

Saudi Business Optimism Index

1Q2014 Saudi Business Optimism Index (BOI)

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Executive Summary

Highlights:

- The composite BOI for the non-hydrocarbon sector moderates; overall expectations remain quite strong even as all parameters decline.
- Hydrocarbon sector optimism soars; sharp rise attributed to bullish outlook towards pricing, hiring and profitability expectations.
- The Construction sector is the most optimistic among all non-hydrocarbon sectors this quarter; also holds the strongest outlook for hiring and selling prices.
- 60% of hydrocarbon sector firms and 63% of non-hydrocarbon sector firms do not foresee any negative factors impacting business operations in Q1 2014.
- In spite of a decline in overall optimism scores, investment outlook still stands strong; a majority 59% of the non-hydrocarbon sector and 63% of the hydrocarbon sector respondents plan expansion.

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Saudi BOI – Q1 2014

Hydrocarbon sector

Saudi Arabia's economy expanded at an annual rate of 3.1% in Q3 2013, after posting a growth of 2.1% in Q1 2013 and 2.7% in Q2 2013, according to the Central Statistics Office. The increase in Saudi oil production since the end of the second quarter was the main driver behind this growth. Also, the oil sector's contribution turned positive for the first time since the last quarter of 2012. Growth in the oil sector, which accounts for nearly half of the economy, was 3.1% y-o-y in July-September, after a 3.7% drop in the second quarter. The Kingdom's oil output averaged 10.1 million bpd in the third quarter compared with 9.8 million bpd for the same period last year. This increase in oil production was mostly due to elevated domestic oil consumption during the summer months as well as to offset the shortfall in global oil production. Estimates for 2013 show that the oil sector contracted 0.6% compared to the previous year.

The average monthly OPEC basket eased from US\$ 108.73 per barrel in September to US\$ 106.69 per barrel in October and US\$ 104.97 per barrel in November due to easing of tensions in the Middle East. Negotiations between the West and Iran surrounding the latter's nuclear program reduced the political factors that had elevated oil prices this year. This followed the US backing-off from military intervention in Syria in the previous month. After dipping sharply in early November, crude oil prices rallied through the rest of the month and averaged US\$ 107.67 per barrel in December, regaining all of the previously lost ground due to a slew of encouraging economic data, particularly in developed countries, which boosted the prospect of global oil demand. The outlook for many parts of the global economy is improving and there may be a broadly synchronized recovery in the early months of 2014. In addition, crude found support from global factors, including the disruptions to supply in key producers such as Libya, Iraq and Iran.

The BOI survey reveals a y-o-y as well as a q-o-q jump in optimism levels for Saudi Arabia's hydrocarbon sector. The composite BOI for the hydrocarbon sector stands at 50 for Q1 2014 compared to 30 in Q4 2013 and 33 in Q1 2013. The sharp rise in the quarterly composite score is attributed to the bullish outlook of the sector respondents with respect to selling prices, hiring and profitability. Companies in this sector are benefiting from the increased activity in the oil & gas sector (on-going drilling & maintenance work) and they expect higher number of new orders and contracts to be awarded this quarter. The BOI for selling prices stands at 35 in Q1 2014, which is 22 points higher than the BOI in Q4 2013. The increase in selling prices is due to a combination of higher raw material costs as well as increasing overhead costs. The hiring outlook has improved on expectations of getting new projects or expansion of business; the BOI stands at 68 in Q1 2014 compared to 52 in Q4 2013 and 47 in Q1 2013. Boosted by higher sales & rising selling prices, profit margins of companies in this sector are also expected to be higher in Q1, 2014; BOI score for profits has increased from 40 in the previous quarter to 62 in this quarter.

The hydrocarbon sector's business environment outlook for Q1 2014 has moderated; 60% of the respondents do not foresee any negative factors impacting business operations in Q1 2014 compared to 68% in the previous quarter. Government regulations (recent labour regulations) is the leading factor impacting businesses as identified by 18% of the respondents, followed by availability of labour as cited by 13% of the firms. 3% each are concerned about low demand for products & services, government fees and currency fluctuations.

Reflecting the strengthening in BOI scores, the survey shows that the hydrocarbon sector's investment outlook has improved; 63% of the respondents plan to invest in business expansion in Q1 2014 compared to 55% in Q4 2013.

Non-Hydrocarbon sector

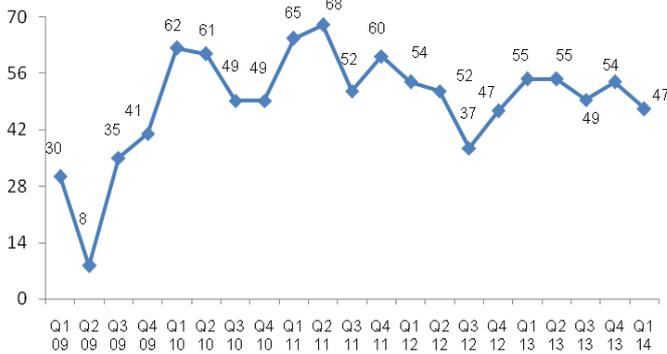
GDP data for Saudi Arabia for 2013 shows a real growth of 3.8% compared with 5.8% in 2012 and 8.6% in 2011. In terms of contribution to overall growth, the private non-oil sector was the main growth driver in 2013, posting a growth of 5.5%, compared to a 0.6% contraction in the oil sector. Construction and wholesale and retail trade sector along with the transport sector were among the fastest growing sectors. The growth of the construction sector showed a big increase compared to 2012; it was at 8.1% in 2013 and much higher than the 4.8% growth in the previous year. The growth of the wholesale and retail trade sector remained steady at 6.2% in 2013 compared with 6.4% in 2012. The transport, storage and communication sector grew at 7.2% in 2013 compared to 6% in the previous year. The Saudi economy is expected

Hydrocarbon sector - Composite BOI



to grow strongly in 2014 on the strength of the non-oil sector. At 57.1 in November 2013, up from a reading of 56.7 in October 2013, the headline PMI signalled an improvement in overall operating conditions at Saudi Arabian non-oil producing private sector companies. The rate of expansion was up slightly from the previous month; however, it remained below the series average.

