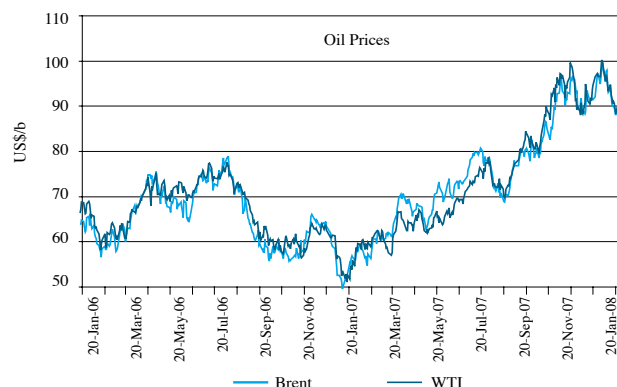


GCC Oil Sector - Major Projects Underway

During 2007, high oil prices and steady production levels have fueled the economic growth in the region. Energy sector continues to dominate the GCC countries' revenues despite the rigorous diversification efforts made by these economies to develop the non-oil sectors and reduce the dependence on oil. In order to continue to benefit from the current high oil prices, GCC countries are now focusing on expanding their oil production and refineries by allowing foreign companies to invest in the sector. The expertise and technical know-how brought by international players will enhance the productive capacities. OPEC reference basket prices are still hovering above the US\$80/b mark and are not expected to come down significantly in the near future, implying another excellent year ahead for GCC economies.

- **World oil demand in 2007 is estimated to grow by 1.2mb/d or 1.4% to average 85.7mb/d from 84.5mb/d reported in 2006.** North America continued to be the lead oil consumer in the world. On a y-o-y basis, China, India and the Middle East are expected to show the strongest oil demand growth in 2007.
- **World oil demand is forecast to grow by 1.3mb/d in 2008 to average 87.1mb/d up by 1.5% from the expected 85.7mb/d in 2007.** Transport and industrial fuel sectors will drive most of the world oil demand in 2008. China's oil demand is expected to grow by 5.3% in 2008 to reach 8.0 mb/d from the expected 7.6mb/d in 2007. Middle East and Other Asia are expected to contribute 0.42mb/d or 32% to next year's world oil demand growth.
- **OPEC continued to produce at near full capacity in all four quarters of 2007 to match growth in demand.** The average production for all four quarters remained close to 30mb/d or above. Non-OPEC supply was 53.9mb/d at the end of 2007, or 1.8% growth over 2006. On the other hand, average OPEC supply reported a 1.5% decline to reach 30.96mb/d at the end of 2007.
- **WTI crude oil spot price approached US\$100/b, reaching US\$99.2/b on Nov 20th, 2007 and US\$99.6/b, a new record high, on Jan 2nd, 2008.** Also, Brent had hit its highest price of US\$99.1/b on Jan 3rd, 2008 and then gradually declined to US\$91.5/b on Jan 15th, 2008. Recent high prices and large price swings mirror the current tight and volatile world crude oil market.
- **Motivated by soaring oil prices and continued increase in demand, all Gulf countries are heavily investing in upstream and downstream expansion projects.** Currently the GCC is following the international industry trends of increasing refining capacity and establishing integrated petrochemical complexes. GCC countries are investing around US\$500bn in active and planned projects in the oil, gas and petrochemical sectors for the period 2007-2012.



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Oil Sector Overview

Oil Demand

According to OPEC, world oil demand in 2007 is estimated to grow by 1.2mb/d or 1.4% to average 85.7mb/d from 84.5mb/d reported in 2006. North America continued to be the lead oil consumer in the world. However, the mild winter start in the U.S. combined with high transport fuel prices are expected to limit the demand in 4Q07.

International passenger traffic increased by 7.3% in 9M-07, which led to a healthy jet fuel demand, especially in developed countries. According to OPEC, Mexican and Indian jet fuel demand increased sharply this summer by 14% in 9M-07.

On a y-o-y basis, China, India and the Middle East are expected to show the strongest oil demand growth in 2007. China has recently announced an increase in retail petroleum product prices, yet OPEC doesn't expect this to considerably impact the country's oil demand growth.

The Organization for Economic Cooperation and Development (OECD) countries' oil consumption declined in 2007. High energy taxes have slowed the transportation sector's fuel consumption in Western Europe in 2007. OECD Europe's oil demand is expected to average 15.4 mb/d in 2007, down by 1.4% from 15.6 mb/d in 2006.

World oil demand is forecast to grow by 1.3 mb/d in 2008 to average 87.1 mb/d up by 1.5% from the expected 85.7 mb/d in 2007. Transport and industrial fuel sectors will drive most of the world oil demand in 2008.

China's oil demand is expected to grow by 5.3% in 2008 to reach 8.0 mb/d from the expected 7.6 mb/d in 2007. Middle East and Other Asia are expected to contribute 0.42 mb/d or 32% to next year's world oil demand growth.

Table 1: World Oil Demand

(mb/d)				Volume Increase (%)			Share (%)		
	2006	2007	2008E	2006	2007	2008E	2006	2007	2008E
North America	25.29	25.57	25.82	0.59	-0.82	1.11	30.62	29.92	29.81
Western Europe	15.62	15.35	15.39	-0.70	0.71	-1.73	18.62	18.48	17.90
OECD Pacific	8.40	8.32	8.27	0.70	-2.21	-0.95	10.31	9.94	9.70
Total OECD	49.32	49.23	49.47	0.22	-0.56	-0.18	59.56	58.35	57.40
Other Asia	8.83	9.02	9.17	3.71	1.85	2.15	10.41	10.45	10.52
Latin America	5.26	5.41	5.51	3.27	3.95	2.85	6.08	6.22	6.31
Middle East	6.19	6.48	6.76	6.99	6.36	4.69	6.99	7.32	7.56
Africa	3.00	3.12	3.18	7.04	3.81	4.00	3.47	3.55	3.64
Total Developing Countries	23.28	24.04	24.62	4.91	3.74	3.26	26.95	27.54	28.03
Former Soviet Union	3.89	3.97	4.02	-0.78	1.83	2.06	4.59	4.60	4.63
Other Europe	0.91	0.94	0.96	2.33	3.41	3.30	1.06	1.08	1.01
China	7.14	7.60	8.00	0.31	9.17	6.44	7.85	8.45	8.86
Total Other Regions	11.93	12.5	12.98	0.18	6.14	4.78	13.50	14.11	14.57
Total Demand	84.53	85.77	87.07	1.45	1.50	1.47	100	100	100

Source: OPEC Monthly Oil Market Reports

OPEC production for 2007....

