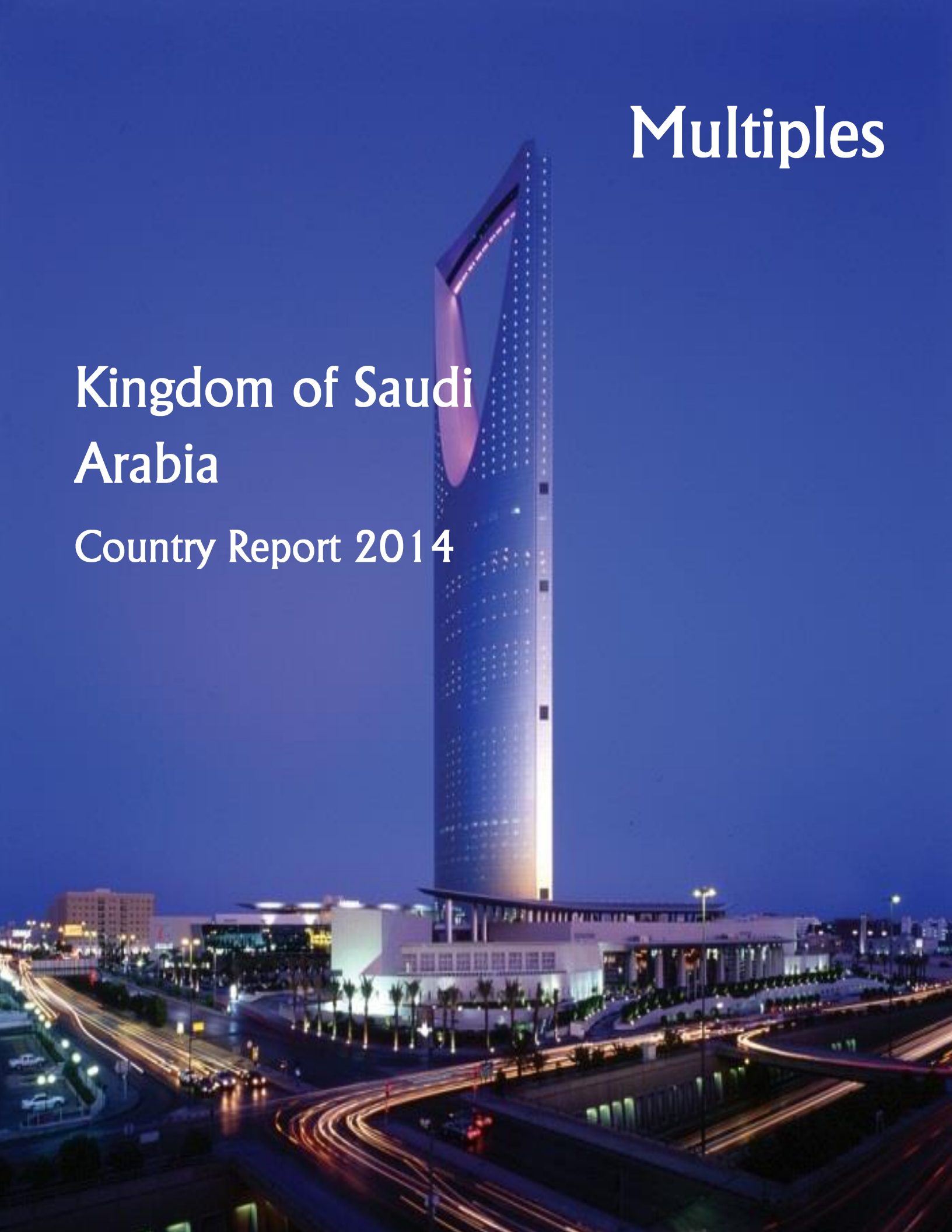


Multiples

Kingdom of Saudi Arabia

Country Report 2014



Multiples

Table of Content:

