Saudi Business Optimism Index

1Q2013 Saudi Business Optimism Index (BOI)

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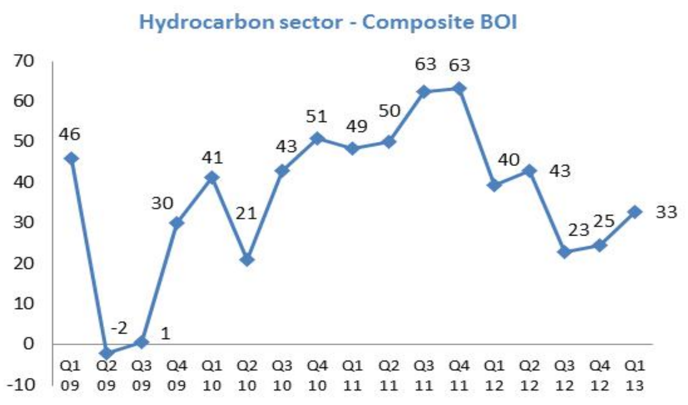
BUSINESS OPTIMISM INDEX
SAUDI ARABIA Q1 2013

Hydrocarbon sector

2013 is expected to be another year of slow global economic growth as several Euro zone countries may remain in a recession and continue to be a drag on growth. The Euro-zone's economy will post another year of decline as harsh austerity in the southern-tier countries weighs on growth in the northern region. European nations in severe sovereign debt distress have moved even deeper into recession, caught in the downward spiraling dynamics from high unemployment, weak aggregate demand compounded by fiscal austerity, high public debt burdens, and financial sector fragility. According to the European Central Bank, the region will contract by 0.3% in 2013. The US is expected to show some expansion in 2013, but growth will depend on the outcome of the fiscal policy debate as some measure of spending cuts and tax hikes will occur. On the other hand, China seems to have avoided the hard landing many had anticipated and instead the economy is expected to rebound to around 8% in 2013. Meanwhile, Japan, which has tipped back into recession, is hoping to pump life back into its economy with new rounds of stimulus now that a new government has taken over in that country.

The economic woes of the developed countries are spilling over to developing countries and economies in transition through weaker demand for their exports and heightened volatility in capital flows and commodity prices. Growth concerns in these economies also stem from the domestic slowdown in investment growth. However, oil exporters in Western Asia have posted robust growth rates, supported by expansionary fiscal policies and accommodative monetary conditions. These countries have been able to use the proceeds from booming oil prices to sustain growth in a weak global environment. According to the IMF, the GCC block grew at 7.5% in 2012, but growth is expected to slow down to 3.75% in 2013 as oil production reaches a plateau.

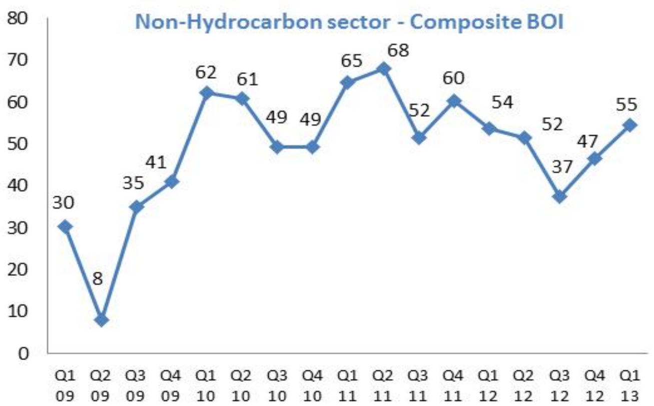


Weakening growth in the global economy contributed to volatility in crude oil prices last year. During the beginning of 2012, oil prices had surged on the backdrop of heightened tensions in the Middle East, but prices slipped as global economic slowdown concerns set in. Demand picked up again as the weak macroeconomic outlook paved way for hopes of stimulus measures and other central bank interventions. A last minute solution to the US "fiscal cliff" buoyed the oil prices towards the end of last year. Since much of last year's global economic growth concerns are expected to carry over this year, growth in oil demand remains uncertain. On the other hand, geo-political tensions, especially with reference to the Middle East, are expected to provide support to crude oil. OPEC has forecasted that oil demand will grow at around 0.8 million bpd in 2013, largely due to the improving economic conditions in the US and China. Despite the conflict in the Middle East, the underlying trend in market fundamentals is softening as supply expands in North America and Iraq. Developments in the Euro zone and fiscal policy negotiations in the US also remain on traders' minds, which will determine the outlook for the oil market.

