The Middle East – A region on the move

by Alexander Keller and Friedrich Portner

Essen, April 15, 2010

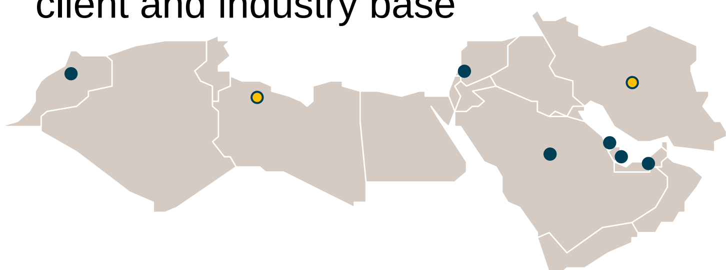
Roland Berger
Strategy Consultants

Among the top 4 global consultancies in MENA, we developed a diverse client/ industry experience, used in this presentation

Overview of Roland Berger MENA activities and selected clients

RB & MENA FOOTPRINT

- Roland Berger Strategy Consultants cover over 25 countries globally with a revenue of USD ~1 bn in 2009
- In the MENA Region, we are among the top 4 global players covering a broad client and industry base



- Middle East HQ in Bahrain, with offices – KSA, UAE and Qatar in formation
- Casablanca covering the Maghreb
- Project offices in Libya and Iran

SELECTED MENA CLIENTS

The MENA region – Extremely heterogeneous with major challenges ahead

1. Economically and population wise heterogeneous, with an overly young population structure

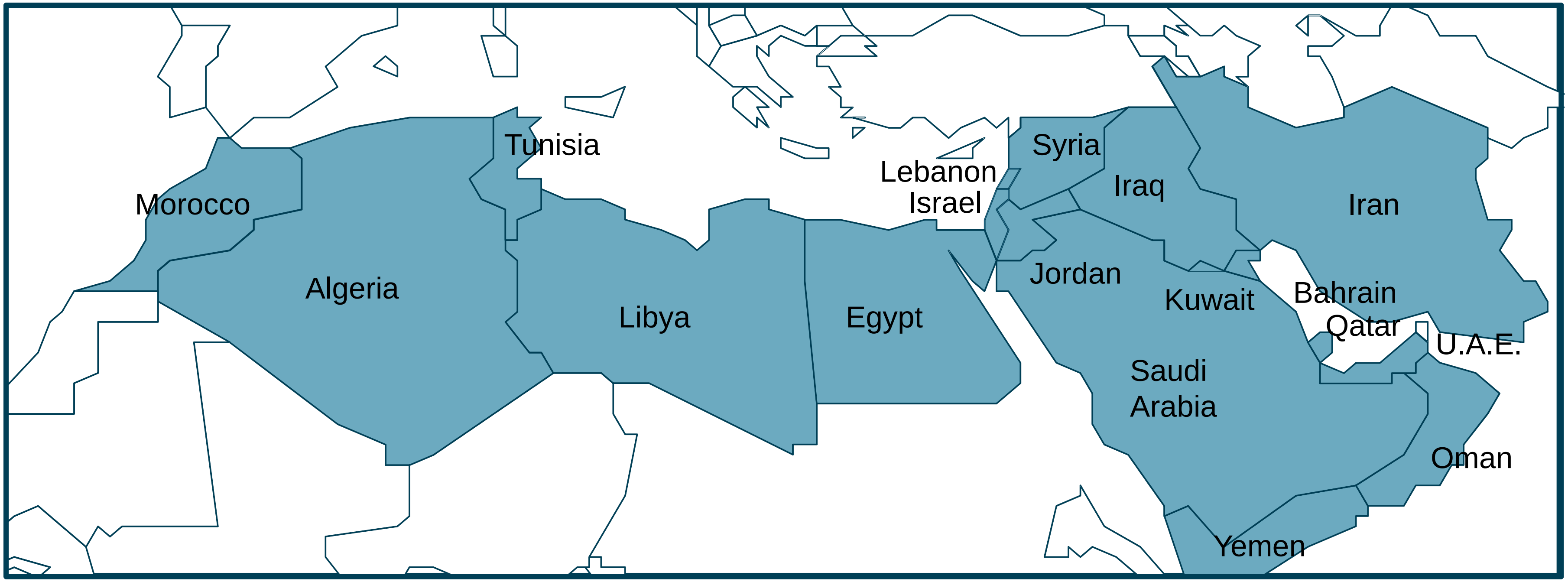
2. Generally resource rich, with expected capital influx exceeding absorptive capacity

