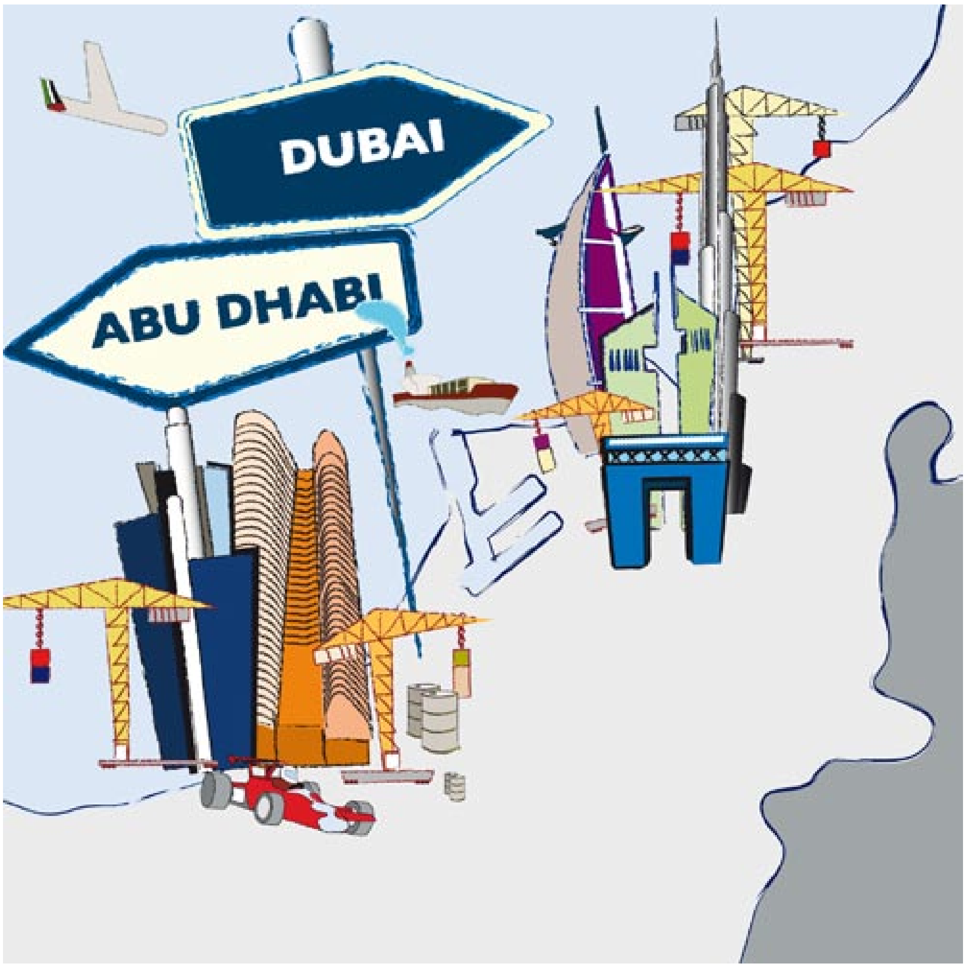
SHUAA CAPITAL PSC

Vision 2008

UAE Equity Markets

January 13th, 2008

UAE



- The equities market in the UAE witnessed a strong recovery in 2007 following the brutal losses recorded by the market in 2006. The recovery was driven by highly attractive market fundamentals, strong economic impetus and was further accentuated by international fund flows, which have significantly changed the market landscape in the UAE.

- We expect the UAE market to witness another positive year in 2008, on the back of positive valuation parameters and the likelihood of a market multiples expansion, sustained double digit corporate earnings growth, strength and diversity of economic growth engines, the impact of continued negative real interest rates and generally positive momentum in the market. Our bottom up view remains positive, although slightly more guarded.

- Overall, we expect the UAE market to record gains of around 30% for the year. This expectation is highly sensitive to our core assumptions, with risks to the upside, including a more active primary market and improved accessibility, as well as to the downside, such as contagion from a global downturn in equity markets, diminishing foreign fund flows and worsening structural bottlenecks.

Contents

Highlights

- The equities market in the UAE witnessed a strong recovery in 2007, with the SC UAE Index recording a gain of 47% for the year, following the brutal losses recorded by the market in 2006. The performance recorded by the market was in-line with that of global emerging markets as well as with the broad recovery witnessed by equity markets in the Gulf, albeit slightly ahead of both.

- The strong market recovery was driven by highly attractive market fundamentals, strong and sustained economic growth together with high domestic liquidity levels, a return to double digit corporate earnings growth rates as well as negative real interest rates and resultant asset price inflation. The positive performance was further accentuated by international fund flows which have since significantly changed the market landscape in the UAE.

- While all major listed companies on the market participated in the positive performance, there were clear themes that outperformed. They included the real estate and construction sector as well as relatively new listings such as Dubai Financial Market. Of the two largest companies in the market, Etisalat managed to marginally outperform, while Emaar Properties clearly underperformed.

- Key trends and developments that emerged during the year included increased dispersion of trading activity among a broader range of listed stocks, a clear change in investor profile with the entry of foreign institutional investors as a highly influential participant as well as emerging correlation with global equity markets.

- Aggregate corporate earnings growth for 2007 should come in at around 25%, after having grown by only 4% in 2006. This growth was driven by strong operational growth across most sectors, as well as impact of asset price inflation on profitability.

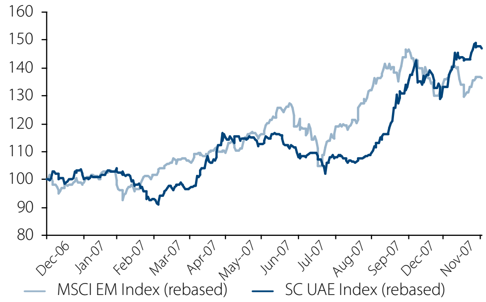
- We expect the UAE market to witness another positive year in 2008, on the back of positive valuation parameters and the likelihood of a market multiples expansion, sustained double digit corporate earnings growth, strength and diversity of economic growth engines, the impact of continued negative real interest rates and generally positive momentum in the market. Our bottom up view remains positive, although slightly more guarded.

- Overall, we expect the UAE market to record gains of around 30% for the year, although this expectation is highly sensitive to our core assumptions. Risks to the upside include the development of a more active primary market, improvement of accessibility to the market and the possibility of inclusion into the MSCI EM Index.

- Downside risks to our market performance expectations include possible contagion from a global downturn in equity markets, diminishing foreign fund flows due to accessibility issues or a rotation out of the UAE into alternative regional markets, as well impact of structural bottlenecks in the economy on corporate performance.

Market performance 2007

The equities market in the UAE witnessed a strong recovery in 2007, with the SC UAE Index recording a gain of 47% for the year, following the brutal losses recorded by the market in 2006, which had culminated in a decline of 42% for the benchmark. The performance recorded by the market was in-line with that of global emerging markets as well as with the broad recovery witnessed by equity markets in the Gulf, albeit slightly ahead of both. In comparison the MSCI Emerging Markets Index recorded a gain of 36.6% for the year while the SC GCC Index gained 43.4% over the same period. The recovery, which we had anticipated, was underpinned by key economic and corporate developments, and was further accentuated by international fund flows which, in a relatively short period of time, have significantly changed the market landscape in the UAE.



Source: Bloomberg, SHUAA Capital

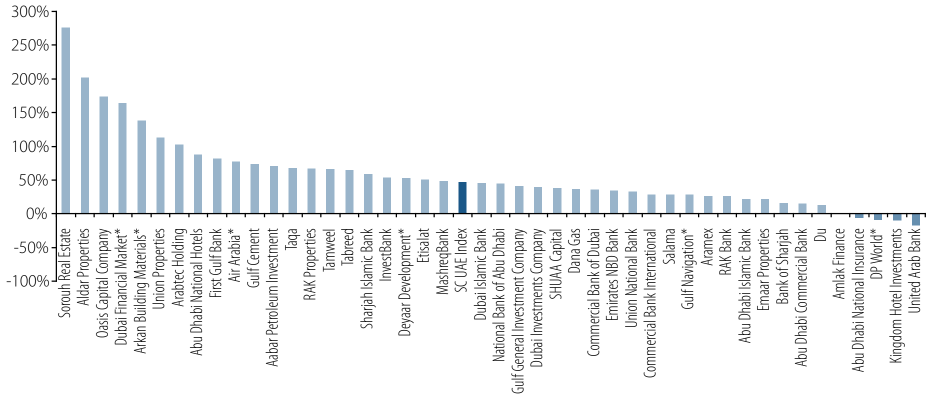
We believe that key drivers of the market performance for the year included:

- Highly attractive market fundamentals at the trough of the market crash in 2006
- Strong and sustained economic growth, together with high domestic liquidity levels
- A return to double digit corporate earnings growth rates, following a market crash induced slowdown.
- Negative real interest rates, and the resultant asset price inflation, affecting both equity prices as well as real estate prices.
- Significant international fund flows into the market, due to the relative attractiveness of the market compared to other leading global emerging markets
- A broad based recovery across all Gulf based markets (with gains ranging between 23% in Bahrain and 64% in Oman), as well as a strong year for emerging markets globally (a fact made more significant by increased international participation in the market).
- Positive speculative pressure on the UAE Dirham in anticipation of a revision to the USD peg, and resultant accumulation of Dirham denominated assets
- Other confidence building developments, including the continued appreciation in oil prices, retracting fears of a real estate market softening in Dubai and the subsiding risk of a military standoff in Iran.

Components of the rise

Almost all major listed companies on the market participated in the positive performance. However, there were distinct themes that clearly outperformed. The two best performing stocks in the UAE were ADSM listed real estate developers Sorouh Real Estate and Aldar Properties, reflecting high expectations associated with recent developments in Abu Dhabi, as well as recognition of the significant discount both companies had been trading at compared to the value of their respective land bank holdings in Abu Dhabi. The real estate and construction theme was very prominent during 2007, with Arkan Building Materials, Arabtec and Union Properties all among the top ten performers for the year, and all recording gains of over 100% for the period. The stock of the Dubai Financial Market, which was listed in March of 2007, was also among the stocks to clearly outperform the benchmark, and was incidentally the best performing stock listed on the DFM. The stock had gradually taken the lead among Dubai listed stocks, as historic market bellwether, Emaar Properties, clearly underperformed. Market heavyweight and incumbent telecom operator Etisalat managed to marginally outperform as investors awarded the company for success in its regional strategy and strong profitability growth despite impending competition in its home market.

2007 performance (largest 45 companies)



Source: SHUAA Capital

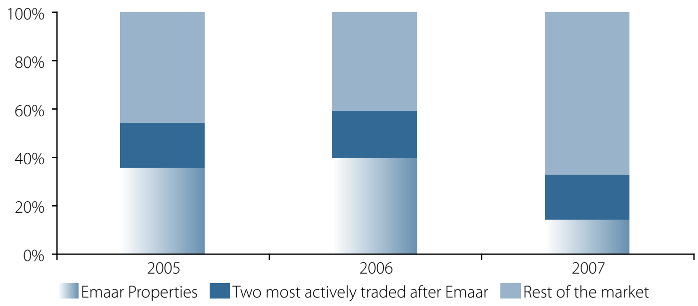
The banking sector underperformed on average, with First Gulf Bank a clear exception having gained over 80% for the year, while Dubai Islamic Bank and National Bank of Abu Dhabi were on par with the benchmark. Besides Emaar Properties, other actively traded listings to clearly underperform included Du, the second domestic telecom operator, as well as home finance company Amlak Finance, which ended the year flat. DP World, the largest new listing in the UAE during 2007 and the third largest listed company in the country by market capitalization, ended the year over 8% lower after having listed on the DIFX in November.

Key emerging trends

A number of key developments and trends emerged on the UAE equity market front during 2007 that have had a significant impact on the market's performance during the year, and carry important implications for the market going forward

Dispersion of trading activity
While the equity market in the UAE has historically been reasonably active by emerging markets standards, trading activity was always highly concentrated among a small number of stocks, almost all of which were listed on the DFM.
In 2005, the three most actively traded stocks on the market represented 54% of total trading activity for the year, while in 2006 that figure rose to almost 60%, out of which trading on Emaar Properties alone accounted for a whopping 40%. In 2007 trading activity on the top three most active stocks represented only 33% of total trading activity, while Emaar Properties' share, although still the highest, declined significantly to around 14% of the total. Trading activity on ADSM listed stocks as a proportion of total activity also increased significantly from 17% in 2006 to 31% for the year.

Dispersion of trading activity in the UAE

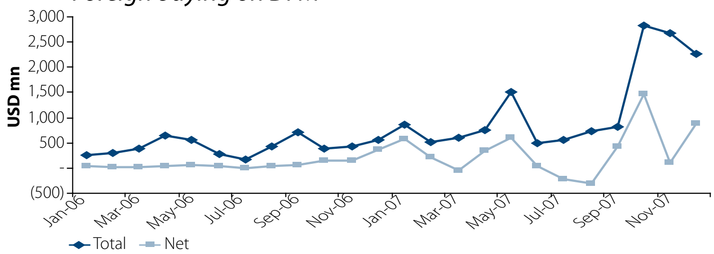


Source: DFM, ADSM, SHUAA Capital

Changing investor profile: the entry of the foreign institutional investor

The year 2007 signaled the point at which foreign fund flows into the UAE equity market became a key component of its activity and performance. The market clearly took up a position as the preferred entry point of foreign institutional investors into the previously unchartered waters of Gulf equity markets. We had anticipated that, given both attractive market fundamentals at the end of 2006 and supportive structural and regulatory developments, the UAE market would gradually establish itself as a conventional mainstream emerging market. However a confluence of factors that emerged during 2007, including the emergence of significant global liquidity looking for new opportunities, the increasing profile of the market in key money management centers globally, improving levels of corporate disclosure and communication, significant increase in presence and activity of major global banks in the UAE, as well as increasing research coverage on key listings in the market, substantially accelerated this trend to make foreign institutions the most influential participants in the market during 2007. Prior to the emergence this trend, the UAE market was primarily a domestic retail driven market, impacted less by fundamental value drivers and global trends than by domestic news flows, internal liquidity and speculative trading flows.

Foreign buying on DFM



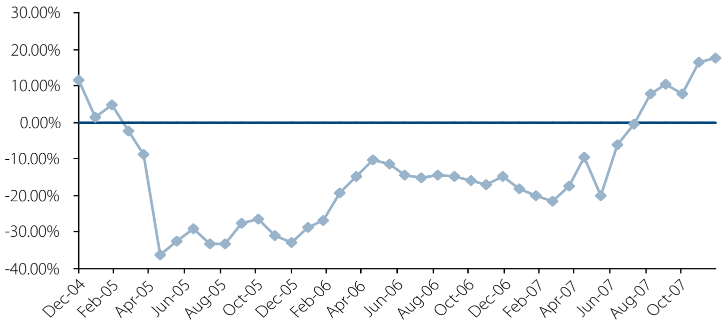
Source: DFM

Net direct foreign buying activity on the DFM increased almost five fold to USD 4.2 bn for the year, and significantly higher than that if you account for access to the market via access products and domestically managed funds. The ADSM does not release figures related to foreign activity on the market, but the profile should not be much different from that of the DFM, especially if you consider that Aldar Properties, the most actively traded stock on the ADSM and which had opened up 40% of its capital to foreign investors early in 2007, had reached its foreign investment limit by the end of the year. This corresponds to almost USD 2 bn in net foreign buying on Aldar shares alone.

Emerging correlation

A development related to the major increase in foreign institutional participation in the market has been the emergence of previously absent correlation to global equity markets in general, and emerging markets in particular. The degree of change is significant, especially if you consider that correlation of returns between the SC UAE Index and the MSCI EM Index for the year 2007 stood at 17% compared to -15% for 2006. It is even more significant when one considers that the performance of the UAE market has no impact on the emerging markets benchmark given the fact that it remains absent as a component of the benchmark. At 17%, the historic argument that the UAE market is a highly uncorrelated asset class to global equity markets becomes somewhat weaker.

12 month rolling correlation of weekly returns (SC UAE vs. MSCI EM)

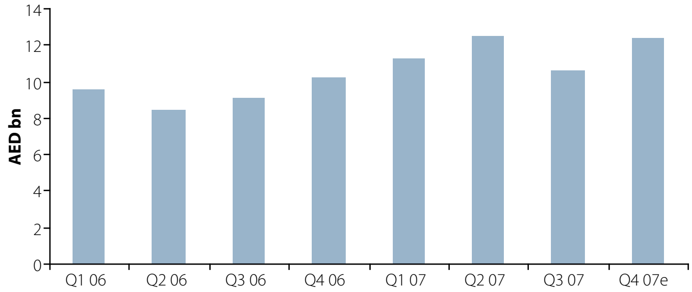


Source: Bloomberg, SHUAA Capital

Corporate earnings trends

The strength of corporate earnings growth in 2007 was clearly a major driver of the positive performance of the market for the year. After absorbing the impact of a severe equity market decline in 2006, earnings growth recovered significantly in 2007. We expect like-for-like aggregate corporate earnings to have grown by around 25% in 2007, after having grown by only 4% in 2006.

Aggregate quarterly earnings



Source: Company Financials, SHUAA Capital

While there were instances of one-off gains, such as over AED 500 mn recorded by Dubai Islamic Bank from the partial sale of its subsidiary Deyaar Development, as well as over AED 300 mn in profits generated by Dubai Financial Market from its own IPO, corporate profitability growth was predominantly driven by operational growth during the year. However, asset price inflation did have a visible contribution to profitability, especially in the case of companies holding significant real estate assets, such as Aldar Properties, Sorouh and First Gulf Bank, in which revaluation of property holdings was recorded via the income statement of the companies.

From a sector perspective, full year profitability of the banking sector is anticipated to have grown by around 22% for 2007. We expect the real estate and construction sector to have recorded growth of almost 20% for the same year, however this figure is dampened by flat earnings anticipated for Emaar Properties for the year. Excluding Emaar, the sector should record growth of around 52%. Strong full year earnings growth is also anticipated from the largest market constituent, Etisalat, almost 30% higher than profits recorded in 2006.

Market outlook 2008

We expect the UAE market to witness another positive year in 2008, possibly matching the performance achieved by the market in 2007. This will be driven by a sustained positive macroeconomic environment and a hyperactive private sector, continued impact of negative real interest rates and resultant asset price inflation, sustained growth in corporate profitability, an expansion in market trading multiples and continuing foreign fund flows into the market possibly crowned by inclusion into a key emerging markets benchmark such as the MSCI EM Index, and the associated investment flows such inclusion would generate. An important development in the market that would support such a positive scenario could be an overall deepening of the market to make it more representative of the underlying economy, and in the process opening up important but as of yet unavailable economic sectors and investment themes. This would involve a much more active primary issuance market and a concerted effort by the regulator to ease and support the process. Another positive development could be the overall improvement and alignment of general accessibility of the market to foreign participants. Overall, we expect the UAE market to record gains of around 30% in 2008, although this expectation is highly sensitive to our core assumptions.

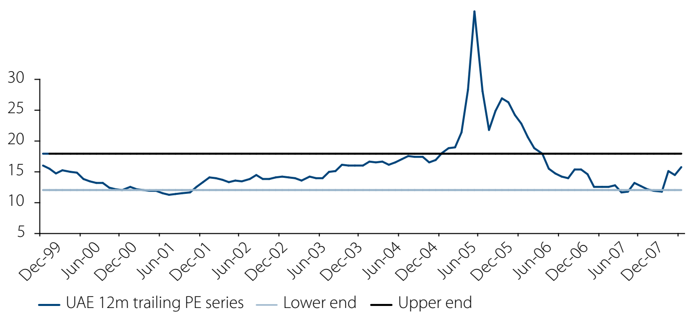
Among the visible risks to our expectation is the risk of contagion from a possible global equity markets retraction (especially now that the market has proven to be more correlated to global equities), a slowdown in foreign fund flows due to the fact that many of the most attractive shares on the market have reached their foreign shareholder limits, a potential rotation of investments out of the UAE and into Saudi Arabia and Kuwait as investment restrictions and impediments into both are eased, earnings disappointments from key market components, structural bottlenecks in the economy and resultant delays to projects and finally creeping inflationary pressure into consumer staples and the impact of that on disposable income and savings rates.

Core market drivers for 2008

Valuation parameters and multiples expansion

Aggregate earnings multiples in the market remain very much within the historic trading range. We view current 12m trailing multiples, at 15.7 times, as attractive both from a historic as well as a relative perspective given the anticipated period of sustained earnings growth, and the high quality of reported earnings compared to previous periods in the market's history. We also believe that there is a good case for multiple expansion towards the upper end of the market's historic range, on the back of positive momentum and drivers in the market. Given our anticipated aggregate earnings growth of 18% for 2008, the market would have to appreciate by around 35% to reach the higher end of the earnings multiple range by the end of the year.

From a relative perspective, aggregate earnings are expected to grow by around 25% and 18% for the years 2007 and 2008 respectively. This compares to consensus earnings growth expectations for the MSCI EM universe 21% and 15.5% respectively, suggesting the viability of an earnings multiple premium on the UAE compared to the emerging markets average. The MSCI EM index universe is currently trading at a 12m trailing consensus earnings multiple of 17.4 times.



Source: SHUAA Capital

Earnings growth

We expect aggregate earnings to grow by around 18% in 2008, benefitting from much of the same factors that drove earnings higher in 2007. These include continuing brisk growth in economic activity, significant growth in government spending on infrastructure projects, low interest rates and negative real interest rates, continued asset price inflation, significant new profitability contributions from regional ventures and varied industry specific drivers. We expect the real estate construction and construction materials sector to continue to record above average growth, as well as all companies with exposure to broad infrastructure spending in the country. We also believe that we will witness a strong year for the domestic banking sector, while the services sector with particular emphasis on transportation, will witness brisk growth in earnings. The telecommunications sector should benefit from both exceptional items impacting the profitability of Etisalat, as well as a reduction in losses recorded by Du. This anticipated double digit growth should be highly supportive of market performance in 2008, especially in light of the anticipated multiples expansion.

Economic engines

The increasing diversity of economic drivers in the market is proving to be a key factor, as government and private sector participation in the growth is equally evident. Growth capital expenditure by corporates, together with growing infrastructure spending by the state has given the economy a duality of drivers, with a clear direct impact on corporate performance. This duality extends to include a new developing theme, were Abu Dhabi is emerging as a key component and driver of the domestic non-oil economy, in addition to Dubai's historic role on this front. The oil sector, while certainly underwriting much of the government's spending, has taken a back seat at this stage. This expanding diversity of activity offers broader opportunity to the private sector in servicing the growth, and offers a hedge against a slowdown in any one component of the economy.

Negative real interest rate impact

The recent decline in domestic interest rates, on the back of a more expansionary monetary policy adopted by the Federal Reserve in the US, has resulted in very significant negative real interest rate environment in the UAE. This will prove to be highly conducive to inflation in equity prices for 2008. In addition to the direct impact on equity prices, the low interest rate environment will lower borrowing costs of corporates during a period of generally high capital expenditure. Impact on profitability will also stem from general asset price inflation induced by negative interest rates, as many companies in the UAE remain exposed to asset prices.

Positive momentum and hype

A confluence of headline grabbing economic growth rates, record oil prices, globally expanding and highly acquisitive companies and significantly increasing global exposure of the market, at a time of fears of slowdown in global growth rates, and faltering conventional emerging markets may prove to be among the most important drivers of fund flows into the UAE market in 2008. Assuming that the positive performance in the market will follow a conventional three year cycle, and that foreign flows will continue to gravitate towards an exciting new "frontier" then 2008 is almost guaranteed to be a continuation of the trend instigated in 2007.

Alternative drivers

Other potential drivers may include specific events or developments that could accelerate the anticipated gains on the market. Most of these developments relate directly to improving accessibility of the market to international participants. We sight expansion of foreign investment limits from the current maximum of 49% (a rumored development for 2008), the treatment of shareholders from the GCC as national shareholders rather than as foreign shareholders, in the process eliminating their crowding out effect over other international investors (also rumored to be under consideration), and finally the opening up of a number of sizable listings, such as Etisalat, to foreign participants (a highly anticipated and increasingly encouraged development).

Another potential catalyst relates to the emergence of a broader and more representative equity market, driven by a more active primary issuance. Many of the most important economic sectors in the country, including ones that have been primary beneficiaries of the economic growth witnessed in the country, remain absent from the market, and therefore absent as drivers of market performance. Conducive developments on the regulatory front, as well as increasing privatization activity during 2008 would have a visible impact on market performance and would help retain general interest in, and activity on, the market.