The OPEC basket averaged over US$ 117 per barrel in Q1 2012, but averaged around US$ 107 per barrel during Q2, Q3 and Q4 due to economic concerns. This is reflected in the Kingdom's crude petroleum and natural gas GDP, which fell from SAR 336.4 bn in Q1 2012 to SAR 317.4 bn in Q2 and SAR 319.6 bn in Q3. Also, for the year 2012, the crude petroleum and natural gas sector is expected to have grown by 5.65% in real terms, following a growth of 9.94% in 2011. According to the IMF, oil sector real GDP is expected to dip near zero in 2013, since not much growth in crude oil production is expected.

The BOI survey reveals that Saudi Arabia's hydrocarbon sector optimism has improved in Q1 2013 as all parameters have gained from the previous quarter's level. The BOI for Level of Selling Prices has gained 8 points to 13 in Q1 2013 compared to 5 in Q4 2012. The BOI for the Net Profits stands at 58, which is 10 points above the score in Q4 2012. The hiring outlook of the sector has also improved; the BOI for the Number of Employees parameter has gained 7 points to 47 in Q1 2013. In terms of factors impacting business operations, sentiments have improved in the current quarter when compared to the previous quarter. In Q1 2013, a majority (48%) of the respondents feel that their businesses will not be impacted by negative factors. 23% are concerned about availability of skilled labor and 13% have cited government regulations (time consuming procedures related to trade licensing and challenges in getting labor visas) as a key challenge. Inflationary factor is a leading concern for another 5% of the sector respondents.

Non Hydrocarbon Sector



Saudi Arabia's real GDP growth during 2012 was 6.8%, supported by a 7.6% growth in manufacturing, 10.3% in construction, 8.3% in the trade & hospitality sector, 10.7% in transport & communications and 4.4% in the finance, insurance, real estate & business services segment. Going forward, the IMF expects a GDP growth of 4.2% in 2013, with most of the growth coming from the non-oil sector as oil production growth tapers off. Aggressive public sector expenditure remains an important growth catalyst for Saudi Arabia, especially the construction sector; with billions of dollars in contracts awarded by the government. The transport sector is also booming, especially rail infrastructure – with projects worth US$ 24 bn under way or in the pipeline. Saudi Arabia's HSBC manufacturing PMI posted a reading of 58.9 in December 2012, up from 57.0 in November. The gain in the PMI reading was led by a solid increase in output and new orders, while employment levels rose at the sharpest rate in three months. According to the report, December data signaled a further rise in production at non-oil producing private sector firms in Saudi Arabia, with almost 30% of respondents indicating higher output levels.

The BOI survey reveals strong optimism levels for the non-hydrocarbon sector businesses in Q1 2013. The composite BOI for the non-hydrocarbon sector stands at 55 compared to 47 in Q4 2012 and all six parameters have recorded an improvement. The BOI for the Volume of Sales parameter has registered a value of 65 compared to 56 in Q4 2012, while the BOI for the New Orders parameter is recorded at 66 points compared to 57 in the previous quarter. The BOI for Level of Selling Prices stands at 34 in Q1 2013, compared to 19 in Q4 2012. Profitability expectations have also improved from the previous quarter. The BOI for the Net Profits parameter is recorded at 55 in Q1 2013, up from 53 points in the fourth quarter of 2012. The BOI for Number of Employees has improved by 5 points to 53 from 48 in Q4 2012. The BOI for Level of Stock stands at 33 in Q1 2013, up 17 points from the previous quarter.

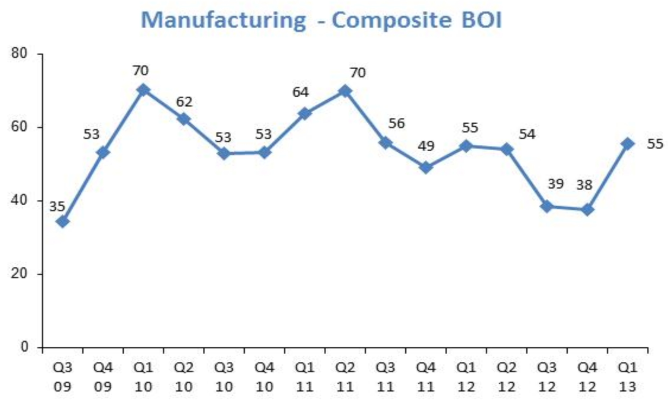
Four out of the five business sectors in the non-hydrocarbon sector have registered higher optimism levels while one has revealed mild retraction. The construction sector holds the most optimistic outlook among the various sectors surveyed for the sixth quarter in a row in Q1 2013. The transport & communications sector holds the least optimistic outlook for Q1 2013.