3. Economy will remains small compared to Europe even in 2025 – But attractive growth potential for firms exist

4. Overall, promising future – Only if key limitations are tackled e.g. HR scarcity, education, infrastructure, regulatory

The region stretches over 4500 km from Morocco to Iran with a population of approx 365 m

The MENA[1)] region



1) Some MENA literature definitions exclude Iran

Some of the following presenation descriptions do not consider the Levant Yemen and Libya
GCC includes: KSA, UAE, Kuwait, Qatar, Bahrain, Oman; Maghreb includes: Algeria, Morocco, Tunisia

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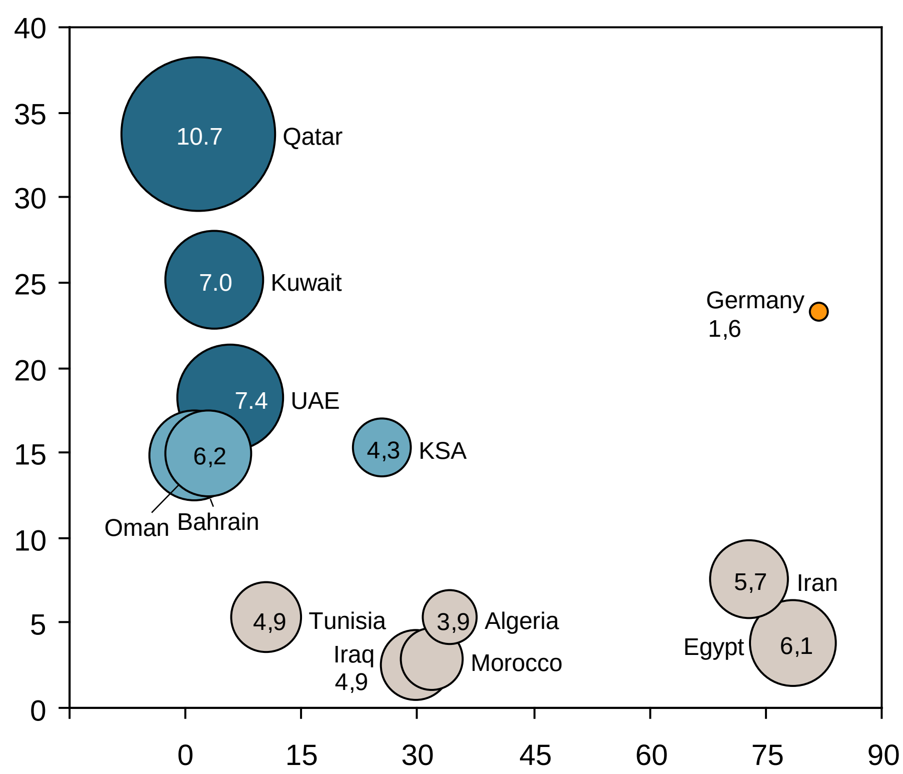
A significantly heterogeneous region in population, growth and wealth, building mainly three clusters – Extreme young population

GDP P.C. [EUR k, 2009][1)], POPULATION [M, 2009] AND CAGR [%, 2004-2009] BY COUNTRY



1) Real GDP figures at PPP 2005 prices

POPULATION STRUCTURE

Population in scope ∑ = 299.2 m

	Younger than 20	20 to 39	40 and up
UAE	25%	55%	20%
Qatar	27%	44%	29%
Kuwait	30%	46%	24%
Oman	42%	40%	18%
Bahrain	35%	41%	24%
KSA	42%	37%	21%
Tunisia	43%	32%	24%
Algeria	43%	35%	22%
Morocco	42%	32%	26%
Iran	42%	33%	25%
Egypt	49%	29%	22%
Iraq	54%	29%	17%
Germany	20%	26%	54%

