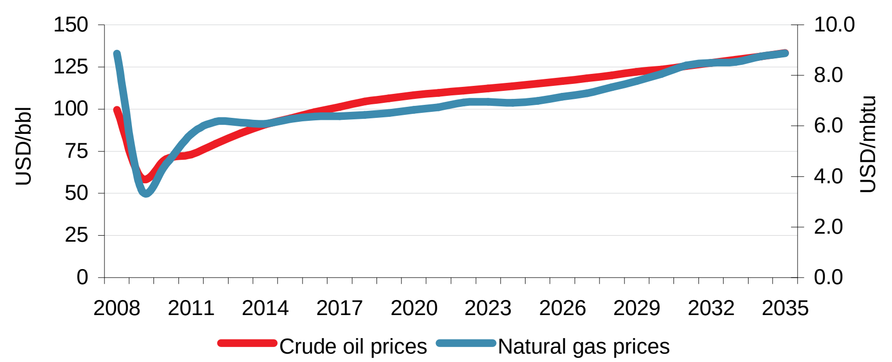
Oil prices hit a high of USD145.29/bbl in July 2008 before bottoming out to USD31.41/bbl in December 2008. The sharp fall in oil prices amid the global financial turmoil resulted in a significant contraction in oil revenues. Saudi Arabia expects oil revenues to decline 13.5% YoY to SAR320 bn in 2009, the first such decline since 2002. Nevertheless, oil prices have recovered from the lows seen in late 2008 to average USD62/bbl in 2009 and traded in the range of USD70-80 per barrel for most of 2010. The recovery in oil prices is largely attributable to the resumption in oil demand following the global economic rebound.

EIA expects oil prices to increase 30.9% YoY in 2010 to average USD80.74/bbl

Encouraging outlook for oil and gas prices

Although oil and gas prices remained volatile in 2009 after bottoming out towards the end of 2008, the long-term price outlook is encouraging amid the sustained demand for energy. Total international energy consumption is expected to increase 8.5% during 2010-2015. Rapid growth in Asian economies is expected to drive demand for energy, and China is expected to account for most of the demand. According to the IEA, China's oil demand grew a strong 28% YoY in January 2010. According to the US Energy Information Administration (EIA), China's consumption of oil is expected to increase 6.4% YoY in 2010 and 6.2% YoY in 2011. World oil consumption is forecast to grow 1.7% and 1.8% YoY in 2010 and 2011, respectively. Growth in supply is expected to lag the growing demand. According to Petroleum Review, May 2009, eight of the 10 major oil producers have crossed their peak production. These factors point to a rise in oil and gas prices in the coming years. According to EIA Short Term Energy Outlook, oil prices are expected to average USD80.74/bbl in 2010 (up 30.9% YoY) and USD83.5/bbl in 2011 (up 3.4% YoY). Natural gas prices are forecast to increase 12.4% YoY to USD4.44/mbtu in 2010 and 20% YoY to USD5.33/mbtu in 2011. Oil prices are expected to touch USD108.28/bbl by 2020, implying an average annual growth rate of 4.5% from 2011. Natural gas prices, on the other hand, are likely to reach USD6.64/mbtu by 2020 (CAGR of 1.7% during 2011–20).

Exhibit 8: Oil and natural gas prices, 2008-2035E



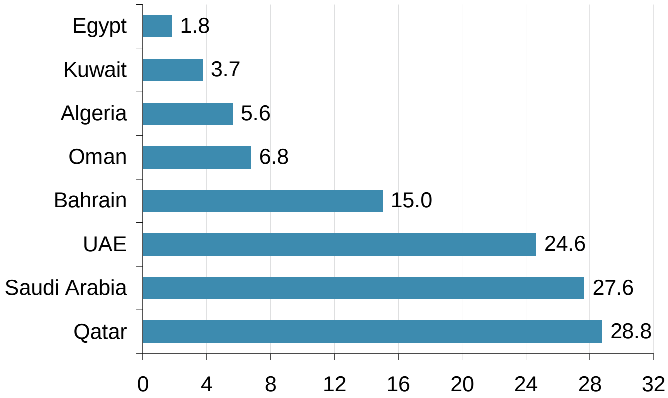
Source: EIA, Annual Energy Outlook 2010(last updated December 2009)*

In terms of value, Qatar holds the largest share of projects to be completed during 2010-2014

