

SAUDI ARABIA

Monday, May 14, 2007

Tradition and modernization in the Kingdom of opportunity

On a huge site on the Red Sea coast, work is under way on the largest real estate project in the Middle East. A \$26.7 billion skyscraper metropolis, King Abdullah Economic City is rising in the desert, the first and largest of six such developments designed to expand Saudi Arabia's economic infrastructure, attract investment, and provide jobs and homes for millions of people. It is estimated that by 2020 these super centers will be contributing \$150 billion to the Kingdom's gross domestic product (GDP).

In terms of its economy, Saudi Arabia is moving towards modernization in a race to become one of the top ten competitive nations by 2010. The new cities are central to an ongoing program of economic reform and infrastructural development aimed at ushering in a new era of economic prosperity.

The world's largest oil producer, Saudi Arabia is the largest and fastest growing economy in the Middle East, accounting for 25 percent of the Arab world's GDP. Its population



The \$26.7 billion King Abdullah Economic City is the first of six huge developments aimed at ushering in a new era of economic prosperity.

of over 27 million is expanding rapidly—almost 40 percent are under 14 years of age—and the economy has to develop swiftly if it is to provide housing and employment for them.

King Abdullah, Saudi Arabia's ruler, has set the process in motion. He aims to double the rate of economic growth—relative to population growth—over the next two decades. However, in such a traditional society the pace of change is inevitably going to be gradual. The challenge the monarch faces is how to balance his Kingdom's traditional Islamic lifestyle with opening up to an increasingly globalized world.

Saudi Arabia's accession to the World Trade Organization at the end of 2005, preceded by a wave of economic reforms intended to encourage privatization, liberalize foreign trade and stimulate investment, has further integrated Saudi Arabia into global affairs.

Economic conditions for domestic development are as fertile as they have been since the oil boom of the 1980s. The high price of oil has brought Saudi Arabia a petro-bonanza

to help fund the future. Oil revenues surged to \$194 billion in 2006.

Over the last four years, foreign assets have risen fourfold to \$216 billion, cushioning the Kingdom against a fall in oil prices.

The 2007 budget is the largest in the Kingdom's history, with expenditures projected at SR380 billion (\$101 billion). Spending on new

development projects has almost doubled to SR140 billion (\$37.3 billion) and SR96.7 billion is allocated for education and manpower training.

The King Faisal Foundation plays a prominent role in Saudi Arabia's increasingly competitive environment. The foundation awards scholarships to outstanding students, who go on to study at international universities, engages in non-

Continued on next page

Facts & figures

- ▶ **POPULATION:** 27.6 million
- ▶ **CAPITAL CITY:** Riyadh
- ▶ **GOVERNMENT:** Monarchy
- ▶ **CURRENCY:** Saudi riyal
- ▶ **LABOR FORCE:** 7.125 million
more than 35% in the 15-64 age group non-national
- ▶ **LANGUAGES:** Arabic
- ▶ **EXPORTS:** Petroleum and petroleum products 88%
- ▶ **IMPORTS:** Machinery and equipment, foodstuffs, chemicals, motor vehicles, textiles
- ▶ **GDP GROWTH:** 6%
- ▶ **GDP PER CAPITA:** \$13,800

The goal is to double the rate of economic growth relative to population growth over the next two decades

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Project directed and coordinated by:
Leo Brenner and Elisa Moriarty

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SAMBA

The 2007 budget is the largest in the nation's history, with spending on new developments doubled.

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profit activities in education and philanthropy and runs the King Faisal International Awards Scheme, nine recipients of which have gone on to win a Nobel Prize. The next stage of the foundation's evolution is the construction of the AlFaisal University, due for completion in September 2007.

"Our family feels very strongly about education," explains HRH Prince Turki Al Faisal, "we were always encouraged to seek knowledge and to understand how it could transform lives. This is why we felt that the best way to honor the memory of our father, HRH King Faisal, and to serve our country, was by creating the foundation."