Source: EIU 2009, Roland Berger analysis

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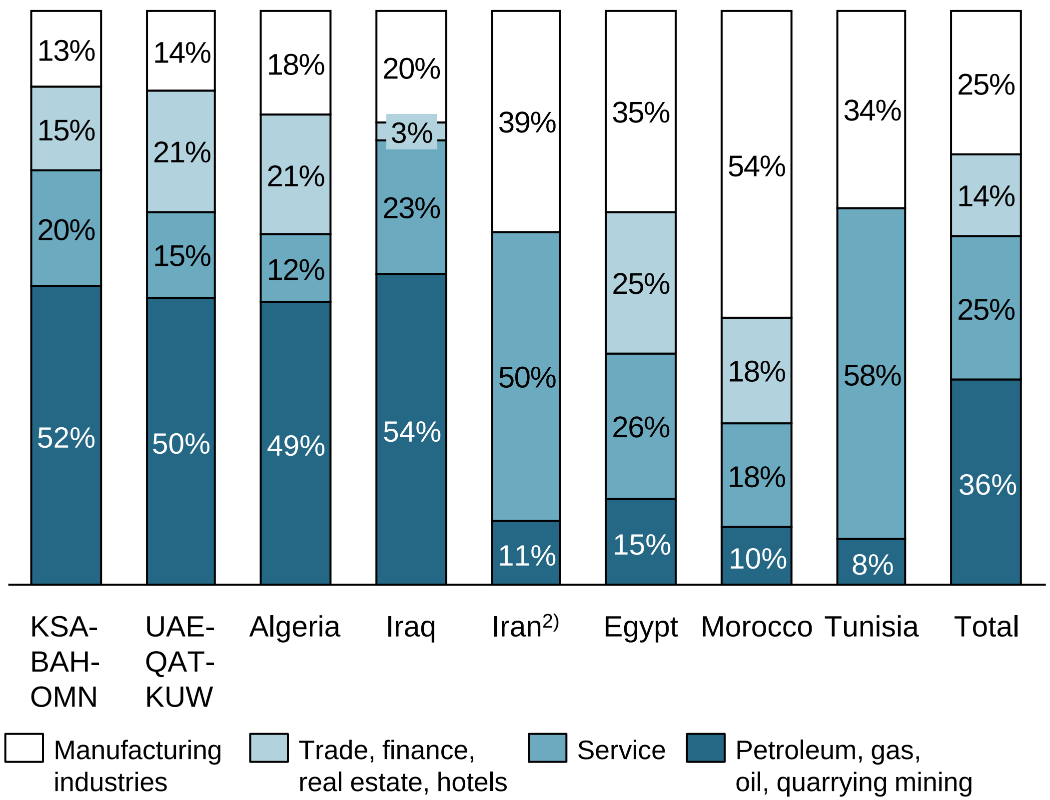
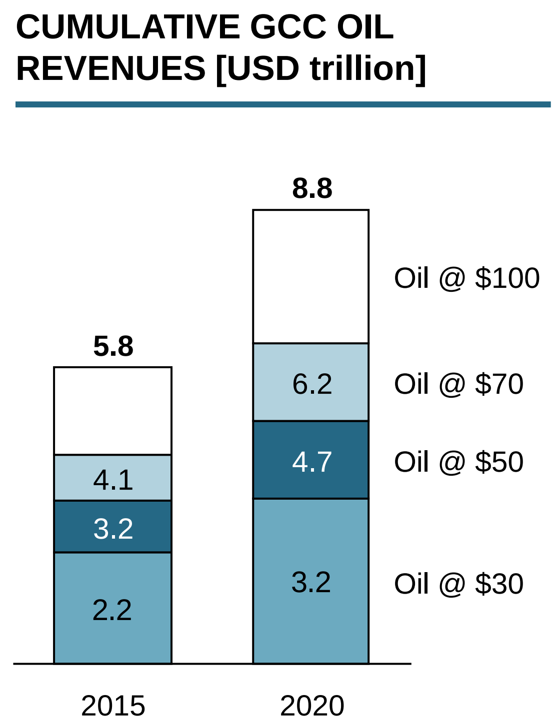
Region generally oil & gas dominated, with few countries living from manufacturing – $ 5-6 Tr GCC revenues in 2020 at oil $ 50-70

GDP breakdown[1)] by country





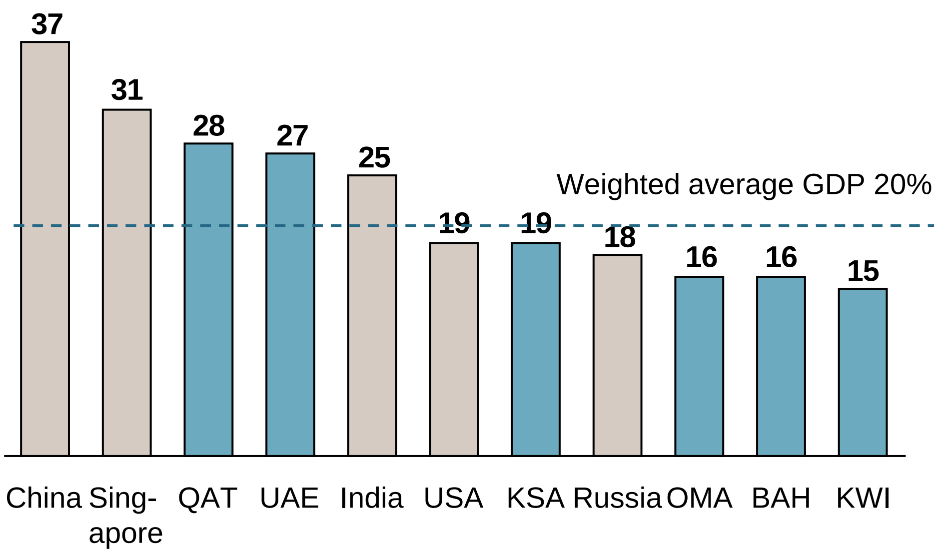
1) All years are 2007 except for UAE, KSA, Bahrain, Kuwait, Algeria and Iraq it is 2006
2) Trade, finance, real estate and hotels are included in services, as no breakdown available