OPEC continued to produce at near full capacity in all four quarters of 2007 to match growth in demand. The average production for all four quarters remained close to 30mb/d or above. For the months of Oct-Dec 2007, it touched record highs of 31.58mb/d, 31.45mb/d and 31.99mb/d respectively. On Q-o-Q basis, OPEC production declined for the first three quarters of 2007 vis-à-vis average production for 2006. The decline could be traced back to production from Saudi Arabia due to its sheer contribution in OPEC production. Saudi Arabia contributes almost 30% of the OPEC's total crude oil production. However there has been a decline of 6.2% in its production in Q1-2007 which remained at almost that level for the next two quarters as well. Moreover, disrupted oil supplies persisting in Nigeria dragged production down by 3.7% and 4.7% respectively for the first two quarters.

Table 2: OPEC's Crude Oil Production

(mb/d)	2006	2007	Change	1Q07	2Q07	3Q07	4Q07	Change
Algeria	1.37	1.36	(0.00)	1.34	1.35	1.37	1.39	0.02
Angola	1.39	1.66	0.28	1.55	1.63	1.68	1.78	0.10
Eucodar	0.54	0.51	(0.03)	0.50	0.51	0.50	0.51	0.01
Indonesia	0.90	0.84	(0.05)	0.86	0.84	0.84	0.84	0.01
Iran	3.84	3.84	0.00	3.79	3.84	3.86	3.89	0.03
Iraq	1.93	2.08	0.15	1.89	2.02	2.12	2.31	0.19
Kuwait	2.52	2.47	(0.05)	2.45	2.43	2.47	2.52	0.06
Libya	1.70	1.71	0.01	1.69	1.70	1.72	1.74	0.02
Nigeria	2.24	2.13	(0.11)	2.15	2.05	2.16	2.16	0.01
Qatar	0.82	0.81	(0.01)	0.79	0.79	0.82	0.83	0.02
Saudi Arabia	9.11	8.65	(0.46)	8.57	8.54	8.59	8.91	0.32
UAE	2.54	2.50	(0.04)	2.49	2.52	2.57	2.42	(0.15)
Venezuela	2.54	2.39	(0.15)	2.41	2.39	2.38	2.39	0.01
Total OPEC	31.43	30.96	(0.47)	30.47	30.61	31.05	31.70	0.64

Source: OPEC Monthly Oil Market Reports

Entering Q4-2007, production increased marginally by 2.1% Q-o-Q to reach 31.70mb/d. Production increases within OPEC in Q4-2007 was led by Iraq, Angola and Saudi Arabia. Production from Iraq picked by 8.9% during Q4-2007 reaching 2.31mb/d. Production from Angola increased by 5.6% reaching 1.78mb/d and of Saudi Arabia by 3.7% to reach 8.91mb/d.

Non-OPEC countries lead supply increase in 2007....

Latest 2007 data from OPEC point towards an increasing non-OPEC supply as compared with a declining trend for OPEC supply. Non-OPEC supply was 53.9mb/d at the end of 2007, or 1.8% growth over 2006. On the other hand, average OPEC supply reported a 1.5% decline to stand at 30.96mb/d at the end of 2007.

Table 3: World Crude Oil Demand Supply Balance

(mb/d)	2004	2005	2006	2007	2008E
World Oil Demand	82.08	83.30	84.53	85.77	87.10
Non-OPEC Supply	53.90	53.00	52.96	53.90	55.60
Implied Call on OPEC	28.18	30.30	31.57	31.80	31.50
OPEC Oil Production	29.00	29.90	31.43	30.96	NA

Source: OPEC Monthly Oil Market Reports

*Including OPEC NGLs & Non-Conventional oils

Non-OPEC supply was on the increasing trend for the last period matching the increased demand. Similar OPEC supply was on the increasing trend despite the latest trough of 2007. Going forward, non-OPEC supply is estimated to increase even more for 2008. It is estimated to reach a new record of 55.6mb/d, or 3.2% growth over 2007. This increase is estimated to surpass the estimated increase in total world demand of 1.5%. Finally, the implied call on OPEC is estimated to decline marginally by 0.9% reaching 31.5mb/d.

Oil Prices

Crude oil price have been on an increasing trajectory ever since 2002. Prices as measured by OPEC reference basket increased at a CAGR of 23.1% during the period. Average annual price increased from US\$24.36/b in 2002 to record US\$61.1/b on average for 2006 and further to US\$69.10/b for 2007. Prices almost tripled in the last 5 years growing at a CAGR of 23% owing to the continued strong demand emanating from emerging economies, especially China.

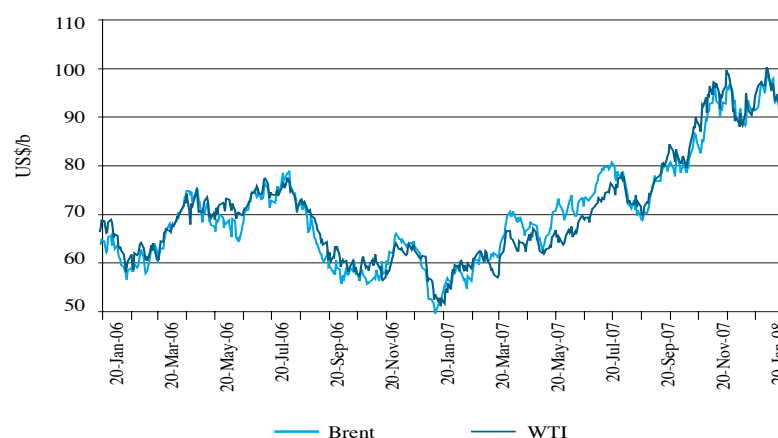
Table 4: Trends in Crude Prices

US\$/barrel	2002	2003	2004	2005	2006	2007	06/07 Change
OPEC Reference Basket	24.36	28.10	36.05	50.64	61.08	69.10	8.02
Differential - Brent/Dubai	1.20	2.04	4.58	5.08	3.62	4.17	0.55
Differential - WTI/Brent	1.10	2.28	3.20	2.08	0.88	-0.26	-1.14

Source: OPEC Monthly Oil Market Reports

The year 2007 has been characterized by the departure of the price from the normal seasonal trend in the second half of the year. Between the end of Aug-2007 and mid-Nov-2007, prices jumped by almost US\$25.0/b and the OPEC reference basket reached a record high of \$91.91/b on 21 Nov-2007. In addition to geopolitics, the main factors behind the upward trend were the ongoing US dollar weakness which encouraged inflows of new money into the crude futures market, persistent refinery outages and weather-related supply disruptions.

Chart 1: Trends in Crude Prices



Source: Reuters, Global Research

As per crude Brent, prices breached US\$79/b for the first time in mid 2007 following civil unrests in Nigeria and a pipeline disruption in the North Sea.

In Sep 2007, oil prices rose to an all-time high of US\$80/b. Constrained supplies and soaring prices fueled the concerns of those who believe that peak oil is either imminent, or may have already passed, because of the implication that oil supplies will not increase significantly beyond that point, and in the longer term a decline will occur. Also the weakness of the dollar against other currencies contributed to the upward trend in oil prices.