We also view inclusion of the market into key emerging markets benchmarks, such as the MSCI EM Index as a likely, and even overdue, development that would directly impact the degree of flows into the market. Many global emerging market investors remain absent from the UAE equity market due to strict adherence to a benchmark that does not feature the UAE as a component. At around USD 250 bn in total market capitalization, the market has the potential to be among the ten largest constituents of such a benchmark.

Some discrepancy from the bottom up

While our top down view on the market remains very positive, our bottom up view of listed companies presents some challenges. We believe that although many listed companies continue to present significant value, there are a number of leading companies which we believe have overshot during 2007, and are overvalued at this stage. We retain positive outstanding views on key companies in the real estate, construction, banking, telecom, utility transportation and services sectors. However we also retain a negative outstanding investment view for 2008 on one of the most prominent shares listed in the UAE, activity on which has been a key component of the market rally witnessed in 2007. We believe that the Dubai Financial Market company, the best performing stock listed on the DFM in 2007, is now significantly overvalued, and will underperform in 2008. We believe that for the market to achieve the positive returns we anticipate, a rotation into new market leaders has to occur, while new appealing listings have to emerge during the year.

Risks to monitor

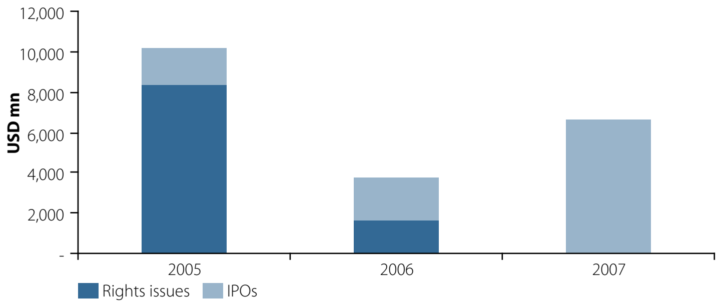
We believe that the case for a positive performance by the market in 2008 is strong, however our 30% anticipated benchmark performance is highly sensitive to our assumptions and is partially event driven. We identify a number of risks to monitor that may have an impact on our expectations for the year:

- Possible contagion from a global downturn in equity markets, now that a degree of correlation to global equity markets is emerging. Consensus expectations of developed equity market performance seem somber, while deflating Chinese stocks over the past two months have already pushed average emerging market returns lower.
- Lack of progress on improving foreign accessibility to the market, causing foreign fund flows to diminish. This is particularly relevant now that a number of the most attractive plays on the market have reached their foreign investor limits
- A rotation by non-domestic investors out of the UAE market, and into the markets of Saudi Arabia and Kuwait as accessibility of both improves.
- Earnings disappointments by leading companies, especially that market expectations have risen significantly. Headline earnings growth figures remain very important as a driver for domestic investors
- Structural bottlenecks in the economy, causing significant delays to projects, with direct impact on corporate performance
- Creeping domestic inflation into consumer staples, and impact on consumption as domestic economic driver.

Primary market activity and outlook

Despite witnessing an overall reduction in total number of transactions in 2007, the primary market in the UAE witnessed significant activity and important new developments, and achieved a new record in terms of total size of initial public offerings. A total of USD 6.53 bn was raised in three public offerings in 2007, almost triple the figure recorded in 2006 despite floating only half the number of companies. Secondary capital raising through rights issues practically disappeared in 2007, with only USD 45 mn raised compared to USD 1.83 bn in 2006, as listed companies digested the significant capital raised over the preceding two years. However, a number of convertible bond offerings replaced rights issues, with two companies issuing a total of USD 709 mn in convertible bonds during the year.

Public equity issuance



Source: SHUAA Capital

Initial public offerings

The three initial public offerings witnessed in the UAE were in fact the three largest IPOs to be witnessed in the country to-date. The DP World offering at USD 4.96 bn, represented the largest offering to-date in the Gulf region and the third largest IPO of 2007 globally. It accounted for 76% of total funds raised in the UAE through public offerings for the year. While it was the only new offering to list on the DIFX, all three offerings were listed in Dubai, with the other two companies listing on the DFM. Appetite for offerings remained high, with all three offerings being oversubscribed, however there was an absence of overly inflated subscription levels, as banks tightened their IPO funding activities. While DP World was the only outright privatization, all three companies retained a component of either direct or indirect government ownership.

Date of offering	Issuer	Size of Offering (USD mn)	Representing	Listing
Mar	Air Arabia	699	55%	DFM
May	Deyaar Development	866	55%	DFM
Nov	DP World	4,963	23%	DIFX

Source: SHUAA Capital

Key developments

The domestic (DFM & ADSM) primary market in the UAE is set to witness significant and highly anticipated developments in 2008, including the lowering of the minimum size requirement for IPOs from 55% of capital to 45%, while family owned businesses will be allowed to float as little as 30% of their outstanding capital, although conditions for the latter seem highly restrictive at this stage, including a stipulation that family businesses have to have been in family hands for at least three generations. Other anticipated developments may relate to the adoption of generally more liberal policies related to public offerings, including allowing book building, less restrictive pricing mechanisms and allowing for secondary issuances (sale of existing shares) rather than just capital raising. All the above developments have already been adopted for listings on the DIFX, as well as in the neighboring market of Saudi Arabia.

Issuance outlook for 2008

The above mentioned developments, as well as the initiation of what seems to be a privatization program in Dubai, should bode well for the primary market in the UAE for 2008. We anticipate a significant increase in number of offerings for the year, possibly exceeding 10, across all three exchanges and including both privatizations and private company offerings. We believe that the total size of offerings should approach levels raised in 2007, although individual offering sizes are likely to be smaller. We also believe that a number of the listings will be from sectors that are either not represented currently in the market, or significantly underrepresented, included construction and engineering, retail, consumer, hospitality and infrastructure companies.

We believe that these new offerings will be essential in rejuvenating the market in 2008, as did such new listings as Air Arabia and the Dubai Financial Market for the market in 2007.

Banking sector review

The UAE banking sector crossed AED 1 tr in total assets for the first time as of September 2007, ranking it first in the GCC ahead of the Saudi Arabian banking sector. In 2007, 46 banks were operating in the UAE, 25 of which were foreign banks. A major event impacting the industry was the creation of a domestic banking champion following the merger of National Bank of Dubai and Emirates Bank International to create Emirates NBD. Apart from conventional commercial banks, five Islamic banks operate in the market, excluding the newly established Noor Islamic Bank (Islamic banking subsidiary of Dubai Holding which started operations in January 2008 with a network of 6 branches in Dubai) and Al Hilal Islamic Bank established in October 2007 in Abu Dhabi.

Estimated 2007 GDP	Deposits/ GDP	Loans/ GDP
UAE	96.4%	95.5%
Saudi Arabia	49.6%	40.3%
Oman	40.7%	39.0%
Qatar	63.9%	64.7%
Kuwait	58.9%	67.6%

Source: Central Banks, IIF

With loans to GDP of 95.5% and deposits to GDP of 96.4%, well above levels reported in other GCC countries, the UAE banking sector is characterized by greater financial depth. Reflecting sustained lending activity, loans and advances recorded a 25.2% growth in 9M 07 vs. 16.7% for deposits. The higher than expected growth of aggregated loan book of the banking system highlights the increasing reliance of banks on core spread income and a reduction in exposure to volatile capital markets-related revenues.

Growth of loans at a higher pace than deposits signals a narrowing of banks' liquidity. While, loans to deposits ratio went up from 92.3% in 2006 to 99.1% as of September 2007, we can anticipate further upward movement in the ratio, crossing the 100% mark by end 2007.

Concentration

Excluding NDB/ EBI merger, banking concentration amongst listed banks remains low, as reflected by the Herfindhal-Hirschman Index (Higher the HHI percentage the more concentrated the sector) which stands at 10% in 9M 07. However, adding Emirates NBD to our pool is clearly boosting concentration as HH1 goes up to 14%. Given the actual fragmentation of the market (which includes a large number of banks holding less than 2% of total assets), the profile of the UAE banking industry seems favourable for further consolidation among smaller banks. The Emirates NBD merger could also encourage other mergers to take place, especially among Abu Dhabi based banks.

Revenues and profitability

Aggregated net profits of listed banks amounted to AED 14.2 bn as of September 2007 (80% of the sector's total earnings) compared to AED 11.4 bn for the same period of the previous year, representing a 24.6% increase. This strong performance was mainly driven by growth in banks' core operations and diversification of their revenue streams, achieved despite the non recurrence of outstanding capital market related revenues recorded in 2006. It is worth noting that, excluding Emirates NBD, DIB reported the highest profitability in the sector at AED 1.89 bn, boosted by gains from the sale of a stake in Deyaar Development. Earnings of UAE listed banks in 2008 are expected to remain strong on the back of positive macroeconomic drivers, expanding opportunities for funding, and higher anticipated spreads.

Moody's rating

In December 2007, Moody's, in its UAE Banking System Outlook, highlighted rated banks' solid financials underpinned by a vibrant economy and a strong growth in a benign environment. However, the agency also pointed out the elevated credit risks associated with robust growth in the loan portfolio which may be tested in adverse economic conditions. Moody's expects strong financial fundamentals and fragmented franchises of UAE banks to grow in their pursuit of geographical expansion.

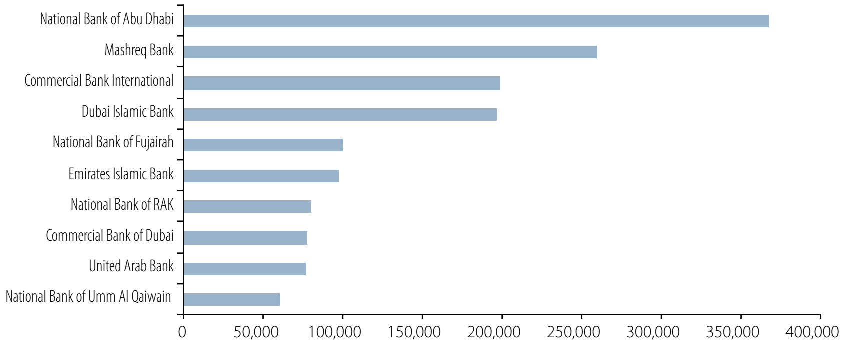
Core Banking Drivers

Macroeconomic and demographic factors
We expect real GDP levels in the UAE to grow at a rate of 7.5% in 2007, and 9.0% in 2008, with non-oil real GDP growing at around 10% for both periods, underpinning our expectation of strong growth in banking activity. The country's population is also expected to continue growing at around 6% in 2007 and 2008, enlarging the target customer base for banking products and services.

We estimate the banking sector to grow its deposits base by more than 22% in 2007, while the loan portfolio, it is expected to record even higher growth of almost 34% on the back of surging financing needs and increasing product innovation in the sector.

Capital increase among UAE banks
Aggregated share capital of UAE listed banks (excluding Emirates NBD) went up 7.2% in 9M 07 to AED 22.4 bn. Most capital increases have been made through bonus shares issues, except for Commercial Bank of Dubai which plans to increase its share capital by 50% through a rights issue to be subscribed over 3 instalments (one of which was in March 2007).

Capital increases in 9M 07 (in AED '000)



Source: SHUAA Capital

According to the UAE Central Bank, the capital adequacy ratio (CAR) of the UAE banking sector fell to 14.2% in 9M 07 vs. 16.7% in 2006. This fall mainly reflects the increasing appetite for risk by banks, inline with the surge in lending.

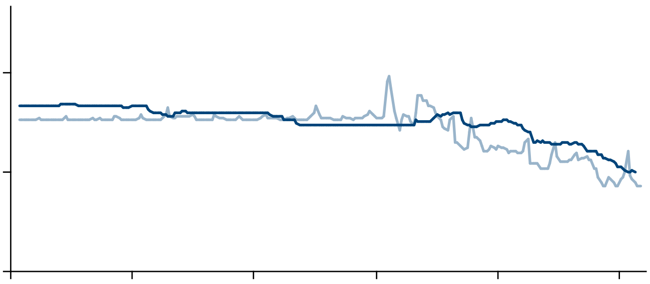
Branch density and expansion
Branch expansion was particularly intense in 9M 07 as 107 new branches were added to the total network vs. 73 for the FY 06 and 69 in FY 05. With a total of 744 branches (including 164 foreign branches) as of September 2007, banking network density in the UAE is among the highest in the region, with one branch for 6,030 people compared to one branch for more than 18,000 people in Saudi Arabia and more than 44,000 people in Egypt.

UAE banking system relatively sheltered from global credit crisis
2007 will be remembered by the global financial community as the year of the US subprime mortgage crisis, with total write offs and losses from the crisis estimated at more than USD 80 bn to-date. In the GCC, subprime exposure proved to be minimal, and was estimated by Standard & Poor's to be less than 1% of banks' total assets. This is due to 1) the strong regional growth left GCC banks with little incentive to invest abroad, and 2) the relatively low level of experience in managing products such as CDOs (collateralized debt obligation) and SIVs (special interest vehicles which can include mortgage backed securities) limiting their exposure to these products.

Consequently, most UAE banks' performance in 9M 07 was only marginally affected by the credit crisis, if at all. One exception was Abu Dhabi Commercial Bank which reported direct losses of AED 70 mn from devaluation of its investment portfolio.

Interest rate (EIBOR vs. LIBOR)
The UAE Inter Bank Offered Rate (EIBOR), which should move in step with the US Federal Reserve rate policy due to the fixed US Dollar peg, declined from 5.53% in December 2006 to 4.58% in December 2007. The US Federal Reserve has recently adopted an expansionary monetary policy to contain the impact of the credit crisis on the broader US economy. The decline in EIBOR during 2007 reflected the UAE Central Bank's rate cuts made in conjunction with the ones affected by the US Fed in 2007. EIBOR currently stands above LIBOR by almost 21 basis points (bp).

EIBOR vs. LIBOR (%)



Source: Reuters

With the UAE already experiencing strong money and credit growth, decreasing interest rates will only push money supply higher and exercise further pressure on domestic inflation. From a banking perspective yields will prove to be more resilient to decreasing rates while cost of funds is more sensitive. With an estimated 25 bps rate cut in Q1 08, we expect further widening of interest spreads to occur in 2008, although cost of funds will gradually come under greater pressure especially as banks rely increasingly on more expensive and longer-term resources to fund lending growth.

Looking Ahead
As competition in the local market intensifies, UAE banks are seeking regional expansion to spur growth and diversification of revenues. The regional footprint is being drawn through branch expansion as well as strategic acquisitions abroad. While 2007 witnessed Abu Dhabi Islamic Bank's entry into Egypt (via acquisition of a majority stake in Egyptian National Bank for Development), early 2008 is expected to herald ADCB's foray into Asia through the purchase of a 68% stake in Malaysia's fourth largest lender, RHB. This move into the Southeast Asia also indicates the gradual broadening of banks' geographical reach beyond neighboring markets. However, core performance and growth will continue to be dominated by expanding domestic activity and developments.

Real estate sector review

Foreigners at the gate

Over the past three years we have seen both Dubai and Abu Dhabi introduce new property laws, processes and procedures aimed at increasing real estate investor rights, investment opportunities and facilitate the investment process.

These changes include new property ownership laws allowing foreign ownership of property in both emirates, the introduction of the escrow account framework in Dubai to protect investors/buyers and Abu Dhabi allowing foreigners to trade in listed Abu Dhabi based real estate companies. Together these changes effectively opened the gates to resident and non-resident foreigners seeking investment opportunities in the UAE real estate sector.

Nominal GDP continued to expand while the population grew at an annual rate of 6-7%, driven by the increasing influx of expatriates, who make up around 90% of the population today. Investment in supply and demand for real estate continued to expand, and Abu Dhabi emerged as a viable alternative to Dubai.

Residential segment

The residential segment continues to be the premier destination for real estate investments in the UAE, with Dubai, and increasingly Abu Dhabi, being the major attractions. Over the past year residential property prices and rents have continued to increase fuelled by growing demand, supply delays and a degree of incompatibility between supply characteristics and the demand profile.

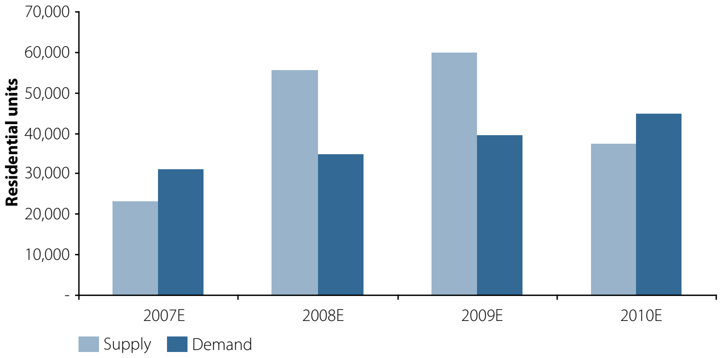
Of course the Dubai and Abu Dhabi scenarios are not identical. Abu Dhabi is witnessing a similar pace in demand growth to Dubai's, with one major difference, no material supply before 2010. The first is anticipated to move into a stabilization mode with easing prices targeting the high-end apartments segment, Abu Dhabi is simply shifting into full acceleration.

Property prices have reached new highs, with downtown Dubai properties selling in the range of AED 25,000-30,000 per sqm up around 30% over the past 12 months. Average property prices in Dubai are estimated to have increased by around 15-20% in 2007. Properties in Abu Dhabi are being launched in the range of AED 12,000-20,000 per sqm.

Occupancy levels in both cities remain around the 98% level, meanwhile rents increased in Dubai by 15-20% and around 20-25% in Abu Dhabi, with a 7% rent cap in place in both Emirates. Dubai knocked off a further 2% from the rent cap last week, bringing it down to 5%. Both governments seem to be trying to hold back rent inflation, but a mixture of construction delays, 'innovative' landlords, low tenant awareness and lack of proactive enforcement coupled with a flood of new tenants is pushing rent inflation well beyond the targeted caps.

A closer look at the market dynamics indicates that Dubai is expected to see supply of almost 56,000 new units in 2008, followed by around 60,000 in 2009. In 2010 we expect around 37,000 units to be delivered. This results in a total of 153,000 units over the next three years, taking into account our adjustment for potential delays. Our experience suggests that around 40-50% of planned supply is missing the target by roughly 12 months. We have assumed that 50% of planned supply will miss by 12 months in 2008, decreasing to 30% in 2010. We believe developers will gradually improve their delivery performance as the implementation of the escrow account framework gains momentum. The escrow account, in theory means, advances received for off-plan sales will be deposited with an approved third party financial institution. Funds will be released to developers in tune with progress in funding requirements for the specific project, subject to construction progress verification by an independent surveyor. The underlying assumptions is of course, that developers want the money sooner rather than later. However, the escrow account alone will not solve the entire problem, as construction capacity restraints is another major reason behind these delays. The result is probably less delays rather than no delays

Dubai additional residential unit supply and demand 2007-2010



Source: Colliers International, CBRE, SHUAA Capital

Our demand estimates indicate a cumulative demand for the 2008-2010 three year period of 119,500. Demand in 2008 is estimated to be almost 35,000 followed by 39,500 and 45,000 in 2009 and 2010 respectively.

Consequently, the mismatch between additional supply and demand is tilting towards excess supply, which we expect to soften property prices marginally in Dubai by 2009. With high-end apartments, outside the emerging downtown Dubai area, expected to be the premier target with a price correction in the range of 15-20%. Property prices have gone up by almost the same amount over the past 12 month alone.

A closer look at the composition of the coming supply indicates that more than 30% is made up of high-end apartments. A sub-segment has started to show signs of declining occupancy, a survey by Colliers International in Q4 07 found that around 30% of high-end apartments in the upscale Dubai Marina area remain vacant. The competition between the different high-end apartment offerings (Dubai Marina, Palm Jumeirah, Downtown Dubai etc) is heating up. A recent survey by a leading recruitment agency, found that those in the highest paid labor group, which earns more than AED 18,000 monthly, made up 11% of the total labor force. Even with cash rich foreign buyers boosting demand for this type of properties, it is expected that this segment will see average occupancy levels drop to around the 70-80% level. The exception will, however, be units around the emerging Downtown Dubai flanked by the DIFC and Business Bay. These properties are expected to find strong demand powered by the new central business district (CBD) rising in the area. Occupancy rates in the other segments are expected to stabilize around 90%.

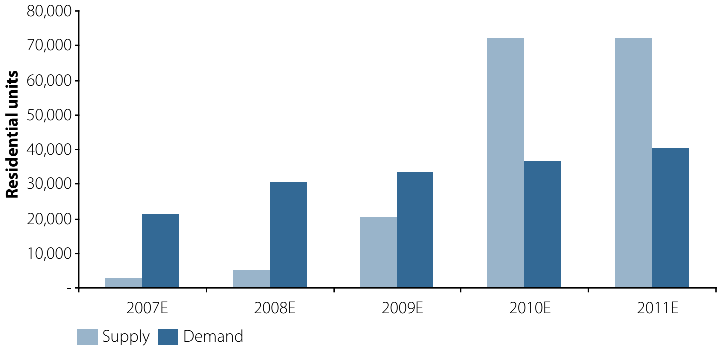
However, given the growth pace of the UAE population and economy, demand will be able to absorb most excess supply should we go back to 2006 and 2007 supply levels by 2011.

In Abu Dhabi the story is different, as supply is scarce and demand is rising. Landlords are sitting on gold, tenants are plenty and rents are sky rocketing. Abu Dhabi residential property stock is to date not community/master-plan based, of a lower grade than Dubai and typically excludes parking and rents are at a 10-20% discount to Dubai. In terms of value for money, the two are roughly the same. Abu Dhabi rents have increased by around 25% annually since 2004.

Despite all this growth, supply is expected to be limited in the run-up to 2010. As a result, rents will continue to rise at a rapid pace and could very well exceed those of Dubai over the next three years. Property prices will follow. Meanwhile pent-up demand will continue to pile up.

Our revised forecasts indicate rental rates and property prices should start softening in 2010 when we estimate that over 70,000 units will reach the market, followed by an almost equal number 2011. We have adjusted planned supply figures for construction delays. This is expected to lead to a decline in prevailing rental levels in 2010 and 2011 especially of current stock in reflection of the lower comparative qualities with new master planned supply, which will create new property classes. Property prices are also expected to be adjusted downwards, after an initial resistance to market forces, from the prevailing price levels in 2010-2011. We anticipate that pent-up demand will be freed-up with the price and rental rate correction and allow the market to balance. All in all we expect a healthy net gain post correction over today's property prices.

Abu Dhabi additional residential unit supply and demand 2007-2011



Source: Colliers International, CBRE, SHUAA Capital

Planned projects indicate that Abu Dhabi developers are over-focusing on high-end apartments, we are of the opinion that most demand is in the low-to-mid income groups. Consequently, opportunities are being missed in the lower income groups representing the majority of the population

Office Segment

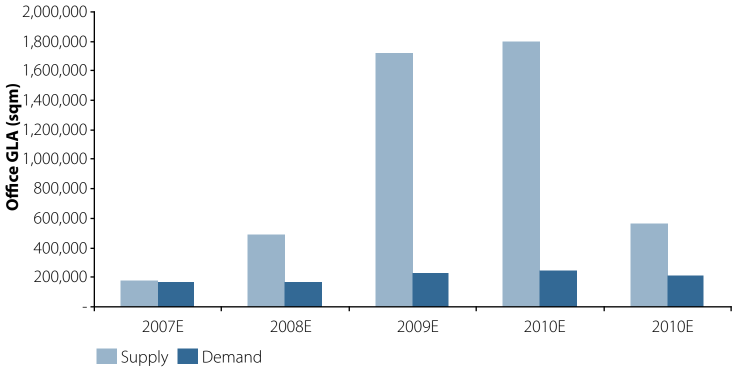
With UAE's twin-growth engines, Dubai and Abu Dhabi, continuing to record strong economic growth, attract new business and draw additional labor, demand for office space is on the rise.

Dubai's office market is continuing to suffer from a shortage of office space, especially in free zones like the DIFC. The waiting list for offices in the DIFC is reportedly so long that it takes anything from 12-24 months to get an office for qualified companies. Occupancy rates are around 98%.

Annual office rents are estimated to be in the range of AED 2,400-4,000 per sqm depending on location and office quality. The DIFC is reportedly the most expensive area closely followed by the rest of Sheikh Zayed Road. On the lower-end of the range it is areas like Bur Dubai and Deira that dominate, with typically older office buildings, lower standards and heavily traffic congestion.