40% of the respondents in the non-hydrocarbon sector have highlighted that they do not expect any negative factors to influence their business operations in Q1 2013 compared to 25% in Q4 2012. 22% of the respondents are concerned about availability of skilled labor while 10% are concerned about inflationary factors. 9% of the sector respondents have cited the availability of finance as a concerning factor. 6% of the respondents anticipate low demand for products / services to be a key challenge for their business. In terms of investment in business expansion in Q1 2013, the outlook has remained steady with 57% of the non-hydrocarbon companies citing plans for investment in business expansion compared to 59% of respondents in Q4, 2012.

Sector Analysis

Manufacturing sector

Global manufacturing once again returned to expansion in December 2012 for the first time since May. JPMorgan's Global Manufacturing PMI rose to 50.2 in December from November's 49.6. This increase was supported by solid gains in the US, UK and China. Emerging markets also fared well, with expansions continuing in Mexico, India, Brazil, Turkey and Indonesia. The Euro zone and Japan remained the main drags on global manufacturing production and employment in December. The Euro area saw output contracts for the tenth month running, while jobs were cut for the eleventh straight month. The downturn in Japan gathered pace, with production falling at the sharpest rate since early-2011.



The BOI survey reveals that the manufacturing sector outlook has improved in Q1 2013 as all parameters have recorded a strong recovery. The composite BOI for Q1 2013 stands at 55 compared to 38 points in the previous quarter. Demand expectations, reflected in the BOI for Volume of Sales and New Orders, have strengthened by 22 and 25 points to stand at 69 and 73 respectively indicating strong optimism for demand. The selling price optimism has strengthened by 12 points to 25 from 13 in Q4 2012. Following strong demand and pricing sentiments, profitability expectations have improved to 52 points from 37 points in Q4 2012. The sector respondents anticipate overall improvement in business activity and this has led to a rise in expectations for Number of Employees, the BOI for which has jumped to 58 from 43 points in Q4 2012. The sector respondents foresee an improvement in their inventory levels following higher demand, the BOI for the Level of Stock parameter has improved to 37 from 20 in Q4 2012.

40% of the firms in the manufacturing sector do not expect business operations to get impacted by adverse factors in Q1 2013. Availability of skilled labor is an issue for 24% of the sector respondents. Inflationary factors and demand for products / services are a leading concern for 10% and 6% of the respondents, respectively. Government regulations have been cited as a key challenge adversely impacting the business for 6% of the sector respondents. Business units in this sector hold robust business expansion plans. 64% of the respondents (highest among all sectors) plan to invest in business expansion in Q1 2013, the remaining stand divided as 18% of the respondents do not plan expansion and the same proportion are unsure about investment plans.

Construction sector

At a global level, the current outlook for construction industry remains relatively subdued with construction spending is forecasted at moderate growth in 2013, as the global economy remains under enormous strain. The West is grappling with a sluggish economy that has endured for more than three years, and Asia is wrestling with numerous micro-problems spurred on by rapid growth. Wrenching political change is impacting the Middle East; Europe is still struggling with monumental economic issues in the wake of the recession and subsequent bailouts of Greece and now possibly Spain; and Africa is facing a trio of economic, political and humanitarian challenges. The future of government spending is unclear, as legislators waver between pursuing deficit-reduction measures and increasing construction and infrastructure spending. While government funding for construction projects has been restrained, public-private partnerships have given construction projects an alternative means of financing.

The BOI Survey for Q1 2013 continues to show high optimism levels in business sentiments among Saudi Arabia's construction sector (highest among all sectors). When compared to the previous quarter, the composite index for the sector has remained steady in Q1 2013. The composite BOI for the sector stands at 63 in Q1 2013 from 62 points in the previous quarter. The BOI for Volume of Sales stands at 75, which is a shade lower than Q4's 76. The parameter score for the New Orders stands at 67, down from 71 in Q4 2012. The Level of Selling parameter has gained 17 points to 41 from 24 in Q4 2012. Improvement in selling prices and a relatively stable sales and new orders outlook has pushed the parameter score for Net Profits by a single point to 67 from 66 in Q4 2012. At 36, the Level of Stock parameter stands 22 points higher than the Q4 2012 level of 14 points. The BOI for the Number of Employees parameter stands at 63 compared to 73 points in Q4 2012.

36% of the respondents do not expect any negative factors affecting business operations compared to previous quarter's 31%. Availability of skilled labor and availability of finance are leading concerns for 24% and 17% of the respondents, respectively, in Q1 2013. 10% of the sector respondents anticipate that the inflationary factors will negatively impact their businesses. 50% of the firms plan to invest in business expansion compared to 61% in the previous quarter.

26% of the respondents do not plan any investments while 24% are unsure.