At the end of Oct 2007, oil prices started rising beyond US\$90/b due to a combination of ongoing tensions in eastern Turkey and the weakness of the US dollar. Prices increased throughout late Oct. and early Nov. On Dec 28, 2007 Brent crude oil reached another record, closing at US\$96.6/b. On Nov 20, 2007, WTI price rose to a new high of US\$99.2/b, grabbing the market's attention to whether or not oil prices will break the US\$100/b.

Industry Trends- Biofuels

“**Biofuels**” is a broad term used to define any source of energy obtained from burning organic matters. In recent years, biofuels has come to mean ethanol, diesel or other liquid fuels made from processing plant material or waste oil made from crops including sugarcane, corn and rapeseed.

Today, as the world is going green, biofuels have been promoted as a green solution compared to conventional transport fuels. Although burning the fuels releases carbon dioxide, but growing the plants absorbs comparable amount of gas from the atmosphere.

First generation biofuels

When choosing organic feedstock for biofuels, plants that have high energy and can be grown regularly in large quantities were used. Today’s most widespread biofuel, ethanol, is commonly made from sugar cane, corn or wheat. These starchy or sugary plants are converted into ethanol via basic fermentation. The second most widespread biofuel, Fatty Acid Methyl Esters (FAME), is often made from rapeseed, palm oil or soya bean.

Usage

In theory, ethanol and FAME can be used in pure form for transport fuel. However, the reality is that most of today’s engines are not designed to use them. Also, they have some shortcomings as a fuel (e.g. ethanol absorbs water, which can cause engine corrosion, and FAME has a tendency to freeze in harsh conditions). However, ethanol can be blended at low concentrations with gasoline and FAME with diesel – and standard engines can accommodate a blend of 5%-10%.

Brazil leads the world in production and use, making about 16 bn liters per year of ethanol from its sugarcane industry. Swedish auto owners received various benefits for using biofuel operated vehicles. The European Union has a target for 2015 that 10% of transport fuels should come from biological sources. The British government’s Renewable Transport Fuel Obligation requires 5% of the fuel sold at the pump by 2010 to be biofuel. In the US, the Renewable Fuels Standard aims to double the use of biofuels in transport by 2012.

The downside

Production of sugar cane, corn, wheat, palm oil and soya bean can hardly meet the level of global demand for transport fuels at a time when demand for food is growing rapidly. Increased demand on agricultural products has resulted in pushing up the prices.

The mixed picture regarding the climate benefit of biofuels leads some observers to say that the priority should be reducing energy use. Furthermore, technologies limit production, because only certain parts of specific plants can be used and it is economically challenging to switch the production to biofuels.

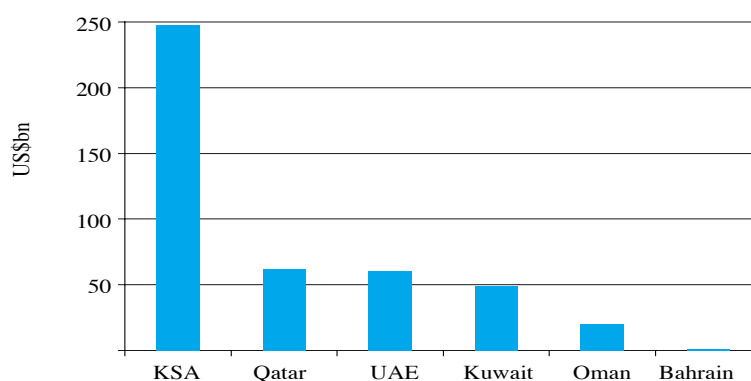
Second generation or next generation biofuels

Another form of biofuels uses non-food organic raw materials, which can be provided in high volumes and avoid competition for agricultural land. These next generation biofuels are expensive to produce and it may be difficult to convince people to pay for their key environmental benefit. However, they show real promise as an alternative to conventional biofuels. Looking forward, we believe that the potential for the biofuel business exists. However, the limitations and issues associated with biofuels will constraint its growth and the world will continue relying on hydrocarbon fuels in the short term.

GCC Oil Sector

In spite of their effort to diversify their economies, GCC members still rely on the revenues earned from the energy sector. High oil prices resulted in economic boom for economies like Kuwait, Saudi Arabia and UAE. Motivated by soaring oil prices and continued increase in demand, all Gulf countries are heavily investing in upstream and downstream expansion projects. Currently the GCC is following the international industry trends of increasing refining capacity and establishing integrated petrochemical complexes.

Chart 2: Investments in Oil, Gas and Petrochemical Projects



Source: Aramco

According to Aramco, GCC countries are investing around US\$500bn in active and planned projects in the oil, gas and petrochemical sectors for the period 2007-2012.

Table 5: GCC Key Energy Indicators for 2006

Country	KSA	UAE	Kuwait	Qatar	Oman	Bahrain
Proven Reserves (bb)	264.20	97.80	101.50	15.20	5.60	0.13
Total Oil Production (mb/d)	9.10	2.63	2.50	0.85	0.74	0.48
Crude Oil Production (mb/d)	10.70	2.90	2.67	1.14	0.73	0.35
Refinery Capacity (mb/d)	2.10	0.78	0.89	0.20	0.20	0.25

Source: EIA, OPEC

The combination of an increased oil demand and prices have resulted in high liquidity in the GCC economies. And the countries are currently focusing on increasing spare production and refining. In addition GCC countries are considering privatizing some of the hydrocarbon projects as well as allowing foreign companies in the region.

We believe that expanding oil production requires opening up the energy sector to foreign companies, to benefit from their technical expertise and advanced tools in the field to enhance the exploration processes in both upstream and downstream projects.

Saudi Arabia

Reserves

Saudi Arabia has the largest proven oil reserves in the world (estimated at 264.2bb including 2.5bb in the Saudi-Kuwaiti Neutral Zone) and accounts for around one-fifth of proven conventional oil reserves.

The Kingdom's reserves are located in eight main fields including the giant Ghawar, world's largest oilfield, and Safanyia, world's largest offshore oilfield.

Table 6: Saudi Arabia's Reserves

(mb)	2002	2003	2004	2005	2006
Reserves	262,790	262,730	264,310	264,211	264,251
No. of discovered oil fields	77	78	79	82	82

Source: www.mopm.gov.sa

Production Capacity

Saudi Arabia maintains its position as a world leader in terms of oil production capacity, estimated at around 10.5-11 mb/d. In order to maintain their position and protect their most significant source of economic growth, Saudi Arabia is undergoing several projects aiming at increasing its oil production capacity to 12.5 b/d, by 2009.