Inward investment target for 2007 is \$300 billion

With its long-term strategy of making the private sector the engine of economic development, the government is hoping for a record inflow of FDI this year

joint and foreign projects worth SR253 billion (\$67.4 billion). Sagia's target for joint and foreign investment in 2007 is more than SR300 billion.

Saudi Arabia will need at least \$600 billion in investment over the next 20 years if it is to achieve its ambitious goals, according to Amr Al-Dabbagh, Governor of the Saudi Arabian General Investment Authority (Sagia). The wish list includes \$300 billion for petrochemicals, \$170 billion for electricity generation and water desalination projects, \$100 billion for ports, highways and railways, and a further \$100 billion for IT-related businesses, such as life sciences and health care.

While the Saudi government is pouring oil revenue into development projects, private investment is required to help build the infrastructure, and multi-billion dollar schemes like King Abdullah city will essentially be developed by the private companies.

FDI is forecast to see a sharp rise over the next three years; last year witnessed a 25 percent growth in the value of investment licenses issued, with

Reforms to bring the Kingdom into line with the WTO have opened up a large part of the economy. Sectors that were formerly closed to foreign investors are being opened up. Privatization is slowly getting under way, and corporations and institutions with a total value of \$800 billion are expected to be transferred to the private sector by 2015.

Potential sectors for investment range from telecommunications, airlines and electricity to mining, petrochemicals, postal and port services, railways and water utilities. Genuine attempts are being

made to ease bureaucratic procedures and make the Kingdom more business-friendly. Saudi Arabia's foreign investment law allows 100 percent foreign ownership of projects and real estate, and there are no restrictions on foreign exchange and repatriation of capital and profits. The foreign corporate tax rate has been reduced to 20 percent.

The country's foreign investment laws allow 100 percent foreign ownership and no restrictions on repatriation of capital

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Prospects look good for the future potential of the financial sector

The Saudi capital markets have had a rough ride over the past year, but the positive outlook for the economy bodes well for the future of the banking industry

Banks in Saudi Arabia have had their earnings checked by the severity of last year's stock market correction. Strengthened by a sustained period of profitability, however, they weathered the storm and the sector remains one of the strongest in the region.

In the 10-year period from 1996-2005, Saudi banking assets grew by 213 percent, deposits by 224 percent, and capital and reserves by 248 percent. Return on equity averaged well over 20 percent, and return on assets was more

than 2 percent. At the end of 2006, assets totaled SAR861 billion (\$229.6 billion).

In the longer term, the increase in economic activity and growth prompted by entry into the WTO can be expected to have a positive effect on the financial services industry. Since 2000, the sector has been boosted by the arrival of five more regional banks, and today a total of almost 1,300 branches are currently in operation.

The sector is gradually being opened up to participation by for-

eign banks and its potential has attracted considerable interest from international institutions, ten of which have been awarded full banking licenses by the Saudi Arabian Monetary Agency (SAMA), although only Deutsche Bank and BNP Paribas have opened for business so far.

Five of the 16 banks in the Kingdom are branches of foreign banks, while four Saudi banks have a substantial level of foreign ownership. With WTO membership, foreign equity capital for joint ventures in banking has been increased to 60 percent.

What makes the sector attractive is that relative to the size, growth, and future potential of the economy the industry is small, indicating considerable potential for development.

Promising areas for expansion include investment banking, asset management, project financing, and personal lending; as of January this year, 49 investment banking licenses had been granted.



SAMA

With WTO membership, foreign equity capital for joint ventures in banking increased to 60 percent.

Demand for Islamic banking services is continuing to rise at a significant rate. In April, the 2007 Saudi International Banking and Investment Conference ended with a call for studies into expanding the scope and scale of Shariah-compliant investment banking and real estate financing.

At the forefront of growth in Islamic banking

WHEN Bank Aljazira switched to Shariah-compliant financial products seven years ago, Islamic banking had yet to make an impression in the Kingdom. However, a real demand had been identified, and Aljazira has set the pace for innovative Islamic products since.