1.Historical Background	3
2.Country Overview	3
2.1. Location and Features	3
2.2. Demographics	4
3.Economic Indicators	4
4.Main Economic sectors	6
4.1. Religious Tourism Sector	6
4.2. Oil and Gas Sector	7
4.3. Petrochemical Sector	8
4.4. Real Estate Sector	8
4.5. Retail Sector	10
4.6. Services Sector	10
5.Policies and Regulations	11
6.Future Outlook	12

Multiples

1. Historical Background:

- * Saudi Arabia - in its current geographical shape - has only come into existence in 1932 by King Abdul Aziz Al Saud through series of conquests to unite the priorily existing tribes in the immense Arabian Peninsula.
- * It is not astonishing that the name *Saudi* Arabia stems from the name of the unifying King. King Al Saud was declared King of Saudi Arabia in 1932 after he unified the "principalities" of Nejd and Hejaz; both of which are the result of The Ottoman Empire's strategies to widespread the dominance of its empire. In the 18th century, a Wahhabi movement was called for by Mohamed ibn Abdul Wahhab calling for the purification and the reform of Islam. A holy war commenced and succeeded in unifying many parts of the peninsula.
- * However, the Wahhabis were driven back by the Ottomans and their Egyptian allies. A year after the unification of Nejd and Al Hejaz, the region of Al Asir was incorporated into the Kingdom.
- * The discovery of oil happened in 1936. The discovery provided the Kingdom with substantial economic and political powers that remain to this day.
- * The discovery provided the Kingdom with substantial economic and political powers that remain to this day. Inevitably, the rulers of the country have exploited this asset they have in their favour and in supporting their strategic allies at different times throughout history, for example: Egypt during the Arab-Israeli War in 1973.

2. Country Overview

2.1. Location and Features:

- * The Kingdom of Saudi Arabia is the second largest Arab country in terms of land area and size after Algeria. Saudi Arabia lies in the heart of the Middle East spanning vast lands of the Arabian Peninsula with the Red Sea and the Gulf of Aqaba to the West and the Persian Gulf to the East. Saudi Arabia has many neighboring countries lying along its borders; Jordan, Iraq, Kuwait, Qatar, the United Arab Emirates, Oman and Yemen.
- * Populously, Saudi Arabia approximately has the fifth largest population among the Arab League States. However, the economic and political structure in the Kingdom differs from many of the Arab League's States. The Saudi Arabian population is approximated to be 27,345,986 ranking 47th among global nations in terms of population size. A more detailed illustration of the Saudi Arabian population is provided by the figure below.

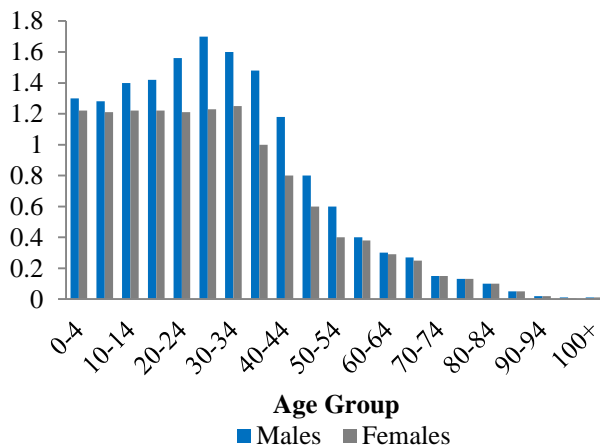


Multiples

2.2. Demographics

- * There are more Saudis in the age ranges of 0-35 than there are older Saudis. Male Saudis in the 20-35 age groups constitute the largest percentage of the population of male Saudis while the female population seems to be more or less homogeneous in terms of relative percentages among age groups 0-35. The Saudi population is 58% male and 42% female.
- * A large percentage of the Saudi population is relatively young yet it is claimed that the percentage people below the age of 15 has been decreasing since the year 1980 accompanied by an increase in the relative amount the working age population constitutes.
- * It is forecasted that this trend will remain to prevail until the year 2050 at which time the percentage of the working-age population would reach 65.7% and that of the elderly (above the age of 65) would reach a significant value of 18.4%.
- * Estimates show that the largest percentage the working age would reach is in the year 2035 when the percentage hits 74.2%.