According to the EIA, one challenge for the Saudis in achieving their strategic vision to increase production capacity is that their existing fields sustain an average annual decline rate of 6-8%, meaning that the country requires an additional capacity of 0.7 mb/d in order to compensate for natural decline.

Aramco, state-owned national oil company of Saudi Arabia, estimates that the average total depletion for Saudi oilfields is 29%, with Abqaiq, the oldest, 74% depleted, the giant Ghawar field having produced 48% of its proven reserves and the younger Shaybah just 5% depleted.

Production and Export

Saudi Arabia produces a range of crude oils, from heavy to extra light. Of Saudi Arabia's total oil production capacity, about 65-70% is considered light gravity, with the rest either medium or heavy.

According to OPEC Saudi Arabia crude oil production averaged 8.65mb/d. In 2006, Saudi's total oil production averaged at 10.7 mb/d while crude oil production averaged at 9.1 mb/d for the same year.

Saudi Arabia is heavily dependent on oil and petroleum related industries. In 2006, oil export revenues accounted for around 90.2% of total Saudi export earnings, 89.7% of state revenues, and 54.1% of the country's GDP.

Saudi Arabia is a key oil supplier to the United States, Europe and Asia. Asia and the Far East remained the main consumer of Saudi crude oil and accounted for 56% of total oil exports in 2006.

Table 7: Saudi Arabia's Crude Oil Exports by Region

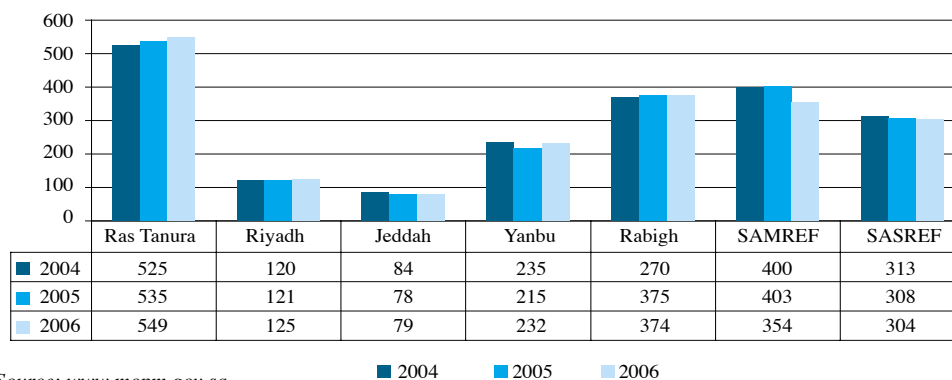
(mb)	2002	2003	2004	2005	2006
North America	488.8	596.9	558.4	530.9	534.5
South America	22.1	23.8	22.3	23.8	23.8
Western Europe	343.1	434.9	459.6	440.7	374.8
Middle East	49.5	72.7	95.5	112.9	109.5
Africa	68.4	96.3	88.7	86	79
Asia & Far East	942.9	1,149.9	1,251.1	1,435.3	1,440.6
Oceania	14.2	6.3	11.3	1.6	3.5
Total	1,928.9	2,380.9	2,486.8	2,631.2	2,565.7

Source: SAMA

Refining

Saudi Arabia has a combined refining capacity of around 2.017 mb/d in 2006 which increased from 1.79 mb/d recorded in 2001. Five refineries are owned and operated by Aramco and two are joint ventured between Aramco and major multi-national oil companies. Additionally, Aramco Gulf Operating Company (AGOC) owns and operates a refinery located in the Saudi-Kuwaiti Neutral Zone.

Chart 3: Refineries Production Capacity (mb/d)



Source: www.mopm.gov.sa

Expansion Projects

According to Aramco, Saudi Arabia is investing US\$561bn in active and planned projects during the period 2007-2012, out of which US\$248bn are allocated to oil, gas and petrochemical projects, accounting for 44% of the total.

Despite recent OPEC cuts, the Kingdom plans to boost its production capacity to reach 12.5 mb/d by 2009. Saudi Arabia's oil minister revealed plans to keep 2 mb/d of spare capacity in addition to its 2009 capacity target to meet world oil demand and cover unexpected shortfalls in supply.

The kingdom's downstream capacity is scheduled to rise by 86% to 3.9 mb/d by 2012, from 2.0 mb/d this year, on the back of seven refinery projects. These include the 0.4 mb/d East Coast refinery, Petro-Rabigh and two joint venture export refineries at Jubail and Yanbu.

Table 8: Selected Upstream and Downstream Expansion Projects in Saudi Arabia

Aramco Upstream Petroleum Projects			
Field	Increase (thousand b/d)	Due Date	Estimated Cost (US\$bn)
Khrais	1,200	2009	11
Khursaniyah	500	2007	4
Manifa	900	2011	7 to 9
Nuayyim	100	2008	0.35
Shaybah I	250	2008	3
Aramco Downstream Expansion Projects			
Petro-Rabigh	400	2008	9.9
Yanbu Export Refinery	400	2010	5
Jubail Export Refinery	400	2011	6
Jezan Refinery	400	2011	12 to 15
Ras Tanura Refinery/Petro Complex	50	2012	NA
East Coast Refinery	400	2012	8
Yanbu Integrated Refinery	130	2012	NA

Source: EIA, Aramco, OGN

Petro-Rabigh going public

In an initiative to privatize the hydrocarbon sector and offer opportunities to the people of Saudi Arabia to directly participate in the Kingdom's economic growth and diversification, the Saudi Capital Market Authority (CMA) has approved Petro-Rabigh's application for an initial public offering (IPO). Petro-Rabigh, a joint venture between Saudi Aramco and Japan's Sumitomo Chemical, announced a landmark offering of 219mn shares, representing 25% of the company's share capital. The IPO was offered in Jan 2008, about 5.4mn Saudi nationals have subscribed to the share offering valued at SAR4.6bn.

Upon completion Petro-Rabigh will be one the world's largest fully integrated oil refinery and petrochemical production facility to be built simultaneously. The plant will merge a low-cost, long-term and stable feedstock supply from Aramco with the petrochemical marketing and technical expertise of Sumitomo Chemical.

Private ownership of Jizan refinery

By the end of Q1-2008, the Saudi Petroleum Ministry is expected to award the license to build a new refinery at Jizan, a remote Red Sea city in Saudi Arabia's southwest, to an undetermined private oil company. The appointed company will bear the construction costs which are essentially estimated to be between US\$12-15bn. Upon completion Jizan would be the Kingdom's first fully privately owned refinery.

Investments in refineries have been following an upward trend in the past few years as demand for refined products that meet increasing tight environmental specifications is rising, both regionally and internationally.