Going forward, our estimates indicate oversupply starting in 2008 and culminating 2009 and 2010. However, we expect most of the new supply in 2008 to be picked up rapidly, given the supply shortage experienced over the past three years. Starting 2009 we expect to start witnessing a more rapid switch for many companies from the older CBD to the new one along Sheikh Zayed Road and further down to the TECOM area. However, these large supplies are expected to apply downward pressure on rents, especially around the Bur Dubai and Deira region.

Dubai annual additional office supply and demand 2007-2011

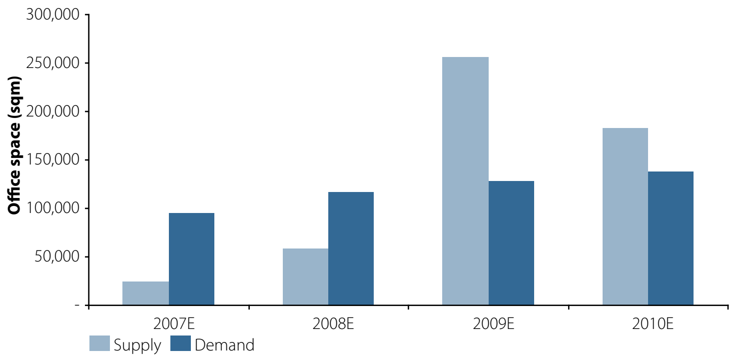


Source: Colliers International, CBRE, SHUAA Capital

Abu Dhabi's current office stock is estimated to be around 1.4 mn sqm. The city lacks a defined business district and suffers from a low standard office stock. Nevertheless, annual office rental rates in Abu Dhabi are estimated to be in the region of AED 2,500 per sqm, up around 20% over the past 12 months period. The office stock continues to enjoy full occupancy levels and companies are outgrowing their existing offices with no clear alternative.

Based on our revised projections, Abu Dhabi is expected to see limited supply of office space in 2008 before an expected jump in 2009 and 2010. We expect most office supply to be pre-let well in advance of completion and do not at this stage envisage a price correction. On the contrary, we expect prices to continue rising albeit at a lower pace in 2009 and 2010. Demand for modern purpose-built offices with dedicated parking capacity should remain high.

Abu Dhabi annual additional office supply and demand 2007-2010



Source: Colliers International, CBRE, SHUAA Capital

Telecom sector review

Federal Act N°1 of 1991… a revisit

The telecommunication sector in the UAE has historically been dominated by Etisalat. Etisalat's monopoly of the market effectively ended in February 2007 when the Emirates Integrated Telecommunication Company (operating under the banner Du) launched commercial services. Etisalat's monopoly in the UAE had been formalised by a federal act that guaranteed Etisalat's exclusivity over the telecom sector in exchange of a 50% net profit sharing with the government. The same act also defined Etisalat's shareholding structure with a minimum allocation of 60% of its capital to the government and banning foreigner's ownership shares in the operator.

In 1996, the UAE joined the world trade organization but managed to negotiate its way out of an immediate liberalization of the telecommunication sector. However, increased pressure lead the government to create the Supreme Committee for the Supervision of the Telecommunication Sector (SCSTS) whose responsibility was to create a regulatory authority with the mandate to introduce competition and manage the country's radio spectrum. The Telecommunication Regulatory Authority (TRA) which is the executive arm of the SCSTS currently regulates and supervises the telecommunication sector in the UAE. Full liberalization of the sector is expected to be achieved by 2015.

The launch

The second national operator Du was set up in 2005 to provide countrywide full telecommunication services. The company was awarded the second integrated license for AED 125.4 mn (USD 33.9 mn) with an initial plan to launch commercial services by Q2 06; the launch was delayed several times as Du and Etisalat failed to reach an interconnection agreement. In January 2007 the operator announced that an agreement with the incumbent was reached and that it is on time to launch mobile operations in February 2007 meeting the TRA's deadline.

Prior to commercial take-off, Du launched a number booking campaign, capturing 500,000 customers that were expected to pay for their SIM cards a day before commercial launch. However, despite interconnection agreements having been reached, connection glitches occurred, since the network was not yet fully interconnected with that of Etisalat. This rocky start has aroused subscriber wariness, which to-date the operator has failed to dissolve.

The official interconnection agreement was finally signed two months later in April, and even though it should have provided both telecom operators with equal access to all markets, Dubai's economic free zones are unequivocally assigned a Du subscription. Du's main competitive advantages relatively to Etisalat are:

- Per second billing formula.
- Specialized retail shops.

Du currently operates over a 3G enabled network while Etisalat completed its HSDPA network upgrade as of July 2007, covering 97% of the country's populated areas.

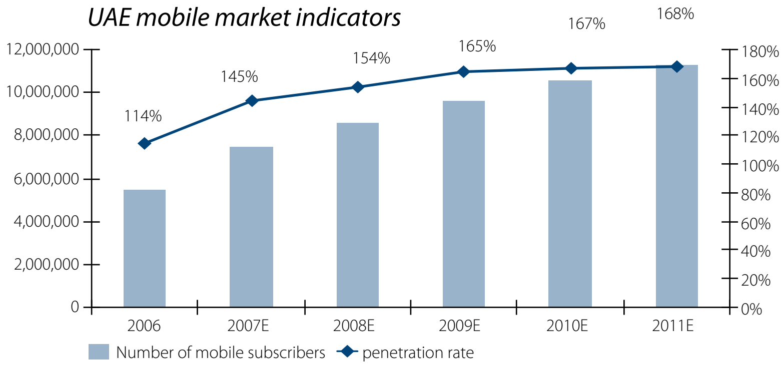
Market size

We estimate the telecommunication market in the UAE for 2007 to be worth AED 21.54 bn in terms of total revenues versus AED 16.29 bn in 2006, recording a 32% increase YoY. The total number of subscribers reached 7 million in Q3 07 recording a 34% increase YoY. In 2006 the UAE's mobile penetration level ranked 11th world-wide, putting in perspective the difficult task for the second entrant. However, the absence of an official definition of active subscribers, along with an outdated population census make the real mobile penetration rate difficult to asses. Du's subscriber up-take has demonstrated that the UAE market remains a growth market with enough room for two operators.

Key indicators

The Mobile Market

UAE mobile market indicators



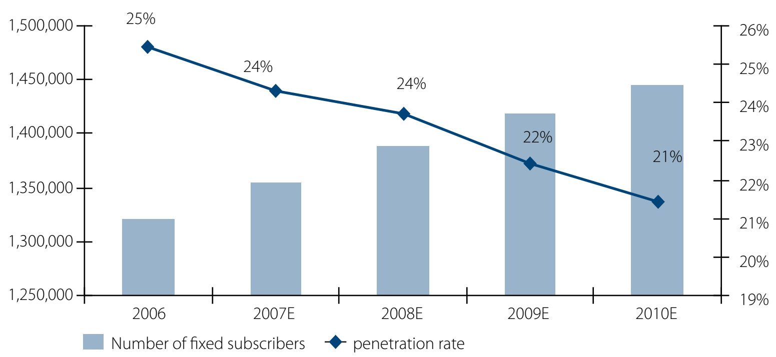
Source: ITU, IMF, SHUAA Capital

Subscriber growth in the UAE remains primarily driven by the ever-increasing inflow of expatriate human resources. One-time visitors also represent a relevant component of subscriber net additions. The average validity of a one time used SIM card is of 120 days for Etisalat, and ranges from three months to one year with Du, leading to the accounting of a subscriber's buffer ranging from 3 months to one year. The penetration rate for Q3 07 was 140% with Etisalat's subscriber base reaching 6.2 mn and that of Du around 880,000. We estimate that the total number of mobile subscribers will grow at a CAGR of 11% over the next four years.

In terms of revenue growth the main drivers will remain subscriber growth and value added services. The two operators are heavily leveraging on that front, releasing on average one new product per month. In March 2007 Etisalat announced that pre-paid subscribers are allowed to use 3G and 3.5G services without having to pay line rental or registration fees. We believe that the operator's decision to ease the entry barrier to these services is key to their take-up and diffusion and will reflect in the operator's revenues in the coming year.

Du is currently targeting the more price sensitive segment of the population trying to generate profit on volume, while Etisalat is focusing on more valuable customers; going forward, this will lead to a widening gap between the two operators' ARPS.
The fixed line market

UAE fixed line indicators



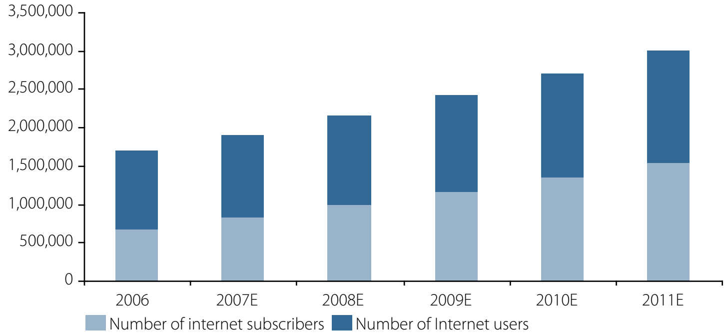
Source: ITU, IMF, SHUAA Capital

The total number of fixed lines in the UAE grew from 1.05 mn in 2001 to 1.32 mn in Q3 07. Fixed line penetration fell from 30% at the end of 2001 to 25% as of Q3 07 reflecting growth of fixed lines falling behind that of the country's population. Fixed-to-mobile substitution is the main factor affecting the decreasing take-up of fixed lines. Household penetration stood at 89% in Q3 07 implying limited growth on this front as well. We believe that household penetration will be following a downward trend reaching 75% by 2011.

An important driver of the UAE's wireline market is international calls. With the proportion of expatriates reaching almost 90% of the population, the cost of outgoing international calls is thoroughly accounted for. Du's network is linked to the FLAG and FALCON cable networks, which enables it to by-pass Etisalat's network allowing for flexibility in pricing. In fact, a product Du had been leveraging on is Call Select, which enables its subscribers to connect to Du's network and make cheaper international calls even if they originally have an Etisalat subscription.

The data segment

Internet indicators in the UAE



Source: ITU, IMF, SHUAA Capital

Growth in the number of Internet subscribers has been steady for the past five years as the total subscriber base expanded from 260,000 in 2001 to 810,000 in Q3 07. With an Internet penetration rate of 13.4% as of Q3 07, the UAE currently occupies the first place in the Arab world. The users' to subscribers ratio is estimated at 1.26 in 2007 and will reach 0.94 by 2011 as laptops and PC cards reach their hyper growth phase.

2008 and beyond

VoIP is currently illegal in the UAE, and we believe that the ban will remain in place as the operators are not ready to give up the revenue stream generated from international voice traffic. Moreover, in June 2007 the TRA reiterated that the provision of VoIP services will remain the exclusive domain of Etisalat and du. However, the UAE's target deadline to fully liberalize the telecommunication sector is 2015; by that time we expect the government to have issued ISP licenses, implemented complete mobile number portability, licensed VoIP providers and introduced a new operator. But there is still a long way to go.

The government's commitment to the sector liberalization adds pressure on Du to be fully equipped in terms of network, subscriber base and cash generation capacity, to face further competition. We expect Du's service and network quality to improve over the current year.

For the past three quarters, we have seen Etisalat and Du position their products in two different market segments, following different strategies. Du's subscriber up-take clearly displays the room the market offers for the second operator. Du has more recently set a target of 30% market share by 2008, one year ahead of its original schedule. However, with no official definition of active subscribers and no reporting requirement it is hard to assess the real market share of both the operators.

Anticipated events

With Du entering the market and breaking Etisalat's monopoly, the federal act that originally formalized Etisalat's monopoly will have to be revised including the clauses related to royalty fee and foreign ownership. These two developments are highly anticipated for 2008, and should have significant implications for Etisalt in particular.

Stock Guide

Sector	Company	Stock info				Performance			Valuation			
		Listing	RIC Code	Frgn limit	000'# of shares	Closing Price (AED)	performance 2007	Avg. daily traded USD (000')	Mkt Cap USD (000')	PE 07E	PE 08E	P/B
Commercial Banks	National Bank of Abu Dhabi	ADSM	NBAD.AD	25%	1,591,304	23.60	44.1%	1,267	10,224,551	15.9	13.6	3.4
	Emirates NBD	DFM	ENBD.DU	0%	4,393,198	14.75	34.7%	892	17,642,163	17.7		3.9
	RAK Bank	ADSM	RAKB.AD	20%	616,688	8.00	-	-	1,343,217	11.0		3.2
	National Bank of Umm Al Qaiwain	ADSM	NBQ.AD	0%	500,000	6.65	-	-	905,255	10.7		1.7
	Abu Dhabi Commercial Bank	ADSM	ADCB.AD	25%	4,000,000	6.65	14.8%	3,381	7,242,036	12.6	11.6	2.3
	Mashreq Bank	DFM	MASB.DU	0%	112,605	308.00	48.3%	90	9,442,540	19.2		3.3
	Commercial Bank of Dubai	DFM	CBD.DU	0%	1,129,476	11.45	35.5%	249	3,520,965	14.9		2.4
	Union National Bank	ADSM	UNB.AD	40%	1,562,500	10.00	32.5%	1,726	4,254,016	14.4	13.6	2.4
	First Gulf Bank	ADSM	FGB.AD	30%	1,250,000	23.80	81.6%	6,290	8,099,646	16.7	17.5	3.0
	Commercial Bank International	ADSM	CBI.AD	20%	1,231,611	3.14	28.2%	570	1,052,888	16.6		2.5
	InvestBank	ADSM	INVB.AD	20%	1,000,000	4.11	53.2%	141	1,118,977	15.4		2.1
	United Arab Bank	ADSM	UAB.AD	49%	508,000	7.00	-16.6%	334	968,146	17.7		2.7
	Bank of Sharjah	ADSM	BOS.AD	30%	1,250,000	3.60	15.3%	382	1,225,157	13.7		1.7
Islamic Banks	Abu Dhabi Islamic Bank	ADSM	ADIB.AD	0%	150,000	63.55	22.2%	7,242	2,595,290	14.8		1.9
	Sharjah Islamic Bank	ADSM	SIB.AD	20%	1,100,000	4.12	58.8%	1,221	1,233,869	19.8		1.8
	Dubai Islamic Bank	DFM	DISB.DU	15%	2,996,000	11.00	45.7%	18,936	8,972,502	14.2	13.3	3.4
Non-bank financials	Dubai Investments	DFM	DINV.DU	20%	2,170,740	5.84	39.1%	24,274	3,451,435	8.9		2.1
	Dubai Financial Market	DFM	DFM.DU	49%	8,000,000	6.52	163.8%	55,464	14,200,926	43.4	39.9	5.5
	Oasis International Leasing	ADSM	OILC.AD	49%	1,500,000	2.84	173.4%	22,299	1,159,815	35.1		2.3
	SHUAA Capital	DFM	SHUA.DU	49%	550,000	6.80	38.6%	1,319	1,018,241	17.8		2.0
	Gulf General Investment Company	DFM	GGIC.DU	49%	540,000	9.45	41.3%	396	1,389,328	9.8		2.0
	Amlak Finance	DFM	AMLK.DU	49%	1,500,000	5.51	0.0%	23,815	2,250,204	39.7		4.4
	Tamweel	DFM	TAML.DU	40%	1,000,000	6.92	65.9%	21,272	1,884,019	30.1		4.1
	Finance House	ADSM	FH.AD	0%	200,000	10.00	22.3%	255	544,514	13.5		2.0
Insurance	Abu Dhabi National Insurance	ADSM	ADNI.AD	49%	300,000	9.90	-9.4%	82	808,603	8.1		1.3
	Al Khazna Insurance	ADSM	AKIC.AD	0%	380,000	1.67	3.8%	97	172,774	17.4		1.0
	Emirates Insurance	ADSM	EIC.AD	49%	120,000	8.90	-30.2%	62	290,770	7.2		0.8
	Oman Insurance	DFM	OIC.DU	0%	282,750	9.80	-39.2%	16	754,411	9.5		1.4
	Al Ain Ahlia Insurance	ADSM	AAIC.AD	0%	12,000	146.00	14.5%	21	476,994	15.3		1.6
	Aman	DFM	AMAN.DU	0%	20,000	30.30	42.1%	2,518	164,988	34.9		2.5
	Salama Islamic Arab Insurance	DFM	IAIC.DU	25%	1,000,000	4.19	28.0%	11,391	1,140,757	30.6		2.8
Real Estate & Construction	Emaar Properties	DFM	EMAR.DU	49%	6,096,325	15.45	22.1%	81,612	25,062,485	14.3	11.2	2.7
	Union Properties	DFM	UPRO.DU	15%	2,782,526	5.26	113.0%	11,294	3,984,777	21.6	24.8	2.8
	Deyaar	DFM	DEYR.DU	0%	5,778,000	2.93	52.9%	50,660	4,609,186	35.3	26.1	2.7
	Aldar Properties	ADSM	ALDR.AD	40%	2,132,581	11.55	201.3%	32,847	6,706,046	11.3	7.4	4.1
	Sorouh Real Estate	ADSM	SOR.AD	20%	2,500,000	8.61	275.6%	21,400	5,860,332	20.9		5.4
	RAK Properties	ADSM	RPRO.AD	49%	2,000,000	2.80	67.4%	11,486	1,524,639	13.9		1.7
	Arabtec	DFM	ARTC.DU	49%	598,000	9.63	102.4%	7,623	1,567,857	12.3	9.9	4.4
	Abu Dhabi National Hotels	ADSM	ADNH.AD	25%	720,000	9.50	87.4%	695	1,862,238	15.7		2.3
	National Hotels & Tourism	ADSM	NCTH.AD	0%	100,000	9.08	37.7%	60	247,209	16.0		2.0
Light industries	Julphar	ADSM	GPHI.AD	49%	462,240	2.73	23.7%	106	343,565	9.0		1.3
	Abu Dhabi Shipbuilding	ADSM	ADSB.AD	25%	192,720	4.77	76.6%	94	250,279	36.2		3.6
	Foodco Holding	ADSM	FOOD.AD	49%	100,000	4.54	-8.1%	62	123,605	591.1		1.8
	Agthia	ADSM	AGTH.AD	25%	600,000	2.26	58.5%	3,466	369,181	35.6		1.8
	R.A.K. Ceramics	ADSM	RKCE.AD	49%	465,316	5.05	-15.6%	48	639,762	14.0		1.5
	Abu Dhabi Nat. Building Materials Co.	ADSM	BILD.AD	25%	300,000	3.91	-2.0%	860	319,357	27.9		2.0
	Arkan Building Materials	ADSM	ARKN.AD	0%	1,750,000	3.93	138.6%	19,301	1,872,448	35.9		3.4
Cement	Union Cement & Associates plc.	ADSM	UCC.AD	49%	554,400	4.29	-8.2%	126	647,530	11.9		1.5
	Gulf Cement	ADSM	GCEM.AD	49%	713,997	6.46	73.2%	1,975	1,255,764	10.2		2.1
	RAK Cement	ADSM	RKCC.AD	49%	484,000	2.36	3.4%	4,006	310,991	18.4		1.3
	Fujeirah Cement	ADSM	FCI.AD	0%	275,816	4.50	13.4%	123	337,927	6.9		1.2
	Sharjah Cement	ADSM	SCID.AD	49%	439,068	3.75	43.5%	335	448,285	5.2		0.9
Services	National Maritime Dredging	ADSM	NMDC.AD	0%	169,000	8.25	90.6%	59	379,594	9.3		1.0
	Aabar Petroleum	ADSM	AABAR.AD	40%	900,000	4.72	70.5%	8,135	1,156,548	72.7		2.4
Transportation & Logistics	DP World ($)	DIFX	DPW.DI	100%	16,600,000	1.16	-8.5%	6,016	19,256,000	51.6	36.4	2.5
	Aramex	DFM	ARMX.DU	49%	1,100,000	3.27	26.7%	6,030	979,308	30.2		2.8
	Gulf Navigation	DFM	GNAV.DU	0%	1,655,000	1.71	-36.1%	22,300	770,501	31.2	9.3	1.6
	Air Arabia	DFM	AIRA.DU	49%	4,666,700	2.11	77.4%	26,203	2,680,843	26.4		2.0
	Abu Dhabi Aviation	ADSM	ADAV.AD	0%	438,048	3.60	55.2%	113	429,342	37.0		1.3
Utilities	Taqa	ADSM	TAQA.AD	0%	4,150,000	4.00	68.3%	7,662	4,519,466	32.7		2.6
	Dana Gas	ADSM	DANA.AD	49%	6,000,000	2.60	36.0%	10,236	4,247,209	162.5		2.3
	Tabreed	DFM	TABR.DU	49%	1,134,000	3.60	64.4%	6,548	1,111,462	57.5	43.8	3.0
Telecom	Etisalat	ADSM	ETEL.AD	0%	4,991,250	23.30	50.4%	6,299	31,662,435	15.2		4.9
	Du	DFM	DU.DU	22%	4,000,000	7.05	12.6%	11,721	7,677,648			10.6
Total								**565,502**	**242,762,816**			

Stock briefs

National Bank of Abu Dhabi

Outstanding recommendation:
BUY

RIC Code	NBAD.AD
Country	UAE
Exchange	Abu Dhabi Securities Market
Sector	Commercial Banking
Foreign Investor Limit	25%
Current Share Price (AED)	23.60
2007% change	44.1
52 week High	25.95
52 week Low	15.50
Mkt Cap (AED'000)	37,554,774
Mkt Cap (USD'000)	10,224,551
Number of outstanding shares ('000)	1,591,304
Est. Free Float	27%
PE 07E	15.9
PB 07E	3.4
Average daily traded value (USD '000)	1,267

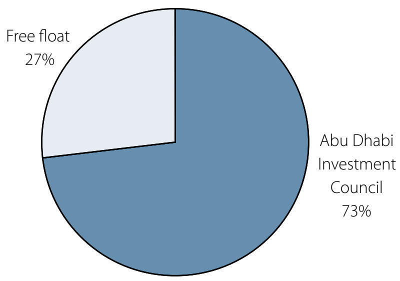
Company overview

Although position as the primary banker of the emirate of Abu Dhabi is preserved, National Bank of Abu Dhabi (NBAD) has been relegated to the second position in terms of total assets and third in net profit in 9M 07 following the merger that resulted in the creation of Emirates NBD. Nevertheless, NBAD's distribution network is the second largest in the country with 74 branches and 187 ATMs. In addition, the bank enjoys the widest international reach amongst UAE banks as its international banking activities are channeled through 33 branches (vs. 26 in 2006) in eight different countries with a particular focus on the Egyptian market.
Supported by the government of Abu Dhabi, its main shareholder, the bank has historically enjoyed privileged access to government related business. At the same time, it benefits from a strong reputation in the corporate banking segment, which accounted for more than 50% of the bank's loan commitments in 9M 07. It should be noted that the bank's return on equity (ROE) remains one of the highest among both regional and international peers. ROE stood at 24.9% as of September 2007, and we do not expect it to dip below that level in the medium term.

Financial and operating highlights

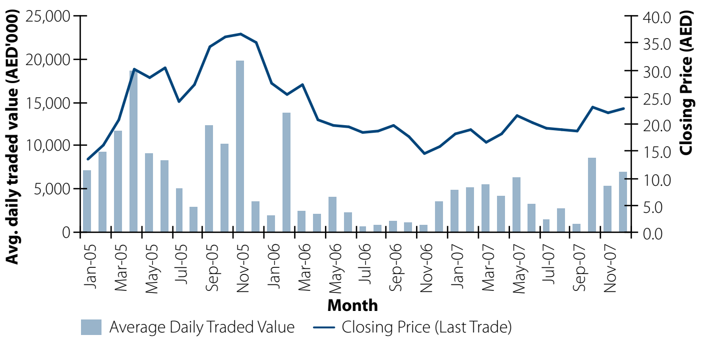
NBAD's results in 9M 07 highlighted the positive performance of its core businesses as the bank reported a net income up 7.6% y-o-y to reach AED 1.76 bn in 9M 07. Despite tighter liquidity position and higher cost of funds, net interest income was up 15.1% y-o-y, counterbalancing the relatively slow performance of fees and capital market related income. NBAD's net profit is expected to reach AED 2.36 bn in 2007 and AED 2.77 bn in 2008, representing y-o-y increases of 11.9% and 17.4% respectively.