Ramping up capacities

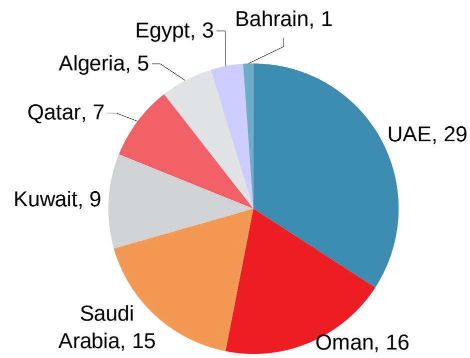
Output levels at oil wells across the world are declining due to continuous aging and dwindling oil reserves. Consequently, oil producers in the MENA region are focusing on increasing oil & gas exploration projects to boost production. Growing demand and uptrend in prices amid lack of supply are encouraging suppliers to invest in exploration projects. GCC countries are working on most oil & gas projects scheduled for completion during 2010-2014. According to Zawya, in terms of value, Qatar holds the largest share (USD28.8 bn) of projects to be completed during 2010-2014. In terms of number of projects, however, UAE holds the lead with 29.

Exhibit 9: Total cost of oil & gas exploration projects in MENA to be completed during 2010-2014 (USD bn)



Source: Zawya

Exhibit 10: Total number of oil & gas exploration projects in MENA country wise to be completed during 2010-2014



Source: Zawya

PETRODOLLARS FUNDING ECONOMIC DIVERSIFICATION

Non-oil GDP growth gaining pace

Bahrain, Qatar and UAE posted non-oil GDP growth rates that were almost at par with oil GDP during 2003-2007

Although oil remains the prime source of income for MENA economies, increased government focus on non-oil GDP growth is helping this sector attract higher growth rates. In 2008, non-oil GDP contributed more than half of Bahrain, UAE and Iran's GDP. Bahrain's non-oil GDP grew at a CAGR of 17.2% during 2003-2007 compared to the 17.4% CAGR recorded in oil GDP during the same period. Qatar's non-oil GDP recorded a CAGR of 35% during 2003-2007. In comparison, oil GDP grew at a CAGR of 30.5% during the same period. UAE's oil and non-oil GDPs grew 28.8% and 21.7%, respectively, during the same period. Although oil GDP growth is still higher in UAE, Saudi Arabia and Kuwait, non-oil GDP also posted double-digit growth during 2003-2007. For 2008, oil GDP growth was significantly higher than the growth in non-oil GDP primarily due to the boom in oil prices.

Increased infrastructure investments to drive non-oil activity

Infrastructure projects worth USD2tn are being planned in the GCC region alone

MENA economies are increasingly investing in non-oil sectors to diversify the domestic economy away from oil. MENA governments are spending a significant chunk of their revenues from oil exports on updating and expanding manufacturing facilities and infrastructure development projects primarily in transport and power. In the GCC region alone, contracts worth almost USD52 bn were awarded in 2009. Infrastructure projects worth another USD2 tn are currently being planned in the region.

In its budget for 2009/10, Qatar allocated QAR37.8 bn for capital spending, especially infrastructure upgradation projects. Qatar plans to invest more than USD15 bn in its manufacturing sector (primarily petrochemicals and fertilizers) over the next five years. The Qatari government is also investing heavily in the transport sector to overhaul the domestic transport infrastructure. The tourism sector is also gaining importance mainly in view of the 2022 FIFA World Cup. Qatar has planned tourism-

Significant infrastructure investments, notably in transport, power, tourism facilities and housing, are underway in the MENA region

related investments worth USD20 bn until 2013, including infrastructure, hotels, airports, and ports—facilities that support tourism. Qatar is already investing heavily in its ambitious USD36.6 bn metro and rail project. Oman has also announced plans to spend USD268.5 mn on roads, aviation and offshore projects. Kuwait intends to invest over USD108 bn over the next four years in new cities and ports. The UAE is also investing heavily on developing in the domestic transport sector, which accounts for 5% of its GDP. The government is financing several mega transport projects such as Dubai Metro. The UAE also leads in terms of new hotel buildings, with Dubai alone accounting for 54 of the MENA region's 468 projects in the pipeline. The Department of Transport of Abu Dhabi is also developing an Action Plan, expected to be completed in 2030. The first part of this plan entails expansion of the Abu Dhabi airport (valued at USD6.8 bn). The significant infrastructure investments lined up across the MENA region are expected to boost non-oil sector activity in the coming years. Egypt, a key tourist destination, is also investing in several large-scale airport projects to spur tourism. Morocco is also banking on its proximity to Europe and its inherent natural endowments to attract tourists. The Moroccan government has phased out Vision 2010 to encourage investments in the country's tourism sector and increase the sector's contribution to 20% of GDP by 2010 from the around 8% in 2008.