Trade & hospitality sector

The current year is not expected to bring any major jumps in growth rates over 2012 for the global retail industry. The causes of the financial crisis, Euro zone's debt crisis and the tensions in the Middle East will continue to dampen outlook in this sector. Hence developing profitable growth strategies will likely be challenging, especially in slowing economies such as North America and Europe. Global retail sales are expected to grow by around 3% in 2013, with the boom in the East balancing out the gloom in the West. Pricing power in the industry will remain weak and margins relatively flat. Marketing efforts will focus on appealing to the aspirations of consumers in emerging markets; maintaining relevance among shoppers in developed countries will require an emphasis on value and loyalty.

The composite BOI for the trade & hospitality sector has strengthened in Q1 2013 as most parameters have registered a higher score; the composite BOI stands at 57 in Q1 2013 compared to 45 in Q4 2012. The business units in the Kingdom's trade & hospitality sector hold an optimistic outlook towards sales; the BOI for Volume of Sales has jumped to 72 for Q1 2013 compared to 54 in the previous quarter. The composite score for New Orders stands at 68, up 5 points from the fourth quarter's 63. Strong demand and new orders outlook has boosted pricing expectations for the current quarter from 14 in Q4 2012 to 45 points in Q1 2013. The profitability outlook has remained at the same level as in the previous quarter; the BOI for the Net Profits parameter stands at 57 compared to 58 in Q4 2012. The sector's hiring outlook has improved from the last quarter; the BOI for Number of Employees is recorded at 45 compared to 36 in Q4 2012. The Level of Stock parameter climbed 19 points to stand at 25 in Q1 2013 compared to 6 in the previous quarter.

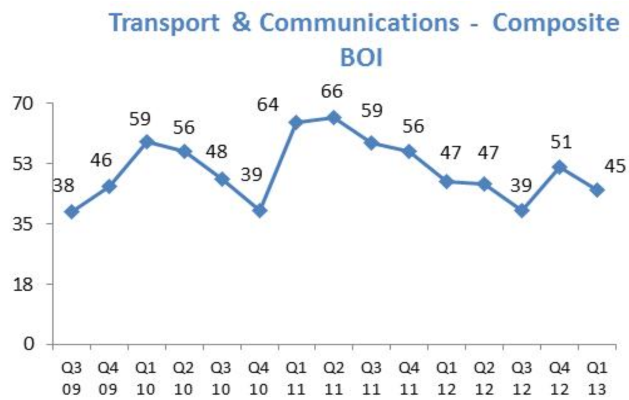
A majority 53% (highest among all sectors) of the sector respondents do not anticipate any negative factors impacting business operations in Q1 2013 compared to 48% in the previous quarter. Availability of skilled labor is a challenge for 18% of the respondents, while 9% of respondents are concerned about availability of finance. 8% of the sector respondents foresee inflationary factors as a challenge, while 6% of the respondents have cited government regulations as a major concern. 58% of the firms plan to invest in business expansion during Q1 2013 compared to 53% in the previous quarter; the remaining respondents are divided in terms of their investment outlook with 21% of respondents planning no investment and the same proportion of respondents being unsure about investment outlays in Q1 2013.

Transport & communications sector

Activity in the global transport and logistics sector had rebounded in 2011, following a prolonged period of contraction, but it slowed once more during the first half of 2012. Fuel costs have weighed heavily on the sector in recent years and continue to represent a major cost pressure. Relatively weak economic growth forecasts for many countries, combined with government austerity measures, mean any recovery in transport activity is likely to be gradual, with output likely to remain below pre-recession levels in the short-medium term. Furthermore, the increasing divergence between global shipping capacity and demand, as ships ordered at the height of the previous industry boom have entered service, has continued to weigh on freight rates. Benchmark rates fell to their lowest level since 1986 at the beginning of 2012, and have remained at subdued levels since then.

Although the optimism levels are positive, the BOI survey reveals that sentiments in the transport and communication sector have moderated from the previous quarter's level. The composite BOI for the sector stands at 45 compared to 51 in Q4 2012. Most parameters have declined compared to the previous quarter. The BOI for the Volume of Sales stands at 44 compared to 55 in Q4 2012, while the BOI for the New Orders parameter stands at 53 compared to 64 in Q4 2012. The BOI for Level of Selling Prices is the only parameter which has recorded a higher score of 43 in Q1 2013 as compared to 26 points in the previous quarter. Profitability expectations are dented due to lower sales and new orders expectations; the BOI for the Net profits parameter has slid 20 points to 45 in Q1 2013 from 65 in Q4. The BOI for the Number of Employees parameter stands at 40 compared to 47 in Q4 2012.