Share ownership



Recent developments and outlook

NBAD will very likely continue to grow organically in order to serve its main goal: to become the leading banking institution in the Arab World. The bank's solid track record with the government and key players of the economy will help it take advantage of the huge growth opportunities in the country. Retail banking activity is also being reinforced as NBAD wishes to raise this segment's contribution to its overall profits. As for stock market related revenues, improving equity markets are expected to sustain non interest revenues going forward, boosted by the performance of brokerage and asset management businesses. Diversification of the bank's sources of revenues is also going to be supported by the launch of its Islamic banking and real estate subsidiaries in 2008 as also by the performance of its newly established private banking branch in Geneva. While the banking industry is slowly consolidating, we can expect NBAD also to seek acquisition opportunities, while also avoiding increasingly expensive financial assets as it wishes to maintain a high level of ROE.



Emirates NBD

Outstanding recommendation:
NOT RATED

Company overview

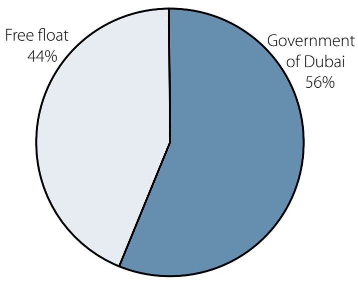
RIC Code	ENBD.DU
Country	UAE
Exchange	Dubai Financial Market
Sector	Commercial Banking
Foreign Investor Limit	5%
Current Share Price (AED)	14.75
2007% change	34.7
52 week High	17.8
52 week Low	9.6
Mkt Cap (AED'000)	64,799,666
Mkt Cap (USD'000)	17,642,163
Number of outstanding shares ('000)	4,393,198
Est. Free Float	44%
PE 07 Annualized	17.7
PB 07 current	3.9
Average daily traded value (USD '000)	892

Emirates National Bank of Dubai was formed in October 2007 with the merger of Emirates Bank International and National Bank of Dubai, two of UAE's top financial institutions. While reinforcing Dubai's position as a word-class financial centre and paving the way for further consolidation in the industry, the newly created banking major enjoys the widest asset base amongst regional peers with AED 228 bn in 9M 2007.
The merger created a complementary strategic fit between two banks held by the same majority shareholder, the government of Dubai. NBD had been traditionally focusing on corporate banking while EBI was more deeply rooted in domestic retail and corporate markets. As a result, Emirates NBD will benefit from value addition consequent to bringing together a highly diversified business mix. Emirates NBD is also set to capitalize on sizable revenue and cost synergies (estimated to be worth more than AED 350 mn), network consolidation and pricing advantages, as well as cross-selling opportunities.
In 2007, Emirates NBD enjoyed a combined network of 100 branches and 480 ATMs/ cash deposit machines spread across the UAE. In addition, it has a presence in Saudi Arabia, Qatar, the UK, USA, India, Iran and Singapore.

Financial and operating highlights

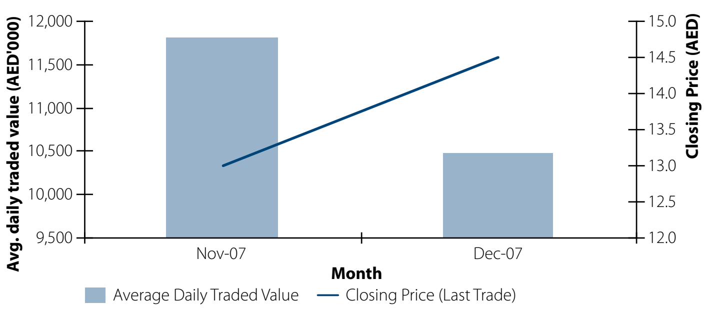
In 9M 07, NBD reported a net profit of AED 974 mn recording a yoy increase of 29%. The growth made possible by sustained lending activity as loan portfolio jumped 32% from December 2006, pushing up net interest income to AED 1.9 bn vs. AED 1.3 bn the previous year.
With regards to EBI, its net profit in 9M 07 amounted to AED 1.78 bn, determining a strong yoy growth of 30% despite the non recurrence of the strong IPO profits recorded in 9M 06. Operating income stood at AED 2.89 bn, up 37% yoy, reflecting the strong growth recorded by its business lines, especially Islamic financing activity.
Emirates NBD disclosed a net income of AED 4.8 bn and a consolidated net profit of AED 2.5 bn in 9M 07.

Share ownership



Recent developments and outlook

Emirates NBD probably enjoys the most supportive platform for domestic and regional growth as EBI and NBD both possess strong expertise in their respective business segments, command leading UAE banking franchises and have accumulated deep regional knowledge. The enhanced value of their joined forces will show through Emirates NBD's improved positioning in corporate, retail, Islamic and investment banking across the whole region.
In line with its ambitions, we should see Emirates NBD increase its international presence by entering key strategic markets and capture new growth opportunities. A second listing on an international bourse or the selling of global depositary receipts in 2009 might be considered to fund those expansion plans.



Abu Dhabi Commercial Bank

Outstanding recommendation:
NEUTRAL

Company overview

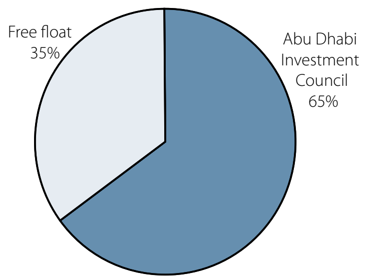
RIC Code	ADCB.AD
Country	UAE
Exchange	Abu Dhabi Securities Market
Sector	Commercial Banking
Foreign Investor Limit	25%
Current Share Price (AED)	6.65
2007% change	14.8
52 week High	7.98
52 week Low	5.20
Mkt Cap (AED'000)	26,600,000
Mkt Cap (USD'000)	7,242,036
Number of outstanding shares ('000)	4,000,000
Est. Free Float	35%
PE 07E	12.6
PB 07E	2.3
Average daily traded value (USD '000)	3,381

Founded in 1985, ADCB ranked third in total assets and fourth in net profits among the listed banks in the UAE as of September 07. Its country wide network comprises of 44 branches, of which two are in India, and 112 ATMs. The business profile of the bank highlights its expertise in the high net worth (HNW) and retail segments. Intensive efforts and investments have been put into creating new products, customer service and after sale processes in these two divisions to strengthen the bank's revitalized franchise. In addition, the bank's successful partnership and joint investment banking ventures with Australian investment bank, Macquarie, gave a fillip to its corporate finance capabilities, especially in the infrastructure sector. ADCB's acquisition of a 41% stake in Dubai-based Gulf Merchant Group (GMG), in September 2007, communicates its intention to forge strategic partnerships with other players to complement core competencies. This new venture should give fresh impetus to ADCB's investment banking services, with a particular focus on family businesses in the GCC and international clients.

Financial and operating highlights

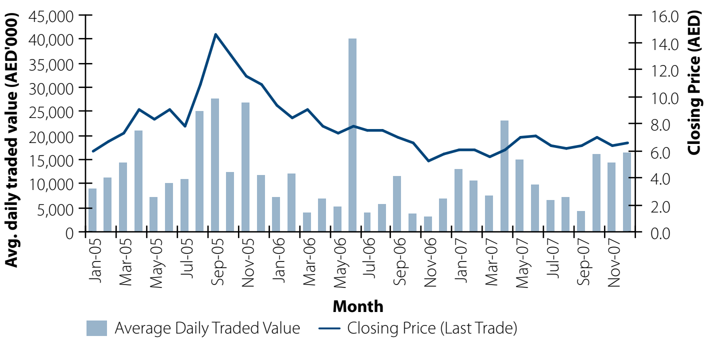
ADCB's 9M 07 net profit amounted to AED 1.58 bn, representing a 2% decline compared to 9M 2006 net profits which included significant IPO-related revenues. On the funding side, it was the only Abu Dhabi-based bank to witness double digit growth, at 27%, of its customer deposits in 9M 07 which nevertheless was insufficient to meet loans growth. Net income from operations in 9M 07 recorded a yoy growth of 3.4% despite a large non-recurrening income item in 2006, as the year was shaped by strong core banking activity. However ADCB was the only bank in the UAE to report impairment losses, of AED 70 mn, on collaterised debt obligations (CDOs) subsequent to the US subprime crisis. We expect the bank to report net income of AED 2.1 bn in 2007, on par with profitability in 2006.

Share ownership



Recent developments and outlook

ADCB expects to drive its assets growth in the medium term by keeping pace with the country's economic growth. The joint venture with Macquarie Bank should contribute to revenues by capturing opportunities and deal flows in the burgeoning regional infrastructure market. In order to expand beyond its home market, ADCB is currently in negotiations to acquire a 25% stake in Malaysia's fourth biggest lender RHB Capital (RHBC). The transaction, set to be completed early this year, should facilitate ADCB's entry into the Asian market and allow it to leverage RHBC's 200 branches across Malaysia. RHBC, currently, has a customer base of over four million. ADCB also plans to identify joint investment opportunities in financial services with its new partner, GMG, across a number of markets outside the UAE.



Union National Bank

Outstanding recommendation:
NEUTRAL

Company overview

RIC Code	UNB.AD
Country	UAE
Exchange	Abu Dhabi Securities Market
Sector	Commercial Banking
Foreign Investor Limit	40%
Current Share Price (AED)	10
2007% change	32.5
52 week High	10.10
52 week Low	5.75
Mkt Cap (AED'000)	15,625,000
Mkt Cap (USD'000)	4,254,016
Number of outstanding shares ('000)	1,562,500
Est. Free Float	40%
PE 07E	14.4
PB 07E	2.4
Average daily traded value (USD '000)	1,726

Formed in 1982, Union National Bank ranked seventh both in net profit and total assets amongst UAE banks for 9M 07. It enjoys a strong shareholding structure as both the governments of Dubai and Abu Dhabi own stakes in the bank. Historically, UNB focus has been on corporate banking until it decided to widen its portfolio to include retail banking and other business lines. As of today, its network in the UAE is 47 branches and more than 100 ATMs, in addition to the nine branches in Egypt of its new subsidiary Alexandria Commercial and Maritime Bank (ACMB). On the operating side, UNB has adopted total quality management concepts and methodologies, quality management systems and a business excellence framework.

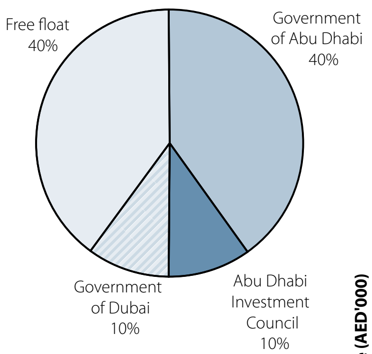
Financial and Operating Highlights

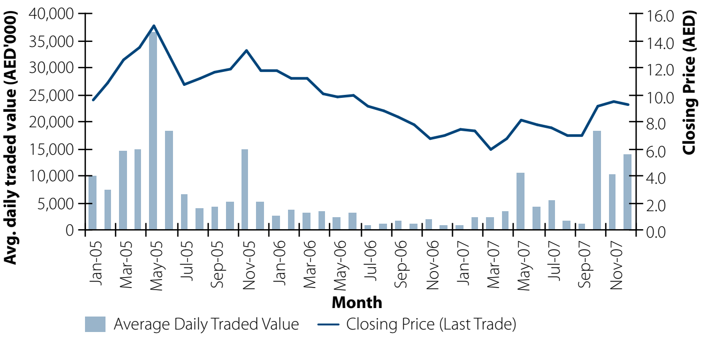
Net profit for 9M 07 amounted to AED 833 mn, remaining almost flat compared to the level in 9M 06, a satisfactory performance given that 2006 included outstanding capital market related income. The significant increase in loans (27% during 9M 07) was favored by the bank's vigorous loan syndication activity, fast growing Islamic products and sustained deal generation. Its comfortable liquidity position combined with its diversified funding mix should push its balance sheet growth going forward. We expect a net profit of AED 1 bn in 2007 and AED 1.15 bn in 2008.

Recent Developments and Outlook

UNB's business franchise is growing as the bank established a platform for growth in Egypt through the acquisition of Alexandria Commercial and Maritime Bank last year. This move in Egypt provides the bank with an opportunity to widen its geographical presence as well as accelerate its international growth drive. The emphasis on the Egyptian market and the positive prospects of the Egyptian banking industry should significantly drive UNB's growth in times ahead.
In more recent developments, Union National Bank has decided to open a representative office in Shanghai, setting it to be the first such step in China undertaken by a UAE bank. The office is intended to serve not only customers from the UAE but also from the broader region, including Egypt, Qatar and other global corporations seeking to engage in commerce with China. Additionally, in line with the path taken by its regional peer group, UNB is expected to establish its own real estate subsidiary in order to take advantage of the developing opportunities in the sector.

Share ownership





First Gulf Bank

Outstanding recommendation:
BUY

Company overview

RIC Code	FGB.AD
Country	UAE
Exchange	Abu Dhabi Securities Market
Sector	Commercial Banking
Foreign Investor Limit	30%
Current Share Price (AED)	23.80
2007% change	81.6
52 week High	24.05
52 week Low	10.95
Mkt Cap (AED'000)	29,750,000
Mkt Cap (USD'000)	8,099,646
Number of outstanding shares ('000)	1,250,000
Est. Free Float	89%
PE 07E	16.7
PB 07E	3.0
Average daily traded value (USD '000)	6,290

Amongst the most profitable banks in the UAE, First Gulf Bank (FGB) ranked 6th in total assets and net profit at 9M 07. Founded in 1979, the bank went through a large scale restructuring process to clean-up its asset portfolio in the late 90's. With a network limited to 15 branches and 24 ATMs across the country, the bank is predominantly a corporate lender. Its other operating lines include retail banking, treasury and investments, real estate activities and Islamic Banking.

First Gulf Bank's focus on the high growth real estate sector led to the establishment of a fully owned real estate holding company, Mismak, and the creation of joint ventures with other key players in the industry.

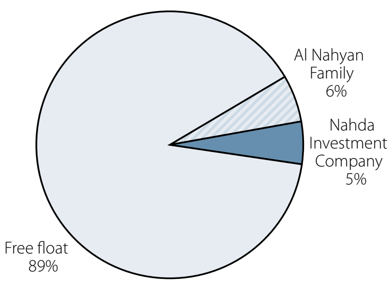
With regards to the bank's funding base, FGB decided to postpone the issuance of its medium term loan program in 2007 due to market volatility, but benefits from a USD 825 mn five-year syndicated club loan, arranged by international banks to finance projects in the energy, power and infrastructure sectors, which FGB secured recently.

Financial and operating highlights

FGB's net profits for 9M 07 amounted to AED 1.39 bn, representing a YoY increase of 21.5%. The performance was mainly on the back of strong and sound growth in lending activity, combined with gains from property revaluation worth AED 427mn as of September 2007. The structure of the bank's operating revenues is expected to be dominated by gains on revaluation of investment properties, reflecting rerating of real estate projects. Seen in context of the bank's aggressive growth strategy and its comfortable liquidity position, we believe FGB's net earnings will record a 16.3% increase in 2007.

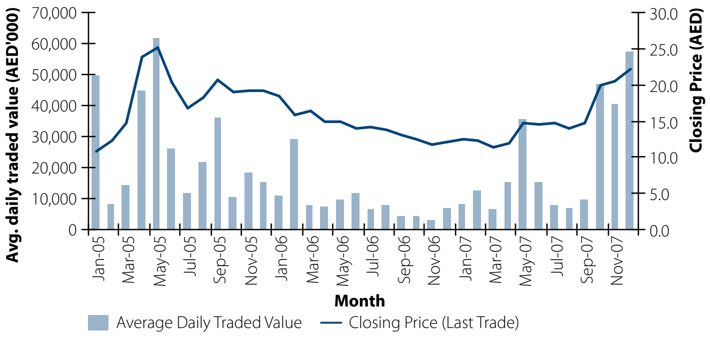
Recent developments and outlook

Share ownership



Fitch Rating Agency recently affirmed FGB's Long-term Issuer Default Rating (IDR) at A+ with Stable Outlook, Short-term IDR F1, Individual C and Support 1 and Support Rating Floor at A+. The rating agency also highlighted the bank's sound capitalization, good cost structure and growing franchise as well as its increasing appetite for market risk, especially in the property sector.

Parallel to the development of its activities within the UAE and its network expansion plan, FGB will focus on allocating its excess capital into tapping opportunities in the broader region. As a first foray into the North African market, the bank signed an MoU in Libya to open a fully fledged commercial bank and has applied for a license to operate in Algeria.



Abu Dhabi Islamic Bank

Outstanding recommendation:
NOT RATED

Company overview

RIC Code	ADIB.AD
Country	UAE
Exchange	Abu Dhabi Securities Market
Sector	Islamic Banking
Foreign Investor Limit	0%
Current Share Price (AED)	63.60
2007% change	22.2
52 week High	70.85
52 week Low	44.50
Mkt Cap (AED'000)	9,532,500
Mkt Cap (USD'000)	2,595,290
Number of outstanding shares ('000)	150,000
Est. Free Float	9%
PE 07 Annualized	14.8
PB 07E	1.9
Average daily traded value (USD '000)	7,242

Abu Dhabi Islamic Bank is ranked 8th among listed UAE bank in terms of total assets and 9th in net profit in 9M 07. The bank was established in 1997 as an Islamic Shariah compliant bank, and listed on the Abu Dhabi Securities Market soon after.
Its principal activities consist of Islamic financing and investment, commercial and other banking services in accordance with Islamic principles as approved by the Bank's Fatwa and Shariah supervisory board. These services are offered through four primary units: personal banking, corporate banking, investment banking, and real estate services. Headquartered in the emirate of Abu Dhabi, ADIB operated solely in the UAE through 43 branches until recently. The bank acquired a majority stake in the Egyptian National Bank for Development, boasting 100 branches in Egypt, in September 2007, significantly extending its geographical reach and network.

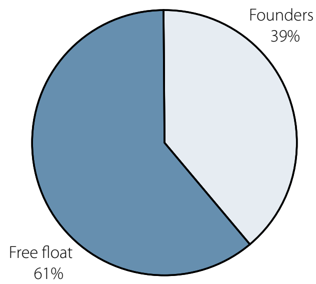
Financial and operating highlights

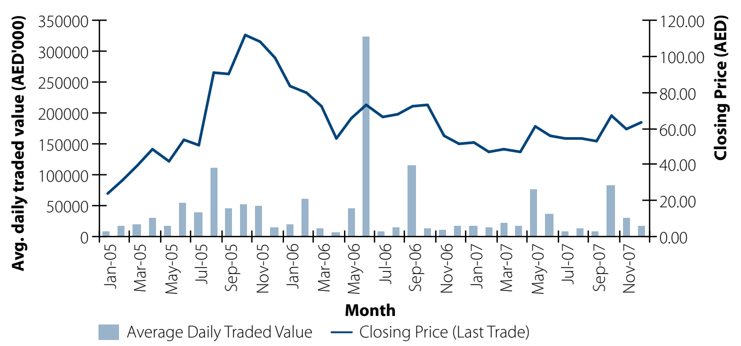
In 9M 07, ADIB reported net income after distribution to depositors of AED 483 mn, a 19% increase from 9M 06. The15% yoy growth of operating income coupled with 46% growth in non operating income, have been the main drivers in earnings growth. On the other hand, costs have also been rising with 46% yoy increase, brought about by increasing G&A expenses, which climbed by 94% during the period. As a result, cost to income ratio worsened from 19.5% for 9M 06 to 24.2% for 9M 07.

Recent developments and outlook

Following the formal bid in June 2007 by ADIB and Emirates International Investment Co. to acquire 100% of Egypt's National Bank for Development, the consortium managed to acquire a 51.2% stake in the Egyptian bank which became, in September, Abu Dhabi Islamic Bank Egypt. This was a major step towards realizing the bank's stated objectives of widening the customer base across geographies and communicating its Abu Dhabi-based Islamic banking brand to the same. In the domestic market, the mission of ADIB to become a premier Islamic financial institution is somewhat threatened by the increasing level of competition in its industry. The growing Islamic banking market in the UAE is expected to witness the entry of at least two new players in 2008: Noor Islamic Bank and Al Hilal Islamic Bank, the second of which will be established in the bank's home base of Abu Dhabi.

Share Ownership





Dubai Islamic Bank

Outstanding recommendation:
BUY

Company overview

RIC Code	DISB.DU
Country	UAE
Exchange	Dubai Financial Market
Sector	Islamic Banking
Foreign Investor Limit	15%
Current Share Price (AED)	11.00
2007% change	45.7
52 week High	11.75
52 week Low	6.03
Mkt Cap (AED'000)	32,956,000
Mkt Cap (USD'000)	8,972,502
Number of outstanding shares ('000)	2,996,000
Est. Free Float	57.6%
PE 07E	14.2
PB 07E	3.4
Average daily traded value (USD '000)	18,936

Dubai Islamic Bank (DIB), established in 1975 was one of the first Islamic banks to be set up worldwide. The bank has grown substantially over the years and now ranks 5th among the listed UAE banks in terms of assets and shareholders equity. Its profitability has witnessed phenomenal growth, growing ten times, from AED 160 mn in 2001 to AED 1.56 bn in 2006, within a short span of five years.

Retail banking and real estate are the major areas of strength for DIB contributing more than 50% of operating income in 2007. The bank is a leader in real estate financing in UAE and has been successful in establishing a number of subsidiaries and associates that operate in real estate related business. This includes Tamweel, a leading provider of mortgage finance in the UAE, and Deyaar Development, a large Dubai-based real estate development company

Financial and operating highlights

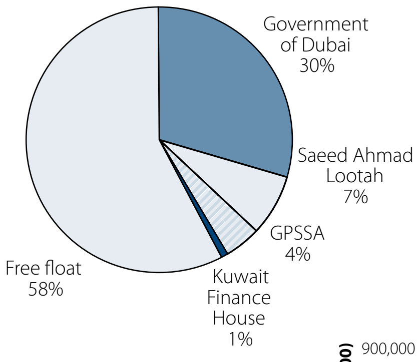
In 9M 07, DIB's net profit stood at AED 1.89 bn, recording a yoy increase of more than 85%. Despite higher cost of funds, normalized 9M 07 profit (excluding gains on transfer of stake in Deyaar Development) recorded an increase of 20.6%, reflecting strong core performance of the bank. In addition, the bank has maintained a competitive level of profitability even as costs have soared due to implementation of its network expansion strategy. We expect DIB to record a net profit of AED 2.3 bn in 2007 and AED 2.5 bn in 2008, defining yoy increases of 48% and 7.0% respectively.

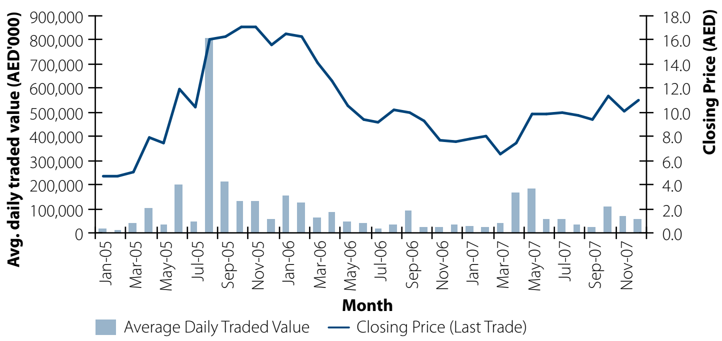
Recent developments and outlook

The bank's involvement in real estate development and financing has allowed it to successfully leverage the strong growth in the sector. In November 2007, DIB was appointed as the exclusive provider of Islamic finance solutions to buyers of Real Estate Bank's prime development projects. Such strategic business partnerships with real estate operators are expected to increase going forward. In addition, retail banking activity will continue to be supported through network expansion and retail products development (both Islamic and conventional). The bank's diversification strategy will help reduce its reliance on spread income while strengthening its revenue streams in an increasingly competitive Islamic banking industry where at least two more players are confirmed for 2008 (Noor Islamic Bank and Al Hilal Islamic Bank).

The bank is constantly seeking opportunities on the regional scale and was granted a license in April 2007, to establish an Islamic bank in Syria. DIB boasts amongst the highest bank ratings in the Middle East, confirming the bank's solid financial position and strong franchise.