United Arab Emirates

Reserves

The UAE contains proven crude oil reserves of around 97.8 bb, accounting for 8.1% of the world's total reserves. Abu Dhabi leads the other emirates holding 92.2 bb or about 94.2% of total emirates reserves, followed by Dubai with 4 bb , Sharjah with 1.5 bb and Ras Al Khaima with 0.1 bb.

Around 66.0bb of proven crude oil is contained in the Zakum oil field which is the largest in the country and the third largest in the Middle East. The UAE's crude price is relatively expensive compared to other Middle Eastern benchmarks due to its sweet and light composite.

Production Capacity

The UAE along with other GCC nations have undertaken significant expansion projects in order to increase production capacity and maintain market stability. The country's total oil production is around 2.9 mb/d in 2006, However, in April 2007 the UAE's Minister of Energy announced plans to increase production to 3.5 mb/d by 2009. According to the EIA, UAE's government hopes that increased production capacity will make the UAE a "swing producer", strengthening its role and influence in the region.

Production and Export

Oil and gas revenues have been the mainstay of UAE's economy accounting for one-third of the country's GDP. Abu Dhabi is the heart of UAE's hydrocarbon and industrial power. Abu Dhabi National Oil Company (ADNOC) is the largest state owned company, it operates 17 subsidiaries and has the right to take up to 60% share in all new major oil projects.

Table 9: UAE's Oil Production

(mb/d)	2003	2004	2005	2006	2007
Total Oil Production	2.66	2.77	2.84	2.95	2.81
Crude Oil Production	2.35	2.48	2.54	2.64	2.50

Source: EIA,OPEC

The UAE is the 8th largest oil producer in the world and third largest in the Middle East. According to OPEC the UAE's crude oil production averaged 2.5mb/d in 2007. In 2006, UAE's total oil production averaged at 2.9 mb/d while crude oil production averaged at 2.6 mb/d for the same year.

UAE's total net petroleum exports for 2006 averaged at 2.5 mb/d up by 4.1% from the 2.4 mb/d reported in the previous year. In Mar 2007, Japan imported 1.5 mb/d accounting for 58.5% of UAE's total net oil exports.

Refining

The UAE has a refining capacity of 781.3 thousand b/d spread over five facilities. The three main refineries are Ruwais, Umm Al-Nar and Jebel Ali. The largest two are Ruwais with a capacity of 0.35 mb/d and Umm Al-Nar with a capacity of 0.15 mb/d, both owned and operated by ADNOC.

Table 10: UAE's Refining Capacity

(Thousand b/d)	2002	2003	2004	2005	2006
Refinery Capacity	514.80	514.30	514.30	514.30	781.30

Source: EIA

Expansion Projects

Oil and gas production remain hugely important to UAE's economy, although the country is looking to diversify the country's income. In fact, that very diversification and infrastructure re building are financed by revenues generated from oil and gas production and export. Accordingly, the country is heavily investing in developing both upstream and downstream projects in the hydrocarbon sector.

Table 11: Selected Upstream and Downstream Expansion Projects in the UAE

UAE Upstream Petroleum Projects			
Field	Increase (thousand b/d)	Due Date	Estimated Cost (US\$bn)
Upper Zakum (offshore)	200	2009	1.5
Sahil, Asab and Shah (SAS-Onshore)	60	2010	1.4
ADCO Phase 1 Development Program	400	2010	1.5
Nasr field development	100	2010	2
UAE Downstream Expansion Projects			
Fujairah Refinery	300-500	2010	5
Ruwais Refinery Expansion	400	2011	3.5

Source: EIA, Zawya, OGN

Abu Dhabi Energy Zone

In an attempt to enhance industrial growth, the UAE government has launched several free zones, each fully dedicated to a particular sector. Industries set up in the zones enjoy the freedom of 100% ownership and tax exemptions, in addition to other incentives.

Abu Dhabi's Higher Corporation for Specialized Economic Zones, or ZonesCorp, will launch a US\$1bn tax-free zone for the energy industry by May 08. The free zone will house offshore firms in such fields as engineering, project management, consulting and finance.

Petrogas launches its first satellite channel

Petrogas, the first satellite channel specialized in oil and natural gas, was launched in the UAE in Nov 2007. Petrogas is the first visual media source that specializes in broadcasting oil and gas news, documentaries and analysis in both Arabic and English. This step will help bridge the information gap between foreign and Middle Eastern energy specialists and investors.

Kuwait

Reserves

Kuwait is ranked number four in the world in term of oil reserves, containing an estimated proven oil reserves of 101.5 bb, which constitutes around 8.5% of world total oil reserves. The Saudi-Kuwaiti Neutral Zone holds an additional 5 bb of reserves, half of which belongs to Kuwait, bringing Kuwait's total oil reserves to 104 bb . Most of Kuwait's reserves are located in the 70 bb Burgan area, which consists of Burgan, Magwa and Ahmadi.

Table 12: Kuwait's Reserves

(bb)	2002	2003	2004	2005	2006
Reserves	96.5	99.0	101.5	101.5	101.5

Source: OPEC

Production and Export

According to OPEC Kuwait's crude oil production averaged 2.47mb/d in 2007. Kuwait's total oil production averaged at 2.7mb/d at the end of 2006 while crude oil production averaged at 2.5mb/d for the same year.

Aside from the 1.6 mb/d Greater Burgan field, Kuwait's other main producing fields include the northern fields of Raudhatain (380,000 b/d of production capacity) and Sabriya (95,000 b/d of production capacity); the southwestern fields of Minagish and Umm Qudayr (190,000 b/d); Abdali (33,000 b/d), and Ratqa (45,000 b/d) in the north; and Kuwait's share of the Saudi-Kuwaiti Neutral Zone (270,000 b/d). Overall, around two-thirds of Kuwaiti oil production comes from the southeast of the country, with about one-fifth from northern Kuwait and about one-tenth from the west.

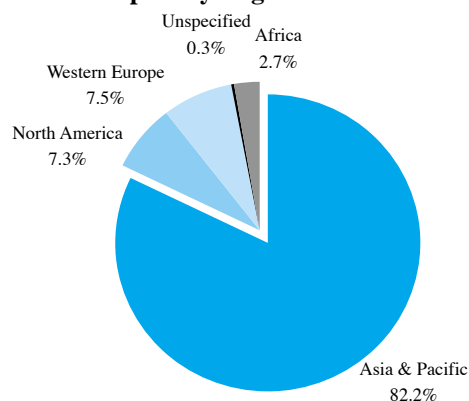
Table 13: Kuwait's Oil Production

(mb/d)	2002	2003	2004	2005	2006	2007
Total Oil Production	2.03	2.27	2.52	2.67	2.68	2.61
Crude Oil Production	1.89	2.14	2.38	2.53	2.54	2.47

Source: EIA,OPEC

Kuwait exports a typical medium Mideast crude. Around 90% of the country's crude oil is sold via term contracts, with prices linked to Saudi Arabian medium crude for western buyers and a monthly average of Dubai and Oman for Asian buyers.