Aljazira were first to introduce an Islamic alternative to conventional share trading margin accounts, a Shariah-compliant version of fixed period deposits, and an Islamic version of life insurance. Indeed, it offers a full range of Islamic products and services to its affluent individual and corporate client base.

Other banks have followed suit; retail banking in the Kingdom is increasingly in accordance with Shariah principles. However, Aljazira still stands out. Number one in local share

trading, with almost 25 percent of the market, last year its highly successful Islamic life insurance and savings division won Euromoney's Best Life Takaful Award. It has also embraced new technologies, providing customers with comprehensive internet banking services.

"Although we are a small bank, we have been the best in delivering new Islamic products," says CEO Mishari Al Mishari. "We have had an effect on the whole market, not only in terms of Shariah compliance, but also in service delivery. We have set the standard in both."

Aljazira is interested in forming alliances, and recently announced it is spinning off its Islamic life insurance and savings division into a joint venture with a major insurance firm.

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Rana aims to attract big European and U.S. clients

ALREADY established as one of the premier investment companies operating in the Gulf markets, Rana Investment Company has been marking its twenty-first

year by launching a new corporate identity, moving into new headquarters near the King Abdullah Financial Center in Riyadh, and increasing the number of its employees to 200 to handle the expanded range of its activities.

"As a brand, we want people to think of us as a one-stop shop for all their financial solutions and investment needs," says CEO Mazen Hassounah. "We want to target big institutional money from Europe and the U.S. With the markets open here, we want to be their first stop."



MAZEN HASSOUNAH
CEO of
Rana Investment

Licensed by the Capital Markets Authority to provide a full range of investment banking services to institutional and private investors, Rana complements its strong local presence with global reach through partnerships with prominent regional and international investment houses.

The company recently formed a strategic partnership with Robeco of the Netherlands, the asset management arm of Rabobank and, according to Dr. Hassounah, is seeking further strategic cooperation agreements. "We are looking for partners who will work with us not only on the purely business side but also on human development in terms of transfer of know-how in areas such as risk management," he says.

Insurance firms queue to enter Saudi market

The Kingdom's insurance sector is expected to take off as newly licensed firms float IPOs and Islamic insurance takes hold in the market

Industry analysts estimate the value of the Saudi insurance market will be worth SR20 billion to SR30 billion within 10 years. The value of the health insurance market alone is estimated to reach up to \$10 billion. The forecasts follow the opening up of the insurance sector to foreign investment in advance of the Kingdom joining the WTO.

As in other Gulf states, the level of insurance penetration is low in comparison with global averages, but a variety of factors are coming together in the Kingdom to change that. These range from growing wealth to stronger regulation of the industry, the introduction of compulsory health insurance for foreign workers, and the growth of Islamic insurance, or Takaful.

Last October saw the licensing of the first 13 insurance companies to compete against the National Company for Cooperative Insurance, which had a monopoly, injecting SR2.6 billion into the market. Another 18 firms are awaiting endorsement.

In March, five of the 13 new insurance companies launched initial public offerings on the Saudi stock exchange to huge investor interest. Approval from the Capital Markets Authority for the remainder to be floated is expected to come through by

the end of the year.

Among the first wave of firms to be licensed was the Allied Cooperative Insurance Group (ACIG), which has mandated BMG Financial Advisors to act as arranger and lead manager to offer 40 percent of its shares to the public.

ACIG is one of the oldest international insurance operations in the Kingdom, with more than 25 years of history. Up to January 12 2005, under a different name, it was engaged in the conventional form of insurance. Since then, however, it has engaged in Takaful activities.

"The idea of Takaful is that insurance companies should be based on cooperation and not on profit between the policyholder and the company," explains Omar Zuhair Hafiz, ACIG's President and CEO.