Non-hydrocarbon sector - Composite BOI

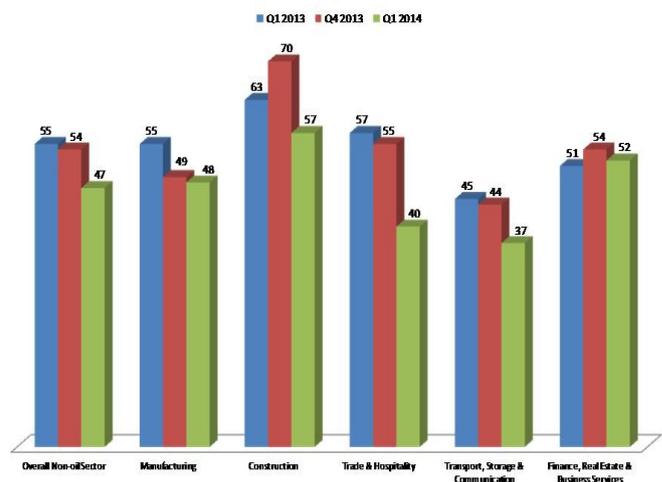


The composite business optimism index for the non-hydrocarbon sector has moderated by 7 points q-o-q to stand at 47 in Q1 2014. The dip in outlook is due to a pullback in expectations on all parameters, but overall expectations remain quite strong. Businesses across sectors have cited various reasons for moderation in the sales outlook including lower business activity in the first quarter, delays in project awards, low demand due to seasonality and shortage of staff due to new visa regulations. The BOI for Volume of Sales has dropped to 54 compared to 63 in Q4 2013; however, a majority 64% foresee an increase in sales in anticipation of new projects/contracts and overall strong economic prospects. Similarly, even though the BOI for New Orders stands 12 points lower than the Q4 2013 score of 67, 61% of the respondents expect to see an increase in new orders in Q1 2014. The BOI for Selling Prices stands at 28 compared to 32 in Q4 2013 due to expectations of stability in prices. A majority (62%) of the respondents do not foresee any change in the selling price levels mainly due to high competition in the market and pre-determined contract prices. The BOI for Net Profits parameter has lost 7 points this quarter to stand at 53; however 62% of the respondents anticipate profitability to improve in Q1 2014. The hiring outlook remains strong in Q1 2014 with the BOI at 46 versus 47 in the previous quarter; 50% of the respondents will increase their head count in Q1 2014.

The construction sector remains the most optimistic among all non-hydrocarbon sectors in terms of the overall outlook; the composite BOI stands at 57 in Q1 2014.

All sectors have witnessed a moderation in their composite BOI scores, however, the survey shows that overall optimism levels are robust with expectations of new projects/contracts as well as strong market conditions. The transportation sector maintains the least optimistic outlook for Q1 2014; the composite BOI has dropped 7 points from the previous quarter's score due to a fall in the BOI for new orders and profitability.

Sector-wise Optimism Levels



The business environment outlook for the non-hydrocarbon sector remains almost steady compared to Q4 2013; 63% of the respondents do not foresee any negative factors impacting business operations in Q1 2014 (65% in Q4 2013).

The investment outlook has improved with respect to Q4 2013. 59% of the companies have expansion plans in Q1 2014 compared to 52% in Q4 2013.

Sector Analysis

Manufacturing Sector

Saudi Arabia's manufacturing sector maintains a strong and stable outlook, with the composite BOI holding steady at 48 in Q1 2014 due to continued favourable market conditions as respondents foresee increasing demand on account of higher number of projects/orders flowing in and exporters anticipating expansion in export markets. The Volume of Sales parameter is up by 4 points to 59 in Q1 2014 as 68% of the respondents anticipate an improving demand scenario. The BOI for New Orders is marginally lower by 4 points to 58 in Q1 2014. A majority 59% of the respondents expect stability in their sales price in Q1 2014 mainly to have competitive prices for their products. The BOI for selling prices stands at 27 in Q1 2014 versus 26 in the previous quarter. Consistent with demand expectations, the profitability outlook remains very optimistic in Q1 2014; the index stands at 53 compared to 52 in the previous quarter. The hiring outlook is positive but has moderated as almost

half (49%) of the respondents plan to hold their workforce numbers unchanged.

Manufacturing sector - Composite BOI

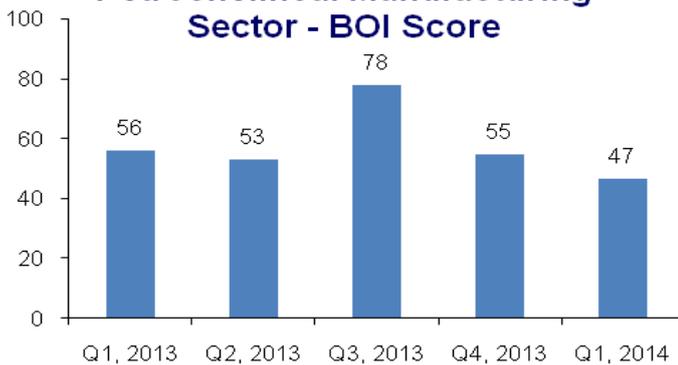


A majority of the respondents (59%) do not anticipate any negative factors to impact their businesses in Q1 2014, while 14% have cited competition as a leading challenge. Government regulations have been highlighted as a key business challenge by 11% of the respondents. Availability/cost of raw materials is a concern for 8% of the respondents, while 4% might be impacted by shortage of skilled labour.

In terms of investment in business expansion, the outlook has improved significantly, 66% of the firms plan to invest in expansion in Q1 2014 compared to 57% in Q4 2013.