Kuwait is a major exporter to Asia-Pacific countries such as Japan, India, South Korea, Singapore, Taiwan and Thailand. Kuwait's net petroleum exports for 2006 averaged 2.2mb/d. According to OPEC, Kuwait's petroleum exports were valued at US\$54.7bn in 2006.

Chart 4: Kuwait's Crude Oil Export by Region - 2006

Source: OPEC

Refining

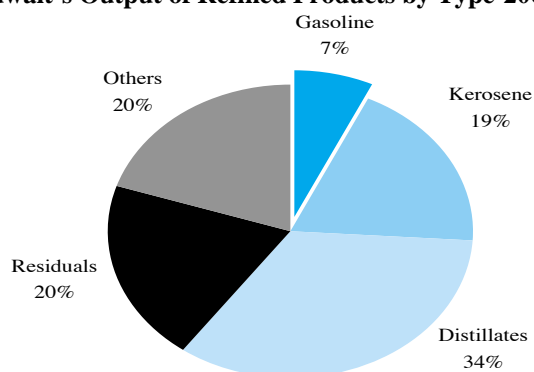
Currently, Kuwait has three refineries with a combined capacity of around 0.93 mb/d. The country's largest refinery is Mina al-Ahmadi, with a capacity of 0.46 mb/d. The other refineries are Mina Abdullah, with a capacity of 0.27 mb/d, and al-Shaiba-1, with a capacity of 0.2 mb/d.

Table 14: Kuwait's Refining Capacity

Thousand b/d	2002	2003	2004	2005	2006
Refinery Capacity	889.0	831.0	936.0	936.0	932.0

Source: OPEC

Increasing demand for refined products combined with higher profit margins has kept Kuwait's refining sector operating close to its full capacity. In 2006, Kuwait's output of refined products averaged at 886.7 thousand b/d.

Chart 5: Kuwait's Output of Refined Products by Type-2006

Source: OPEC

Expansion Projects

Kuwait Oil Company (KOC) had announced plans to increase crude oil production capacity to 3.0 mb/d by 2010, 3.5 mb/d by 2015 and 4.0 mb/d by 2020.

Table 15: Selected Upstream and Downstream Expansion Projects in Kuwait

Kuwait Upstream Petroleum Projects			
Project	Increase (thousand b/d)	Due Date	Estimated Cost (US\$bn)
Project Kuwait	300	2012	9.0
Early Production Facilities (EPF - Phase 1)	50	2010	0.24
Early Production Facilities (EPF - Phase 2)	120	NA	0.4
Lower Fars Pilot Project (LFPP)	0.2-0.5	2010	1.0
Kuwait Downstream Expansion Projects			
Al-Zour Refinery	615	2012	14.0

Source : Zawya, EIA, OGN

Contract award anticipation ...

The EPF-Phase 2 is part of KOC's plans to increase production to 4.0 mb/d by 2020. Phase-2 will cover the production and processing of around 120 thousand b/d of wet sour crude and 80 mcf/d of LPG from Ratqa and Abdali fields. Phase-2 will be located close to the EPF-Phase 1.

In Sep 2007, bidders submitted proposals. Process Unlimited International of California has quoted KD31.7mn, Al Khorayef Commercial Company of Saudi Arabia has quoted KD43.0mn, Kharafi National has quoted KD89.0mn and Consolidated Contractors International Company has quoted KD125.0mn. The awarded developer will own and operate the facility for a period of 5 years.

A shift to heavy oil

Although heavy oil is less desirable, because of its high viscosity and lower prices, Kuwait is currently keen on shifting to producing more heavy oil as it is a key contributor to the targeted 4.0mb/d production capacity.

In June 2007, KOC launched Lower Fars Pilot project (LFPP) to produce heavy oil with sands. The project will evaluate the removal of sand from heavy oil in the northern Ratqa field. The project will be carried out on a two-year design, installation and operation rental basis. The successful contractor will drill and operate five wells, each with a heavy oil sand production capacity of 200 to 500 b/d.

In Oct 2007, KOC signed a preliminary agreement with ExxonMobil to assist in the exploration of heavy oil in the Lower Fars at the Ratqa field in northern Kuwait, aiming to achieve 50 thousand b/d by 2011, 250 thousand b/d by 2015 and 900 thousand b/d by 2020. Negotiations between the two companies will be ongoing with the final agreement expected to be signed by July 2008.

Qatar

Reserves

Although Qatar has an abundant quantity of natural gas reserves, around 15% of world's total natural gas reserves, it is less fortunate with oil reserves. Qatar contains an estimated proven oil reserves of 15.2 bb making it number 4 in terms of oil reserves among GCC countries.

The majority of Qatar's oil reserves are contained in the onshore Dukhan field, which is the country's largest producing oil field. Qatar also has six offshore fields: Id al-Shargi North Dome, Bul Hanine, Maydan Mahzam, al-Shaheen, al-Rayyan and al-Khalij.

Production and Export

According to OPEC Qatar's crude oil production averaged 0.81mb/d in 2007. In 2006, Qatar produced 1.1 mb/d of total oil liquids, of which 0.85 mb/d was crude oil. Qatar's crude production and oil reserves were the lowest among OPEC member countries.

Table 16: Qatar's Oil Production

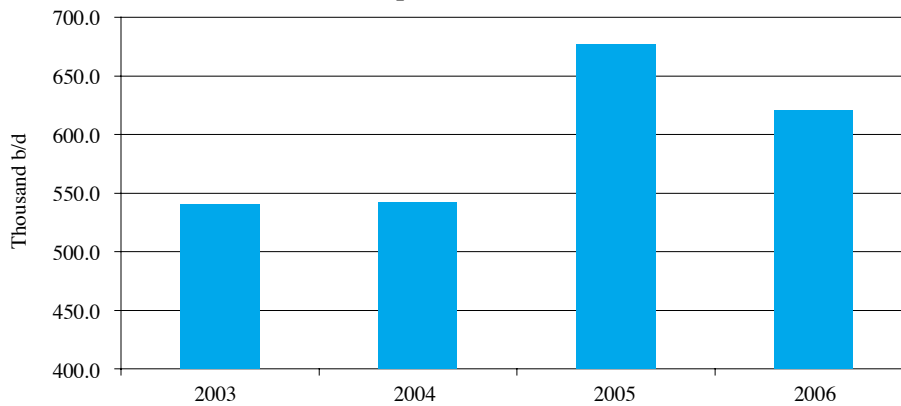
(mb/d)	2002	2003	2004	2005	2006
Total Oil Production	0.84	0.93	1.04	1.11	1.14
Crude Oil Production	0.68	0.72	0.78	0.84	0.85

Source: EIA

State owned Qatar Petroleum (QP) controls all aspects of the country's oil sector, including exploration, production, refining, transport and storage. QP holds the rights to all petroleum resources in Qatar. However, QP often allows foreign participation in production activities in order to attract foreign investments and benefit from international expertise.