The only Saudi insurance company that has the Islamic Development Bank as a key shareholder, ACIG has a full range of Shariah-compliant products, including motor and marine, medical, property, engineering, and general accident insurance. "We offer all kinds of insurance and are not focusing on one class," says Dr. Hafiz.

Around SR86.5 million (\$23 million) of ACIG's capital of SR100 million is being allocated to the company's investment portfolio.



OMAR ZUHAIR HAFIZ
President and
CEO of ACIG

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Moves to raise level of non-oil exports

While oil and oil products make up the bulk of Saudi Arabia's exports, the economy is expanding and diversifying and non-oil exports are rising

The Minister of Commerce and Industry, Hashim Yamani, believes the greatest benefit to Saudi Arabia from joining the WTO is access to global markets for its products. He wants to see the non-oil sectors targeting Europe, Africa, and the Americas, with help from the government. "There is no doubt that exports need support from government institutions to make better use of opportunities," he says.

The government is eager to encourage non-oil exports to reduce the Kingdom's dependence on petroleum and its exposure to the volatility of oil prices.

In March, the Saudi Cabinet decided to establish a government commission to take charge of promoting non-oil exports, to be chaired by Dr. Yamani, with exporters and government representatives on its board. An important development took place two years ago when the Saudi Fund for Development allocated \$4 billion to underwrite credit facilities for importers of Saudi products in more than 30 countries.

The non-oil industrial sector of the Saudi economy expanded by approximately 10 percent in 2006. Non-petrochemical exports, which account for around



Exports of non-petrochemical products are forecast to exceed \$20 billion this year.

12 percent of the total, have been steadily increasing, with metal products, electrical goods, machinery and industrial equipment, construction materials, textiles and garments and food

and beverages all gaining ground. Valued at \$16 billion in 2005, they are forecast by Rahman Al-Zamil, Chairman of the Saudi Exports Development Center, to exceed \$20 billion this year.

Abdullah Al-Khenaifer, President of Saudi Industrial Exports Company (SIEC), says Saudi Arabia needs more small and medium-sized companies, and wants to see the government speed up the utilization of free zones. "The time has come to compete with the outside world," he declares. He says the focus should be on downstream petrochemicals products and on hi-tech and pharmaceutical prod-

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A 'builder of kingdoms'

FOR THE PAST 31 years, Arabian Bemco Contracting (Bemco) has made a significant contribution to the growth of infrastructure in Saudi Arabia, earning a reputation as a 'builder of kingdoms'. Today, with a staff of 6,000, it is a world-class power, industrial and commercial contractor with full capabilities to undertake projects on a turnkey basis.

The company is developing key strategic alliances in its bid to expand. "Within five years we want to become leaders in the power, energy, and water sectors, and an internationally recognized brand," states CEO and Executive Board member, Henry Sarkissian.

As a developer and contractor of industrial and power projects, Bemco has been implementing major fast track

projects in power generation and transmission, and commercial and building services, as well as operation and maintenance related to industry, water, and oil and gas. As a turnkey contractor, it has integrated capabilities in engineering, procurement, construction, fabrication, and testing and commissioning.

Bemco's client list includes the behemoths of Saudi industry, such as Saudi Electricity Company (SEC) and oil giant Aramco. Notable among current commitments are a contract with SEC to add 666 MW to the Riyadh Power Plant 9, built by Bemco, which currently produces 2800 MW. The work will be carried out under an extremely tight deadline, to be completed by the end of 2008.

Strength in partnership

Arabian Bemco Contracting Co. Ltd. is a developer and contractor of industrial and power projects.

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It has built plants with a capacity of over 9,000 megawatts, 30 HV substations – up to 400 KV, various industrial & water projects, and STPs and R.O. plants. Arabian Bemco Contracting Co. is committed to meeting the highest quality standards and the challenges of the 21st century.

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ucts because they do not require water to be produced.

Formed as a joint stock company by the Kingdom's leading industrial, commercial, and financial entities in 1990, SIEC promotes the export of Saudi products to GCC, regional and international markets by buying and selling, and providing its clients with related services including shipping, financing, and warehousing. It also sources raw materials for Saudi manufacturers.