KSA Population in MM - 2014



3. Economic Indicators:

- * Economic performance in the kingdom has been strong over the past year, with growth supporting further increases in per capita income.

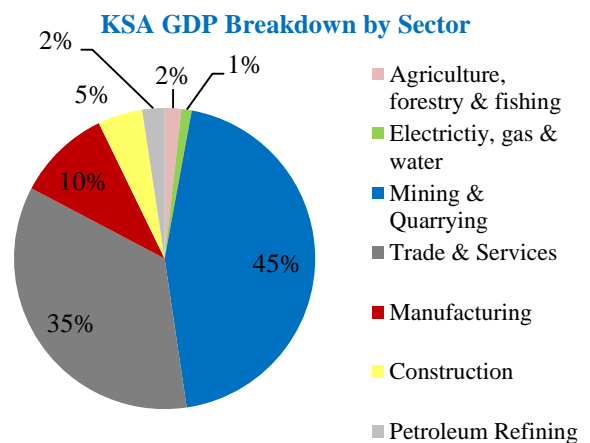
Indicators	
Currency	Saudi Riyal
Exchange rate vs. US Dollar	1 Saudi Riyal = 0.27 USD
Gross Domestic Product (Purchasing Power Parity)	927.8 BN USD (2013)
Labour force	8.412 MM
Unemployment Rate	10.5% (2013)
Public Debt	12.2% of GDP (2013)
Inflation Rate (Consumer Prices)	3.7% (2013)
Commercial Bank Prime Rate	6.7% (2013)
Reserves of foreign exchange and gold	\$739.5 (2013)
External Debt	149.9 BN USD (2013)
Stock of direct foreign investment (at home)	240.6 BN USD (2013)
Stock of direct foreign investment (abroad)	26.08 BN USD (2013)

Multiples

- * The Saudi economy is expected to continue booming in the coming years as the impact of broadly flat oil production is amplified by a gradual easing of fiscal stimulus and a decline in oil prices. This was evident in the first quarter of 2014, when real GDP growth slowed to 4.7% year on year, on the back of a marked slowdown in the non-oil private sector.
- * The impact on domestic demand of slower state spending growth will be exacerbated by the departure of some 1m expatriates last year, and another 400,000 expatriates in the first five months of 2014.
- * This relatively positive growth outlook reflects our expectation of progress on several enormous infrastructure projects which in turn will provide a host of knock on opportunities for the private sector.

- * Newly released data from the central department of Statistics and Information have revealed that the annual rate of growth reached 3.8% last year, though lower than the 5.9% recorded in 2012. The private sector grew by 5.5% last year on the back of strong government spending that lead to rise in business and consumer confidence as well as bank lending. Among the strongest performing sectors were construction (8.1%), transport and communication (7.2%) and wholesale, retail, restaurants and hotels, though at a lower rate.
- * It's worth mentioning that an acceleration of growth in the second half of 2014 largely came from an upturn in the oil sector. Another major contributor to the pickup in growth was petrochemicals, as demand from East Asia for Saudi intermediate goods (petrochemicals and refined products) has been boosted in the past six months or so as their own exports to the US and the Eurozone have gathered steam.