Source: Euromonitor; Central Banks, Roland Berger analysis

Historical expenditure and absorptive capacity indicate capital oversupply of the GCC of several USD trillions in 2020

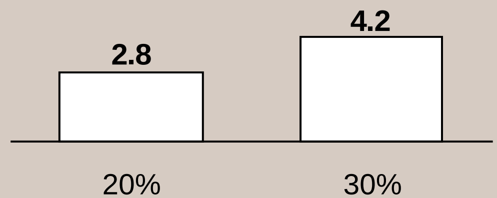
Gross fixed capital investment share of GDP 1993-2006; cumulative potential investments

Gross fixed capital investment share of GDP 1993-2006

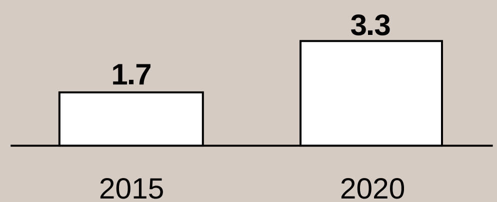


GCC absorptive capacity is limited by its ability to provide equipment, material, skilled labor, efficient money allocation, inflation, etc. for the cash being invested

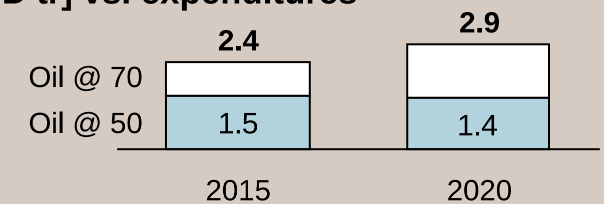
Cum. investments at 20% & 30 % GDP in 2020 [USD tr]



Cum. expenditure[1)] at historical CAGR 6.2% [USD tr]



Cum. capital oversupply @ oil 50/70 USD [USD tr] vs. expenditures



1) Government expenditures of spending and capital investments

Source: EIA; BP World energy report, Global insight, Business monitor international, Roland Berger analysis

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Major challenges ahead for richer & poorer countries to create sustainable economy & employment – Large state support needed

SMALLER / RICHER COUNTRIES

Opportunities
- Almost unlimited capital resources (exception BAH, Tunisia)

Challenges
- Adequate investment opportunities
- Limited domestic market
- Limited domestic & willing workforce
- Infrastructure availability

Key to develop a sustainable economy

LARGER / POORER COUNTRIES

Opportunities
- Mostly existing domestic market
- Potential local workforce

Challenges
- Limited capital resources (exception KSA)
- Not adequately educated population
- High youth unemployment
- Infrastructure availability

Key to create jobs for the upcoming youth segment

REFORMS AND ECONOMIC DEVELOPMENT

- **Deregulation & privatization**
  – Deregulation and privatization wave supporting economic development e.g. "National Strategy"
  – Initiatives to reduce bureaucracy e.g. e-government and FDI support
  – Industrial development funds being created to provide financial assistance e.g. SIDF
- **Economic Cities/ Zones**
  – Free zones and mega-city projects with industrial complexes being developed
  – Cities/zones are supported by governments to diversify local economies
  – "Clustering" programs being establish to develop competitive advantages
- **National education & hiring initiatives**
  – Accelerated development/ support of foreign & local universities as well as training programs
  – Emphasis on workforce nationalization

Source: Roland Berger analysis

Governments are using different strategies, from subsidized loans & economic cities to EU/USA cooperation

Government objectives and strategies

GOVERNMENT OBJECTIVES

- **Spur economic growth** (In KSA, SAGIA expects economic cities to contribute USD 150 bn to GDP by 2020)
- **Reduce dependence** of the economy from oil
- **Attract foreign investors** and tenants that bring new skills and resources to country
- **Create more jobs** for local population directly and indirectly since population
- **Enhance competitiveness** of industries by promoting industrial and skill upgrading as well technology transfers