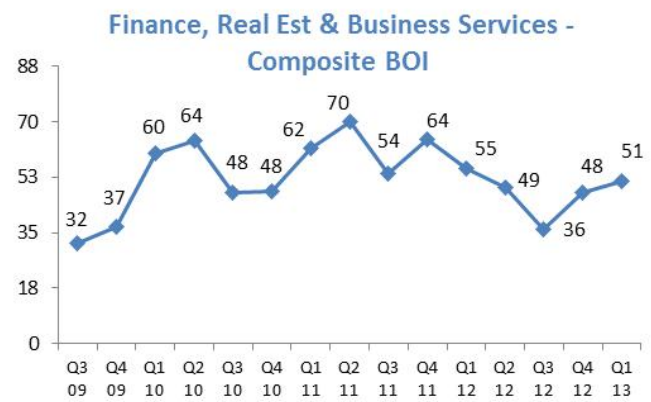
35% of the sector respondents do not foresee any negative factors impacting their business operations in Q1 2013. 15% of the respondents in the sector anticipate availability of skilled labor as a challenge, while 12 % have cited demand for products / services as a key concern. Inflationary factors and availability of finance are concerning issues for 12% and 10% of the respondents, respectively. 57% of the respondents in this sector plan to invest in business expansion during the first quarter of 2013, while 18% will not invest in expansion.



Finance, real estate & business services sector

According to the IMF, confidence in the global financial system has become very fragile with the Euro area crisis remaining the principal source of concern. However, financial markets around the world started 2013 with hefty gains as investors welcomed Washington's last-minute deal not to go over the so-called "fiscal cliff". Despite this, investors are still worried about a host of issues, especially the unresolved longer-term US budget issues, the state of the global economic recovery and Europe's ongoing battle to contain its 3 year debt crisis. The global services sector performed much better, as the JPMorgan Global Services Business Activity Index held steady in December 2012. The PMI data signaled a further solid increase in global service sector business activity. Companies benefited from the fastest growth in new orders since March 2012, encouraging many to raise employment.

Respondents in Saudi Arabia's financial, real estate & business services sector expect the business outlook to improve moderately as compared to that recorded in Q4 2012. The composite BOI score for this sector is at 51, 3 points higher from the previous quarter's score. The BOI for Volume of Sales stands at 61 compared to the previous quarter's 55, while the BOI for the New Orders parameter stands at 59 compared to 53 points in Q4 2012. The BOI for the Level of Selling Prices parameter has inched up by 3 points to 28 from 25 in Q4 2012 while the hiring outlook represented by the BOI for the Number of Employees has improved by 5 points to 55 in Q1 2013. The BOI for the Net Profits parameter has moderated by 2 points from 55 in Q4 2012 to 53 in Q1 2013.

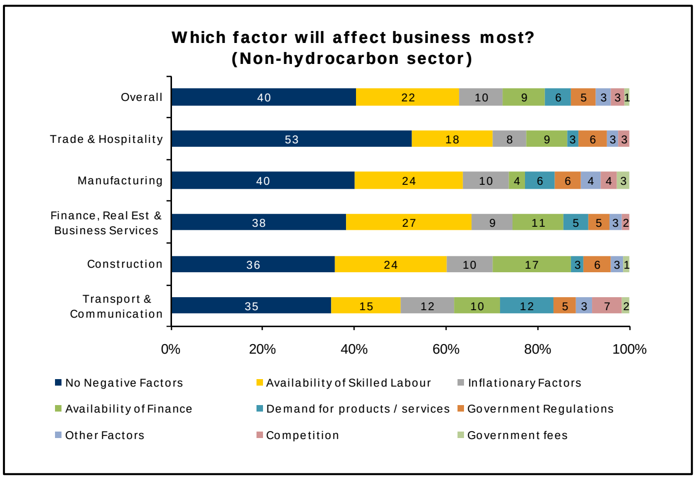


38% of the respondents do not foresee any negative factors impacting business operations in Q1 2013. 27% of the respondents are concerned about availability of skilled labor, while 11% anticipate availability of finance as a major challenge. 9% of the sector respondents foresee inflationary factors as a concerning factor. 5% of the respondents in the sector are concerned regarding the demand for their products / services. 54% of the business units plan to invest in business expansion, while 23% do not plan any investment and the remaining 23% are unsure.