	2013	2014E	2015E
GDP	3.8%	4.0%	4.4%
Private consumption	4.9%	3.8%	4.1%
Government consumption	5.7%	5.3%	4.6%
Gross fixed investment	5.2%	6.5%	6.6%
Exports of goods & services	-	1.2%	3.1%
Imports of goods & services	0.5%	5.2%	5.3%
Domestic demand	5.2%	5.1%	5.0%
Agriculture	0.7%	-0.5%	-0.5%
Industry	2.5%	3.6%	4.5%
Services	5.4%	4.4%	4.5%



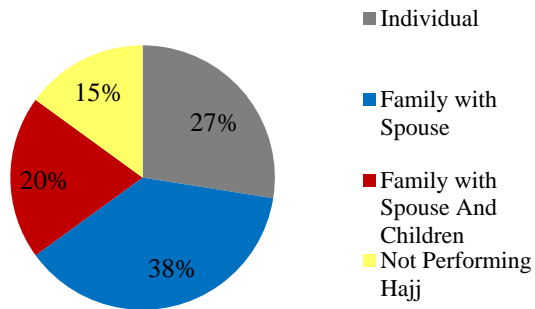
Multiples

4. Main Economic Sectors:

4.1. Religious Tourism “Hajj & Umrah”

- * In a study performed on Hajj and its implications on the society and economy of Saudi Arabia, it has been observed that a total of about 38.4% of pilgrims' spending is on restaurants that serve all kinds of foods and drinks and on condominium rentals whereby individuals and companies purchase and rent parts of real-estate to provide accommodation facilities to tourists visiting Mecca & Medina.
- * Condominium rentals are attractive to investors since they require low amounts of initial capital. In addition, 48% of jobs in the tourism industry are focused in restaurants and cafes sector alone. This stresses the size of this sector in the tourism industry.

Visitors' Status Percent

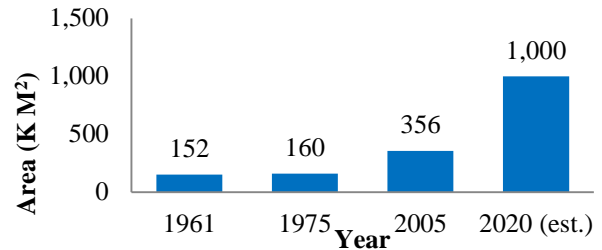


- * Most people attending to Mecca & Medina are family with spouses and family with spouses and children. This implies the presence of a fertile investment medium in sectors focusing on families with spouses and families with spouses and children, e.g. hotels with a large number of double rooms & apartments tailored for families.
- * A serious problem the Saudis are facing in the Hajj & Umrah sector is the lack of production

of Saudi products. High amounts of imports from China reduce competitiveness in the Saudi market and curbs many job opportunities for the local Saudi youth. Saudis need rehabilitation programmes that would enable them to produce products that would be attractive to pilgrims and visitors during the peak seasons.

- * Due to the continuing increase in the number of pilgrims and visitors to the holy cities, the Saudi government has chosen to undertake measures to expand pilgrimage infrastructure. The below graph shows the sizes of the Grand Mosque in Mecca at different points in time. One can see from the pattern that the Saudi government is eager to expand the premises of the Holy Mosque and that construction is expected to further expand in the upcoming years.

Holy Mosque Size (K M²)



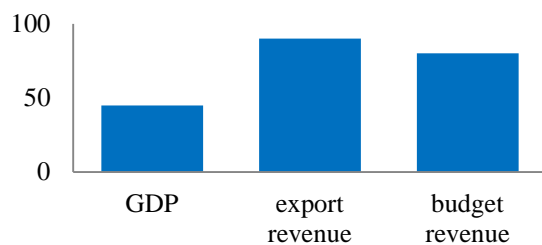
- * Of the projects the Saudi government is undertaking: The construction of a new 6 BN USD rail system that will connect the two holy cities of Mecca & Medina. Beside the expansion of primary airports, such as: King Abdul Aziz International Airport in Jeddah that is expected to increase in capacity from 30 MM visitors in 2012 to 80 MM visitors when finished. In addition to 63 new hotel towers are to be constructed as part of the expansionary project the Holy Mosque is going through.