Share ownership





Dubai Financial Market

Outstanding recommendation:
SELL

RIC Code	DFM.DU
Country	UAE
Exchange	Dubai Financial Market
Sector	Financial Exchange
Foreign Investor Limit	49.0 %
Current Share Price (AED)	6.52
2007 % change	163.8
52 week high (AED)	7.12
52 week low (AED)	1.89
Mkt Cap (AED'000)	52,160,000
Mkt Cap (USD'000)	14,200,926
Number of outstanding shares ('000)	8,000,000
Free Float	20.0%
PE 07E	43.4
PB 07E	5.5
Average daily traded value (USD'000)	55,463

Company overview

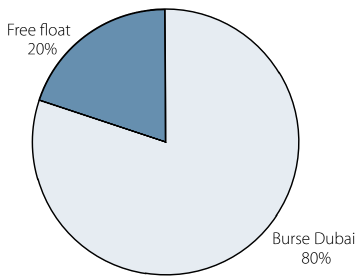
The Dubai Financial Market commenced operations in March 2000 as the operator of the first regulated electronic exchange in the UAE. It was listed in March 2007 to become the first exchange in the GCC region to be traded on a financial exchange. The exchange is collectively regulated by the Emirates Securities and Commodities Authority (ESCA) and the UAE Ministry of Economy.
Apart from DFM, the UAE houses two other securities exchanges: the Abu Dhabi Securities Market (ADSM) and the DIFX. The DIFX was established in 2005 to become the entry point for international companies looking at executing primary issuance to bring Gulf liquidity into play.

Financial and operating highlights

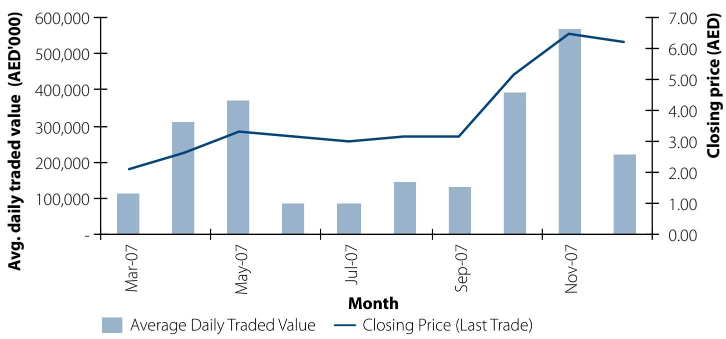
The DFM's revenues at AED 410 mn in 9M 07 represented around half of 2006 full year revenues when total traded value was 52.1% of that in 2006. For the same period, net income, excluding income from IPO, reached AED 397 bn and total profit reached AED 865 mn. We expect net income to grow by 50.6% in 2007 to reach AED 1.2 bn, out of which AED 0.47 bn are non-recurring IPO related returns, meaning that operating profits for the year will be effectively flat. We expect earnings to grow to AED 1.3 bn in 2008.
The DFM's revenue model is, currently, driven purely by trading volumes of equities on the exchange, and is underpinned by very high operating margins that are expected to reach 76.5% in 2007. Return on average equity is expected to fall from 45.4% reported in 2006 to 20.7% by year end 2007, as funds from primary issuance in Q1 07 have not been utilized yet.

Recent developments and outlook

Share ownership



On the regulatory front, a recent amendment reduced the listing requirement on the DFM and ADSM for family businesses to a minimum offering size of 30% of outstanding shares while keeping the 55.0% minimum requirement for all other non-family owned businesses.
As of December 2007, the UAE's market capitalization exceeded AED 1,000 bn out of which capitalization listed on the DFM represented almost half. The market in Dubai also enjoyed a record year in terms of equity offerings, with AED 24 bn worth of deals executed during 2007. In 2008, we expect close to AED 95 bn worth of new capitalization originating from IPOs to be listed in Dubai and expected that to grow at a CAGR of 28% from 2008 onwards on back of underrepresented sectors.
The DFM's vision is to strengthen its position as a regional hub for the GCC capital market activity and to position itself as one of the key exchanges in emerging markets.



Amlak Finance

Outstanding recommendation:
SELL

Company overview

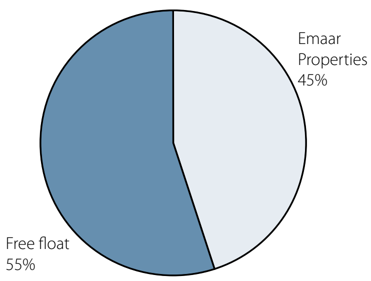
RIC Code	AMLK.DU
Country	UAE
Exchange	Dubai Financial Market
Sector	Mortgage Finance
Foreign Investor Limit	49.0%
Current Share Price (AED)	5.51
2007 % change	0.0
52 week high (AED)	5.74
52 week low (AED)	2.71
Mkt Cap (AED'000)	8,265,000
Mkt Cap (USD'000)	2,250,204
Number of outstanding shares ('000)	1,500,000
Free Float	55.0%
PE 07E	39.7
PB 07E	4.35
Average daily traded value (USD'000)	23,814

Established in 2000, Amlak Finance was the first specialized mortgage finance company in the UAE. It was set up as an offshoot of Emaar Properties, the largest real estate developer in the UAE and the Middle East, which still controls 45% of the company's shares. The company's loan portfolio, inclusive of commitments and off balance sheet accounts, is estimated at AED 5.9 bn by Q3 07, translating to a market share of 27%.
Following a period which saw the company engaging in different forms of consumer lending activity, new management in 2007 steered the company's focus back on mortgage finance. Management decided to gradually divest the company's investments portfolio and channel the proceeds towards mortgage financing. Management has also indicated that it is planning to tap into different funding sources including mortgage backed securities. The company is currently tapping new markets including Egypt and Saudi Arabia and is looking to enter Jordan, Qatar, Bahrain and Morocco to reduce its reliance on Dubai where home lending by commercial banks is intensifying competition. Significantly, Amlak is no longer entirely dependent on Emaar Properties for business as it works with many major developers in the UAE.

Financial and operating highlights

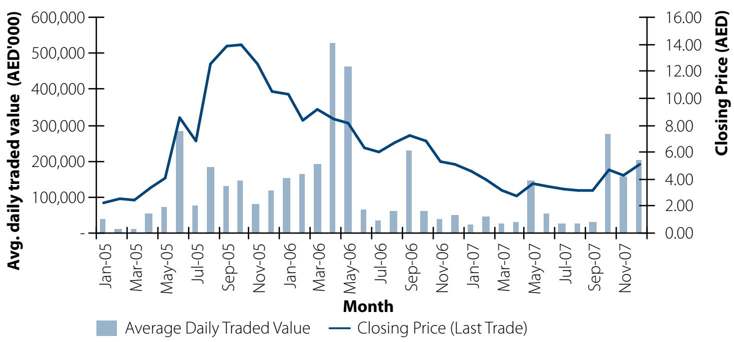
Amlak reported a net income of AED 173 mn for 9M 07, representing 49.4% increase over the same period last year. The strong results came on the back of higher yields on financing and investing assets; the annualized yield for the 9m 07 amounted to 7.5%, up from 6.7% actual 2006 annual yield. This is attributable to a structural shift within the financing and investing assets whereby Amlak is focusing more on its core business. Hence, income from financing and investing assets increased in 9M 07 by 48.1% to reach AED 290 mn.

Share ownership



Recent developments and outlook

Amlak Finance is keen to expand in the MENA region. The company has recently signed an MOU with Barwa Real Estate to offer home finance solutions in Qatar and has confirmed that it would soon start operations in Jordan to lend to home buyers and developers. Amlak plans to raise AED 6 bn (USD 1.63 bn) in 2008 to fund Middle East expansion including a AED 275 mn IPO of its Jordan affiliate by the end of February 2008. To access a cheaper source of funds, the company plans to renew its application for an Islamic banking license next year enabling it to accept deposits.
The size of the home loan market is estimated at around AED 22 bn at Q3 07, representing around 3.3% of GDP, leaving ample space for growth, given that other emerging markets enjoy a ratio of over 8%.



Tamweel

Outstanding recommendation:
NEUTRAL

Company overview

RIC Code	TAML.DU
Country	UAE
Exchange	Dubai Financial Market
Sector	Mortgage Finance
Foreign Investor Limit	15.0%
Current Share Price (AED)	6.92
2007 % change	65.9
52 week high (AED)	8.10
52 week low (AED)	3.22
Mkt Cap (AED'000)	6,920,000
Mkt Cap (USD'000)	1,884,019
Number of outstanding shares ('000)	1,000,000
Free Float	54.0%
PE 07E	30.1
PB 07E	4.1
Average daily traded value (USD'000)	21,272

Tamweel, set up as an Islamic housing finance company in 2004, has become the largest player in the market with a loan size (including commitments and off balance sheet items) of AED 8.8 bn at September 30th 2007. The company's market share in the UAE is estimated at 40%.
The impressive growth in the company's loan portfolio since inception was mainly funded by equity, investment deposits and sukuk issuances. In 2005, Tamweel raised AED 560 mn in equity through an initial public offering. In 2007, the company succeeded in pulling off the UAE's first residential mortgage backed security (RMBS) valued at USD 210 mn. Tamweel is currently operational in the UAE and is expanding geographically to pursue the real estate boom in Saudi Arabia and Egypt.

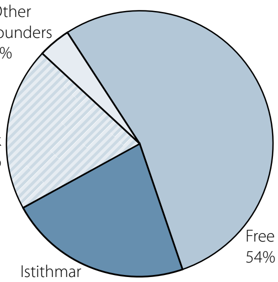
Financial and operating highlights

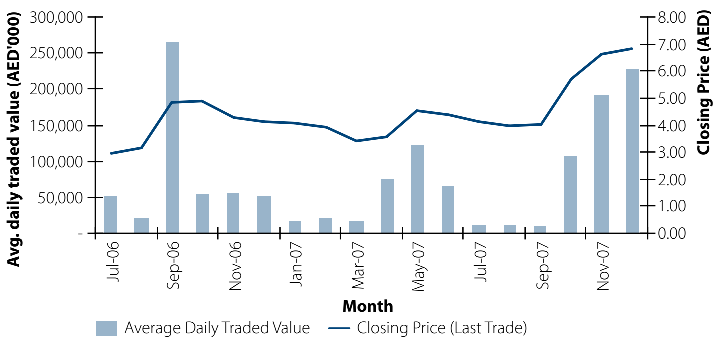
Tamweel posted net profits of AED 244 mn in 9M 07, 2.5x net profits recorded during the same period a year earlier. High growth in funding, robust assets growth, low cost of funds, and higher yield on assets were the main contributors. Income from financing and investing assets reached AED 213 mn in 9M 07 - double what the company had reported for 9M 06 - driving the annualized return on financing and investing assets to 6.9%, up from the 2006 actual annual yield of 5%. Total assets grew to AED 7.3 bn by end of Q3 07, up from AED 3.3 bn at year end 2006. Of these, 57.1% are in Islamic financing and investing assets.

Recent developments and outlook

In Q4 07, the USD 300 mn worth of convertible Sukuks were issued after having been postponed from Q3 06. The Islamic bonds mature in January 2013 and are convertible at USD 2.27 per share translating to a 20.5% exchange premium over share closing price of AED 6.92 (USD 1.88). The proceeds from the Sukuks, the AED 1.7 bn facility Tamweel received from Emirates Islamic banks in December 2007, and the new AED 918 mn (USD 250 mn) worth syndicated Islamic loan will all be used to expand the operating business in the UAE as well as extend reach to other markets.
The company has already started utilizing the securitization proceeds to grow its loan portfolio as well as its investments in real estate, including an agreement with Bonyan International to buy AED 1.93 bn in land in Dubai.

Share ownership





Emaar Properties

Outstanding recommendation:
BUY

Company overview

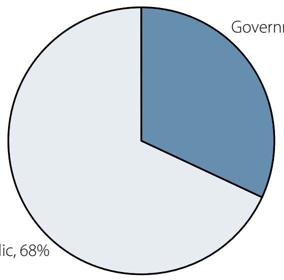
RIC Code	EMAR.DU
Country	United Arab Emirates
Exchange	Dubai Financial Market
Sector	Real Estate
Foreign Investor Limit	49%
Current Share Price (AED)	15.10
2007 % change	22.1
52 week High	15.30
52 week Low	9.75
Mkt Cap (AED '000)	92,054,508
Mkt Cap (USD '000)	25,062,485
Number of outstanding shares ('000)	6,096,325
Est. Free Float	68%
PE 07 Annualized	14.3
PB 9M 07	2.7
Average daily traded value (USD '000)	81,612

Emaar Properties (Emaar) is the largest real estate developer in the Gulf region, and one of the largest in the world. The company was established in Dubai in 1997, and listed in 2000 on the Dubai Financial Market (DFM). Emaar made history in 2002 by offering Dubai's first freehold properties to nationals and foreigners, in the absence of a property law allowing foreign ownership. This served as an indication of the government support enjoyed by the firm. The Government of Dubai, which owns a 32% equity stake in Emaar, has granted the firm land worth in excess of AED 30 bn in value over the years.
The company has successfully developed properties for sale and investment in all segments of the real estate market. Since 2001, Emaar has delivered more than 19,300 residential units. In addition to 0.25 mn sqm of investments properties and four hotels with a total of 912 keys and 318 serviced apartments. The most prominent properties currently under development by Emaar, include Burj Dubai and Dubai Mall. Burj Dubai will be the tallest building in the world when completed in 2008-2009. Dubai Mall, due for completion in 2008, will be one of the largest and most modern malls in the world. Emaar's operations span several countries including Saudi Arabia, Egypt, Turkey, India and the USA. The estimated development value of projects planned by Emaar is in excess of AED 150 bn. Emaar is also expanding into education, healthcare, hospitality and retail, with the objective to capture a larger portion of the value chain associated with its developments, resulting in higher business margins and a sustainable competitive advantage.

Financial and operating highlights

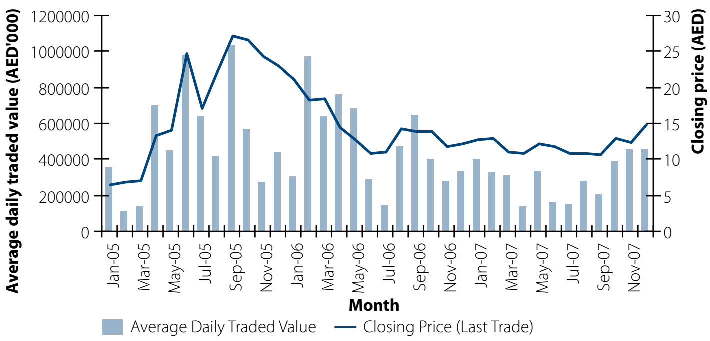
Emaar reported revenues of AED 12.54 bn in 9M 07, 48% higher than 9M 06, and AED 4.82 bn in net profits implying an increase of 4% over the period. The lower margins recorded were mainly due to Emaar's change of land strategy switching from selling serviced land in favor of property developments, a loss making US operation and doubling SG&A expenses fuelled by growing international operations. The change in land strategy, however, is expected to contribute to higher long-term profits after a short-term drop in profitability.

Share ownership



Recent developments and outlook

Emaar announced an equal joint venture (JV) with a subsidiary of Tatweer, part of Dubai Holding. Tatweer, through Bawadi, is the company behind the Bawadi leisure and hotel development with plans to have 51 hotels and over 60,000 rooms in Dubai. The JV covers only a proportion of the entire Bawadi development for which Bawadi will contribute land and Emaar will inject cash throughout the construction period. Emaar expects an estimated 15% compounded return per annum with the company's UAE land bank having increased by around 38% as a result of the JV.



Union Properties

Outstanding recommendation:
UNDER REVIEW

RIC Code	UPRO.DU
Country	United Arab Emirates
Exchange	Dubai Financial Market
Sector	Real Estate
Foreign Investor Limit	15%
Current Share Price (AED)	5.26
2007 % change	113.0
52 week High	5.36
52 week Low	2.44
Mkt Cap (AED '000)	14,636,087
Mkt Cap (USD '000)	3,984,777
Number of outstanding shares ('000)	2,782,526
Est. Free Float	51.1%
PE 07 Annualized	21.6
PB 9M 07	2.8
Average daily traded value (USD '000)	11,294

Company overview

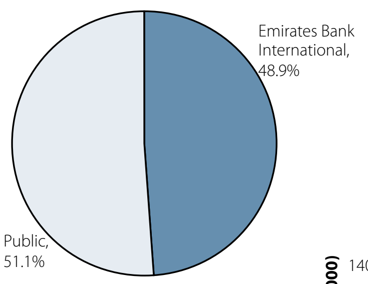
Union Properties (UP) is a prominent real estate developer operating out of Dubai, where it was established in 1993 and subsequently listed on the Dubai Financial Market (DFM) in 2000. UP's core business relies on real estate development for sale and lease, and to a lower degree on MEP contracting.
UP has, over the past five years, successfully developed two reputable branded communities in Dubai, Green Community and Uptown. Today, the company is in the process of developing the Index Tower, the Limestone House and its largest development to date, MotorCity. In total these projects will offer 0.9 mn sqm of net sellable area (NSA). Further more, UP owns a portfolio with more than 20 investment properties in Dubai with a total leasable area of 0.25 mn sqm. Two hotels which are currently under construction will be added to this portfolio in 2009, including the Ritz Carlton in the DIFC. The company, which has the exclusive global Formula One theme park rights also plans to build a theme park in Dubai MotorCity,
Most of the company's ongoing developments are expected to be completed in 2009 and 2010.

Financial and operating highlights

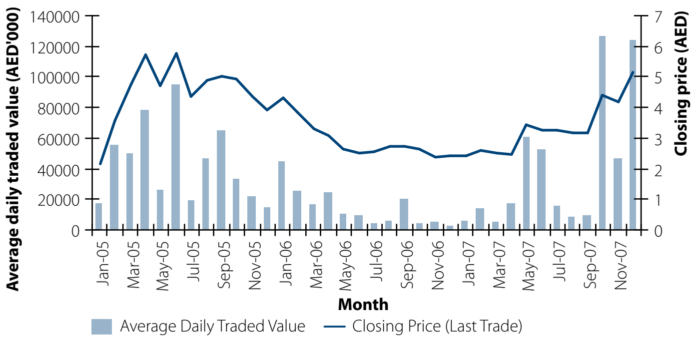
UP reported revenues of AED 2.02 bn in 9M 07, a 14.1% growth over 9M 06, powered by higher revenues from contracting and rental properties. Net profits expanded by 52% during the same period to reach AED 471.7 mn. The higher net profit growth relative to the growth in revenues is mainly a result of land sales, which offer greater margins than property unit sales, and increased fair value gains on investment properties in 9M 07 compared to 9M 06.

Recent developments and outlook

Share ownership



UP has successfully launched Green Community and Uptown MotorCity, and our understanding is that most launched units have been sold. On the DIFC-based properties the Index Tower, the Limestone House and the Ritz-Carlton Hotel, we estimate that completion is around 50% level. In addition, UP has increased selling prices for DIFC-based apartments by an estimated 10-15% in H2 07, and this should boost 2009 results further. UP's income is expected to peak in 2009 when most of the company's developments reach completion. The company adopts the completed contract method for revenue recognition.



Deyaar Development Company

Outstanding recommendation:
UNDER REVIEW

Company overview

RIC Code	DEYR.DU
Country	United Arab Emirates
Exchange	Dubai Financial Market
Sector	Real Estate
Foreign Investor Limit	0%
Current Share Price (AED)	2.93
2007 % change	52.9
52 week High	3.08
52 week Low	1.75
Mkt Cap (AED '000)	16,929,540
Mkt Cap (USD '000)	4,609,186
Number of outstanding shares ('000)	5,778,000
Est. Free Float	55%
PE 07 Annualized	35.3
PB 9M 07	2.7
Average daily traded value (USD '000)	50,660

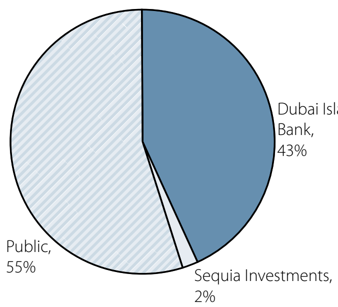
Dubai-based Deyaar Development (Deyaar) is a leading local and regional real estate development, property investment and services company. Established in 2001, as a fully owned property management subsidiary of Dubai Islamic Bank (DIB), Deyaar went public through an IPO in Q2 07. The company was subsequently listed on the Dubai Financial Market (DFM) in September of the same year. Unlike other listed UAE real estate developers, Deyaar is not a master developer. In effect, it is a core client and customer of master developers such as Emaar Properties, Nakheel, Dubai Properties, Sorouh and Solidere. The company has opted to avail for itself the flexibility to pick and choose the master-developments that match its investment criteria and the size of its participation. Other advantages over master developers include lower initial outlay of investment, and a shorter investment period.

The company is expected to develop a total net sellable area (NSA) of around 2.4 mn sqm and a net leasable area (NLA) of 0.1 mn sqm in the run-up to 2011. The planned developments are distributed across more than 15 master-developments and locations in five countries. Although most of the company's projects are in Dubai, Deyaar is increasing its participation in other Emirates, especially Abu Dhabi. In addition, Deyaar is developing projects in Turkey, Lebanon, Kazakhstan, Saudi Arabia and India.

Financial and operating highlights

Deyaar reported revenues of AED 618 mn in 9M 07. The gross profit margin (GPM) declined from 40.4% in FY 06 to 30.5% for 9M 07. This drop is inline with our expectations. The reason behind this decline is proportionately lower land sales reported in 9M 07 compared to 2006 where land sales enjoy higher margins than property sales. Net profit for 9M 07 reached AED 323 mn entailing a net profit margin (NPM) of 52.3% against 39.0% for FY 06. The primary reason behind the higher NPM is the income earned on the IPO subscription funds.

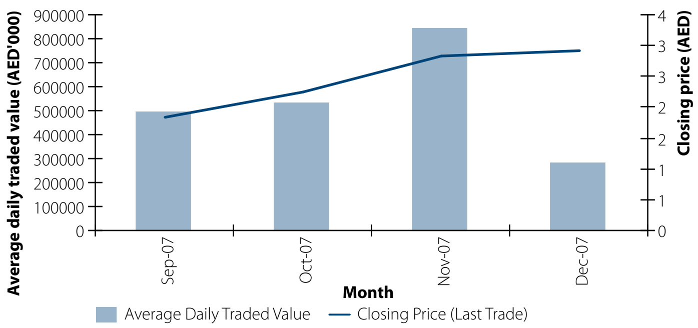
Share ownership



Recent developments and outlook

In September 2007, Deyaar launched the AED 3 bn mixed-use Deyaar Park in the Downtown Jebel Ali development. The project includes 580 residential units, 70,000 sqm of office space and 120,000 sqm of retail space with an expected completion date in 2010. In November 2007, the company successfully launched and sold, within hours, two properties in Dubai's Business Bay development worth more than AED 600 mn.

As part of its geographic expansion, Deyaar entered into a JV in Q4 07 with two of the leading business conglomerates in Saudi Arabia with the objective to tap into the Gulf region's largest emerging real estate market, Saudi Arabia.



Aldar Properties

Outstanding recommendation:
BUY

RIC Code	ALDR.AD
Country	United Arab Emirates
Exchange	Abu Dhabi Securities Market
Sector	Real Estate
Foreign Investor Limit	40%
Current Share Price (AED)	11.55
2007 % change	201.3
52 week High	13.25
52 week Low	3.71
Mkt Cap (AED '000)	24,631,306
Mkt Cap (USD '000)	6,706,046
Number of outstanding shares ('000)	2,132,581
Est. Free Float	74.6%
PE 07 Annualized	11.3
PB 9M 07	4.1
Average daily traded value (USD '000)	32,847

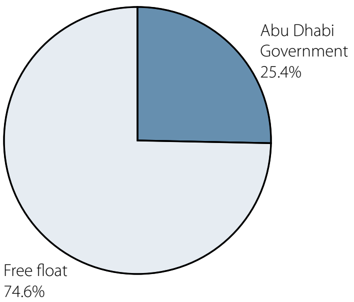
Company overview

Aldar Properties (Aldar), the leading real estate developer in Abu Dhabi, was established in October 2004. It underwent an initial public offering (IPO) in 2005 that raised its capital to AED 1.5 bn and was subsequently listed on the Abu Dhabi Securities Market. In H1 07 Aldar raised over AED 9 bn through a convertible bonds issue to fund its large development plans.
Aldar has more than AED 200 bn worth of mega developments planned for the next 10 years and a land bank with over 34 mn sqm granted by a strongly supportive Abu Dhabi government. The company is estimated to control almost 45% of the property supply in Abu Dhabi over the next 10 years. Its major master developments include: Al Raha Gardens, Al Raha Beach and Yas Island, which will host the Formula One Grand Prix starting 2009.
The company's strategy is to sell around 50% of its land bank as serviced land, and develop properties on the remaining land, out of which it will sell around 50% of properties built and keep the remaining balance as investment properties to generate long-term revenues.