Petrochemical Manufacturing

Petrochemical Manufacturing Sector - BOI Score

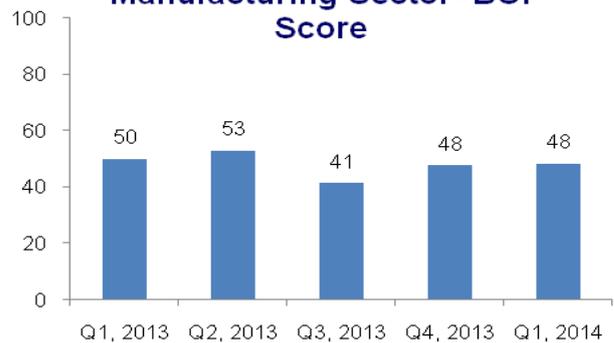


The Composite BOI score for the petrochemical manufacturing sub-sector fell by 8 points from the Q4 2013 score to 47 in Q1 2014. The decline in BOI scores is due to lower optimism on Net Profits and Hiring. Net Profits BOI has witnessed a decline from a score of 60 in previous quarter to 43 in Q1, 2014. The hiring outlook has moderated with 54% firms planning to hold their workforce numbers unchanged in Q1 2014, while 43% will increase their employee count in Q1 2014 compared to 53% in Q4, 2013. Though the composite score for Q1 2014 has declined from the previous quarter, the sub-sector continues to hold a

highly optimistic outlook especially in terms of sales and new orders as 70% of the respondents in each case foresee an increase. A majority of the respondents (64%) do not foresee any change in their selling prices.

Non-Petrochemical Manufacturing

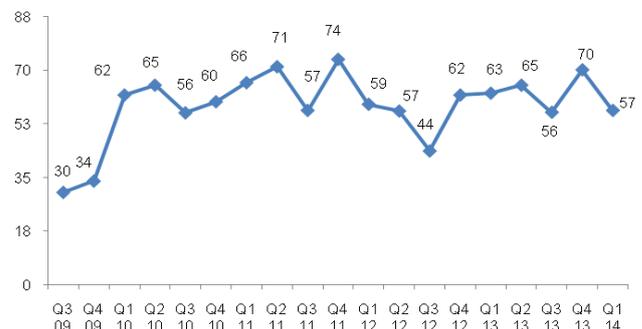
Non Petrochemical Manufacturing Sector- BOI Score



The outlook for the non-petrochemical manufacturing sector remains steady in Q1 2014; the Composite BOI stands at 48, at the same level as in Q4 2013. The BOI for Volume of Sales has increased 6 points to 59 in Q1 2014; 67% of the respondents foresee an increase due to an increase in demand and rise in business activity as demand is expected to grow both from the domestic as well as foreign markets. Price expectations are slightly higher; 35% of the respondents foresee an increase, while 57% anticipate no change in selling prices. The Net Profits parameter is up by 5 points to 55 from 50 in Q4 2013.

Construction sector

Construction sector - Composite BOI



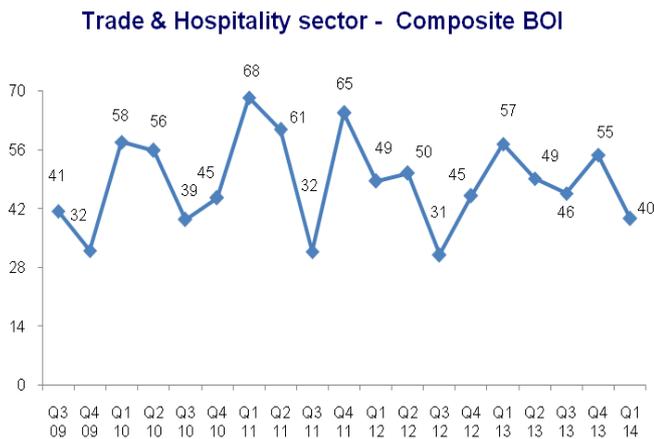
The composite BOI for Saudi Arabia's construction sector has dropped for Q1 2014 compared to the previous quarter as well y-o-y, but the outlook still remains very strong. The decline is driven by moderation in expectations related to sales volumes, new orders and profits. The BOI for Volume of Sales has dropped 24 points to 60 from 84 in the previous quarter as many of the re-

spondents have cited stability on this parameter instead of a q-o-q increase in volumes. Key factors contributing to stability in sales are the continued flow of projects/contracts from the government and private sectors, as well as favourable market conditions. The Level of Selling Prices parameter remains steady; the BOI is at 43 versus 44 in the previous quarter. The profitability outlook has witnessed moderation; the BOI for Net Profits has decreased by 16 points to 60. The hiring outlook for construction is stable; the BOI for Number of Employees is at 62 compared to 66 in the previous quarter. Construction sector continues to be the most optimistic (BOI score of 57) among all non-hydrocarbon sectors this quarter in terms of the overall outlook.

74% of the respondents do not foresee any factors negatively impacting businesses in Q1 2014 compared to 68% in Q4 2013. 10% of the respondents are concerned about government regulations and 6% each are concerned about the availability of labour and competition.

In terms of investments in business expansion, the outlook has strengthened with 51% of the respondents planning to invest in Q1 2014 compared to 46% in Q4, 2013.