Multiples

4.2. Oil and Gas sector

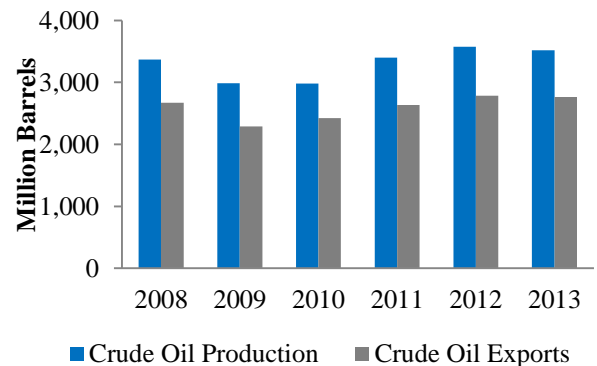
- * The discovery of Oil in Saudi Arabia did not take place until 1930s by U.S geologists. However, the large-scale production didn't start until after World War II. The real transformation in the kingdom's economic development began in 1960s and was accelerated in 1970s. This transformation peaked in 1974 after the Arab-Israeli war after which Saudi Arabia became one of the fastest-growing economies in the world.
- * The oil & gas sector is primarily controlled by the government in Saudi Arabia. The government owned company operating in that sector is ARAMCO. ARAMCO has produced 3.4 billion oil barrels in 2013 from a total of 3.518 billion barrels leaving it with a market share of around 96%.
- * Saudi Arabia plays a key role in OPEC. The economy of Saudi Arabia is substantially dependent on the oil & gas sector. The country possesses about 17% of the world's oil reserves. However, the largest portion of that that oil fortune goes outside of the country making it the largest exporter of petroleum in the world. The vitality of the petroleum sector is clear in the fact that it accounts for about 80% of the country's budget revenue, 45% of its GDP and 90% of the export revenue.

Oil Industry Share in KSA Economy

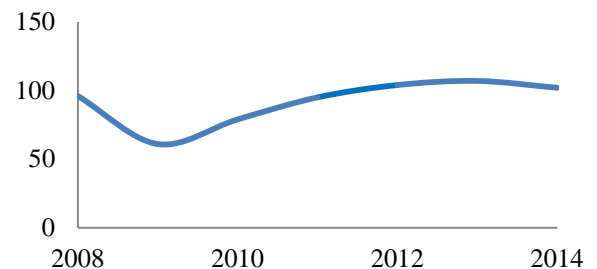


- * According to the Saudi Arabian Monetary Agency (SAMA), the level of oil production decreased to 9.64 million barrels / day in 2013 with a drop of 1.3% from the oil production per day in 2012. This downward trend is the first since 2010. In 2011, the production growth jumped to 14% and in 2012 to 5%.
- * Crude oil prices have also witnessed a state of relative stagnation with a slight increase of 1.9% in 2013, yet last few weeks have witnessed a steep decline.
- * According to SAMA, public sector declined by 9.6% in 2013 compared to 2012, while it witnessed an expansion of 10.7% in 2012 compared to 2011.

Oil Production & Exports



Barrel price In US\$

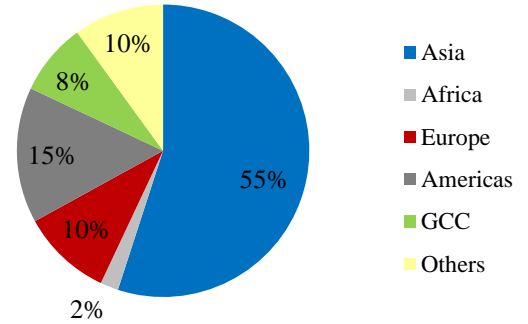


Multiples

4.3. Petrochemicals Sector

- Petrochemicals industry in the Saudi Arabia depends heavily on the oil industry. It drives its privilege from the capability of obtaining the feedstock (Ethane) with cheaper than average prices compared to the global prices. However, that major advantage enjoyed by the Saudi players is diminishing given the growing shortage in the natural gas in Saudi Arabia and a possible increase in the feedstock prices imposed by the Saudi government.
- Also, the geographical position of the Saudi kingdom qualifies it to become a primary source for petrochemicals for Asia in particular. In fact, in 2010, 55% of the Saudi petrochemicals exports have headed to the Asian market. The major player in the Saudi petrochemicals market is the Saudi International petrochemical company (SABIC) and its affiliates.
- According to Al Jazira Capital, SABIC accounts for a total of 56% market share in the Saudi petrochemicals sector. Given the fact that 70% of SABIC's share is owned by Saudi government, it is safely stated that the Saudi petrochemicals sector is dominated by the government.