Financial and operating highlights

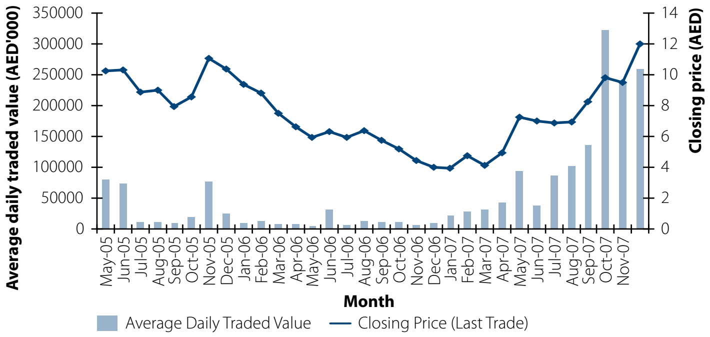
In 9M 07 Aldar handed over villas in Al Raha Gardens first phase, in addition to that, the company recorded some limited land sales on Al Raha Beach. Total revenues reached AED 146.8 mn. Aldar's net profits reached AED 1.41 bn in 9M 07, an impressive 73% increase over 9M 2006. The increase in the company's profits was primarily achieved through higher fair value gains on investment properties, which reached AED 1.7 bn in 9M 07 versus AED 863 mn for the same period of 2006.

Share ownership



Recent developments and outlook

The company announced a joint venture (JV) with Warner Bros and Abu Dhabi Media Company in Q3 07. The newly formed entity will develop a theme park, a hotel and several multiplex cinemas in Aldar owned master developments. More recently, Aldar and the Abu Dhabi government launched the AED 5.43 bn 10-lane highway linking Abu Dhabi City, Saadiyat Island, Yas Island, Al Raha development and the city's airport. The government is expected to fund around 65% of the project cost.
9M 07 also saw Aldar expanding internationally, with a memorandum of understanding signed with a Malaysian company, where Aldar agrees to act as a master development manager. The company also formed a JV with Sorouh Real Estate with an initial mandate to seek real estate investment opportunities in Kazakhstan and North Africa. We expect 2008 and 2009 to witness grander and more concrete international initiatives by Aldar.
Finally, Aldar is expected to continue handing over villas at Al Raha Gardens phase 1 in Q4 07. We also expect the company to record a strong increase in Al Raha Beach land sales. We expect Aldar to put up a much stronger performance in 2008 compared to 2007 led by land and property sales.



Sorouh Real Estate Company

Outstanding recommendation:
NOT RATED

Company overview

RIC Code	SOR.AD
Country	United Arab Emirates
Exchange	Abu Dhabi Securities Market
Sector	Real Estate
Foreign Investor Limit	20%
Current Share Price (AED)	8.61
2007 % change	275.6
52 week High	9.03
52 week Low	2.09
Mkt Cap (AED '000)	21,525,000
Mkt Cap (USD '000)	5,860,332
Number of outstanding shares ('000)	2,500,000
Est. Free Float	55%
PE 07 Annualized	20.9
PB 9M 07	5.4
Average daily traded value (USD '000)	21,400

Sorouh Real Estate (Sorouh) is the second largest real estate developer in Abu Dhabi, after Aldar Properties. Sorouh was established in H1 05 and listed on the Abu Dhabi Securities Market (ADSM) in December 2005. The company is estimated to have over AED 50 bn worth of projects in Abu Dhabi, with Shams Abu Dhabi on Al Reem Island being the largest, and a land bank with an estimated size of around 24 mn sqm. However, unlike Aldar, most of Sorouh's land bank is held in central areas of Abu Dhabi city.
Sorouh's real estate development strategy is more land sales focused than most of its peers in the UAE, with aims to gradually sell around 75% of its existing land bank.

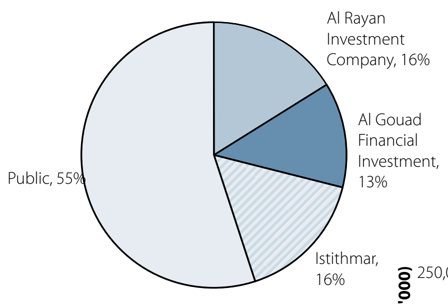
Financial and operating highlights

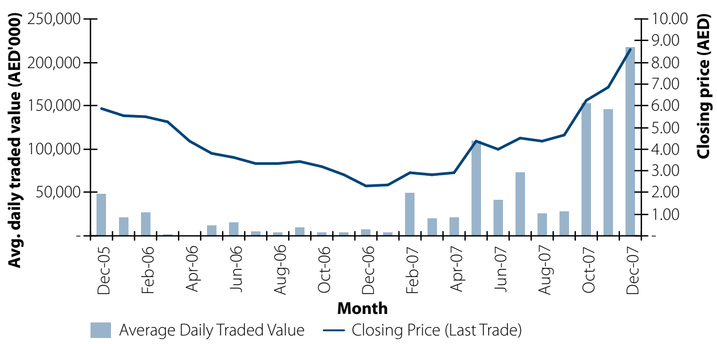
Sorouh's 9M 07 revenues reached AED 1.49 bn, up 240% from the inception period between July 2005 and September 2006. Almost 80% of revenues generated in 9M 07 came from land sales, while the balance was from lease income. Meanwhile, the company moved from a negative gross profit to AED 861.7 mn in the black, achieving a gross profit margin (GPM) of around 58% in 9M 07. Net profits during the same period totaled AED 773.5 mn, up more than 60% from inception to end of September 2006, despite net profits being inflated during the inception period by income on IPO subscription funds.

Recent developments and outlook

Sorouh recently launched a new mega development , phase one of Al Ghadeer, covering around 3 mn sqm with over 6,000 residential units. The company reported that it received over 3,000 buyer registrations at the launch Ghadeer is located on the border between Dubai and Abu Dhabi attracting interest from residents of both Emirates.
In December 2007 Sorouh signed a management agreement with Mövenpick Hotels & Resort to operate and manage Sorouh's planned hotel in Al Ain, which is due for completion in 2010. The 230 room hotel will be located on the Hafeet mountain in the vicinity of Sorouh's Al Oyoun Village development. Land prices in Abu Dhabi have increased by more than 50% during 2007, and this is expected to boost Sorouh's earnings going forward, especially given its land sales focused strategy.

Share ownership





Arabtec Holding

Outstanding recommendation:
BUY

Company overview

RIC Code	ARTC.DU
Country	United Arab Emirates
Exchange	Dubai Financial Market
Sector	Construction
Foreign Investor Limit	49%
Current Share Price (AED)	9.63
2007 % change	102.4
52 week High	10.20
52 week Low	4.33
Mkt Cap (AED '000)	5,758,740
Mkt Cap (USD '000)	1,567,857
Number of outstanding shares ('000)	598,000
Est. Free Float	65%
PE 07 Annualized	12.3
PB 9M 07	4.4
Average daily traded value (USD '000)	7,623

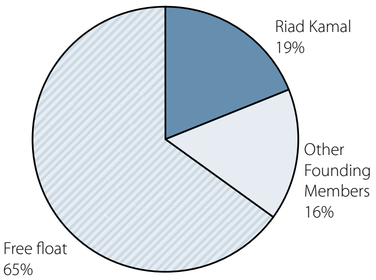
Arabtec Holding (Arabtec) was established in August of 2004 with the intent of acquiring 100% stake in Arabtec Construction, one of the UAE's leading general contractors. In the same year of its establishment, Arabtec underwent an initial public offering and used the proceeds to finance its acquisition of Arabtec Construction. The company is now the only listed contractor in the UAE. Today, Arabtec is one of the largest and fastest growing contractors in the UAE, with an estimated market share of 14% and a contract backlog of AED 14.7 bn. The fact that the company is building Burj Dubai, the world's tallest tower, is a testament of Arabtec's reputation, skills, capabilities and potential. Arabtec is also expanding beyond the UAE and has recently signed MoU's in Pakistan and Qatar with a combined value in the range of AED 2.3-3.3 bn.
Arabtec's strategic objective at this stage includes boosting long-term growth and shareholder returns through increased capacity and vertical integration, organically and through acquisitions.

Financial and operating highlights

Arabtec's 9M 07 revenues reached AED 2.95 bn, 41.1% above the same period of 2006, fuelled by capacity expansion, growing vertical integration and higher pricing power. By the same token, gross profit margins (GPM) expanded to 21% at 9M 07 from 16.4% in FY 06. In Q3 07 Arabtec reported a record GPM of 24% on the back of continued scarcity of skilled contractors with the required capacity in the UAE, and the associated rise in negotiation power of large scale contractors. Consequently, net profit for 9M 07 reached AED 343.3 mn, 116% over 9M 06 figures.

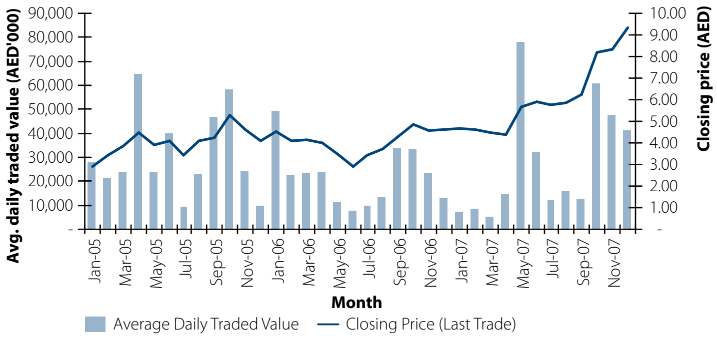
Recent developments and outlook

Share ownership



To serve its strategic objective, the company acquired in Q4 07, a 60% stake in Target Engineering (TE), an Abu Dhabi-based contractor. The acquisition will provide Arabtec with a solid platform in Abu Dhabi, where the UAE's second construction boom is in the making. In addition, Arabtec acquired 55% of Sharjah based Gulf Steel Industries (GSI) early in 2008, which is specialized in the design, manufacturing and erection of structural steel.

The entire UAE contracting sector suffered from a labor strike in Q4 07, which was resolved with a salary increase in the range of 10-20%. In spite of the increased labor costs, we expect Arabtec to show a strong performance in 2008 shaped by higher capacity, contract pricing, vertical integration and reduced outsourcing with TE and GSI onboard.



Arkan Building Materials

Outstanding recommendation:
NOT RATED

Company overview

RIC Code	ARKN.AD
Country	United Arab Emirates
Exchange	Abu Dhabi Securities Market
Sector	Construction and building materials
Foreign Investor Limit	0%
Current Share Price (AED)	3.93
2007 % change	138.6
52 week High	4.18
52 week Low	1.07
Mkt Cap (AED '000)	6,877,500
Mkt Cap (USD '000)	1,872,448
Number of outstanding shares ('000)	1,750,000
Est. Free Float	43.13%
PE 07 Annualized	35.9
PB 9M 07	3.4
Average daily traded value (USD '000)	19,301

Arkan Building Materials (Arkan) is an Abu Dhabi based company manufacturing and distributing building materials. Arkan was established in Q1 06 by one of the Abu Dhabi government's investment companies, General Holding Corporation (GHC). In 2006, Arkan underwent an initial public offering and listed on the Abu Dhabi Stock Market (ADSM) in January of 2007. GHC transferred two factories and land to Arkan as in-kind contribution for 51% of the total share capital. The factories manufacture cement and cement blocks. Emirates Cement Factory, established in 1976, is a fully integrated factory accounting for 11% of the UAE cement production in 2005. Emirates Concrete Blocks Factories, which began operations in 1979, produces and supplies a range of concrete blocks and paving tiles to the UAE market, retaining around 10.5% market share in the UAE.
GHC is the largest industrial conglomerate within the UAE and a vehicle through which the Abu Dhabi government implements its industrial diversification programs. Arkan is expected to continue receiving strong support from this entity.

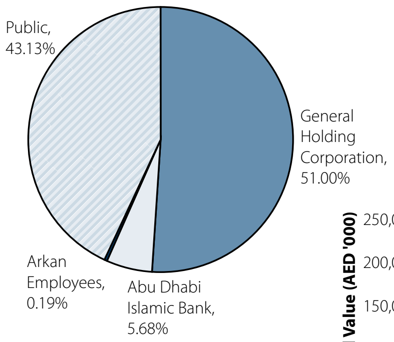
Financial and operating highlights

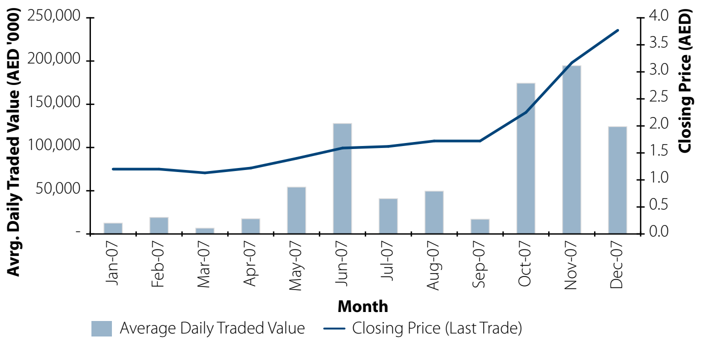
Arkan's reported 9M 07 revenues at AED 252.5 mn remained flat compared to 9M 06. The gross profit margin (GPM) dropped by 2% to 49.5% during the same period. Nonetheless, net profits expanded by 11.3% up to AED 143.7 mn, on the back of income earned on IPO subscription funds.

Recent developments and outlook

Arkan has undertaken numerous expansion initiatives during 2007, with the objective to capture a bigger slice out of the rapidly growing Abu Dhabi and UAE construction materials market.
The company signed a contract with the National Chinese Company for construction materials to build a new cement factory with a cement grinding capacity of 4.5 mtpa, at a total cost of AED 1.3 bn. The new cement plant is expected to be operational in 2009. In addition, Arkan signed an AED 500 mn memorandum of understanding (MoU) with Italy's Plastic Machinery Company (Plasco) to build a plant manufacturing plastic pipes for the construction industry. The plant is expected to be fully operational in H1 08.

Share ownership





DP World

Outstanding recommendation:
BUY

Company overview

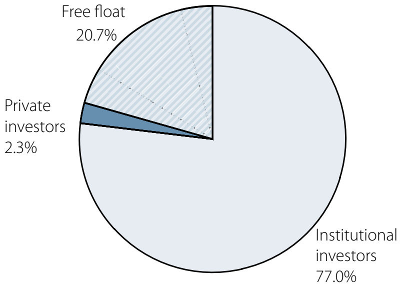
RIC Code	DPW.DI
Country	United Arab Emirates
Exchange	Dubai International Financial Exchange
Sector	Container Ports
Foreign investor limit	100.0%
Current share price (USD)	1.16
2007 % change	-8.5
52 week High	1.44
52 week Low	1.09
Mkt Cap (USD '000)	19,256,000
Mkt Cap (USD'000)	19,256,000
Number of outstanding shares ('000)	16,600,000
Est. Free Float	20.7%
PE 07E	51.6
PB 07E	2.5
2007 Average daily traded value (USD'000)	6,016

DP World (DPW) is the world's fourth largest pure-play global container terminal operator, managing a portfolio of 43 terminals in 23 countries. It recorded a gross throughput of 36.8 mn TEUs and a gross combined capacity at all its ports of 48.6 mn TEUs in 2007. DP World was formed in 2005, when the Dubai Government, the sole owner of the company back then, decided to integrate Dubai Ports Authority and Dubai Ports International into one company.
Since then, DP World has enjoyed a meteoric rise from a single country state-owned port operator and administrative authority to a leading global player in its industry. The company's first international venture was a management concession at the Jeddah Islamic Port in 1999. This was followed with ventures in Djibouti (2000), Visakha, India (2002), Constanta, Romania (2003), and Cochin, India (2004).
The most significant acquisition came in 2005 when the company acquired CSX World Terminals (CSX WT), the international terminal business of CSX Corporation, making DPW the 7th largest global operator for that year. Acquisition of P&O a year later, established the company as one of the big four global terminal operators, giving it access to all key regions in the world. DP World went public in November 2007; with the government selling 23% of its stake for the amount of USD 4.96 bn, and was subsequently listed on the DIFX. The company has several key projects underway such as the London gateway, Rotterdam and Vallarpadam, Egypt, Maputo and Yemen.

Financial and operating highlights

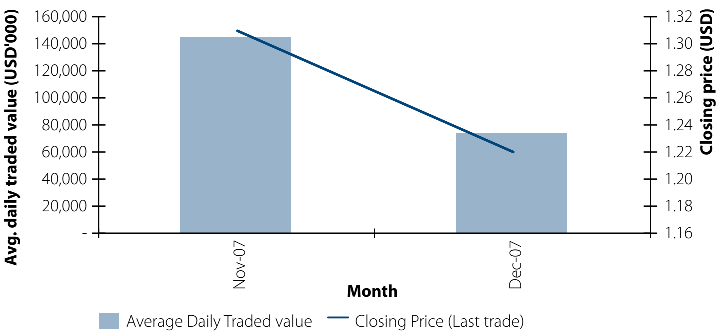
DPW revenues are expected to increase 20.2% in 2007 to reach USD 2.50 bn from USD 2.08 bn in 2006, driven by significant increase in overall throughput. Overall, we expect both revenues and throughput to grow at a CAGR of 15.4% and 13% from pro forma 2006 figures, to reach USD 4.22 bn and 67.9 mn TEU respectively by 2011.
Net profits are expected to reach USD 374 mn for the full year 2007, rising substantially by 2008 to reach USD 528 mn. Up to 2011 we expect the operator top record a net profit CAGR of 31% from 2006 pro forma figures.

Share ownership



Recent developments and outlook

The container terminal management operations are driven by the containerization and the global trade activity. Hence, DPW seeks to increase exposure to above-average growing economies such as China, India, the Middle East, Eastern Europe and Africa. Accordingly, DPW recently acquired a 90% stake in an Egyptian container handling operation, as well as in the Maputo Port Development Company (MPDC) in Mozambique. The throughput in African region is expected to grow at a CAGR of 11.2% for the period 2006 – 2012 as compared to a global CAGR of 9.3%.



Aramex

Outstanding recommendation:
NOT RATED

Company overview

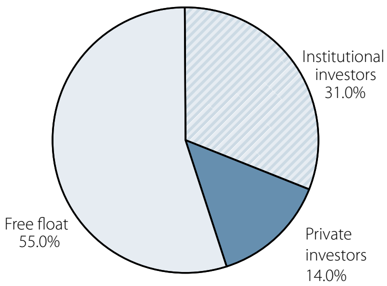
RIC Code	ARMX.DU
Country	United Arab Emirates
Exchange	Dubai Financial Market
Sector	Logistics
Foreign investor limit	49.0%
Current share price (AED)	3.27
2007 % change	26.7
52 week High	3.55
52 week Low	1.67
Mkt Cap (AED'000)	3,597,000
Mkt Cap (USD'000)	979,308
Number of outstanding shares ('000)	1,100,000
Est. Free Float	55.0%
PE 07E	30.2
PB 07E	2.8
2007 Average daily traded value (USD'000)	6,030

Aramex was established in Amman, Jordan in 1982 initially as the regional arm for US express delivery companies, namely Federal Express. With Federal Express establishing its own presence in the region, Aramex was forced into changing its business model and started selling its own branded services to the region and rest of the world. Over the years, the company managed to expand its operations and establish a presence worldwide.
In 2005, the company was acquired by Arab International Logistics, based in Dubai, which was re-branded during the same year to Aramex PJSC. It aims to invest in supply chain management businesses through acquisitions of existing companies in the Middle East and other parts of the world to become a fully integrated global logistics services provider.
Aramex's strategy of expansion via organic and inorganic growth along with its General Distribution Alliance (GDA), that includes 40 leading logistics companies and transportation providers operating in more than 240 countries, allowed it to grow rapidly and respond promptly to changing market needs.

Financial and operating highlights

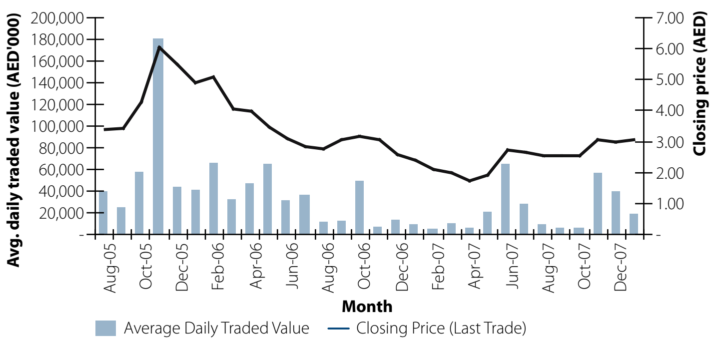
Revenues recorded a strong increase of 25.9% on annualized Q3 2007 basis reaching AED 1,718 mn. Similarly, net income appreciated by 25.2% to reach AED 119 mn on annualized Q3 07 basis. Aramex managed to slightly improve its gross margins to 47.1% from 45.5% in 2006. The revenue contribution of the business segments remained almost unchanged between 2006 and 2007. The main revenue generators are express and freight forwarding totaling to 87.2% of total revenues in 2007 compared to 88.0% in 2006.
The increase in revenues is fuelled by the two-dimension policy adopted by Aramex. First, the company plans to widen its geographical coverage and product focus through acquisitions, a recent example of which was the acquisition of a European freight forwarder, TwoWay Vanguard in 2006. Second, the company plans on leveraging its network through enhancing its current product mix and upgrading its infrastructure.

Share ownership



Recent developments and outlook

Aramex has set an objective of becoming "the 5th global logistics and express transportation service provider by the year 2010." To achieve its target in an industry that has gone through a paradigm shift in it business model, Aramex continues expanding its network coverage and product offering through acquisitions. The company succeeded in 2007 in integrating its largest acquisition to date, TwoWay Vanguard, into its business operations and promoting it as a harmonized freight forwarding division.
Aramex benefited from the favorable economic conditions both globally and regionally, increasing demand for supply chain solutions, and outsourcing services to promote itself as a major player equipped with cutting edge technology. Aramex announced that it is finalizing the Phase II of Jebel Ali facility, a strategic hub with 25,000 sq. meter capacity. The company also plans to operate a new 65,000 sq. meter facility in Dubai Logistics City to keep up with the high market demand.



Gulf Navigation Holding

Outstanding recommendation:
NOT RATED

Company overview

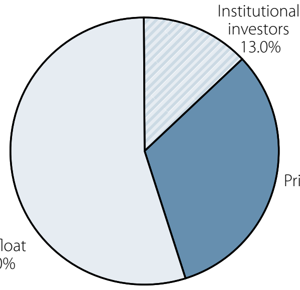
RIC Code	GNAV.DU
Country	United Arab Emirates
Exchange	Dubai Financial Market
Sector	Shipping
Foreign investor limit	0.0%
Current share price (AED)	1.71
2007 % change	27.9
52 week High	1.84
52 week Low	0.98
Mkt Cap (AED'000)	2,830,050
Mkt Cap (USD'000)	770,501
Number of outstanding shares ('000)	1,655,000
Est. Free Float	55.0%
PE 07E	31.2
PB 07E	1.6
2007 Average daily traded value (USD'000)	22,300

Gulf Navigation Holding (GNH) was established in Oman in 2001 under the name of Gulf Navigation and Brokerage. In 2003, the company relocated its headquarters to the UAE in order to offer more diversified services. The company changed its name to Gulf Navigation Holding shortly before it went public in February 2007 and listed on the DFM.
GNH is involved in maritime transport of crude oil products and chemicals, maritime transport under special and merchant contracts, clearing and forwarding services and packaging services. The company's primary line of business includes the chartering and operation of crude oil, oil products and liquid chemical tankers.
GNH initially began its business by chartering vessels and re-chartering them. Today it owns six oil product tankers, a double-hull design Suezmax crude oil tanker and a double-hull design Very Large Crude Carrier (VLCC) . The company, with standing orders for six chemical tankers (IMO-Class II), slated for delivery between 2008 and 2009, aims to become one of the Gulf region's largest integrated liquids ship owners.