MENA EQUITY MARKETS – ATTRACTIVE VALUATIONS

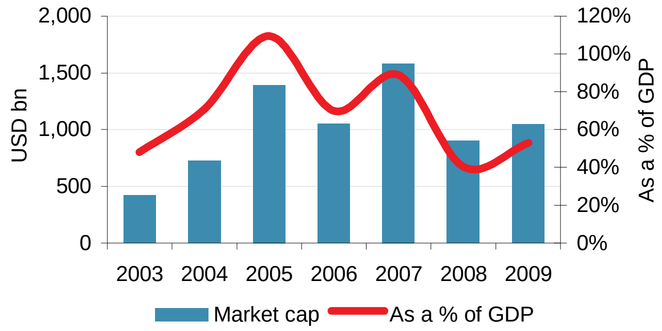
Significant market correction offers opportunities for investment

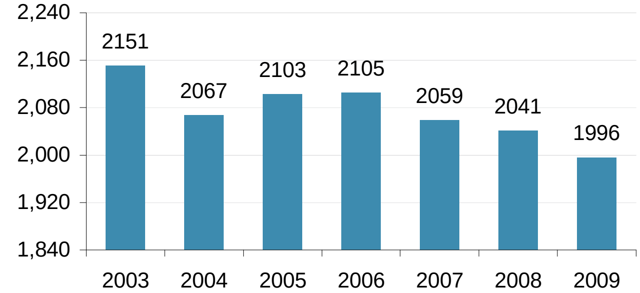
MENA markets take a tumble from historic highs

MENA markets corrected sharply in 2008 due to the global financial meltdown

Equity markets in the MENA region recorded exponential growth until 2005, with market capitalizations (Mcap) almost doubling in both 2004 and 2005. The Mcap to GDP ratio peaked to 109.6% in 2005 from 70.7% in 2004 and 48% in 2003. However, the market could not sustain this rally and corrected sharply in 2006—market capitalizations dropped 25% by the end of 2006. Markets bounced back in 2007 only to last for a short period of time as the global financial meltdown gripped the MENA equity markets during the last two quarters of 2008. Fears of a global recession and dearth of liquidity due to declining oil prices dented investor sentiment and triggered panic selling. Saudi Arabia's benchmark Tadawul All Share Index (TASI) shed 56.5% during the year and fell to 4,803 points by the end of 2008. In total, the capitalization of stock markets in the MENA region contracted 43% YoY to USD901.7 bn at the end of 2008.

Exhibit 11: Market capitalization (USD bn) and as a % of GDP **Exhibit 12: Number of listed companies**





*Source: World Bank, *Excludes Algeria, Iraq, Libya, Sudan, Syria and Yemen*

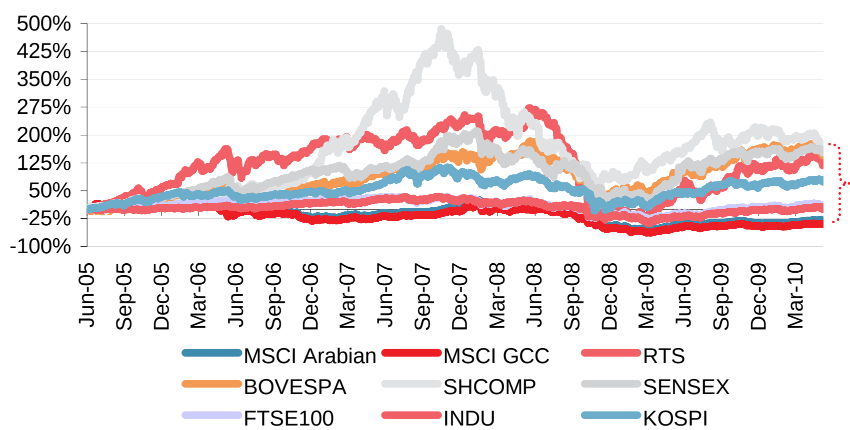
The Dubai debt crisis acerbated the bearish sentiment in MENA financial markets

With the recovery in oil prices, markets recovered in part, but the emergence of the Dubai debt crisis in October 2009 dented the recovery process. The fear of USD4.1 bn bond default by Dubai's Nakheel raised concerns over the spread of the credit crisis in the MENA region and any possible damage it has done that is not visible yet. Nevertheless, Nakheel's efforts to restructure its debt have eased concerns to some extent. Although Mcap grew 15.9% YoY in 2009, it is still 34% lower than 2008 levels. The Mcap to GDP ratio stood at 52.8% at the end of 2009 from more than 100% in 2005.