Trade and Hospitality sector



The BOI survey for Q1 2014 reveals that the overall optimism levels have declined q-o-q but the business outlook is still very strong. The decline observed in the overall BOI score of the trade & hospitality sector is due to lower optimism on sales volumes, prices and profits. The BOI for the Volume of Sales parameter stands at 48 compared to 70 in Q4 2013. A higher number of respondents in this sector have cited stability or 'no change' on this parameter in this quarter. The BOI for New Orders has slid 17 points to 48 from 65 in the last quarter of 2013. The BOI for Level of Selling Prices has slipped 22

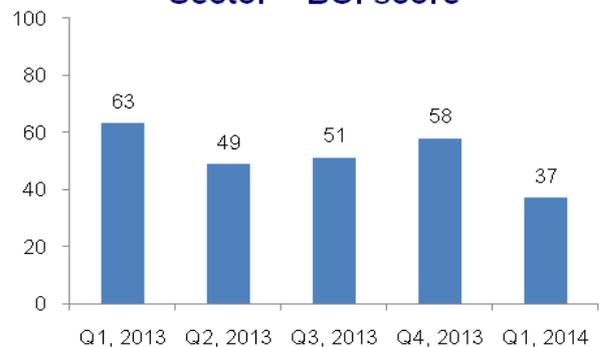
points to 18 in Q1 2014 as a majority 70% of the sector respondents anticipate no change in prices due to high level of competition in the market. A lower outlook on sales and pricing has weighed on profitability expectations; the BOI for the Net Profits parameter has slipped 20 points to 45 in Q1 2014. Despite the decline in sales and profit optimism levels, the Number of Employees parameter has revealed an upward trend; the BOI stands at 39 compared to 34 in Q4 2013. The level of stock parameter has slid by 18 points as 53% of the firms hold sufficient stocks.

56% of the sector respondents do not anticipate any negative factors impacting business operations in Q1 2014. 23% of the respondents are concerned about issues relating to government regulations, while rising competition, low demand for products & services and availability/cost of raw materials each are concerns identified by 4% of the respondents.

A majority 56% of the sector respondents plan to invest in business expansion in Q1 2014 compared to 51% in Q4.

Wholesale & Retail Trade

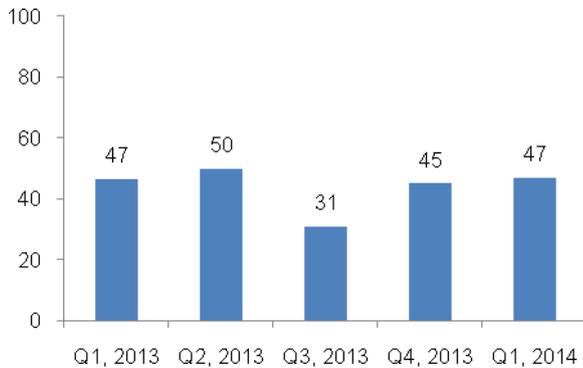
Wholesale & Retail Trade Sector - BOI score



The Composite BOI for the wholesale & retail trade sub-sector has declined to 37 from 58 in Q4 2013. The decline is due to weakening of expectations on sales, selling prices and profits. The BOI for Volume of Sales stands at 41 compared to 73 in Q4 2013. The BOI for New Orders stands at 42 compared to 66 in 2013. The BOI for the Level of Selling Prices has dropped to 15 from 43 in Q4 2013; 69% of the sector respondents do not foresee any change in selling prices due to high competition. The Net Profits parameter has slid to 43 from 68 in line with the drop in demand and prices. The hiring outlook has however shown an upward trend, with the BOI up by 5 points to 44 from 39 in Q4 2013.

Hospitality

Hotel & Restaurants sector - BOI score



The composite BOI for the hospitality sub-sector has tracked sideways to 47 from 45 in the previous quarter, revealing a steady and strong business outlook due to positive expectations on sales volume, new orders and hiring. The BOI for Volume of Sales is up by 5 points to 65; 75% of the sector respondents foresee an increase in sales backed by a seasonal pick-up in demand. The BOI for New Orders has increased by 10 points. The Level of Selling Prices parameter stands at 25 compared to 30 in Q4 2013; a majority (75%) of the sector respondents do not anticipate any change in selling prices because of high competition. The Net Profits BOI has moderated to 50 from 55 in the previous quarter; however 60% of the sector respondents anticipate an increase in profitability. The Number of Employees parameter has shown an upward trend; the BOI stands at 25 compared to 20 in the previous quarter.

Transportation, Storage and Communication sector

The composite BOI for the transport sector has dropped to 37 from 44 in Q4 2013. The decline is mainly due to a sharp drop in the BOIs for new orders and profitability. A majority (51%) of the respondents do not expect any change in new orders in Q1 compared to 35% in Q4. The BOI for net profits has dropped by 14 points q-o-q to 38, with 42% of the firms anticipating stability in profits. The volume of sales index is steady at 46 in Q1 compared to 47 in Q4 2013. Selling price outlook is stable due to a highly competitive market; the BOI is at 21 compared to 22 in the last quarter. Lower expectations on new orders and net profits have not dented the hiring outlook; the BOI for number of employees has moved up by 3 points to 39 in Q1.

55% of the respondents do not foresee any negative factors affecting business operations in Q1 2014. 16% cited government regulations while 11% anticipate that availability of skilled labour will impact business. Rising competition is a challenge for 10% of the sector respondents while 3% each are concerned about increasing cost of labour and low demand for goods and services.

Transportation, Storage and Communication sector - Composite BOI



A higher number of respondents plan to invest in business expansion in Q1 2014 compared to the previous quarter; 44% plan investments compared to 40% in Q4 2013.