KSA Petrochemicals Exports

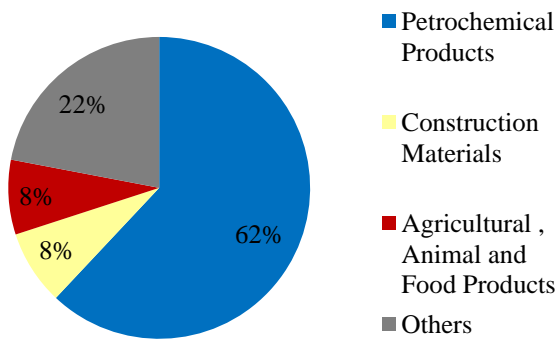


- The petrochemicals industry is closely related to the oil industry in Saudi Arabia. Petrochemicals industry gains its vitality from constituting the largest contribution in the non-oil exports of Saudi Arabia. According to a report published by Saudi Hollandi Capital, the non-oil sector constitutes around 55% of the kingdom's GDP. The petrochemicals industry has the largest share of the non-oil sector exports reaching up to 62% in 2010 according to SAMA.

4.4. Real Estate Sector

- The residential market continues to drive the real estate sector as a result of high supply shortage. The demand for real estate in Saudi Arabia is expected to remain healthy as the rising Saudi population and evolving lifestyles are expected to keep real estate demand growing in the years to come. This is anticipated across the Kingdom, but especially in the major urban centers of Riyadh, Jeddah, Makkah, Al-Khobar and Dammam.

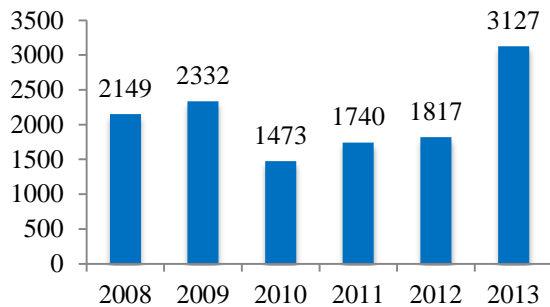
KSA non-oil exports 2010



Multiples

- * A young population that is of marriageable age has also catalyzed the demand for rented accommodation; since most newlyweds seek independent residential properties either on rent or lease. Additionally, the preference of those with higher disposable income to own residential property has also spurred the demand for housing. Being that 60% of the population rent houses instead of owning them the potential profit that could be made in the real estate sector over the next few years is huge.

Investments in Real Estate "MM SAR"

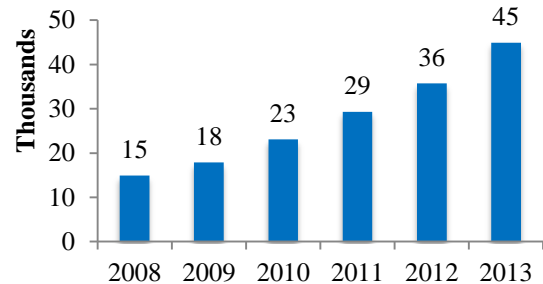


- * In the first quarter of 2013, the real estate sector earnings' growth, 31.1%, has beaten the overall market growth. Since the population increased to 30 million and is increasing steadily at 1.51% annually, the demand on housing increased with it.
- * The annual growth rate of the demand on housing is 18% while the annual growth rate of the real estate sector in Saudi Arabia is 12% with a total expenditure of 7.214 billion USD in 2013. According to recent reports, current demographics require that around three million housing units to be constructed by 2040 to meet the needs of the growing population.
- * Furthermore, the government has recently set up the Additional Loan Program for its citizens. The new program clearly states that

all nationals who get an approved loan from the Real Estate Development Fund (REDF) would be eligible to get additional loans from other partnering financial institutions and banks.