MENA markets underperformed other emerging markets

Having faced the stock market corrections twice since 2005, GCC/MENA markets have significantly underperformed other emerging markets and other international indices. MSCI Arabian and MSCI GCC market indices declined 30.8% and 39.6%, respectively, in May 2010 from their June 2005 levels. This represents sharp corrections compared to other emerging market indices, most of which have more than doubled during the same period.

Exhibit 13: MENA equity markets underperformed compared to other markets



Source: Bloomberg

Cheap valuations offer investment opportunities

Valuations now appear cheap as economies recover

The GCC and MENA markets offer attractive investment opportunities with relatively cheap valuation multiples in terms of P/E and P/BV compared to some of the other emerging markets. The comparison of one-year forward P/E and P/BV multiples with those of certain other emerging markets reflects the attractive valuations in the MENA region (MSCI Arabian Index and MSCI GCC Index). Qatar, Kuwait, Egypt and Dubai displayed significantly low valuations after substantial corrections since 2005. The EPS growth numbers for GCC and Middle Eastern countries indicate an encouraging outlook for the coming year. The benchmark MSCI Arabian and MSCI GCC indices reflect attractive investment opportunities compared to the MSCI Emerging market index with high forward EPS growth.

Exhibit 14: Cheap valuations compared to other emerging markets

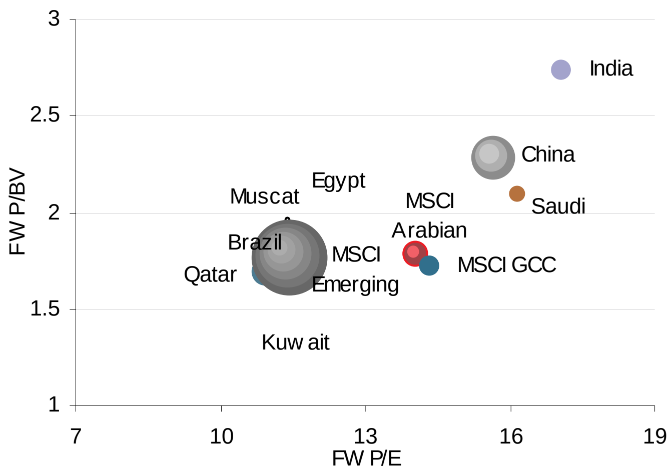
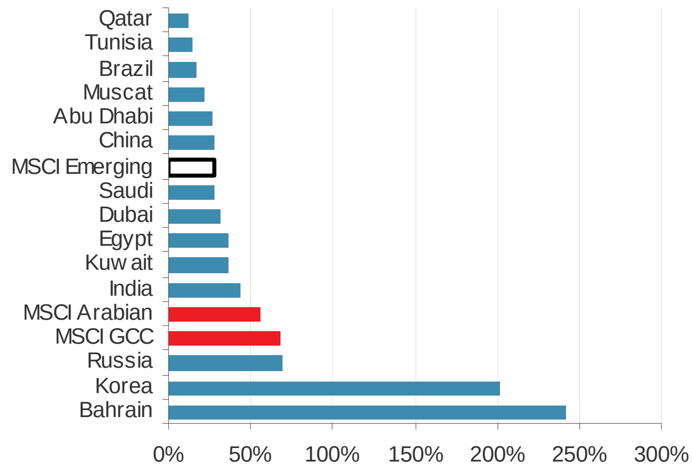


Exhibit 15: One year forward YoY EPS growth compared to emerging markets (%)