Finance, Real Estate & Business Services Sector

Finance, Real Estate & Business Services sector - Composite BOI



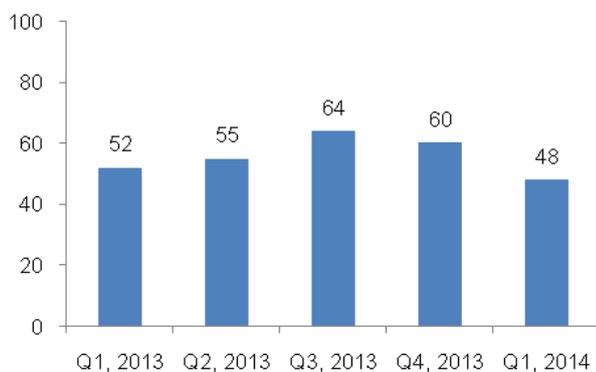
The BOI survey for Q1 2014 reveals that the optimism levels in this sector have tracked sideways, indicating stability in economic conditions. The optimism on net profits and hiring are key reasons for the positive outlook in the sector. The BOI for Volume of Sales stands at 55 compared to 63 in the previous quarter as a higher proportion of firms cited 'no changes' on this parameter. However, 66% of the respondents anticipate an increase in sales in Q1 2014 backed by a robust economic environment. At 60, the BOI for New Orders is also very strong with a majority 66% of the respondents anticipating an increase in new orders. The BOI for Level of Selling Prices is steady at 30 compared to 31 in Q4 2013. The BOI for the Net Profits parameter has increased from 61 in the previous quarter to 65 in Q1, 2014; 72% of the respondents foresee an increase in their profitability level backed by expectations of strong demand. The Number of Employees parameter has revealed an up-trend; the BOI is recorded at 52 compared to 47 in the previous quarter with 54% of the respondents planning to increase their workforce.

62% of the sector respondents do not foresee any negative factors impacting business operations in Q1 2014. Issues relating to government regulations are a leading concern for 17% of the sector respondents. 6% have identified competition as a leading challenge while 5% anticipate availability of labour as an issue facing their business in Q1 2014.

The investment outlook has improved with 65% of the respondents planning to invest in business expansion in Q1 2014 compared to 56% in Q4 2013.

Finance sector

Finance Sector - BOI Score



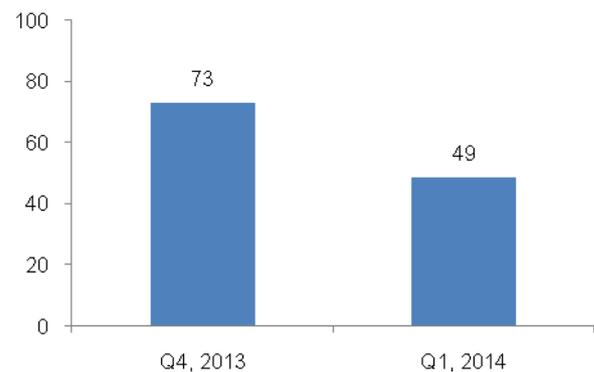
The composite BOI for the finance sub sector has registered a decline of 12 points to 48 in Q1 2014 mainly due to a sharp drop in the BOIs for volume of sales and number of employees. The BOI for the Volume of Sales parameter has plunged 39 points to 50 from 89 in Q4 2013 as a higher proportion of firms in this sector have cited stability rather than an increase or decrease in sales. The BOI for the New Orders parameter has inched lower to 60 from 67 in Q4 2013. The sector holds a strong selling price outlook, the composite score for which has improved 18 points to 40 in Q1 2014 with 40% of the respondents foreseeing an increase in prices and the remaining 60% anticipating stability. Though the profitability outlook has weakened to 60 in Q1 compared with 67 in the previous quarter; 70% of the sector respondents foresee an increase in profits. The Number of Employees parameter stands at 30 compared to 56 in the previous quarter since a significant 70% of the respondents do not plan to change their workforce numbers in Q1 2014.

Real Estate

The composite BOI for the real estate sub-sector sector has slid to 49 from 73 in the previous quarter as all indices have dropped. Even though expectations have moderated, the outlook for Q1 is still strong. 68% of the respondents foresee an increase in sales in Q1 2014 (87%

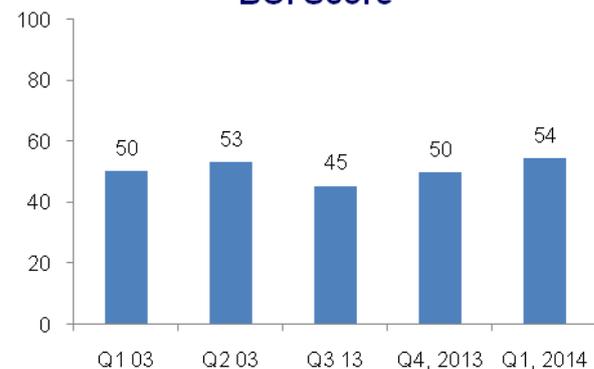
in Q4) on strong market conditions even though the BOI for Volume of Sales has dropped 16 points to 64. The BOI for New Orders is down by 32 points to 48. The Net Profit outlook has slipped to 68 compared to 80 in Q4 2013. The hiring outlook has also moderated with the BOI sliding from 53 to 36 in Q1 since 56% of the respondents do not foresee any change in their headcount in Q1 2014 as most businesses have sufficient manpower.

Real Estate Sector - BOI Score



Business Services

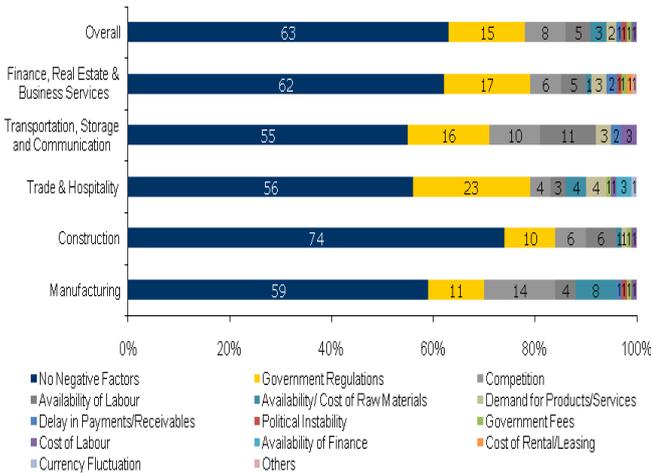
Business Services Sector - BOI Score



The composite BOI for the business services sub-sector has gained 4 points from 50 in Q4 2013 to 54 in Q1 2014. The BOI for Volume of Sales stands at 53, 4 points below the Q4 2013 score. Expectations on selling prices are stable as 65% of the respondents do not foresee any change in selling prices. In line with improving demand and strong sales expectations, the profitability outlook has strengthened to 64 from 57 in the previous quarter; 72% of the respondents foresee an increase in profits. Hiring expectations have strengthened; the BOI stands at 61 compared to 46 in Q4 2013.