"Saudis know how to produce goods, but not how to market them," says Eng. Al-Khenaifer. "That is the job of Saudi Industrial Exports, and we offer these services."

SIEC is the only stock listed trading house in the region. Eng. Al-Khenaifer takes successful Japanese and European trading houses as his model, and wants SIEC to become more directly involved in investment. "We are interested in investing in export products from the United States or from Saudi partners. It is not just about trading any more, it is about trading and investing."

Kingdom leads the way in pharmaceuticals

Already a high growth market for pharmaceuticals, Saudi Arabia is a prime target for investment in an industry with plenty of potential for further expansion

Impressive growth is taking place in the pharmaceuticals industry across the Middle East, and Saudi Arabia is leader in the field. The Kingdom's 27 pharmaceutical factories and \$619 million investment in the industry put it a long way ahead of the other GCC countries; the UAE, its nearest rival, has just eight factories valued at \$64.4 million.

Saudi Arabia, which has a high incidence of cardiovascular diseases, including diabetes and strokes, is already the largest market for pharmaceuticals in the Gulf, accounting for more than 65 percent of sales, valued at well over \$1 billion annually.

The Saudi government gives high priority to health, providing a comprehensive and continually improving medical system that includes some of the best hospitals in the Middle East. In the 2007 budget,



Saudi Arabia's rapidly growing population provides a huge market for medicines.

spending on health and social affairs has been increased by 27 percent to SR39.5 billion (\$10.5 billion), with allocations for establishing and furnishing more than 380 primary health care centers and 13 new hospitals. At the same time, with demand for health care continuing to rise, the government has introduced a compulsory health insurance scheme for expatriate workers.

As in other Middle Eastern countries, the bulk of medicines—around 85 percent—are imported, mainly from U.S. and European companies. Local manufacturers produce mostly generic alternatives

that contain the same active ingredients.

Entry into the WTO has led to the creation of the Saudi Food and Drug Association (SFDA). The largest customer

for pharmaceuticals, accounting for around 60 percent of the market, is the Ministry of Health, although sales to the private sector have been rising.

With a growth rate that is one of the highest in the world, it is being predicted that by 2020 the population of Saudi Arabia will have risen from the present 26 million to 47 million, presenting a huge customer base.

The 2007 budget raised public spending on health and social affairs by 27 percent to SR39.5 billion (\$10.5 billion)

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SAUDI ARABIA

Right prescription for profit making

Breadth of experience and resources makes Tamer Group an ideal partner for international companies interested in entering the Saudi market

Eighty-five years after its founder Mohammed Said Tamer established the first pharmacy in Saudi Arabia, the Tamer Group remains a family-run business. Now under the stewardship of Ayman Tamer, its current President, Tamer Group is a leading supplier of health care products and consumer goods with a reach that extends throughout the Middle East.

The group provides comprehensive services in marketing, distribution and local manufacturing to many of the world's leading companies through agreements, joint ventures and partnerships. "The breadth of Tamer Group's experience and resources provides opportunities to international companies seeking to de-

velop business and build a competitive advantage in Saudi Arabia," says Mr. Tamer.

Tamer Group handles the promotion and distribution of a wide range of pharmaceutical products. Its manufacturing arm, Saja, is a 50-year joint venture with a consortium of Japanese companies including industry leaders Sankyo and Yamanouchi, producing the latest medicines designed in Japan for both the domestic and Middle East markets.



AYMAN TAMER
President of Tamer Group

As a medical supplier, Tamer Group distributes a wide range of products, serving the needs of hospitals and individuals. It is a market leader in laboratory diagnostic machines and reagents, interventional cardiology, radiology and orthopedics.

Tamer Group is a partner in the first non-governmental firm specializing in vaccines manufacturing in the Arab and Islamic world. Located in Makkah, the Arabian Pharmaceutical Products Company (Arabio) factory will manufacture vaccines and serum developed by Jeddah BioCity.