GOVERNMENT KEY STRATEGIES

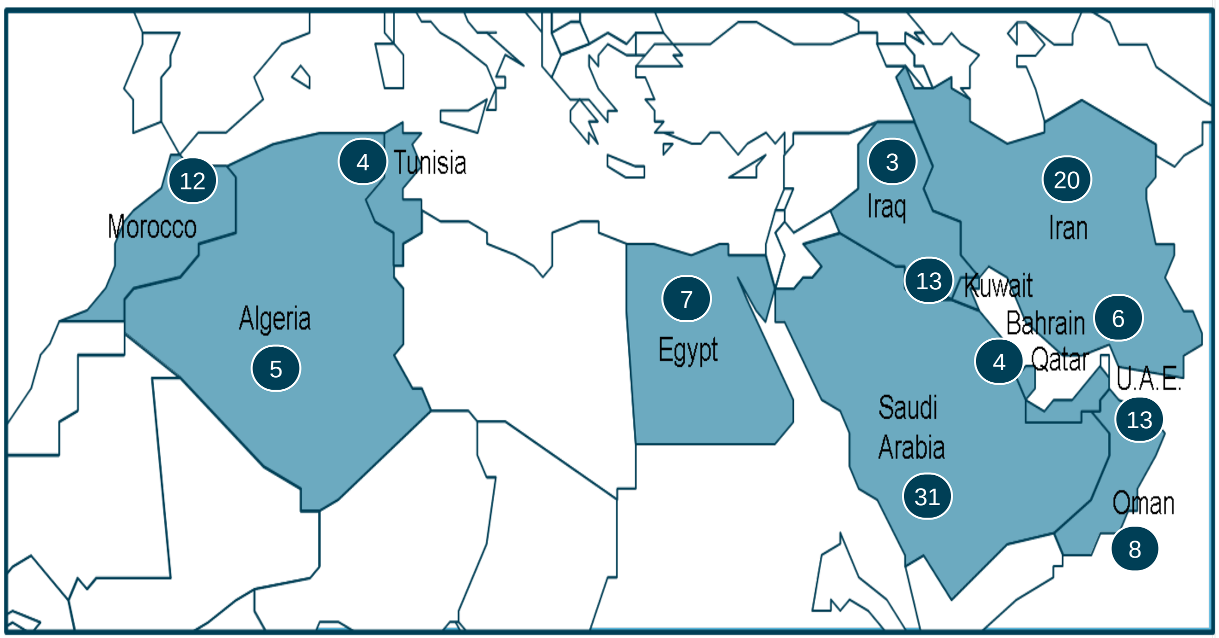
- **UAE, Qatar, Kuwait, KSA and Bahrain** governments seeking the **diversification of their industry by subsidized loans, and governmental facilitations** e.g. regulations in industrial zones – KSA furthermore uses economic cities to urbanize remote areas
- **Egypt in cooperation with the USA** is building up an export driven economy often located in **special zones**, ensuring the development of a certain level of industrial independence
- **Maghreb** countries mainly seeking the development of export related industries in **cooperation the EU**
- **Iran seeking economical and industrial independence** by diversification of the industry and **urbanization of remote areas**
- **Iraq re-establishing industries** in special zones to **facilitate** and accelerate the development / **rebuild**

Source: EIA; BP World energy report, Global insight, Business monitor international, Roland Berger analysis

Industrial zones establishment is accelerating, especially mega cities – KSA front runner