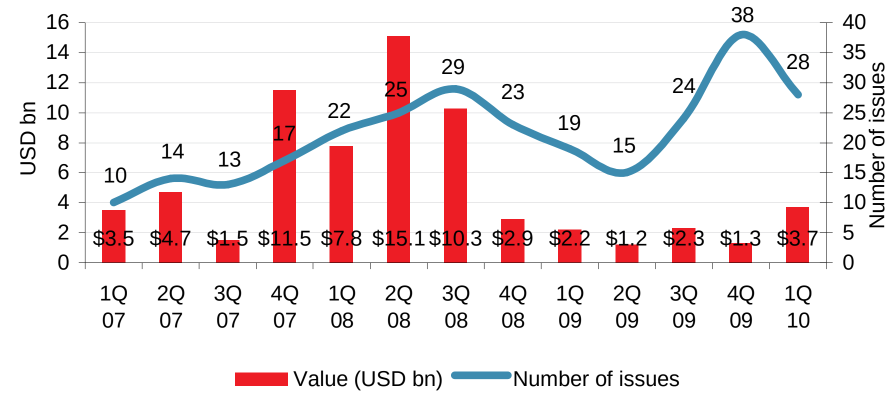
Source: Bloomberg

IPO activity picking up

IPO deal flow seems to have resumed after contracting severely in 2009

The global credit crunch and the resultant economic downturn significantly affected IPO activity in the region in 2009. The MENA region saw the value of initial public offerings in 2009 plunge 83.7% YoY to just above USD2.14 bn. The number of IPO listings declined to 15 in 2Q 09 as market conditions remained unfavorable for share listings. Activity was restricted to just four markets: Saudi Arabia, Qatar, Tunisia and Syria. Saudi Arabia, the MENA's largest economy, accounted for 64.7% of all IPO deals in 2009. However, IPO activity seems to have resumed by the end of 4Q 09 with the number of issues rising to 38 in this quarter and 28 in 1Q 10 from 23 in 4Q 08 and 19 in 1Q 09, respectively. Improving investor confidence due to stabilizing global financial markets and rising oil prices is expected to give a boost to IPO activity in the MENA region in 2010. Value of the IPO issues also increased to USD3.7 bn by 1Q 10 from USD2.2 bn in 1Q 09.

Exhibit 16: IPO activity in the MENA region, 1Q 07-1Q 10



Source: Thomson Reuters

MENA markets corrected sharply in 2008 due to the global financial meltdown

Middle East M&A activity gaining pace

After taking a hit in 2Q 09 and 3Q 09, mergers and acquisitions (M&A) activity in the MENA region picked up in 4Q 09 and 1Q 10. The number of deals increased 7% and 20.7% QoQ in 4Q 09 and 1Q 10, respectively, while the deal value jumped from USD1.5 bn in 3Q 09 to USD6.2 bn in 4Q 09 and USD10.7 bn in 1Q 10. Real estate saw the highest deal value of USD4.3 bn in 1Q 10 compared to USD1.0 bn in 1Q 09. The UAE and Qatar dominated the M&A space, featuring among the top 10 acquirers as well as targets in the MENA region. The growing small and medium enterprises (SME) sector in this region also offers increased opportunities for M&A deals. With SMEs increasingly being established, notably in free trade zones, where 100% foreign ownership is allowed, a rise in deal activity in this sector is expected. Improving business prospects and increased corporate restructuring post crisis in the MENA region are also driving interest in M&A deals.

Exhibit 17: MENA deal flow, 1Q 07-1Q 10

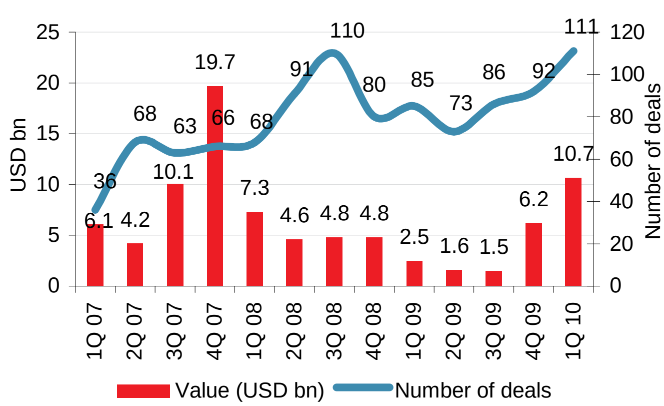
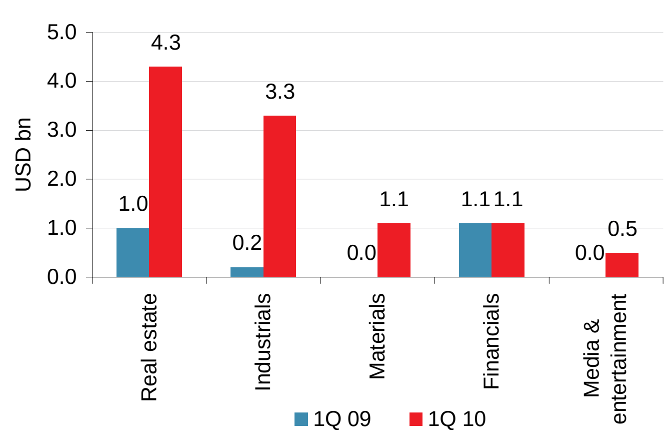