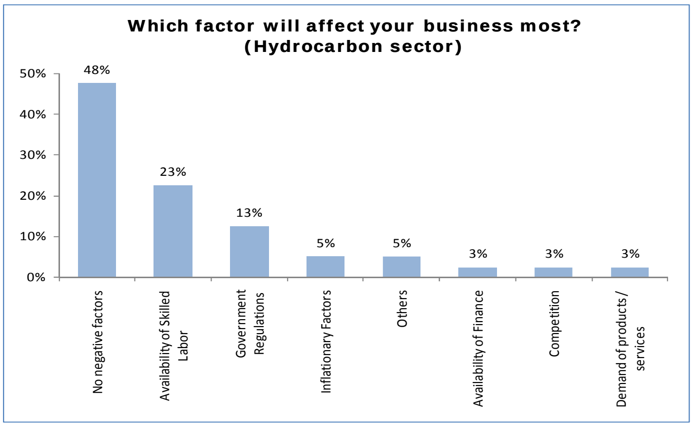
Business Issues

Factors impacting business

40% of the respondents in the non-hydrocarbon sector have highlighted that they do not expect any negative factors to influence their business operations in Q1 2013 compared to 25% in Q4 2012. 22% of the respondents are concerned about availability of skilled labor, while 10% are concerned about inflationary factors. 9% of the sector respondents have cited the availability of finance as a concerning factor. 6% of the respondents anticipate low demand for products / services to be a key challenge for their business.

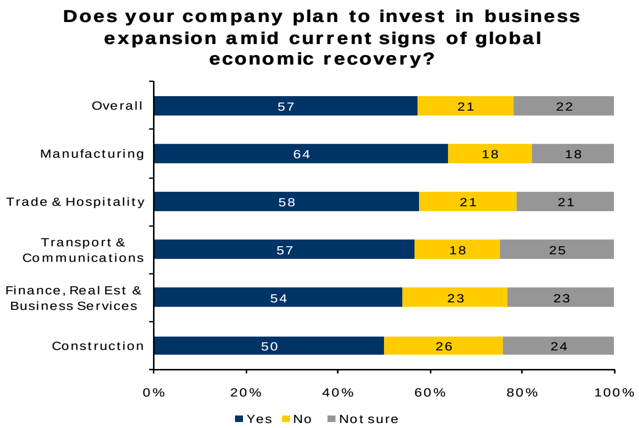


In the hydrocarbon segment, 48% of the business units feel that their businesses are insulated from any negative factors in Q1 2013. 23% are concerned about availability of skilled labor and 13% have cited government regulations as a key challenge. Inflationary factor is a leading concern for another 5% of the sector respondents.

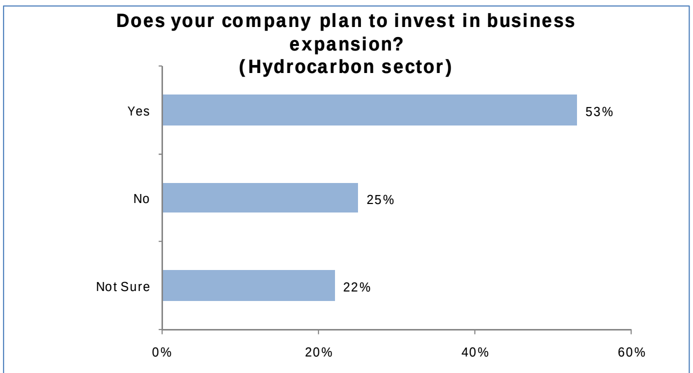


Investment plans

In terms of investment in business expansion, 57% of the non-hydrocarbon companies have said that they would invest in business expansion in Q1 2013, 21% do not plan any investments and 22% are unsure. Sector-wise, Manufacturing and Trade & Hospitality sectors are most optimistic on their investment plans.



In the hydrocarbon segment, 53% of the hydrocarbon sector respondents plan investments in business expansion compared to 45% in Q4 2012, 25% do not plan any investment and 22% are unsure.



Appendix

Hydrocarbon Sector

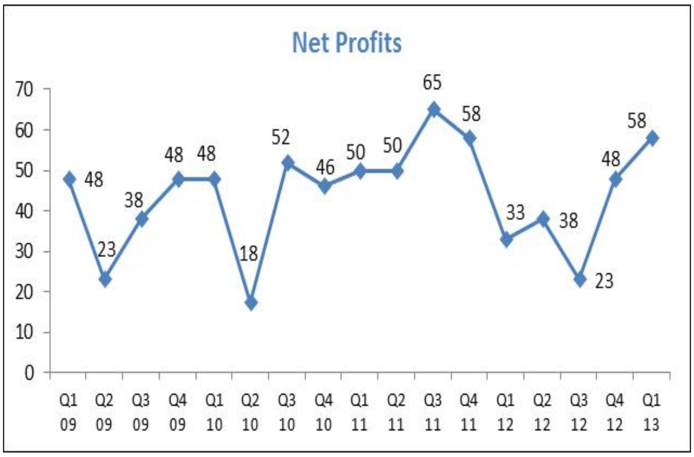
Volume of Sales

The BOI for the Volume of Sales parameter stands at 62 in Q1 2013 compared to 60 in Q4 2012. 65% of the respondents in the hydrocarbon segment anticipate an increase in sales volumes. 32% of the respondents do not anticipate any change and 3% of the respondents foresee a decline.