The group is also a shareholder in the International Medical Center (IMC), a SR500 million (\$133 million) 300-bed private hospital in Jeddah formally opened last October. The center is a joint venture with the Cleveland Clinic Foundation in Ohio.



Tamer Group's manufacturing arm is a joint venture with a consortium of Japanese companies.

Alliances help to bring success to Spimaco

A JOINT VENTURE to manufacture raw materials for the pharmaceuticals industry is the latest advance for Saudi Pharmaceutical Industries and Medical Appliances Corporation (Spimaco), the Kingdom's leading producer, promotor and distributor of drugs.

As part of an international consortium, Spimaco will manufacture Active Pharmaceutical Ingredients (APIs) as a partner in the newly established CAD Middle East Pharmaceutical Industries.

Alliances with major international companies are central to the success of Spimaco, which has enjoyed an enviable financial performance over its 21 years of operation. Its licensing partners include Eli Lilly, Schering



ABDULLAH ABDULKADER
President
of Spimaco

Plough, Vifor, and GSK. The company achieved a remarkable success in 2003 when it signed a deal with Eli Lilly, licensing Spimaco to produce and market Tadalafil under its own trade name, Snafi—the first Arab drug against impotence to enter the GCC market.

At the end of last year Spimaco announced an agency agreement under which the Malaysian company Schmidt BioMedTech will distribute and market its products. According to Spimaco's President, Abdullah Abdulkader,

Malaysia represents the cornerstone for expansion in the fast growing markets of south-eastern Asia "We consider Malaysia as the starting point to the rest of the countries in the region," he says.

The company's partners include Eli Lilly, Schering Plough, Vifor, GSK and now Schmidt BioMedTech

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First steps towards a wider tourism market

Home to Islam's holiest shrines, Saudi Arabia has a huge influx of religious pilgrims every year. Now it is bidding to attract high-end tourists as well

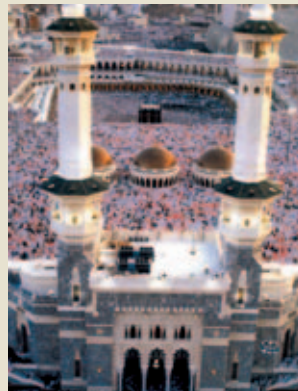
The hajj, the annual pilgrimage to Makkah, the birthplace of Islam, is a once-in-a-lifetime duty that draws Muslims to Saudi Arabia from every corner of the globe. Madinah, the location of the tomb of the Prophet Muhammad, is second only to Makkah as a place of pilgrimage, while many Muslims undertake umrah, a lesser pilgrimage to Makkah throughout the year.

Some estimates put the number of pilgrims who visited the Kingdom in 2006 at a record six

million, with more than half coming from abroad. Certainly the numbers are rising each year and the pilgrims make a welcome contribution to the Saudi economy with their spending on food, accommodation and souvenirs. New infrastructure is being provided to cater for the visitors, particularly around Makkah.

Until now it has been virtually impossible for non-Muslims to get a visa to enter the Kingdom, and non-religious foreign visitors have numbered fewer than 100,000 per year. However, this is set to change as the Saudi government relaxes entry restrictions for non-Muslim tourists.

While the Kingdom is never going to become a destination for mass tourism, the authorities hope



Millions of Muslims are drawn to the holy city of Makkah every year from all over the world.

to attract 1.5 million tourists by 2020, raising the industry's contribution to GDP from five percent to 18 percent. Last year, for the first time in the Kingdom's histo-

ry, it was announced that tourist visas would be made available for non-Muslims. The Supreme Commission of Tourism (SCT) licensed 18 tour operators to issue the visas, removing the requirement for a Saudi resident to sponsor those wishing to enter the country. The ban on photography has also been ended.