Exhibit 18: Top 5 MENA target industry breakdown



Source: Thomson Reuters

Improving business environment attracts increased investments

Improvement in GCC business environment over the years

UAE and Egypt appeared among the top ten reformers in the world in 2008/09

The World Bank's Ease of Doing Business 2010 report ranked Saudi Arabia 1st in the MENA region and 13th in the world compared to 15th globally in 2009. The UAE moved up from 47th in 2009 to 33rd in 2010 and Egypt to 106th in 2010 from 116th in 2009. The two also figured among the top 10 reformers in 2008/09. Tunisia too improved its position from 73rd in 2009 to 69th in 2010. In terms of individual reforms, Saudi Arabia was rated the top reformer in enabling business start-ups in 2006/07. Since 2004, six MENA economies (Egypt, Saudi Arabia, Sudan, Tunisia, the UAE and Yemen) have abolished their minimum capital requirement for setting up a company and two (Morocco and Syria) have lowered it. Prior to the change, these countries had the highest minimum capital requirement in the world. MENA countries introduced a number of reforms during 2008-09. Of the 20 countries in the Middle East, 16 implemented 38 reforms in 2008-09, up from 31 during the same period a year earlier. For instance, Algeria (ranking 136th) reduced the corporate income tax rate from 25% to 19% for tourism, construction and public works, and production of goods. Kuwait (ranking 61st) established a law enabling restructuring of companies facing financial difficulty or insolvency. In Lebanon (placed 108th), business start-up was simplified by improving the company book stamping process. In the UAE, the business start-up process was eased by simplifying the documents needed for registration, abolishing the minimum capital requirement, and removing the requirement that proof of deposit of capital be shown for registration.

Improvements in rankings of Middle East countries on the Government Effectiveness Index (GEI) developed by World Bank are yet another indicator of the improving business climate. The index is a measure of the quality of public service provision, quality of bureaucracy, competence of public servants, and independence of the civil service from political pressures. Qatar's GEI score improved from 0.47 in 2003 to 0.68 in 2008. Saudi Arabia's score increased from a negative 0.29 in 2003 to 0.01 in 2009. For the UAE, it rose to 0.82 in 2008 from 0.69 in 2003. Bahrain too recorded an improvement from 0.44 in 2003 to 0.47 in 2008. Nevertheless, MENA countries have a long way to go; some, including Egypt and Lebanon, have negative GEI ratings.

Modernizing legal system

Saudi Arabia was ranked first in protecting investor interest in the MENA region

The legal system in the MENA region has evolved from being primarily dependent on Shariah (Islamic) principles to taking cues from the common English law. With regard to financial sector regulations, central banks play a major role in financial policies and reforms. Central banks take the center stage both in operating credit registry and regulating credit reporting. In the World Bank's Ease of Doing Business rankings for easiness in getting credit, Saudi Arabia ranked 1st in the MENA region (global rank: 61st), followed by Egypt (71st), the UAE (also 71st globally), Bahrain (87th) and Kuwait (also 87th) in that order. In terms of protecting investor interest, a key determinant in making investment decision for a country, Saudi Arabia ranked 1st in the MENA region and 16th globally. It was followed by Kuwait (global rank: 27th), Palestine (41st), Bahrain (57th) and Algeria (73rd). Aiming to increase the transparency of companies' activities, the Tunisian parliament amended the company law in March 2009. The extent of disclosures also decides the level of investor protection in the country.

Lebanon scores the highest in the MENA region in terms of disclosers, followed by Saudi Arabia.