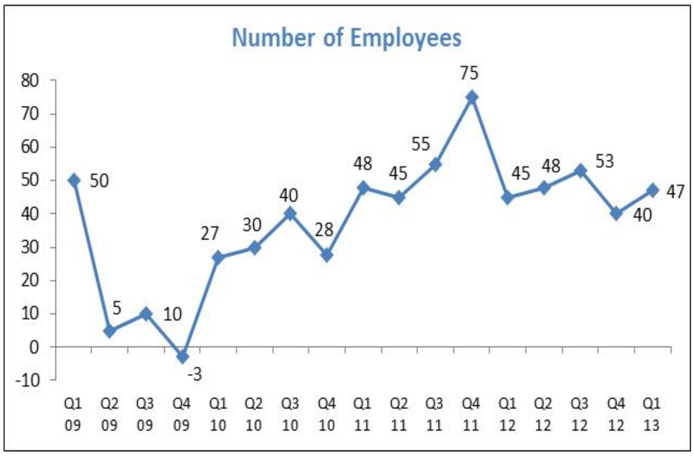
Level of Selling Prices

The BOI for Level of Selling Prices has increased by 8 points to 13 in Q1 2013. A majority 67% of the respondents foresee no change, 23% foresee an increase, while 10% anticipate a decline in selling prices in Q1 2013.

Net Profits

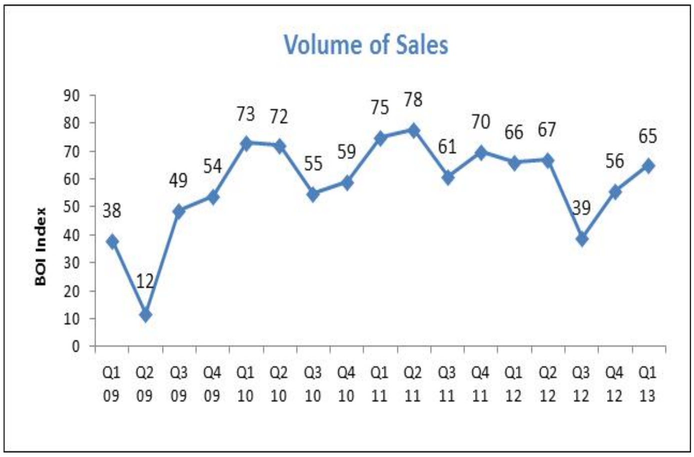


Number of Employees



The BOI for the Number of Employees is recorded at 47 points compared to 40 in Q4 2012. 50% of the respondents expect to increase their head count, whereas 47% anticipate no change and 3% of the respondents foresee a decline in their employee numbers in Q1 2013.

Non Hydrocarbon Sector



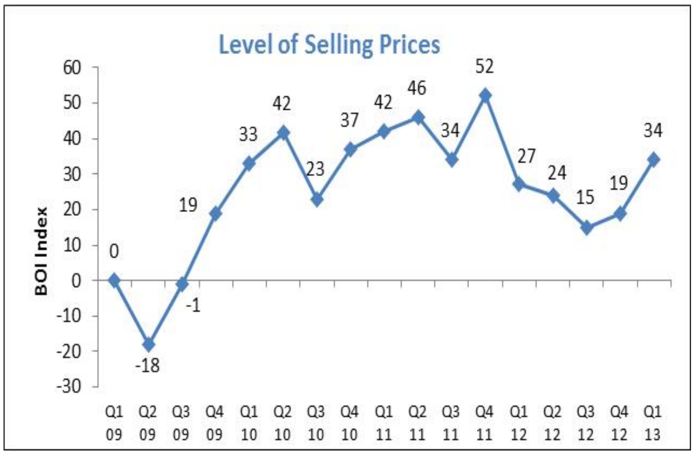
Volume of Sales

The BOI for Volume of Sales has registered an increase of 9 points in Q1 2013 to stand at 65. Overall, 73% of the non-hydrocarbon sector firms anticipate an increase in their sales, 19% anticipate no change and 8% foresee a decline in Q1 2013.

New Orders

The BOI for the New Orders parameter has increased by 9 points in Q1 2013 to stand at 66. Out of the total respondents surveyed in the non-hydrocarbon sector, 70% expect an increase in their order book status, 26% anticipate no change, while 4% are expecting a decline.