Industrial zones overview

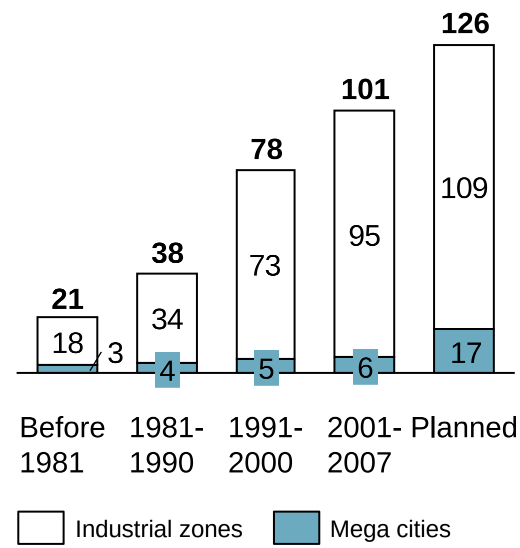
NUMBER OF INDUSTRIAL ZONES BY COUNTRY



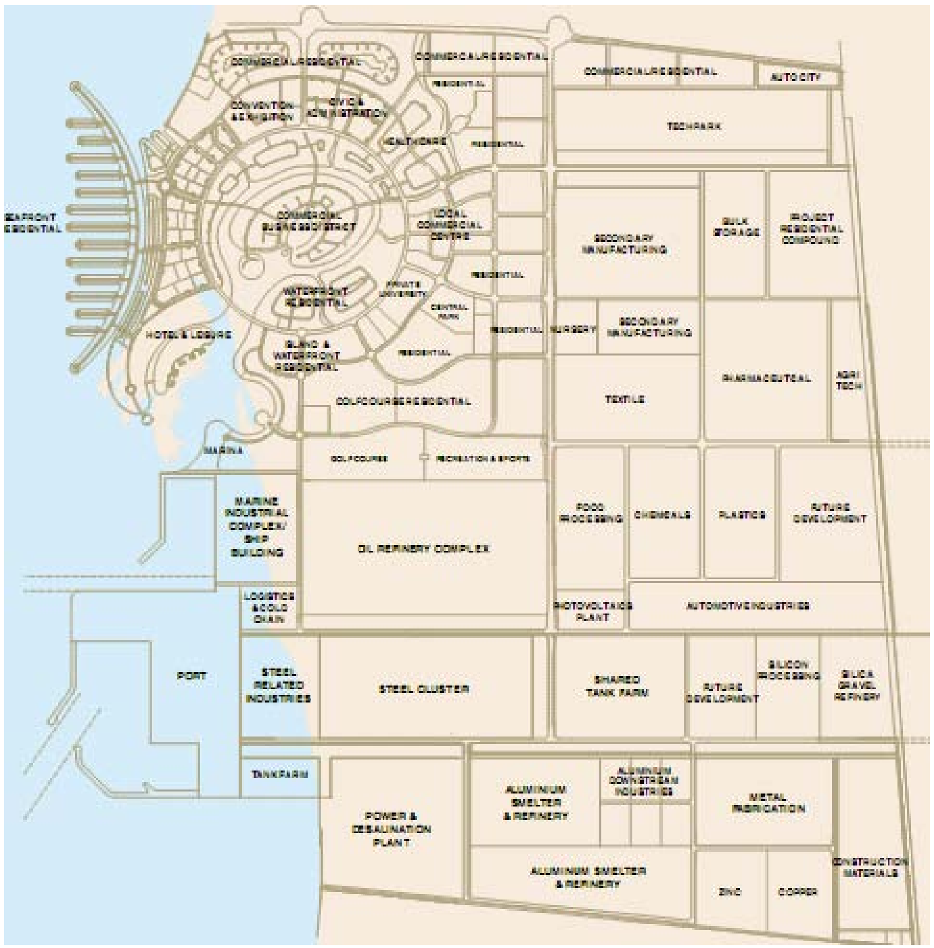
Cumulative # of established industrial zones & mega cities in MENA by year

Total industrial zone area 411 kha

% share of mega cities 82%



Clear trend towards balanced or light industries exist – Aim to create sustainable diversified economies



Residential & commercial cluster
- Port, logistics, telecommunication, schools, hospitals
- Residential, commercial and business centres...

Oil, gas and utilities cluster
- Power and desalination plant
- Oil refineries and tank farms
- Petrochemical and chemical industries
- …

Heavy industries cluster
- Basic material e.g. steel, alu, cement
- Automotive
- Ship building
- …

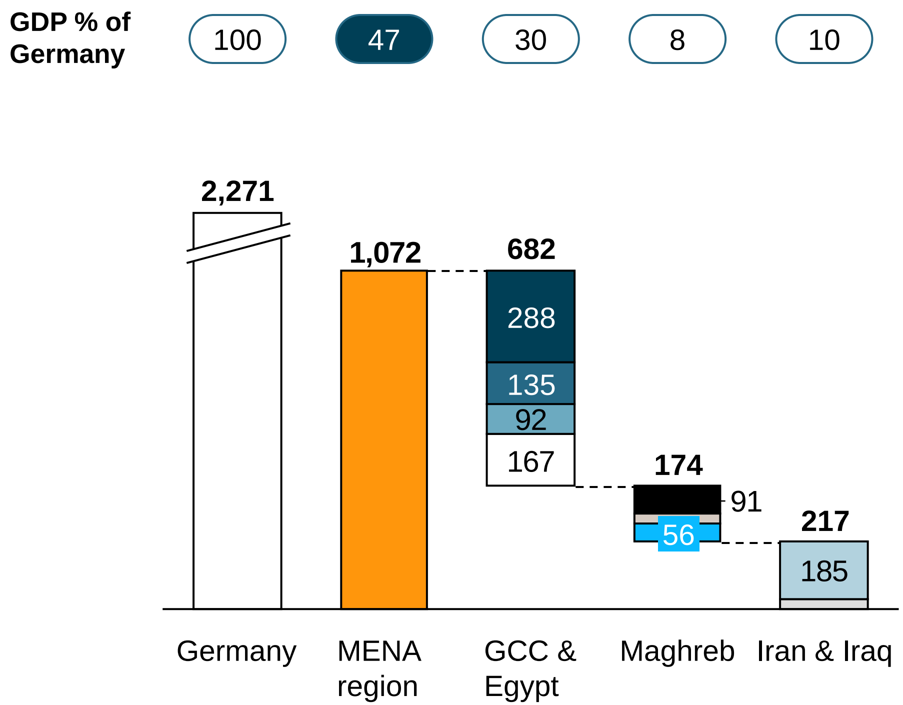
Light & support industries cluster
- Food processing, pharma & agro- tech
- Plastics, textile and tech parks
- Metal fabrication
- …