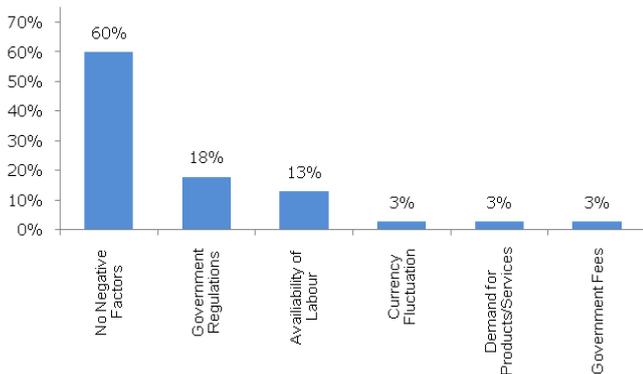
Business Challenges

Given the business environment in Saudi Arabia, which are the external factors that most hinder the development of your business? (Non-hydrocarbon)



In the non-hydrocarbon sector, 63% of the respondents have indicated that there are no negative factors hindering their business operations in Q1 2014 (65% in the previous quarter). 15% have cited government regulations (recent labour related regulations), 8% competition and 5% availability of labour as challenges impacting business operations. 3% have indicated availability/cost of raw materials, while 2% have cited low demand for products and services as challenges impacting business operations.

Given the business environment in Saudi Arabia, which are the external factors that most hinder the development of your business? (Hydrocarbon)



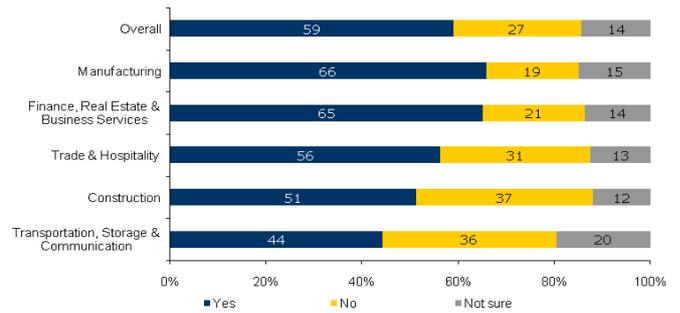
60% of the hydrocarbon sector respondents do not foresee any negative factors impacting business operations in Q1 2014. Government regulations related to the new labour policies are identified as a concerning factor impacting 18% of the businesses while 13% are affected by the availability of labour. 3% each are challenged by currency fluctuations, low demand for products/services and government fees.

Investment plans

The investment outlook has improved this quarter with 59% of the non-hydrocarbon businesses investing in

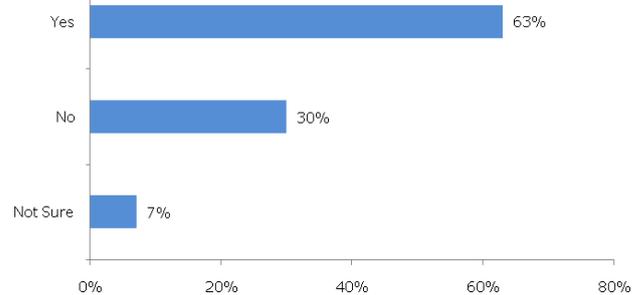
business expansion plans compared to 52% in Q4 2013. The manufacturing and finance, real estate & business services sectors continue to be the most optimistic with reference to business expansion plans, the same as last quarter.

Does your company plan to invest in business expansion? (Non-hydrocarbon)



The proportion of companies in the hydrocarbon sector who are planning to invest in expansionary activities has increased from 55% in the previous quarter to 63% in the current quarter.

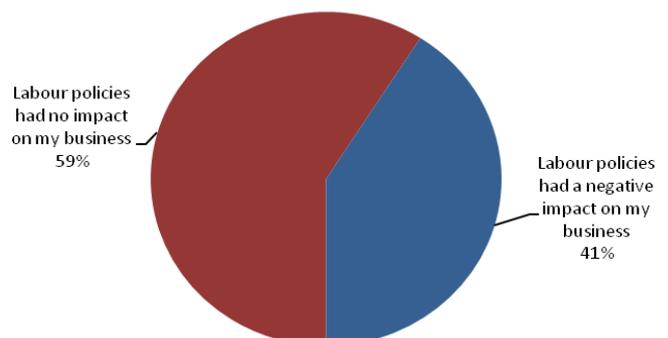
Does your company plan to invest in business expansion? (Hydrocarbon sector)



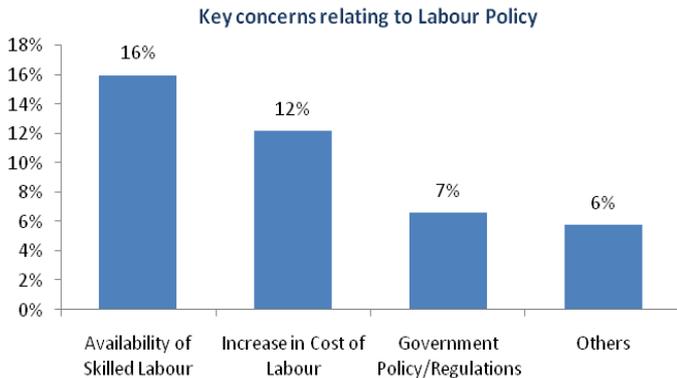
Impact of the Labour Policies on the Business Community

The Q1, 2014 survey captured respondents' opinion on the new labour policies being introduced by the Government in Saudi Arabia.