- * The National Commercial Bank is the first bank to have signed a Memorandum of Understanding, an MOU, with the REDF and has already completed its first transaction under the program. Real estate loans have been increasing over the years, taking up a larger share of the Kingdom's total loans.

Real Estate Loans



- * During 2013, the Jeddah market saw villa prices coming in at the level of 4,500 SAR per SQM, with the Western districts leading the market with prices standing at 6,300 SAR per SQM.
- * On the other hand, apartment prices grew in the range of 3-5% during the quarter, aided by better affordability in comparison to villas. Likewise, the Riyadh market also saw an increase in villa prices in the range of 1-2% around the level of 4,300 SAR per SQM.

Multiples

4.5. Retail Sector

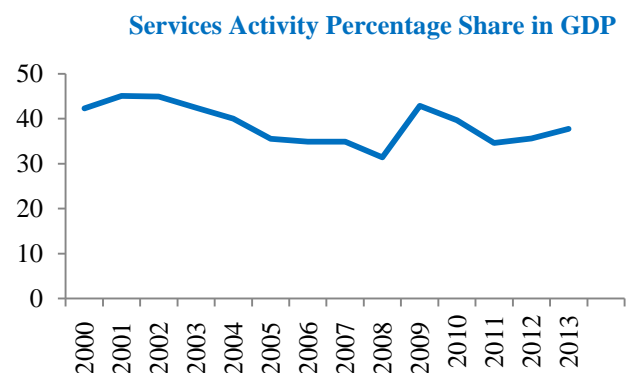
- * Like the rest of the MENA region, Saudi Arabia has been characterized by a major increase in retail floor space over the past five years. An increasing portion of this space is comprised of mixed use developments that combine retail with offices, hotels and malls.
- * Due to saturation of old malls, new modern shopping centers offer international brands, facilities and amenities along with leisure components.
- * Saudi retail market has significant potential for the growth because of its large domestic demand as well as its geographic position.
- * Saudi Arabia's retail sector is the largest in GCC. It represents 42% of the council's market size, followed by the UAE (29%) and Qatar (11%)
- * The growing economy in the country positively developed the country's overall living standards and increased the purchasing powers of many consumers to new levels. Saudis have been more interested in acquiring luxury goods, the latest technology and other non-essential products that they previously viewed as extras. Such growth in non-grocery retailing has increased sales to new levels, higher than those of grocery.
- * In the past 10 years, Kingdom's landscape transformed from small and unorganized markets to palatial malls and hypermarkets
- * Social changes are also creating demand: in the food market, Saudi consumers are increasingly interested in fresh food and in international brands; while women are taking a greater role in the workplace, leading to growing interest in fashion.



- * As a market with substantial untapped potential and a vibrant economy, Saudi Arabia is extremely attractive to foreign retailers. Further opportunities are likely to arise in 2015 with the announcement that the kingdom plans to open up its stock market to international investors, giving them access to its 530 BN USD bourse.
- * These factors are all expected to result in a steady rise in household spending across all retail subsectors between 2015 and 2018, with restaurants & hotel expenditure forecast to grow most strongly. Spending on furnishing & home will also rise substantially.

4.6. Services Sector

- * In the below chart we can see the contribution of services sector activities in the Saudi Economy starting the year 2000 till 2013



Multiples

- * Saudi Arabia has released its 2014 national budget, another expansionary plan that highlights the government's intention to support long-term development by focusing on investment programs and public services, particularly in education, infrastructure, health, social services, security services, municipal, water and water treatment services, as well as roads and highways. The budget also aims at strengthening financial institutions to enhance sustainable economic growth and employment opportunities across a variety of sectors.