Scuba diving, sporting events and more than 6,300 heritage sites are expected to draw the visitors, although the two holy cities will remain strictly off-limits to non-Muslims.

"We are targeting people who like Saudi Arabia for what it is, people who will like the experience and hopefully come back again and again," says SCT spokesman Majid al-Shiddi.

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Quality is the key to profit in services sector

AS the Saudi economy expands, so does the market for services and maintenance.

Meeting that need has enabled the Almajal ServiceMaster company to triple its profits over the last eight years, and Amal Abdul-Ghaffar, the firm's President and CEO, sees many more opportunities arising in the future. "You

can see a big smile on my face every time a big building goes up," he jokes.

Among the first service companies awarded the ISO:9002 certificate, Almajal ServiceMaster provides a wide variety of support services to

commercial, banking and residential customers, ranging from plant operation and main-

tenance, airport services, security, and ATM replenishment to pest control, gardening and house-keeping.

Eng. Abdul-Ghaffar attributes the firm's success to its well-trained employees and the high quality of their work. It is no longer

the case that customers seek the cheapest option, he says.

"The change in the service industry in Saudi Arabia is that people are looking for quality. Of course they want it to be cost-effective, but it is not everything."



MOHAMMED AL AMOUDI
Chairman of
Almajal ServiceMaster

SAUDI ARABIA

Premier travel and tourism firm Elaf prepares for rise in visitor numbers

One of the leading operators in the sector says tourism has the potential to become the Kingdom's second-largest source of income after the oil industry

With religious pilgrimages providing a ready-made market, support from the government and advanced connectivity to Europe, the Middle East region, and the Indian subcontinent, Saudi Arabia's tourism industry is set to take off. So says Moutaz Kayal, Chairman and President of Elaf Group, one of the Kingdom's premier travel, tourism, and hotel operators. "It has been rising by 10-12 percent yearly, despite the September 11 crisis, despite the Iraq war, despite SARS, all of which have affected global tourism, and we believe it will continue to rise."

Mr. Kayal acknowledges that the Kingdom's determination to preserve its traditional and religious values means there is not the freedom to develop the industry in the way it has grown in Egypt or Dubai, for example. "You cannot have beaches or resorts like Sharm El Sheikh in Egypt. Our society is not yet ready to accept this."

Nevertheless, there are plenty of attractions to draw both religious and non-religious visitors. "The Supreme Commission for Tourism has identified thousands of tourist sites, including ruins that go back thousands of years. In addition there is the Red Sea, which is targeted by professional and amateur scuba divers,



The recent opening of another new branch reflects the success of the Elaf Group.

while Jeddah and Riyadh have always been destinations for businessmen."



MOUTAZ KAYAL
CEO of Elaf

Licensed by the Saudi government as a hajj and umrah operator, the Elaf Group serves tens of thousands of pilgrims every year. One of Saudi Arabia's top 100 companies, Elaf was established in 1981 as a travel and ticketing agency with just a single branch. Mr. Kayal

joined six years ago, and is proud of the rapid expansion of the business since then.

"When I joined the Elaf Group in 2001, the total revenue was SR167 million," he recalls. "Now our revenue has exceeded SR550 million (\$146.7 million), so it has more than tripled. Profitability has also tripled. The number of hotels we owned in 2001 was four, and now it is around 16. The number of companies we represent has increased by five to six times."

Elaf's Travel and Tourism arm runs a fleet of luxury coaches for

sightseeing tours and visits to religious, historical and archeological sites. Saudis are offered a variety of tour packages to popular destinations worldwide.

Mr. Kayal, who is also President of the Saudi Arabian chapter of the American Association of Travel Agents (ASTA), says: "We have ticketing and tour packages, inbound and outbound, and both divisions are doing well. We have designed

packages for people from Japan and China, Europeans, and Americans, and we are constantly increasing our figures."

Elaf acts as general sales agent for major airlines, including Saudi Arabian Airlines, Egypt Air, Royal Air Maroc, Biman Bangladesh, Air Tanzania and Air Sahara.