Source: Jazan economic city

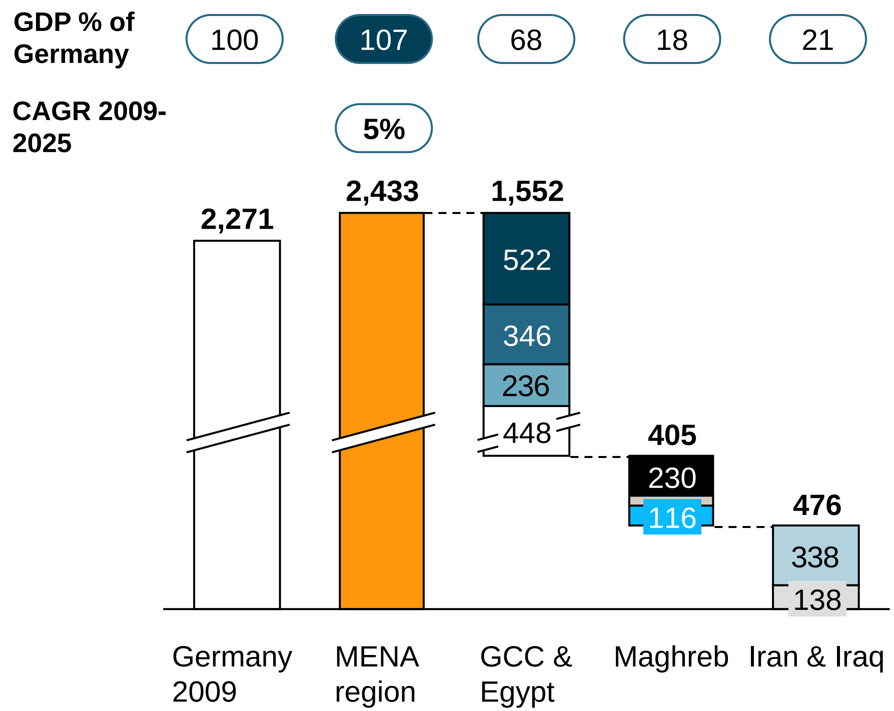
Nevertheless, the region's GDP in 15 years will only be roughly the size of Germany today, but with interesting 5% growth rates

Macroeconomic comparison of MENA[2)] to Germany

Real GDP 2009 [EUR bn at 2005 prices]



Real GDP 2025[1)] [EUR bn at 2005 prices]



KSA UAE Egypt Other Algeria Tunisia Morocco Iran Iraq

1) GDP Oman estimated based on KSA growth rate, GDP Iraq estimated based on GDP per capita in Iran

2) Excluding Libya, Yemen & Levant

Source: EIU, (10/2009), Roland Berger analysis

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Several crucial obstacles and limitations need to be addressed

HUMAN RESOURCES & EDUCATION

- **Attraction of labor** in competition to emerging market at reasonable costs
- Reduction of **public job attractiveness**, encouragement of private employment
- **Reforming** of education & **curricula**/ quality

INFRASTRUCTURE & INTEGRATION

- Development of **adequate infrastructure** e.g. utilities, sanitation, IT, technology, roads, ports, etc.
- Regional integration allowing **access to markets** (scale), with greater export, competition, specialization, productivity

BUREAUCRACY & TRANSPARENCY

- Elimination of bureaucratic **procedures** & facilitating commerce e.g. e-gov't
- Improving **accountability/ access to info** e.g. procedures, info asymmetry
- Creating **space for private sector** and limiting public interference