Corporate governance gaining importance

Improving standards of corporate governance support development in financial markets. Since the sharp stock market correction witnessed by the Middle East in late 2005, GCC/MENA economies are increasingly focusing on upgrading the corporate governance standards in the region. During 2003–07, corporate governance codes were drafted and introduced by capital market authorities in the GCC region. The Muscat and Abu Dhabi exchanges introduced codes in 2003 and 2006, respectively, while regulators in the UAE, Saudi Arabia, Bahrain, Qatar and Kuwait implemented them in 2007. The GCC banking sector too has made a significant contribution, with central banks undertaking the implementation of the Basel I and II requirements in the countries' banking sector. Central banks in all six GCC countries amended their banking regulations to include corporate governance-related requirements such as establishing transparency and disclosure in financial statements, establishment of board level audit, nomination and compensation committees and improved risk management. However, lack of transparency comparable to that in developed markets remains a concern in the Middle East. For instance, only 17% of firms in the UAE provide details on the role of the board. The recent Dubai debt crisis and severe stock market correction have highlighted the issue of lack of information to investors. Implementing improved corporate governance, transparency and disclosure of information norms is crucial to boost investor confidence and reduce market speculations.

Growing liberalization of capital markets

Foreign investments were allowed quite early in Egypt, UAE and Qatar compared to Saudi Arabia

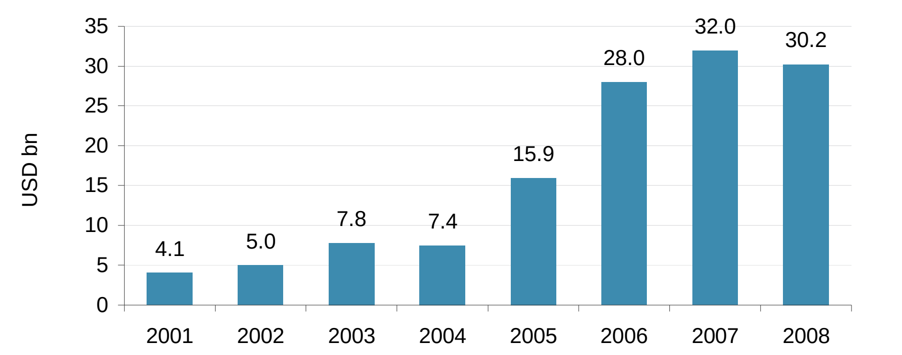
The need to integrate local stock markets with international capital markets and the importance of foreign capital in a country's economic growth have paved the way for increased liberalization of Middle Eastern capital markets. The Egyptian Capital Market Authority was among the first in the region to liberalize the stock market and allow GDRs in London. The UAE and Qatari stock markets encouraged foreign investor participation quite early compared to Saudi Arabia. Until August 2008, foreign investors were only allowed to invest in Saudi stock markets through KSA mutual funds. In August 2008, they were allowed to buy shares listed on Saudi bourses by entering into swap agreements with authorized persons. Establishment of central regulatory authorities to supervise capital markets in MENA also proved vital in shaping the region's regulatory regime. Egypt took the lead with the establishment of the Capital Market Authority of Egypt in 1979. Oman and the UAE also had similar authorities in place quite early in 1998 and 2000, respectively. Saudi Arabia established the Capital Markets Authority (CMA) as an independent market regulator in 2003, while Qatar Financial Market Authority was set up in 2005. Kuwait recently passed the Capital Market Law to initiate capital market regulation in the country. Dubai established The Dubai International Financial Centre (DIFC) to position itself as a financial hub and attract increased foreign investments. Opening up of capital markets and improvement in regulatory regime are resulting in increased inflow of foreign capital in the MENA region. Foreign investors accounted for 1.9% of the total value of buy transactions on the Saudi stock exchange in April 2010 compared to just 0.2% in January 2009.

Improving business climate attracted strong FDI inflows until the emergence of the credit crisis

After strong growth during 2001-early 2008, FDI fell 36.6% in 2009

FDI into the MENA region grew significantly during 2001-2007, thanks to the improving business climate in several MENA economies. Saudi Arabia is the largest recipient of foreign investments in the MENA region. Saudi Arabia's FDI inflows increased from SAR2.9 bn in 2003 to SAR143 bn in 2008. The financial crisis in late 2008 dented FDI inflows, which dropped 5% in 2008. According to Economic Intelligence Unit (EIU), FDI inflows (gross) in the MENA region are expected to have dropped 36.6% YoY in 2009. This is better compared to several emerging markets. FDI inflows to Latin America & Caribbean and Eastern Europe are expected to fall 38.9% and 46.9%, respectively, in 2009. FDI inflows to Egypt contracted 18.3% YoY in the first nine months of 2009, according to numbers released the central bank. On the contrary, Lebanon recorded 20% YoY growth in FDI inflows to USD3.6 bn in the first ten months of 2009.