What has been the impact of current labour policies on your business?



The intensity of the impact of new labour policies on the businesses community is lower in the current quarter survey compared to the previous quarter. A majority (59%) of the respondents have cited that the new labour policy will have no negative impact on the business (versus 49% in the previous quarter).



The main concerns related to labour policies include:
Availability of Skilled Labour – 16% of the respondents (versus 23% in the previous quarter) have cited that availability of skilled manpower is a concern as there is a shortage of qualified labour in the country. Due to this, companies are unable to adhere to project deliveries.

Increase in Cost of Labour – 12% of the respondents cited that hiring locals is expensive as they demand higher salaries thus impacting the company's bottom line.

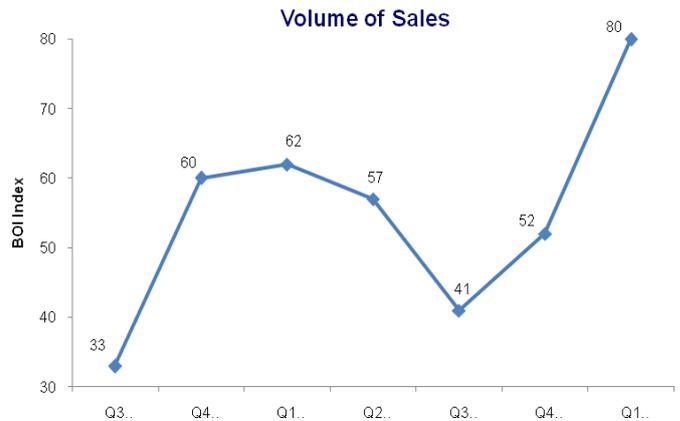
Government Policy/Regulations – 7% of the respondents have cited government policies and regulations affecting them in terms of acquiring visas and work permits for manpower from other countries. The visa acquiring process is also difficult and lengthy in nature.

Other concerns include reduction in production and sales levels due to unavailability of labour and project delays due to time required for getting new skilled workers.

Appendix: Hydrocarbon Sector

Volume of Sales

The BOI for the Volume of Sales parameter for the hydrocarbon sector has soared 28 points to 80 in Q1 2014 from 52 in the previous quarter; a majority 80% of the respondents have cited an increase in their sales volumes on the back of better economic conditions especially in the oil and gas sector. The remaining 20% do not expect any change in their sales volumes.

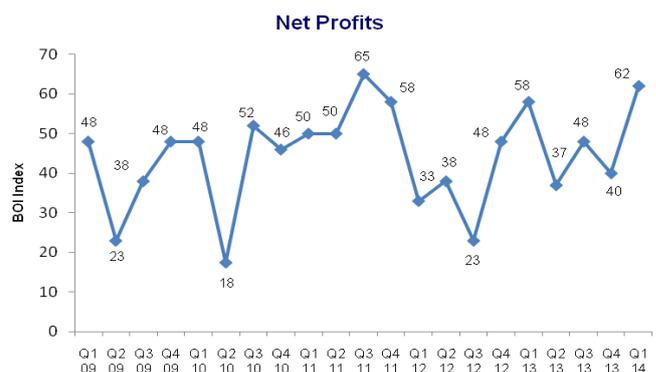


Level of Selling Prices



The BOI for the Level of Selling Prices parameter has jumped to 35 in Q1 2014 from the previous quarter's tally of 13. Most (55%) of the hydrocarbon sector respondents do not expect any change in price levels while 40% foresee selling prices to increase due to rising raw material and labour costs. The remaining 5% of the sector respondent expect prices to decrease due to market competition.

Net Profits



The BOI for the Net Profit parameter is in line with the

rise in the Volume of Sales and the Level of Selling Prices parameters; the BOI for the Net Profit parameter has gained sharply to 62 in the current quarter up from 40 in the previous quarter. Around 65% of the hydrocarbon sector respondents foresee an increase in their profitability levels supported by an increase in the number of projects. While 32% expect no change in the bottom line, a minor 3% expect profits to decline due to a reduction in their selling price levels.

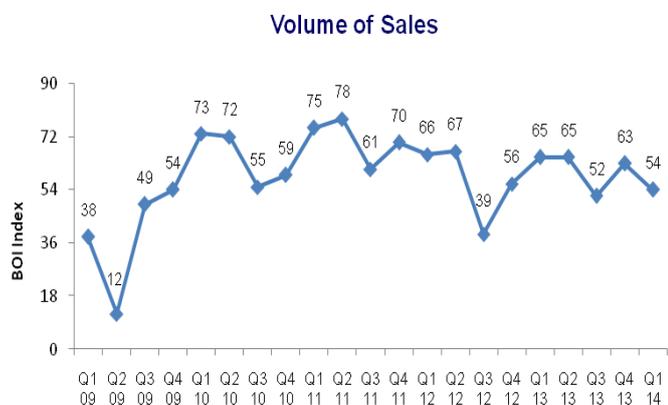
Number of Employees



The BOI for the Number of Employees for the hydrocarbon sector has gained 16 points to 68 in Q1 2014 from 52 in the previous quarter; 68% of the sector respondents will up their headcount to handle increased business volumes due to expansionary plans and to new projects, while the remaining 32% will not change their employee count as they are satisfied with their current workforce.

Non-hydrocarbon sector

Volume of Sales

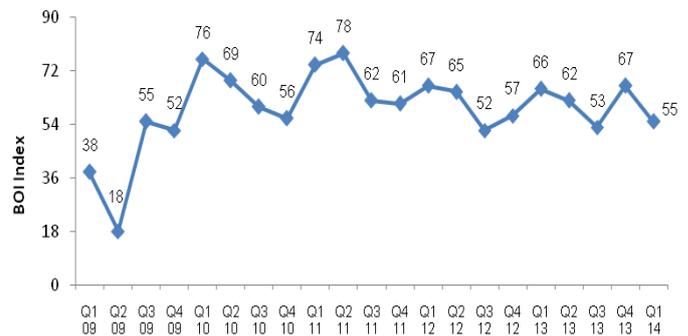


The BOI for the Volume of Sales parameter for the non-hydrocarbon sector has moderated by 9 points to 54 in Q1 2014 from 63 in the previous quarter. 64% of the sector respondents foresee an increase in sales volumes on

the back of increased demand for products especially from new markets and more number of projects. While 26% of the non-hydrocarbon businesses expect no change in sales volume another 10% expect volumes to decrease due to market competition and shortage of manpower.