REGULATORY & FINANCIAL SYSTEM

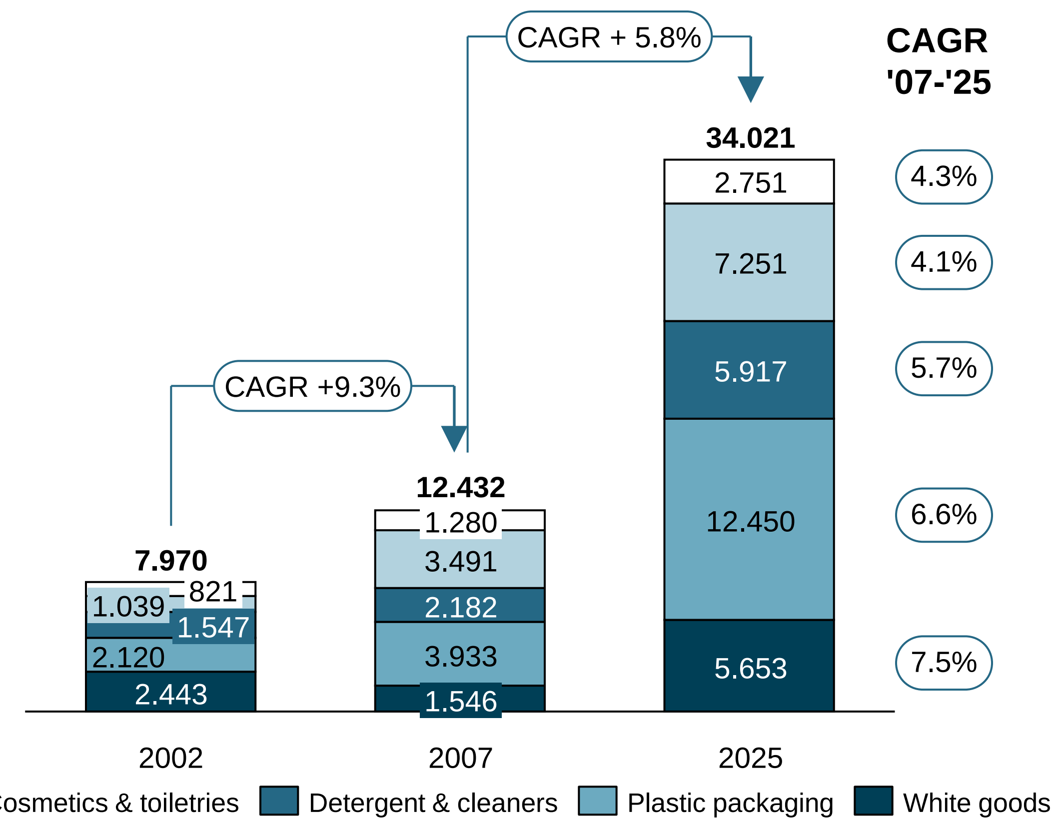
- Improving regulations & **protecting investors** e.g. property rights, free trade agreements, financial supervision, etc.
- Strengthening **rule of law/** apply equally
- Maturing **capital markets & credit facilitation**, also for SMEs (micro credit)

Chemical industry chance: The assessment of multiple chemical end-consumer show significant growth

CHEMICALS CUSTOMER INDUSTRIES

Others…

HISTORIC & FORECASTED DEMAND [EUR M, 2007 PRICES]



Source: Roland Berger analysis

To be successful, three key factors cannot be neglected in this fast changing environment

Key factors for sustainable market entry/ growth

Examples

Partner-up

- Timely and adequate **market knowledge are essential** as many decision are not made public or are pre-made
- Local **contacts and presence** is crucial to gain attractive contracts or **open doors**, as trust is still a decision factor

Customize

- The **region is too heterogeneous** to roll out one strategy that fits all – different demand needs must be considered, as well as resource availability, subsidies, etc

Use Benefits

- Governments are offering a **multitude of benefits** from interest rate less loans e.g. SIDF to one-stop-shop support e.g. SAGIA altering feasibility & IRR of projects
- **Technical knowledge** is desperately being required

Source: Roland Berger analysis

Overall, the region is on the move into a most probable promising future

- A **young population** & **heterogeneous economy/ government** require a detailed country understanding, but also **offer opportunities**
- **"Richer and poorer" countries** are both facing major challenges to diversify the economy and create needed jobs – Different government initiatives will continue supporting the **transformation**
- **Oil/ gas revenues** will not be only invested at home, but expected capital oversupply will also **be invested into the region/ globally** – "poorer" neighbors will benefit
- The region will grow at **CAGR 5%** over the **next 15 years**, nevertheless major limitations in education/ regulations/ infrastructure need to be overcome – The regions **size** will reach that of **Germany** today
- Several **chemical consuming industries** are **growing** and catching-up quickly, offering an opportunity for chemical firms if they observe some KSFs

Source: Roland Berger

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