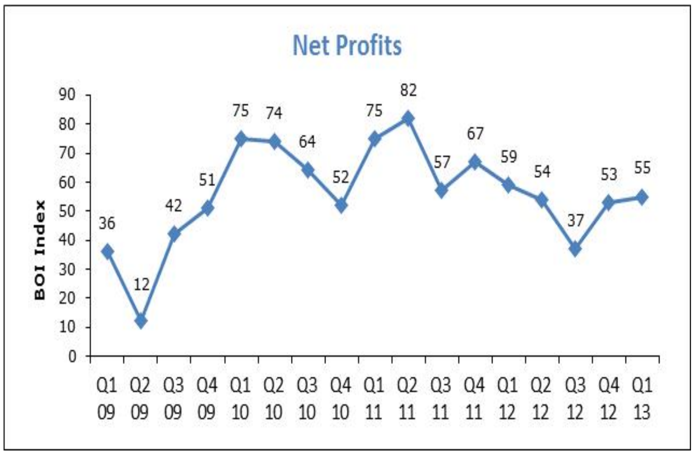
Level of Selling Prices



The BOI for Level of Selling Prices stands at 34 in Q1 2013, 15 points higher than the score in Q4 2012. Overall 41% of the respondents are expecting an increase in their Level of Selling Prices, while 7% expect to reduce prices. The remaining 52% of the respondents expect pr

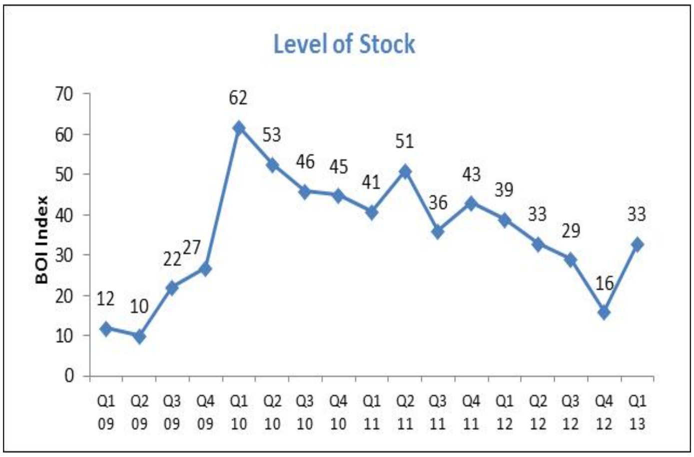
ice levels to stay intact.

Net Profits



The BOI for Net Profits has inched up by 2 points to 55 compared to 53 in Q4 2012. 66% of the non-hydrocarbon sector respondents expect their profitability to improve, 23% foresee no change, whereas 11% expect a decline in their Net Profits in Q1 2013.

Level of Stock



At 33, the BOI for Level of Stock has scaled higher by 17 points in the first quarter. Overall, 42% of the respondents are expecting their inventory levels to improve, while 49% are expecting it to remain unchanged and 9% are expecting a decline.

Number of Employees

The BOI for Number of Employees has increased by 5 points in Q1 2013. The BOI for this parameter stands at 53 with 56% of businesses expecting to up their headcount, 41% foreseeing no change and 3% expecting a decline in their headcounts in Q1 2013.

Methodology

The D&B Business Optimism Index

The D&B Business Optimism Index is recognized as a product that measures the pulse of the business community and serves as a reliable benchmark for investors. The D&B Business Optimism Index is arrived at on the basis of a quarterly survey of business expectations. It is conducted in various countries that D&B operates in. Over time, the quarterly survey has emerged as a leading indicator of turning points in economic activities in these countries.

A random sample is selected from Dun & Bradstreet's commercial database for conducting this survey. This sample is divided into hydrocarbon and non-hydrocarbon segments to eliminate the dominance of the former over the latter and understand their dynamics individually. The hydrocarbon segment includes Saudi Arabia's mining, oil and gas companies whereas the non-hydrocarbon segment encapsulates in its purview the following sectors:

- Manufacturing (140 units)
- Construction (70 units)
- Trade, restaurants & hotels (80 units)
- Transport & communications (60 units)
- Finance, insurance, real estate & business services (110 units)

The sample is a microcosmic representation of Saudi Arabia's business community. The survey respondents are asked if they expect an increase, decrease or no change regarding the following parameters: Volume of Sales, Net Profits, Level of Selling Prices, New Orders received, Level of Stock, and Number of Employees.

The individual indices for each of the above parameters are then calculated by subtracting the percentage of respondents expecting decrease from those expecting increase.

Additional poll questions are asked relating to the current economic scenario and are aimed at gauging the business sentiments with regards to several key current issues.

For the purpose of the survey, Q1 is the period between January and March, Q2 is the period between April and June, Q3 is the period between July and September, and Q4 is the period between October and December each year.

Composite Business Optimism Index

The purpose of the Composite Business Optimism Index is to capture the aggregate weighted behavior of all the six individual indices in the non-hydrocarbon sector. Beginning in Q3 2010, D&B has further introduced composite indices for all sub-sectors in the non-hydrocarbon sector to allow one indicator to summarize optimism levels in each of these sub-sectors.

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