In 2006, revenues from the oil and gas sectors contributed to 61.9% of the country's GDP. According to OPEC, Qatar's income from petroleum exports amounted to US\$24.3mn in 2006. Qatar mainly exports oil to the U.S and Asia-Pacific, mainly Japan.

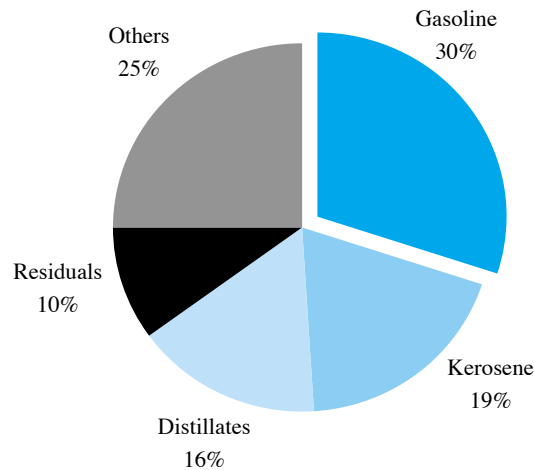
There are three main export terminals in Qatar: Umm Said, Halul Island and Ras Lafftan. Ras Lafftan is the newest of the three ports and is mainly used for Liquefied Natural Gas (LNG) exports.

Chart 6: Qatar's Total Crude Oil Exports

Source: OPEC

Refining

Qatar has 0.2 mb/d of refining capacity at QP's Umm Said plant. QP is also building another refinery, which will have the capacity to run 0.15 mb/d of condensate.

Chart 7: Qatar's Output Of Refined Products By Type-2006

Source: OPEC

Expansion Projects

Along with other GCC members, Qatar is undergoing several upstream and downstream expansion projects in hopes to capitalize on economic growth and rising oil demand in Asia as well as soaring oil prices.

QP plans to invest a further US\$80-100bn in upstream and downstream sectors over the medium-term, with much of this derived from partnership with global energy giants.

Table 17: Selected Upstream and Downstream Expansion Projects in Qatar

Qatar Upstream Expansion Projects			
Project	Increase (thousand b/d)	Due Date	Estimated Cost (US\$bn)
Al Shaheen Oilfield Development	285	2009	5.0
Qatar Downstream Expansion Projects			
Al Shaheen Refinery	250	2011	0.4
Ras Laffan Condensate Refinery	146	2008	0.67
Ras Laffan Condensate Refinery Expansion	146	2011	1.0

Source : Zawya, EIA, OGN

Al Shaheen oilfield development

Al-Shaheen Offshore Development, a.k.a. Block 5 Field Development Plan, is operated by Maersk under a production sharing deal with QP. The US\$5.0bn expansion of the field is expected to boost its production to 525.0 thousand b/d by 2009 from the current 240.0 thousand b/d. The project is being carried out in several stages, which are at different Engineering Procurement Installation and Commissioning (EPIC) stages of implementation.

In addition, Maersk is aiming to obtain an additional offshore storage capacity to store the oil pumped from Al-Shaheen field.

QP starts its marketing arm

Tasweeq is the latest subsidiary formed by QP, its objective is to handle all the export marketing of QP's oil and gas products. According to the company's CEO, Tasweeq will be fully owned by the Qatari government, but operate independently from QP, with the law stipulating that it will be the only entity selling LPG, condensate, refined products and sulfur on Qatar's behalf from the two industrial centers of Ras Laffan and Mesaieed. In the future QP may out-source the remaining marketing activities to Tasweeq such as sales of crude. QP's marketing arm is expected to start operating by the beginning of 2008.

Oman

Reserves

According to OPEC, proven oil reserves in Oman stood at 5.6 bb at the end of 2006. Oman's Major oilfields are: Yibal, Qarn Alam, Athel-Marmul, Bahja-Rima-Jalud, Nimr, Karim Cluster, Harweel Cluster, Mukhaizna and Safah.

Petroleum Development Oman (PDO) manages more than 90% of the country's reserves and 85% of its production.

Production and Export

Oman's oil fields are generally smaller, more widely scattered, less productive, and more costly per barrel than in other Persian Gulf countries. The average well in Oman produces only around 400 b/d, about one-tenth the volume per well of those in neighboring countries. To compensate, Oman uses a variety of enhanced oil recovery (EOR) techniques. While these raise production levels, they increase the cost.

Oman's oil production has been declining since 2002. In 2006, Oman's total oil production averaged 743,000 b/d while crude oil production averaged 738,000 b/d for the same year. The country's crude oil production 8-month average for 2007 is 707,000 b/d.

Table 18: Oman's Oil Production

(thousand b/d)	2002	2003	2004	2005	2006
Total Oil Production	899.50	823.00	754.30	780.10	743.50
Crude Oil Production	896.70	819.00	751.00	774.30	737.70

Source: EIA

Although Oman is not an OPEC member, it is a major exporter of oil. Most of Oman's crude oil exports are directed to the East, with China, India, Japan, South Korea and Thailand as the largest importers.

Refining

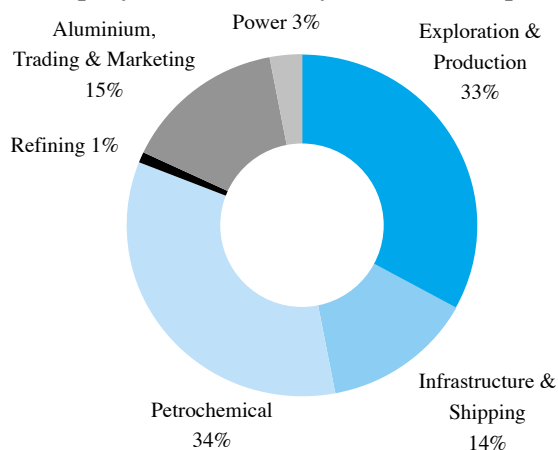
In 2007, the state owned refinery, Oman Refinery (ORC), has expanded its refining capacity by 25% to 106,000 b/d from 85,000 b/d. Additionally, Sohar refinery (SOR) has an output capacity of 116,400 b/d. Mixed feedstock of Oman crude oil is delivered to SOR by ORC via a 260km-long pipeline from Mina Al-Fahal facility in Muscat. In Sep. 2007, a royal decree has been issued to merge the two refineries in one entity called Oman Refineries and Petrochemical Co. (ORPC). The new company is expected to be formally established in 2008.