Financial and operating highlights

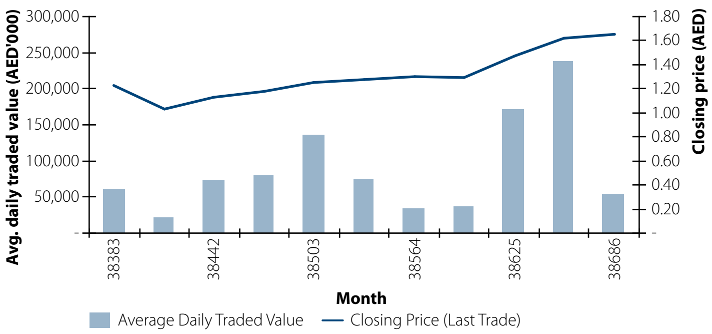
Driven by the increase in VLCC vessels in 2007, GNH revenues increased from AED 109 mn at 9M 06 to AED 173 mn at 9M 07 implying 59.1% growth. The vessel chartering revenues are the major component of total revenues contributing around 91.3% of total revenues as at 9M 07.
The net finance income also boosted net income by 195.2% from a base of AED 23 mn at 9M 06 to AED 68 mn at 9M 07. The net finance income reached AED 14 mn at 9M 07 from AED 3 mn at 9M 06 reflecting a sharp increase of 431.1%, justified by the change in the cash balance during the same period. The bank balances and cash amounted to AED 694 mn at 9M 2007 as compared to AED 11 mn at 9M 2006, and this is due to the IPO proceeds received by the company in August 2006, that have yet to be fully utilised.

Share ownership



Recent developments and outlook

VLCC Gulf Sheba is the largest among GNH fleet with a capacity of almost 300,000 dwt and can transport 2 to 3 mn barrels of oil. It is expected to generate approximate revenues of USD 57 mn over the 3-year contract with TMT Taiwan.
Towards the end of 2007, chartering rates have moved from a four year low close to USD 20,000 per day to an all time high of USD 219,000 a day. If such high rates continue they will have a highly positive impact on the profitability of shipping companies in the region. This spike in rates came as a result of increased demand, higher shipping costs and higher traffic especially on Asian routes.



Air Arabia

Outstanding recommendation:
BUY

Company overview

RIC Code	AIRA.DU
Country	United Arab Emirates
Exchange	Dubai Financial Market
Sector	Airlines
Foreign investor limit	49.0%
Current share price (AED)	2.11
2007 % change	77.4
52 week High	2.16
52 week Low	1.05
Mkt Cap (AED'000)	9,846,737
Mkt Cap (USD'000)	2,680,843
Number of outstanding shares ('000)	4,666,700
Est. Free Float	55.0%
PE 07E	26.4
PB 07E	2.0
2007 Average daily traded value (USD'000)	26,203

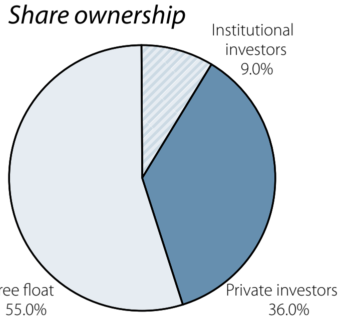
Air Arabia was the first to pioneer and successfully introduce the low cost carrier (LCC) model in the region, using Sharjah, in the UAE, as its main hub. The carrier is modeled after leading American and European LCCs and is customized to local preferences. The airline aims to provide value to customers by offering individuals in the region- who were previously discouraged from frequent regional travel by the high fares of conventional airlines- the ability to travel almost at will. This value proposition is now among the core factors boosting growth in passenger traffic, and should continue to impact the whole regional airline industry.
Air Arabia went public in March 2007, floating a 55% stake and raising AED 2.57 bn in new equity. The proceeds of the IPO are to be used for implementing the company's fleet expansion strategy. Air Arabia's passenger base has been continuously growing, crossing the two mn mark earlier this year. The carrier's fleet today consists of 11 Aibus A320s while its network has expanded to 32 destinations in 18 countries.

Financial and operating highlights

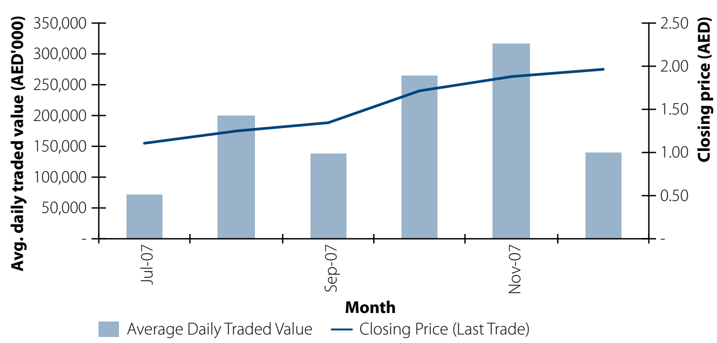
Air Arabia recorded an increase in sales and net profits of 58.2% and 269.3% respectively reaching AED 1,185 mn and AED 373 mn on annualized Q3 07 basis. Reported net margins reached 32% in 2007, compared to 14% in 2006.
The company improved its costing structure resulting in lower cost/passenger ratio of AED 334 at 9M 07 as compared to AED 373 in 2006. Also, it managed to operate on higher load factors, which reflected very positively on already impressive increases in profitability and net margins. Growth going forward will be significantly impacted by significant fleet expansion, from a current fleet of 11 aircraft to over 50 by 2016.

Recent developments and outlook

Share ownership



Air Arabia aims at becoming a global airline and increasing its fleet to 50 aircrafts by 2015. It placed an order for 34 Airbus 320 with an option to buy 15 more at a value of USD 3.5 bn during the Dubai Air Show in November 2007.The company has also embarked on an extensive expansion project with the upcoming opening of a second hub in Rabat, Morocco, to cater to travel demands to Europe. The secondary hub will give Air Arabia a chance to compete for a share of Morocco's traffic.
Air Arabia announced plans to construct a 306-room, 3 star hotel within Sharjah International Airport, The Sharjah Centro hotel. Sitting on a 36,000 sqm plot of land that was granted by the government of Sharjah, the property will be managed by Rotana hotels. The hotel is expected to be operational by Q1 09.



TAQA

Outstanding recommendation:
NOT RATED

Company overview

RIC Code	TAQA.AD
Country	UAE
Exchange	Abu Dhabi Securities Market
Sector	Utilities
Foreign Investor Limit	0%
Current share price (AED)	4.00
2007 % change	68.3
52 week High	4.22
52 week Low	1.77
Mkt Cap (AED '000)	16,600,000
Mkt Cap (USD '000)	4,519,466
Number of outstanding shares ('000)	4,150,000
Est. Free Float	25%
PE 07 Annualized	32.7
PB 9M 07	2.6
Average daily traded value (USD '000)	7,662

Abu Dhabi National Energy Company (TAQA) is a global energy investment company with strategic and financial investments in the electricity, oil & gas, water, petroleum and minerals sectors. TAQA is the energy and power arm of the government of Abu Dhabi with near term aggressive investment plans of becoming a global energy giant.
TAQA, through its subsidiaries, provides most of the water and electricity consumed in the emirate of Abu Dhabi. These subsidiaries are operated under long-term management contracts with leading international utilities, oil and gas companies and project developers across the GCC, MENA, Asia, Europe and North America.

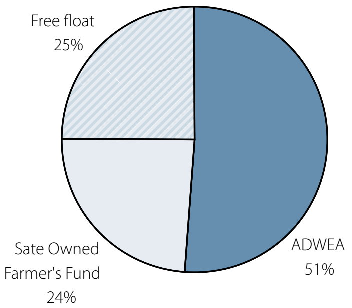
Financial and operating highlights

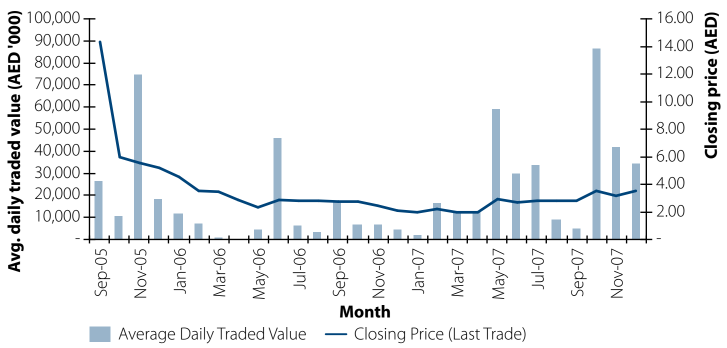
In 9M 07, TAQA's net income reached AED 381.2 mn, representing a 47% increase over 9M 06. Total revenue reached AED 5.29 bn in 9M 07 compared to AED 2.37 bn for the same period in 2006, an increase of 123%. Revenues from water and electricity grew by 45% to AED 3.45 bn constituting 65% of total revenues. Revenues from oil and gas (including gas storage revenues) accounted for AED 567.7 mn in 9M 07; no revenue from oil and gas was generated in the same period last year. The largest expenses item for TAQA is finance cost, driven by a debt to equity ratio of more than 6 times. Administrative expenses and minority interests soared by 203% and 77% respectively, reflecting increased operations from expansions and acquisitions made throughout the year.

Recent developments and outlook

TAQA proceeded with its expansion program in 2007. It focused on the Canadian market and acquired 100% of Northock Resources Ltd, a Canadian oil and gas exploration company for a total purchase price of USD 2 bn and renamed it TAQA North. TAQA North then acquired Calgary-based Pioneer from Pioneer International Resources Company through a USD 540 mn share purchase agreement. Pioneer is a Canadian oil and gas exploration company with operations in the Western Canadian Sedimentary Basin. The acquisition provides TAQA North with an additional 59 mn barrels of (gross) proven and probable oil and gas reserves, more than 10,000 barrels of oil equivalent per day in production, as well as expertise in coal bed methane exploration and production.
In addition, TAQA North announced that it will acquire PrimeWest Energy Trust, also a Calgary-based oil and gas royalty trust, for a total value of CAD 5 bn. On another front, TAQA's wholly-owned subsidiary, TAQA Bratani, acquired Talisman Energy (UK) Limited's non-operated interests in the Brae area of the UK Continental Shelf for USD 550 mn.
We expect Taqa to continue on its acquisition spree and build a diversified international portfolio as it aims to increase its assets from USD 16.5 bn to USD 60 bn.

Share ownership





Tabreed

Outstanding recommendation:
BUY

Company overview

RIC Code	TABR.DU
Country	UAE
Exchange	Dubai Financial Market
Sector	Utilities
Foreign Investor Limit	49%
Current share price (AED)	3.60
2007 % change	64.4
52 week High	3.71
52 week Low	1.62
Mkt Cap (AED '000)	4,082,400
Mkt Cap (USD '000)	1,111,462
Number of outstanding shares ('000)	1,134,000
Est. Free Float	76.0%
PE 07E	57.5
PB 07E	3.0
Average daily traded value (USD '000)	6,548

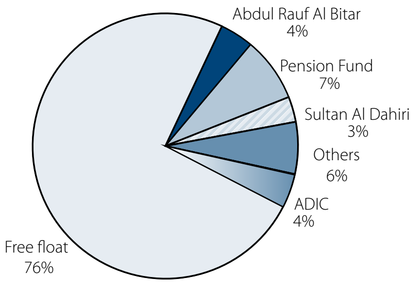
The National Central Cooling Company, Tabreed, has positioned itself as one of the largest district cooling providers in the world. Established in 1998, Tabreed was a pioneer in the region introducing eco-friendly and energy-efficient technology. As of Q3 07, Tabreed owned 23 district cooling plants operating in the UAE with a total cooling capacity of around 214,000 TR (Tons of Refrigeration). In the wider region, the company operates plants in Qatar and Bahrain with local partners, is building plants in the KSA and Jordan, and is setting up joint ventures in Oman and Kuwait.
Tabreed's revenue mix is diversified among chilled water, manufacturing, contracting and services operations. The company provides cooling services to a mix of clients: residential, commercial and governmental.

Financial and operating highlights

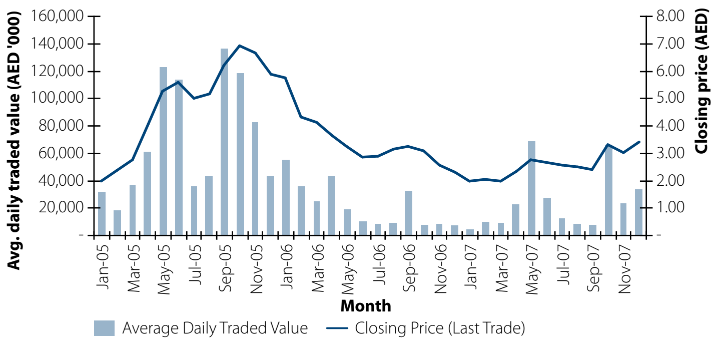
Tabreed's net income in 9M 07 came under pressure due to a lower than anticipated growth in chilled water revenues accompanied by a surge in G&A, financing and minority expenses. Whereas, chilled water revenues –the main business unit – increased by only 13.3% between 9M 06 and 9M 07, revenues from the services and manufacturing units soared by 38.3% and 40.1% respectively over the same period. Our estimates for Tabreed's net income for FY 07 and FY 08 are AED 71 mn and AED 93 mn respectively. Meanwhile, Tabreed has embarked on a heavy expansion plan to meet requirements of newly-signed large contracts. The company is set to double the number of its cooling plants in the next five years. This will push Tabreed's expected free cash flows in the red until 2012, when most of the plants under construction will be operational.

Recent developments and outlook

Share ownership



Tabreed has signed key contracts that will lead to a targeted increase in its total capacity from 214,315 TR in Q3 07 to 861,815 TR by 2013. The company will provide the entire Dubai Metro project with district cooling services including 43 metro stations that will initially require a cooling capacity of 80,000 TR. Construction of the first cooling plant for Dubai Metro commenced in the last quarter of 2007. Moreover, Tabreed has entered into a 50:50 joint venture with Aldar Properties to build 23 new district cooling plants, capable of generating around 800,000 TR by 2012, in Abu Dhabi. The first phase will become operational in 2009. The company also entered into a 50:50 joint venture with Sorouh to provide 35.000 TR to the company's real estate developments. The production is scheduled to commence in early 2009. Yet another joint venture with Mubadala Development Company to generate 50,000 TR is scheduled in early 2009. This revised capacity expansion plan is estimated to cost around AED 6.48 bn over the 2007-2014 period and is expected to be financed by a mix of debt and equity issuances.



Etisalat

Outstanding recommendation:
BUY

Company overview

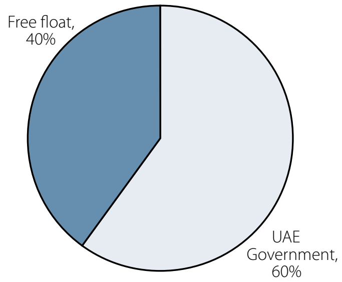
RIC Code	ETEL.AD
Country	UAE
Exchange	Abu Dhabi Securities Market
Sector	Telecom Services
Foreign Invertor Limit	0.0%
Current share price (AED)	23.30
2007% Change	33.0
52 week high	24.90
52 week low	14.09
Market Cap (AED'000)	116,296,125
Market Cap (USD'000)	31,669,333
Number of outstanding shares ('000)	4,991,250
Est. Free Float	40%
PE 07E	15.2
PB 9M 07	4.9
Average daily traded value	6,298,952.47

Etisalat was until February 2007 the only integrated telecommunication services provider in the UAE operating under a virtual monopoly. In addition to its dominance in the domestic market, the company operates and holds interests in 14 other countries including Saudi Arabia and Egypt. Etisalat's domestic network is one of the most advanced in the region; the company began upgrading its network to Next Generation Network (NGN) in September 2007 enabling enhanced triple-play services.
On the wireless front, 90% of the populated areas in the UAE were covered with an HSDPA network offering 3.5G access as of July 2007. Currently, all pre-paid and post-paid subscribers in the UAE enjoy access to 3G and 3.5G services.

Financial and operating highlights

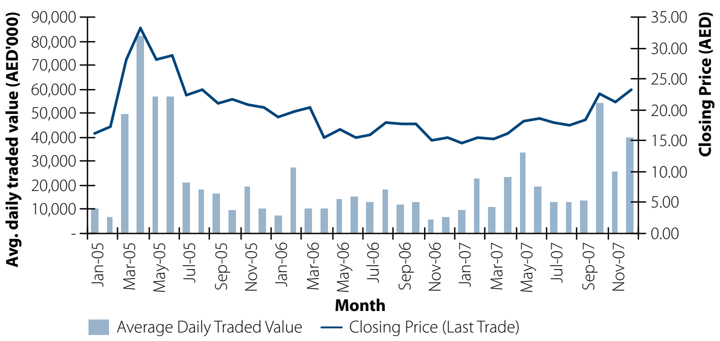
Despite sharing 50% of its consolidated bottom-line with the government, Etisalat enjoys very low debt and a net cash position of AED 5.7 bn on its balance sheet as of Q3 07; allowing it to raise more than AED 29.6 bn (USD 8.0 bn) to fund expansion.
Etisalat's UAE subscribers reached 6.2 mn in Q3 07 with an ARPU of USD 45. The operator's current domestic strategy is to focus on service quality and value added services to attract and retain higher value customers.
Etisalat has achieved revenues of AED 15.39 bn in 9M 07 recording 30% increase YoY. In Q3 07 the operating margin stood at 31% recording 150 bps drop from the previous quarter as D&A expenses increased by 17% displaying the weight of geographical expansion. Net profit for 9M 07 reached AED 5.6 bn increasing by 26% over the same period last year.
Etisalat generates 98% of its top line and over 90% of its bottom line from the UAE. Mobily, the second mobile operator in Saudi Arabia in which Etisalat holds a 35% stake, is the second largest contributor to the bottom line representing 6% in Q3 07.

Share ownership



Recent developments and outlook

In May 2007, Etisalat increased its shareholding in the African operator, Atlantique Telecom, from 50% to 70%, deepening its exposure to a number of high growth African markets. The operator launched commercial operations in Egypt in May 2007, after securing the third Egyptian GSM license in July 2006 for USD 2.9 bn. Within 50 days of the launch, Etisalat Misr claimed 1 mn customers, representing 4% of total market share and a 32% market share of subscriber net additions in Q2 07. Etisalat owns 66% of Etisalat Misr and is committed to offering 30% of the capital to public by 2009.
We believe that Etisalat's potential remains on the upside as the paid royalty fee is likely to drop by next year. In fact, in May 2007, UAE's supreme committee for supervision of the telecommunications sector announced that it was revising the 50% royalty fee, since the royalty was originally set up in exchange of Etisalat's monopoly.
In July 2007, Etisalat held talks with the government to allow foreigners to buy its shares, and the change is expected to take place within seven to eight months.



Du

Outstanding recommendation:
NOT RATED

RIC Code	DU.DU
Country	UAE
Exchange	Dubai Fiancial Market
Sector	Telecom Services
Foreign Investor Limit	22%
Current share price (AED)	7.05
2007% Change	11.0
52 week high	8.42
52 week low	4.6
Market Cap (AED'000)	28,200,000
Market Cap (USD'000)	7,679,320
Number of outstanding shares ('000)	4,000,000
Est. Free Float	20%
PE 07E	-
PB 9M 07	10.6
Average daily traded value	11,721,318

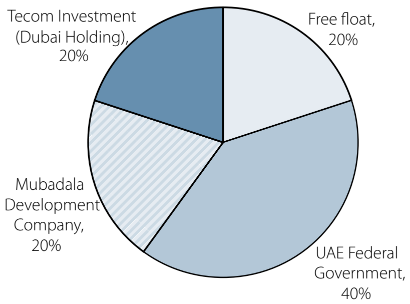
Company overview

Emirates Integrated Telecom Company is the UAE's second integrated telecom operator. It launched wireless services in February 2007 and wireline services in July 2007 under the banner Du. In February 2006, Du was awarded a license for AED 124.5 mn (USD 33.9 mn) to provide fixed-line, mobile, internet and international connectivity services in the country. Even before the commercial launch, Du had started catering to individual and business customers in Dubai's free economic zone as Sahm technologies, the telecom arm of property developer Emaar which later bundled its infrastructure with Du services. Du's network infrastructure is based on GSM/GPRS/EDGE and W-CDMA technologies with a theoretical coverage of 80% of the population at launch.
Repetitive service launch delays were mainly due to difficulties in reaching an interconnection agreement with Etisalat. The official roaming agreement, allowing Du's customers to use Etisalat's network whenever the latter's was out of reach, was only implemented in April 07. The agreement extends to 12 months; by that time Du is expected to roll out its own network. Furthermore, Du's international calls can be made without running through Etisalat's network, allowing a more flexible pricing strategy, which, in our opinion, is one of the main advantages the operator offers.

Financial and operating highlights

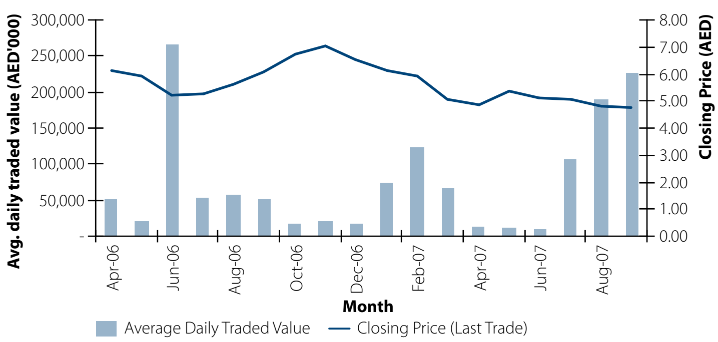
Six weeks after the launch of its operation Du claimed 250,000 mobile subscribers and by December 2007 the number of subscribers reached 1 mn or a 14% market share. While subscribers reached 880,000 in Q3 07, increasing by 59% QoQ, revenues recorded 36% over Q2 07 at AED 897.69. Du's EBITDA was still in the red at AED -608.70 mn for 9M 07 compared to AED -467.03 mn for 9M 06. The total net loss for 9M 07 steepened to AED 738.62 mn,. Depreciation and amortization expenses, along with network operation and maintenance cost, represented 39% of revenues for 9M 07.

Share Ownership



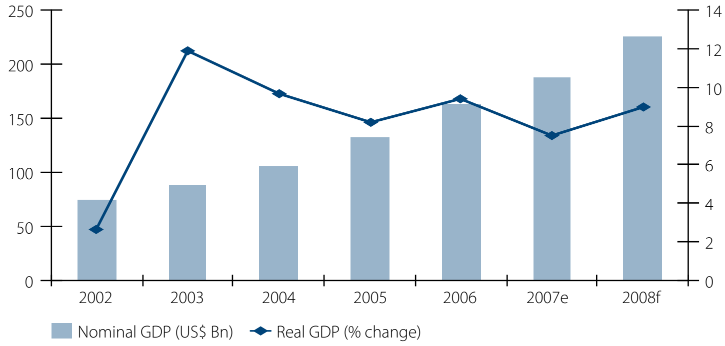
Recent developments and outlook

In December 2007, Du announced it was on track to capture its initial 30% market share objective in the wireless segment by 2008, one year ahead of its initial target date of 2009. The operator's strategy is to take advantage of the massive inflow of price sensitive expatriate workers to the UAE. With lower international tariffs, per second billing and targeted marketing, the operator has been able to capture the workers segment of the population. As an example of this strategy, Du has provided a large local contractor's employees with 50,000 SIM cards bundled with a 50% discount offer on the cost of calls.



UAE Economic Backdrop

With real GDP rising at 7.5%, and per capita income at AED 154,151 in 2007 (compared to AED 141,778 in 2006), the UAE has become the second largest economy in the Arab world after Saudi Arabia. Although real GDP grew at a faster pace in 2006, the buoyancy of the economy is better reflected by the nominal gross domestic product GDP - the value of all the country's goods and services at current prices. The Ministry of Economy has revealed that the nominal GDP increased by 16.48 % in 2007, compared to 23.5 % the year before.

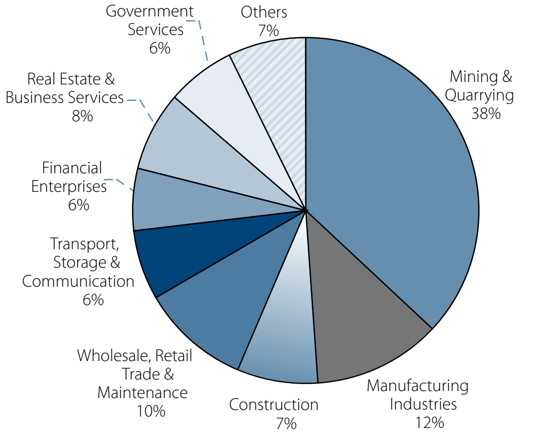


Source: IIF, SHUAA Capital Analysis

Structural reforms and a permissive business environment, in addition to government spending supported by high oil prices, have increased private sector confidence which has led the investment accelerated growth. The combination of government sponsored entities and the private sector has fuelled spending to implement major investment plans. An estimated USD 543.9 bn worth of projects, mainly in the civil sector, are underway or in the pipeline for the next ten years in the UAE, to be undertaken mostly by public-private partnerships. Significantly, this spending spree has made only a small dent in the savings of the UAE, which remain substantial as the high oil prices continue to support record surpluses in the fiscal balance and current account. The latter is expected to have grown by 9% to USD 38.25 bn in 2007. Abu Dhabi alone is investing in projects worth around USD 270 bn. The investment drive with increasing participation from the private sector, the associated rise in per capita income, and a number of significant economic structural reforms, not only makes the growth sustainable but paves the way for an enhanced global role for the country.