Exhibit 19: FDI net inflows (USD bn) in MENA, 2001-2008



Source: World Bank

Significant infrastructure investments calling for increased private participation

Large infrastructure investment requirement necessitates increased privatization in water and power sectors

GCC/MENA countries face the pressing need of new infrastructure development and upgrading the existing infrastructure. Considerable investments are required in the water and power sectors as well as to upgrade the transport and housing sectors. Saudi Arabia's 2010 budget includes SAR260 bn for investment projects which is 16% higher than that in the previous budget. Abu Dhabi also has USD400 bn worth infrastructure projects planned over 2030 under the Abu Dhabi Economic Vision. The large investments required in infrastructure are driving governments to focus on increasing private participation in terms of public private partnerships (PPPs). Several large projects in the MENA region are financed through PPPs, while a few sectors are considered totally privatized. Saudi Arabia is leading in PPPs and private sector participation. Until 1995, private investments were encouraged only in steam cracker projects in Saudi Arabia; it is now allowing greater private participation in an effort to accelerate growth in the downstream petrochemical sector. Currently, the private players involved in developing large-scale petrochemical projects include Tasnee, Saudi Chevron, Kayan Petrochemical and Sahara Petrochemical Co. In addition, all ports in KSA have been privatized. The UAE and Abu Dhabi governments have also introduced private sector participation in water and power sectors.

GCC nations fare better in terms of political stability compared to other Middle Eastern countries

GCC faces challenges but protected from political disturbance

Most MENA countries, except Iran, Iraq, Israel and Yemen, have a stable political environment. GCC nations fare better in terms of political stability mainly because these economies are governed by a single ruler ensuring close supervision. None of the GCC governments have defaulted on foreign currency obligations which highlight the credit strength of these economies. Kuwait recently witnessed a political deadlock amid conflicts between the Kuwaiti parliament and government over a USD5.12 bn bailout package to help the country's troubled investment banks. However, the political chaos ended in March 2009 with the dissolution of the parliament by Kuwait's ruler and call for fresh elections.

Yet another advantage for some GCC countries is that they have alternative oil export routes that bypass the strategic Strait of Hormuz, a waterway between the Gulf of Oman in the southeast and the Persian Gulf. Oman exports directly through the Indian Ocean, Saudi Arabia's Yanbu export terminal is located on the Red Sea, and Abu Dhabi is constructing a pipeline that will route oil via Fujairah, which is also outside the Gulf. Moreover, instances of political disturbance in GCC are relatively few, exceptions being militant attacks in Saudi Arabia from 2003 to 2006, sectarian violence in Bahrain during the 1990s and the 1995 takeover in Qatar when the current ruler wrested control from his father. Therefore, while the Middle East faces some challenges, the GCC region fares better in terms of political health of the countries.

CONCLUSION

ECONOMIC FUNDAMENTALS INTACT

SHARP CORRECTIONS OFFER INVESTMENT OPPORTUNITIES

The global economic downturn proved the resilience of MENA economies, which figured among the few to weather the crisis well. GCC and MENA economies are better placed than other emerging market countries, especially in terms of liquidity. The inherent advantage of large oil and gas reserves and the resulting windfall provides funding for investment in non-oil sectors. Economic diversification is expected to be the key factor in driving faster recovery. With the recovery in oil & gas prices, the outlook for MENA economies is positive. The drive to develop non-oil sectors with significant budget allocations towards capital expenditure and infrastructure developments is expected to increase activity in non-oil sector in the coming years. Significant investments in infrastructure projects, notably transport, tourism, power and housing, are helping the region to weather the slowdown. The spree of infrastructure projects lined up is expected to fuel growth in non-oil GDP in the future.

When all of the above align, and in a dynamically, ever changing environment, the MENA region manages to place itself at the right juncture of the next page of history, then there is every reason to believe that the new BRIC may well be the new MENA.

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