Expansion Projects

To help offset declining output, Oman's Minister of Oil and Gas announced in April 2006 that the country plans to invest US\$10bn in upstream oil and natural gas projects during 2006-2011. Much of this effort will focus on enhanced oil recovery initiatives to improve

recovery rates at several of the country's oil fields. Oman also plans to increase exploration and production activities, although the natural gas sector will receive much of these investments.

Chart 8: Oman Oil Company's Investments by Sector as of Sep. 2007



Source: Oman Oil Company

Table 19: Selected Upstream and Downstream Expansion Projects in Oman

Oman Upstream Petroleum Projects				
Project	Increase (thousand b/d)	Due Date	Estimated Cost (US\$bn)	
Occidental Mukhaizna EOR	140	2011	2.0	
Fahud EOR	70	2010	N/A	
Harweel Cluster Development	100	2010	0.96	
Nimr Karim Oil Fields	18	2012	N/A	
Qarn Alam EOR	30	2010	1.0	
Oman Downstream Expansion Projects				
Duqm Refinery & Petrochemical Complex	200-300	2012	7.0	

Source : Zawya, EIA, OGN

Bahrain

Reserves

Bahrain's proven oil reserves stood at 125 mb at the end of 2006, all of which are located in the Awali field. Bahrain and Saudi Arabia share the 0.3 mb/d of oil production from the offshore Abu Saafa field. This figure is included in Saudi oil production figures, but half of the output is given to Bahrain. Separately, Bahrain also purchases Arab Light crude oil from Saudi Arabia via a subsea pipeline, which it refines for export at its Sitra refinery.

Production and Export

Like other GCC members, Bahrain heavily depends on oil for revenues. However, the dependence on oil is considerably lower when compared to its peers. Oil contributed 26.0% of GDP in 2006 (25.2% in 2005). Although, Bahrain has started rigorous diversification efforts to reduce the dependence on oil, the contribution of oil to GDP remains high when measured in nominal terms. The percentage contribution increased in 2006 because of high oil prices through out 2006. We believe the contribution of oil to GDP will be in the range of 25% to 27% in 2007 as oil prices touched record highs.

The Kingdom's petroleum sector is run by the state-owned Bahrain Petroleum Company (Bapco). The country produced 66.9 mb of oil in 2006 as compared to 68.1 mb of oil produced during the year 2005.

Unlike other GCC countries, Bahrain exports refined petroleum products rather than crude oil. The Kingdom has a refining capacity of 0.25 mb/d coming from the Bapco owned Sitra facility. The Sitra refinery had undergone several modernization programs, most recently Bapco has invested US\$900mn in a refinery modernization project that, among others, introduced a 0.04 mb/d low sulfur diesel unit.

Table 20: Bahrain's Oil & Gas Industry Indicators

('000 Barrels)	2003	2004	2005	2006	Q1-2007	Q2-2007	Q3-2007
Crude Oil	87,481	76,337	68,096	66,908	16,606	16,857	16,964
Bahrain Oilfield	13,720	13,647	13,348	13,085	3,136	3,217	3,156
Abu Sa'afa Oilfield	73,761	62,690	54,748	53,823	13,470	13,640	13,808
Production of Refined Oil	92,350	92,669	97,716	96,217	23,056	24,417	24,907

Source: Bahrain Government Statistics

Low sulphur diesel production project goes online....

Bapco inaugurated its low sulphur diesel production project on Dec 05, 2007 and expects to release low-sulphur diesel of 500 ppm in Q1-2008 in the Kingdom. Diesel of 5,000 ppm sulphur has already been replaced by 2,500 ppm with sulphur content likely to reduce further by Q1-2008. The total cost of the project came to be US\$725mn.

The project forms the main element of Bapco's Strategic Investment Programme and aims to reduce the high sulphur content of the Bapco diesel pool from an average of 0.7% (7,000ppm) down to 0.001% (10ppm) - ensuring continued sales in the international diesel market.

According to Bapco, the project will also increase the yield of the more valuable refinery products - bringing in incremental annual revenue of around US\$300mn and yielding a return on investment of about 30 %. This is achieved due to the project's advantages of yielding the more valuable refinery products and increased efficiency which will produce 100,000 b/d of ultra-low sulphur diesel by reducing the sulphur content from an average of 0.65% to 0.001%.

Oil Sector Outlook

Global oil markets will likely remain tight through 2008 mainly because of geopolitical reasons, huge inflows of new money in the market and more demand by China, India and other developing economies. In addition, there are concerns that strong global demand for oil could outpace supply as major oil exporting countries are rapidly developing, and are using more oil domestically, leaving less for international markets. This effect could significantly reduce the oil availability and can cause prices to rise.

The tightened market would ease by 2009 when non-OPEC production and planned additions to OPEC capacity would come online. As a result, the level of surplus production capacity is projected to grow from its current level of under 2mb/d to more than 4mb/d by the end of 2009. WTI crude oil price which touched US\$100/b during the intraday session closed at US\$99.6/b, a new record high, on 2nd Jan, 2008 and since then it has dropped to reach US\$91.9/b as of 15th Jan 2008. Also, Brent had hit its highest price level of US\$99.1/b on 3rd Jan 2008 and then gradually declined to US\$91.5/b on 15th Jan 2008. Recent high prices and large price swings mirror the current tight and volatile world crude oil market. The EIA expects the price of WTI, which averaged US\$72/b in 2007, to average US\$94/b in January 2008, US\$87/b in 2008 and US\$82/b in 2009. We reiterate that balancing the demand-supply in the energy markets is a key challenge so as to maintain prices in a reasonable range.

High oil prices prevailing in the market will provide GCC economies with huge trade and current account surpluses. As a result of these huge surpluses, GCC will continue to invest in large infrastructure projects. GCC countries are also focusing on expanding their oil production and refineries, through allowing foreign investments in the region. This step by the GCC countries is expected to improve the hydrocarbon sector and bring in new international players in the sector. The oil sector in the region has a positive outlook because of the buoyant oil price scenario, in addition to the multiplier effects of projects in the pipeline, which are likely to attract huge foreign investments. It is also believed that oil price anywhere around US\$45/b is bound to ensure adequate liquidity in the GCC countries.

High oil prices and steady production levels have fueled the economic growth of GCC economies. Higher oil prices have resulted in energy sector to dominate the GCC countries' revenues and exports although the economies are doing well to diversify their economies and develop the non-oil sectors. This can be seen from the double digit growth rates in the non-oil sectors of the GCC economies.

Going forward, we believe that the oil prices will remain high but not quite at the lofty levels that were seen in the last few months while in the short term, we believe that the oil prices would remain high during 2008. GCC countries are focusing on increasing their oil production level in order to have a sufficient spare capacity in the case of demand increase or supply disruptions by some of the oil producing countries. We believe that expanding oil production requires opening up the energy sector to foreign companies, to benefit from their technical expertise and advanced tools in the field to enhance the exploration processes in both upstream and downstream projects.

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