STATE ANNUAL BUDGET PROJECTIONS BY SECTOR		
Sector	2013	2014
A. Revenues:		
Oil Revenues	727,000	735,000
Other Revenues	102,000	120,000
T O T A L	829,000	855,000
B. Expenditures:		
Human Resource Development	203,147	209,296
Transport & Communications	22,063	23,506
Economic Resource Development	46,696	49,537
Health & Social Development	70,938	78,166
Infrastructure Development	11,702	13,540
Municipal Services	31,729	34,610
Defence & Security	251,325	302,859
Public Administration and other		
Government Spending	119,948	84,558
Government Lending	14,950	15,375
Institutions		
Subsidies	47,502	43,553
T O T A L	820,000	855,000
Deficit / Surplus (Expected)	9,000	0

5. Policies and Regulations

- * In 2000, the foreign-direct-investment law permitted foreigners to invest in almost all sectors of the economy except for a number of activities contained in a "negative list". The list currently holds 3 industrial sectors and 13 service sectors. The list includes:
 - * Industrial Sector:
 - Oil exploration, drilling and production.
 - Manufacturing of military equipment, devices, and uniforms.
 - Manufacturing of civilian explosives.
 - * Service Sector:
 - Catering to military sectors.
 - Security and detective services.
 - Real estate investment in Makkah and Madina.
 - Tourist orientation and guidance services related to Hajj and Umrah.
 - Recruitment and employment services including local recruitment offices.
 - Real estate brokerage.
 - Printing and publishing.
 - Commission agents internationally classified at (CPC 621).
 - Audiovisual and media services.
 - Land transportation services, excluding the intra-city passenger transport by trains.
 - Services provided by midwives, nurses, physical therapy services and quasi-doctoral services internationally classified at (CPC 93191).
 - Fisheries.
- * The accelerated investment applications and not needing minimum capital for limited liability companies are both attractive incentives.

Multiples

- * The Saudi government offers tax incentives for the training and recruitment of Saudi labor in certain regions, including: Ha'il, Jazan, Najran, Al-Baha, Al-Jouf and Northern Borders.
- * The investor gets a tax reduction that is equal to 50% of annual expenses for the training and recruitment of Saudis, another 50% deduction of Saudis annual salaries, and finally a tax reduction for industrial projects in these areas not exceeding 15% of non-Saudis' share in the capital.
- * This relatively positive growth outlook reflects the expectation of progress on several enormous infrastructure projects—including the expansion of the rail network and the construction of the Riyadh Metro, and potentially similar metros in Eastern Province—which in turn will provide a host of knock on opportunities for the private sector.

6. Future Outlook

- * Economic growth is expected to remain relatively robust, at an average of 4.1% in 2014-18, lifted by rising investment and disposable income. However, growth will be restrained by a less expansive fiscal policy and largely flat oil output.
- * The fiscal account will move into deficit in 2015, with the shortfall steadily widening and averaging 2.9% of GDP a year in 2015-18 as the period of fast rising oil prices gives way to one of falling oil prices.
- * The Saudi economy in general is expected to go through a stage of relatively slow progress; this is mainly because the oil prices are expected to soften in the next three years. The potential drop is relied on the comeback of Iranian production at a rate of 94 USD/b in 2016.
- * However, with investment continuing to rise and disposable income increasing, real GDP growth is expected to average a relatively robust 4.1% in 2014-18, although this is well below the annual average of over 7% in 2010-12.

Multiples

Visit our website: www.multiplesgroup.com

Contact us: info@multiplesgroup.com

Cairo Office:

Capstone Office Building,
Building S5-6 Area 5,
District 1, 5th Settlement,
New Cairo.

Dubai Office:

Office no. N 415, North
Tower, Emirates Financial
Towers, DIFC, P.O Box
506726, Dubai, UAE.

Tel: +97143518187