New Orders

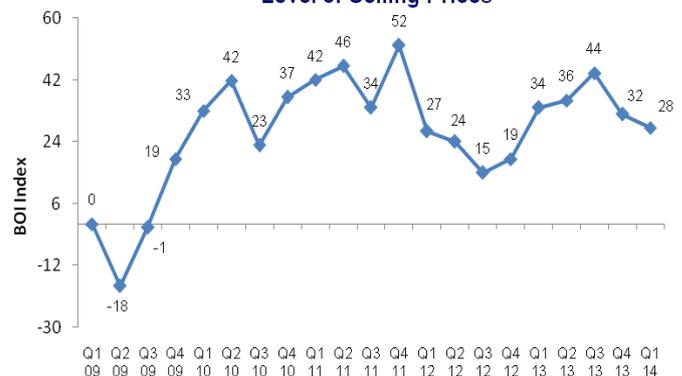
New Orders



The BOI for the New Orders parameter for the non-hydrocarbon sector stands at 55 in Q1 2014 compared to 67 in the previous quarter. 61% of the sector respondents expect an increase in their order book status as businesses expect new projects and are foraying into new markets through their expansion plans. 33% do not foresee any change in new orders due to existing contracts while 6% expect orders to decrease due to market competition.

Level of Selling Prices

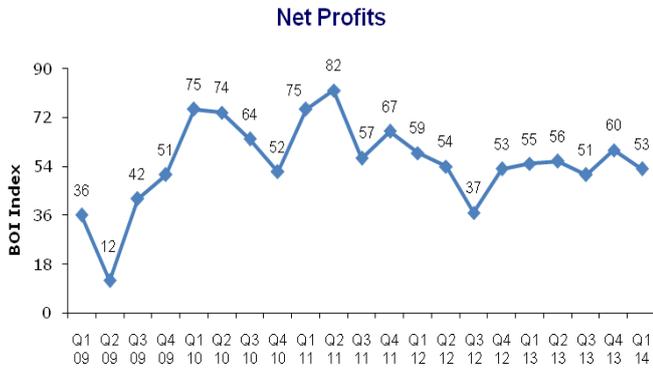
Level of Selling Prices



The BOI for the Level of Selling Prices parameter has tracked sideways to 28 in the current quarter from 32 in the previous quarter. A maximum 62% of the non-hydrocarbon sector respondents expect selling prices to remain intact due to market competition. While 33% of the respondents will increase their selling prices due to increasing competition and overheads such as raw materials, cost of production and labour, the remaining 5% will

decrease their prices to boost sales by pricing products competitively.

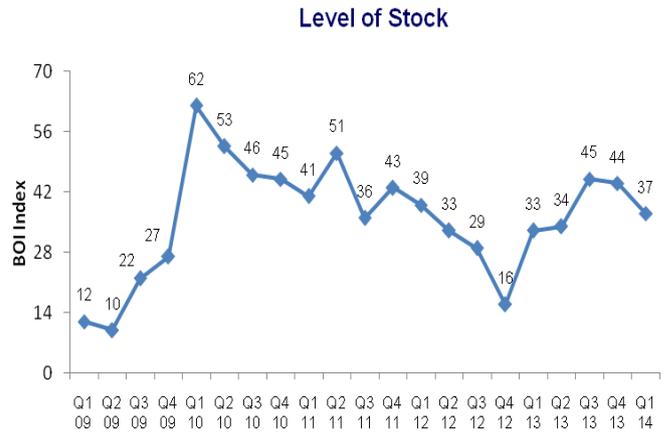
Net Profits



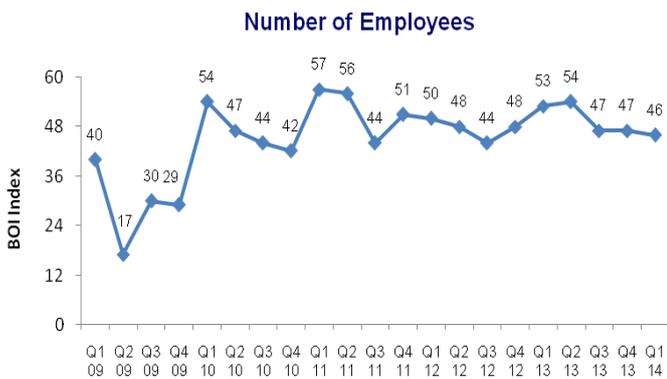
The BOI for the Net Profits parameter moderated to 53 in Q1 2014 from 60 in the previous quarter. However, optimism levels are high as a majority (62%) of the non-hydrocarbon sector respondents expect profitability to increase on the back of new projects, increased demand for products/ services and business expansion plans. 29% foresee no change in net profits while the remaining 9% expect a decline in profitability.

Level of Stock

The BOI for Level of Stock stands at 37 in Q1 2014 from 44 in the previous quarter. Most of the sector respondents (51%) do not expect any change in inventory levels, while 43% will increase stock levels on the back of increased demand due to expansionary plans and more projects.



Number of Employees



The BOI for the Number of Employees parameter for the non-hydrocarbon sector steadied to 46 this quarter from 47 in the previous quarter. Half (50%) of the sector respondents will up their headcount on expectations of new projects and business expansionary activities. 46% will not change their employee count while the remaining 4% will decrease the number of employees due to technological up-gradation / automation and visa related problems.

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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