In recent years the group has been undertaking an aggressive multi-million dollar expansion program, opening new hotels in Makkah, Madinah and Jeddah. In March, it opened a new branch in Madinah in response to increasing demand in the holy city, particularly since Prince Mohammed Airport has become an international airport. Another new branch has been opened in

Thousands of tourist sites, including ancient ruins, have been identified

Riyadh and plans announced for further branches in Makkah and Jeddah will bring its network to 12 offices.

The group intends to grow with the industry. "In five years from now I see Elaf among the top two tourism companies in Saudi Arabia with 25 hotels," says Mr. Kayal.



The group's portfolio includes hotels in Jeddah and the holy cities of Makkah and Madinah.

SAUDI ARABIA

An e-volving Saudi Arabian Airlines is taking off with technology and privatization

Intensive research, development and innovation have enabled the launch of e-ticketing and interactive customer services ahead of the denationalization of Saudi Arabia's premier airline

The past few years have been marked by intense preparation and development at Saudi Arabian Airlines. As the largest airline in the Middle East, it is imperative that it is always competitive. It recently introduced key innovations to its passengers such as the self check-in and self-ticketing services, tickets delivered directly to the doorstep and an interactive SMS service. Passengers who see this as a demonstration of the airline's quality service promise and customer-focused approach have readily welcomed these new features.

Two major projects in their final stages before introduction, however, are particularly important.

Firstly, in early February 2007, the first e-ticket will be issued to passengers. E-tickets are

Self check-in, self-ticketing, interactive SMS services and doorstep ticket delivery are some of the airline's recent key innovations.

already revolutionizing air travel globally, but bringing it to the Saudi market will be particularly challenging, given its nature. The airline therefore plans to introduce and implement this service gradually over the course of 2007, achieving 100 percent by the end of the year, in accordance with IATA's deadline.



E-tickets will be first issued for domestic flights, and by the third quarter international passengers will be able to fly using e-tickets. A dedicated and technically proficient project team has been working on this service for the past few years. Furthermore, to educate and support its employees, passengers, travel agents, civil aviation authorities and the relevant government agencies, the airline has developed a comprehensive marketing and PR campaign, due for launch in January 2007.

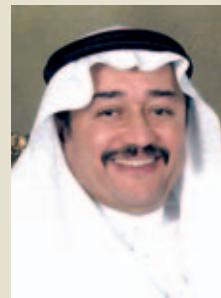
In addition to the online check-in facility that will be introduced later in the year, e-tickets will make travel much more efficient, simple and less time-consuming for both the airline and its passengers.

Secondly, a key milestone and a historic and strategic direction that Saudi Arabian Airlines is about to embark upon is its privatization. Extensive and detailed studies have been conducted over the past years and with full government support, along with a booming economy, 2007 will see the initial stages of this project reach fruition.

The company will be split into six strategic business units (SBUs). The process will start



KHALID ABDULLAH ALMOLHEM
Director General
Saudi Arabian Airlines



YOUSEF ATTIAH
VP of Customer Services
Saudi Arabian Airlines

with catering in 2007, followed by cargo, ground handling, maintenance services, an aviation academy and finally the core airline business. Each SBU will have a strategic partner, its own functional departments and, of course, its separate and comprehensive marketing campaigns, all under a common holding company.

Similar to its ongoing service improvements, to stay a step ahead in a competitive landscape it is essential that the airline becomes more efficient, innovative and profitable throughout the organization and not only on the customer service level. Privatization, therefore, is a necessary strategic direction that the airline is heading towards.

Together with a growing global economy, a rising number of passengers, and a visionary and dedicated leadership, Saudi Arabian Airlines is looking at an intensely competitive but bright and prosperous future.

The six privately run business units will each have a strategic partner



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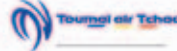
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Telephone: +966 2 665 1233 هاتف: +٩٦٦ ٢ ٦٦٤ ١٢٣٣
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