Leading this growth is the non-oil sector, which recording a real growth of 10.5% in 2007, far outpacing growth in the hydrocarbon sector. In fact, the latter's real growth rate shrank by 1%. However, the past three-year hike in oil prices has changed the picture. Hydrocarbon nominal GDP has been growing at astounding rates of 40%, 28% and 6.8% in 2005, 2006 and 2007, respectively. The non-hydrocarbon sector is expected to account for 65% of nominal GDP in 2007, up from 63% the previous year, but down from the 68% as of 2004.

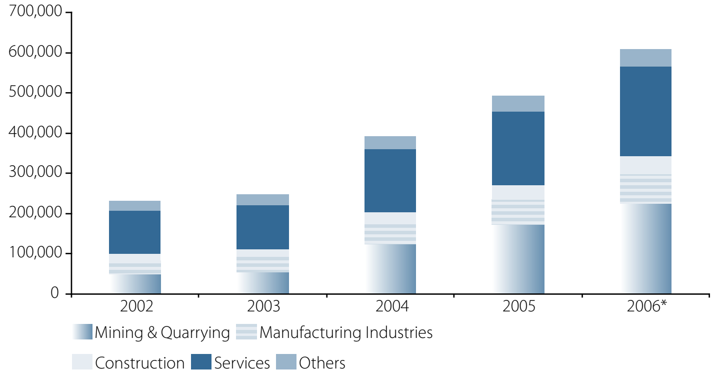
Sectoral breakdown of Nominal GDP , 2006



Source: UAE Central Bank Annual Report 2006, Ministry of Economy

The noticeable increase in the share of the services sector in GDP over the past four years reinforces expectations that the UAE is firmly on track towards becoming a service economy. This trend is in line with, and part of, the vision for a diversified and less-oil dependent economy, with financial services, tourism, retail and transport as well as construction and manufacturing increasing their share year-on-year. The big leap was taken in 2004, when services' contribution to GDP jumped by 42%, and continued to grow steadily at rates of 18% and 20% in 2005 and 2006, respectively. Non-hydrocarbon sectors are expected to have constituted 76% of real GDP in 2007, compared to 74% in 2006.

Nominal GDP Composition



Source: UAE Central Bank Annual Report 2006, Ministry of Economy, SHUAA Capital Analysis

Oil and Surpluses

Oil

Although the oil sector was historically the main driver of the economy, the UAE is moving more towards a diversified service economy with less dependence on oil. Still, the UAE's current production status places it as the 8th largest crude oil producer worldwide. Within OPEC it ranks 6th in terms of production, with Saudi Arabia (8.98 mn bpd), Iran (4 mn bpd) and Kuwait (2.49 mn bpd) in the lead. Since, UAE's future prospects as a producer are significant given its 98 bn barrels of reserves, the world's fifth largest, the government has leveraged the hydrocarbon endowment to pursue production capacity expansion programs, despite the reductions in production by around 2%, from 2.62 mn bpd in early 2006 to 2.5 mn bpd in 2007. As a gas producer its output in 2006 was 47.4 bn cubic meters, giving it 16th place worldwide. Abu Dhabi is the largest contributor, controlling around 90% of the federation's total oil output capacity[1].

2007	UAE	Qatar	Kuwait	Oman	Bahrain	KSA
(%) Contribution to Real GDP	23.8	55.9	29.0	21.0	9.6	29.3
(%) Contribution to Nominal GDP	34.5	61.1	52.6	45.8	24.0	51.0
(%) Hydrocarbon Gov. Revenues/Total	76.3	72.7	71.8	81.5	76.1	92.9
(%) HydrocarbonExports/Total	47.3	89.8	94.5	78.9	75.9	88.8

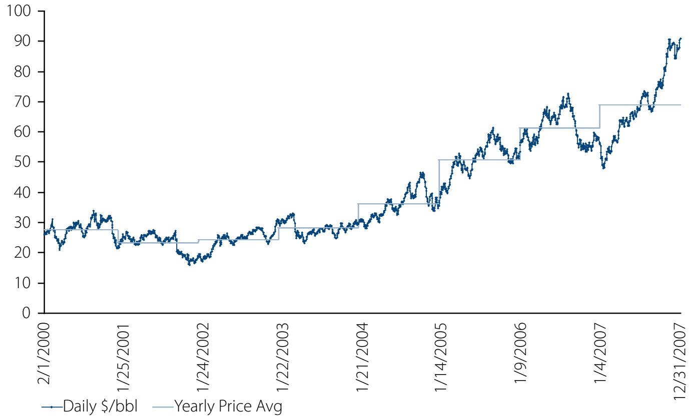
Source: IIF, SHUAA Capital Analysis

The UAE displays less dependency on oil than the other GCC countries. Less than half the country's exports are hydrocarbons, the lowest proportion among all GCC countries. While hydrocarbon's share of UAE's GDP is larger than that of Oman and Bahrain, its hydrocarbon percentage of total revenues is the third lowest.

Furthermore, the cut in OPEC production quotas announced in October 2006, set the UAE's quota at around 2.6 mn bpd 2 resulting in a 1% decease in real oil GDP, despite the galloping prices of the past year. Considering the shrinking contribution of hydrocarbon sector, the growing strength of the services sector, and the massive investment plans in non-oil sectors, we believe that UAE is firmly on track towards diversification and away from being a hydrocarbon economy.from being a hydrocarbon economy.

1 *BP Statistical Review of World Energy, Oil, 2007*
2 *OPEC*

OPEC Reference Basket



The ripple effects of rocketing oil prices have benefitted the overall economy and created massive triple surpluses. The trade balance, the fiscal balance and the current account balance have all been steadily increasing in the positive, reaching record-high levels in 2007.

Current Account

The current account surplus at USD 38.25 bn is expected to have formed 20.3% of GDP in 2007, and is expected to rise to USD 50 bn in 2008, 22.2% of GDP. Similarly, the UAE has seen its trade balance rising exponentially in the past four years, despite the fact that hydrocarbon exports accounted for 47.3% of total exports in 2007. Hydrocarbon exports jumped in nominal value by 43%, 27% and 7% in 2005, 2006 and 2007, respectively, while non-hydrocarbon exports grew by 19%, 16% and 15%, respectively, offsetting the increase in imports due to growing domestic demand.

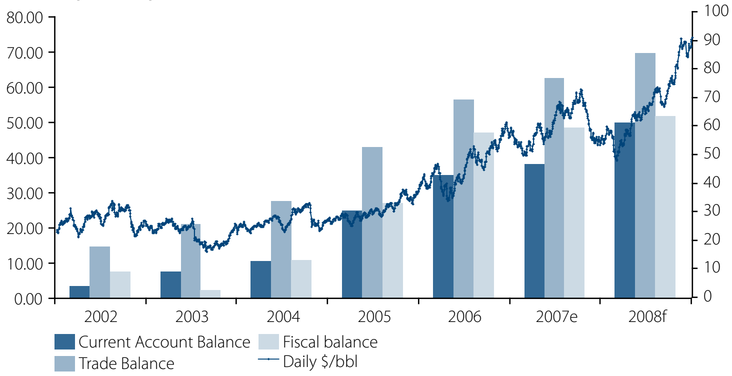
The cumulative current account surplus of the UAE, from 2002 till 2008 included, was estimated to have reached USD 169.9 bn. To better understand the significance of this surplus, we calculate what the cumulative current account would be in 2008, had the current account surplus remained at the average 98-02 levels every year. Comparing that number to the actual surplus projected for 2008, we find an 'excess' USD 134 bn, which we take as estimate of excess liquidity in the economy.

Fiscal Balance

Fiscal surplus comprised 29% and 25.8% of GDP in 2006 and 2007, respectively. Federal government revenues were mainly dominated by hydrocarbon revenues, which accounted for 76% of total government revenue in 2006 and are expected to remain at around the same level in 2007. The UAE has been fiscally conservative during this oil windfall, saving up to 57% of income in 2006, and is expected to have saved 55% in 2007. With record oil prices and hence high hydrocarbon revenues, overall fiscal surplus increased by about 74% in 2006, and is expected to have increased by a much more modest 3% in 2007, and to further rise by 7% in 2008, once oil production returns to normal levels.

Federal government expenditures rose by 24.4% in 2006 and are expected to continue increasing, growing by 10.8% and 8% in 2007 and 2008, respectively, as government authorities continue investing in the diversification of the country's economy. Spending increases in 2006 were driven chiefly by a 66% increase in subsidies. In addition to that the government implemented a 70% raise in public sector wages at the end of 2007.

Triple Surpluses (In $ billions)



Source: IIF, Reuters, SHUAA Capital Analysis

Federal Budget

The above figures along with the government's published fiscal accounts do not fully include investment income earned from sovereign funds the like of Abu Dhabi Investment Authority (ADIA) and the profit from government owned entities such as Abu Dhabi National Oil Company's (ADNOC) profit. The above figures partially incorporate IMF estimates of both ADIA and ADNOC only. Since ADIA's revenues are estimated to be substantial enough to offset oil revenues, they can act as a buffer for government spending. For example, in the unlikely event that oil prices should tumble, ADIA's revenues should comfortably act as a safety net for all the government's investment plans.

Much of the investment and spending being carried out by the various government-sponsored firms is extra-budgetary. Nonetheless, accounting for these would not greatly erode the cited fiscal surpluses. For example, investment income generated mainly by ADIA's substantial assets accounted for the largest component of non-oil revenue, while considerable spending items, such as fuel subsidies, do not appear on the budget and are borne by ADNOC. In addition, the figure for capital spending – modest at 13% of overall spending – does not seem to accurately reflect the amount of infrastructure spending being carried out in the country. This can be explained by the fact that the individual emirates' budgets (which are independent of the federal budget of the UAE) are collectively much larger than the federal budget, and are the primary sources of capital expenditure. These budgets are not typically disclosed.

External Sector

Clearly, foreign debt is on the rise but it remains manageable. Debt ratios have remained stable at 21% of GDP in 2006 and 2007 and are expected to decline marginally to 20.1% in 2008. Although government-sponsored bodies and quasi-governmental entities have been borrowing aggressively to finance their ambitious investment plans, it is important to note that they operate – and borrow – like any private company. Thus, their liabilities cannot be considered government debt.

Rating

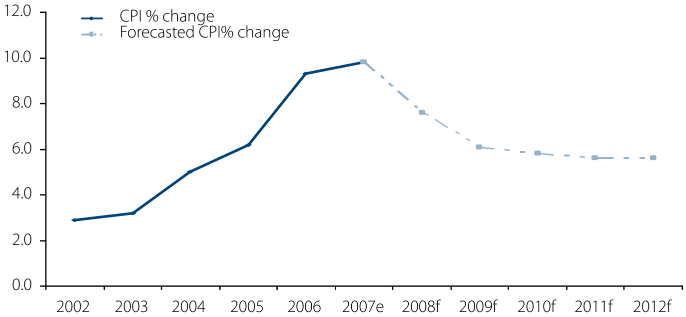
The UAE and the other GCC countries have been deploying their petrodollars prudently, especially when compared with previous oil booms. International rating agency Moody's maintained the sovereign rating of the UAE, along with the remaining five members of the bloc, at Aa2.

The UAE is also proceeding with structural reforms that are imperative to boosting the role of the private sector. The federation, as a whole, is undergoing economic expansion and reform with Abu Dhabi spear-heading the program with a pledge of USD 544 bn3 to be invested in various sectors over the next five years.

Inflation and money supply

Inflation

We estimate that consumer price inflation ran at approximately 9.8% throughout 2007. Increased domestic demand combined with supply constraints have been a large part of the impetus. As expectations of a continued rise in prices is entrenched wage inflation pressures are exacerbating pressure on prices. This is especially the case for expatriate workers who are seeing inflation erode the value of their savings and remittances. The stand-off between construction workers and their firms in Dubai earlier this year was a case in point. The previously mentioned 70% hike in public sector wages is also expected to add weight to price increases.

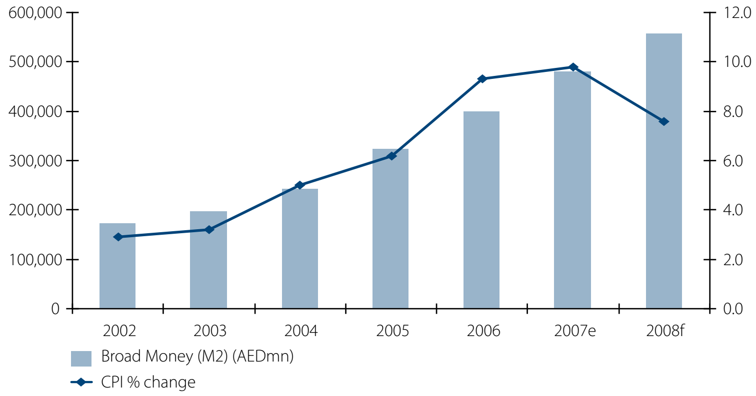


Source: IMF, SHUAA Capital Analysis

With housing and rental prices being a hefty component of the CPI, we expect any change on that front also to have an impact on overall inflation. Fast-paced economic development, demand from numerous projects under construction, infrastructure plans and the resulting inflow of expatriate workers have led to acute shortage in housing and, hence, sustained rise in inflation. Thus, the rent cap adjustment announced at the end of last year - lowering the Dubai cap to 5%, and the Abu Dhabi and Sharjah limit to 7% - will most likely help ease inflation to 7.6% in 2008, by our estimate.

Another contributor to inflation in the UAE and across the GCC has been the extraordinarily high level of liquidity floating in the region. As the cumulative current account surplus reaches new highs every year, money supply has been keeping pace and as the graph below depicts, the CPI as well (refer to Box 1 for our inflation estimates).

3 *Proleads database, SHUAA Capital Analysis*



Source: IMF, UAE Central Bank, SHUAA Capital Analysis

It remains to be noted that the basket of goods and services used to calculate the consumer price index is based on prices paid by UAE nationals, who benefit from extensive subsidies and rent controls. Consequently, inflation for expatriate consumers in Dubai is likely to be twice this or even more, with the elevated price level acting as a deterrent to inflows of qualified workers from abroad.

Money Supply

Money supply has consistently increased at a double-digit rate since 2001, jumping by almost 23% and 20% in 2006 and 2007, respectively. The UAE Central Bank reported that M2 was AED 399.3 mn in 2006, and IMF estimates expect broad money to have reached AED 480.76 bn in 2007. Given the buoyancy of the economy, and the high growth in both real and nominal terms, we expect money supply to continue growing in 2008 at a comparable rate to previous years. The high level of liquidity, as reflected by the money supply growth, will continue to apply inflationary pressure in the midterm.

FDI and Remittances

Attracted by market-oriented reforms and improvements in business climate, foreign direct investment (FDI) in UAE remained strong, with almost USD 16bn flowing into the country in 2006. UNCTAD's survey on prospects for business and FDI for 2007-2009 found Turkey and the UAE to be the countries most favored by investors in West Asia. According to Dubai Statistics Centre data, Dubai alone saw FDI grow 13.4% in 2006 to AED 42.5 bn. The main magnets for foreign direct investments in the UAE remain the free zones, financial services, retail, telecommunications, and real estate development and construction. These inward FDIs emphasize the UAE's move towards a diversified service economy.

Net direct investment flows have also increased but amount to about one-half of gross inflows. Since, the outflows are mainly due to large investments abroad they generate income yielding assets and help diversify revenue sources further.

With the increase in expat population, critical to sustain economic growth, remittance outflows from the UAE continue to be substantial. The latest figure for 2006 is estimated to be USD 7.7 bn.

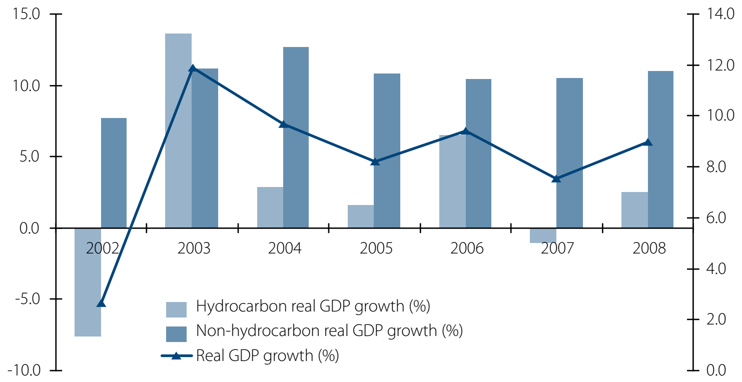
The UAE capital market has witnessed a significant increase in interest from foreign institutional investors in 2007 (refer to previous sections). As explained previously, the relatively attractive valuations, earnings growth, and the positive currency risk have been among the main attraction points to foreign investors.

Diversification

Outgrowing Oil

As growth in the UAE draws more power from the non-oil sector, Dubai spear-heads the diversification strategy. Financial services, tourism, retail, transport and manufacturing continue to contribute significantly to national growth. Recently, Abu Dhabi has also embarked on an aggressive investment plan to increase diversification. While currently catching up to Dubai, we expect that Abu Dhabi aims to out-pace its neighbor in the race to becoming the nation's driving emirate.

Dubai's strategic move to jumpstart diversification has been creation of requisite infrastructure and catalyst for growth in the construction, real estate, financial services, transport and retail sectors. The financial sector performed strongly in 2007, reinforcing Dubai's position as the foremost financial hub of the region. In nominal terms, these sectors have contributed 65% to UAE's GDP, making UAE the most diversified economy in the GCC. In real terms, non-oil growth has been the mainstay of the economy, making up 76% of overall real GDP. The division of UAE exports also highlights the increasing diversification of the UAE: non-hydrocarbon exports are expected to have comprised almost 53% of total exports in 2007. A large proportion of non-oil exports consists of re-exports, from which a growing, viable industry has grown increasing, in turn, the value added produced in UAE. Though nominally, this percentage is lower than previous years, it is more due to unusually high oil prices witnessed in the past year, than by a decrease in non-oil exports themselves.



Source: IMF

Transport

With the UAE population growing at an average rate of 6% over the past three years and closer to 8% in Dubai – investment in transport infrastructure has become imperative to maintain the competitive edge. For instance, Dubai's Roads and Transport authority plans to spend around USD 20 bn in the next decade on road building. A new airport is under construction near the Jebel Ali port to accommodate an expanded range of international airlines, even as a third terminal is being built at Dubai International Airport. Local airlines such as Emirates, Etihad and low cost carrier Air-Arabia have been experiencing impressive growth. The latter recently announced the acquisition of 49 Airbus A320 aircrafts, while Emirates placed orders worth USD 35 bn at the last Dubai Air Show4.

Telecom

The telecom sector witnessed a boom this year. A second integrated telecom operator, Du, entered the market, competing with Etisalat. The number of overall telecom subscribers jumped from 5.5 mn at end 2006 to 7.3 mn by end of 2007, as penetration rates increased significantly from 111% to 140%. Etisalat continues it global expansion moving from a local to a regional and now a global player. Etisalat initiated new partnerships in Africa and Pakistan, and started operating in the Egyptian market, a milestone step in Etisalat's expansion efforts. They have also announced an interest in bidding for a Lebanese license.

4 *Zawya*

Tourism
Tourism continues to enjoy much success; visitor arrivals to the UAE were estimated at around 7.9 mn in 2006, up by 6%, while Dubai's tourist arrivals in the first half of 2007 reached nearly 1.5 mn up by a good 4.3% y-o-y. Likewise, Abu Dhabi seems to be on track towards another strong year with tourist arrivals up by 14% in the first half of 2007. Hotel occupancy rate also showed strong performance, averaging at 88.3% in Dubai in the first half of 2007, and 86.9% in Abu Dhabi in 2006.

Financial Sector
The sector witnessed important growth in 2007 as Dubai continued to anchor its position as the financial centre in the gulf. The Dubai International Financial Centre (DIFC), the financial free-zone of Dubai, became the major financial centre in the region, attracting around 500 firms, including world-leading financial institutions. Looking ahead, DIFC is expected to be the primary contributor to growth in the financial services sector in the country. In addition, the Dubai Financial Market became the first listed exchange in the Middle East. Furthermore, Borse Dubai was established as the holding company for both the DFM and the DIFX, the international exchange of the DIFC. Borse Dubai, OMX and the NASDAQ entered into a complex agreement by which the Dubai firm would eventually sell all its OMX shares to NASDAQ in return for a 19.99 % in the merged entity between Nasdaq and OMX. Another consequence of the deal is the rebranding of the DIFX as Nasdaq-DIFX, which will benefit form the technology and the trading platforms of the OMX and NASDAQ.

Generally, financial institutions both banks and non-banks witnessed strong growth. Banks continue to benefit form the economic boom, strong demographic growth, and the high liquidity. Non-banks such as investment banks and asset managers benefited from the recovery in the stock market and a series of new listings and significant corporate activity.

Economic Outlook

The strong macroeconomic backdrop provided by forward looking structural and economic reforms, a vibrant private sector, and a supportive government investment program has served the UAE economy well in the past few years, and will likely continue to drive growth in the midterm. More importantly, this growth momentum has been mainly driven by the non-oil sector, and especially the services sector.

While Dubai has been the frontrunner in economic reform, transforming its economy into a vibrant, services oriented economy, where the private sector continues to produce phenomenal growth, Abu Dhabi's domestic economy is emerging as a key growth driver. Drawing on the success of Dubai's diversification efforts, Abu Dhabi and other emirates are undergoing economic liberalization and have found new momentum. Abu Dhabi is implementing structural economic reforms to allow the private sector to lead economic growth, with the support of a massive spending plan, which will gear its economy towards increased diversification.

We expect strong growth moving forward; more specifically in 2008 we project real GDP growth to be around 9% driven mainly by the non-oil sector. We forecast nominal GDP to reach USD 225.6 bn in 2008, implying a nominal growth rate of 19.9% (our forecast is based on average Brent price for 2008 of USD 83/bbl).

The economy will continue to exhibit healthy economic indicators across the spectrum. The external account will remain strong with the current account in the mid-twenty percent of GDP for the midterm and more specifically at around 22% in 2008. The UAE fiscal position will remain highly positive, with fiscal surplus projected to grow by 7% in 2008, to USD 51.8 bn, or 23.8% of GDP. Money supply is also forecast to grow at a mid-twenties rate, reflecting the high level of liquidity in the market. Domestic credit has been growing strongly in the past (41.1% in 2006), and will continue doing so, reflecting the strength of local demand and high level of economic activity.

We expect inflation to taper in 2008 to a level of 7.6%, due to the newly introduce measure affecting rent increases as well as our expectation of a possible UAE Dirham revaluation against the US dollar in 2008.

Economic Highlights

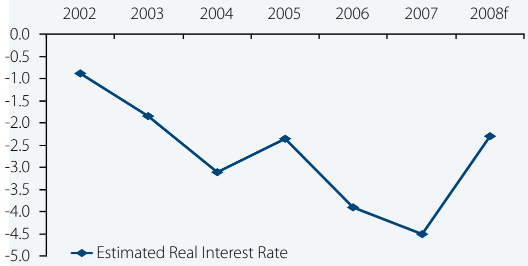
Select Macro Indicators	2002	2003	2004	2005	2006	2007e	2008f
Nominal GDP (USD Bn)	74.35	87.67	105.31	132.29	163.27	188.17	225.60
Nominal GDP (PPP-USD Bn)	88.80	101.46	114.46	127.95	144.25	159.33	172.81
Population (Mn)	3.41	3.58	3.76	3.99	4.23	4.48	4.75
GDP per Capita (USD)	21,792	24,473	27,998	33,179	38,632	42,003	47,508
GDP per Capita (PPP-USD)	26,027	28,323	30,430	32,092	34,131	35,565	36,390
Nominal GDP (%change)	7.32	17.92	20.12	25.61	23.42	15.25	19.89
Real GDP (% change)	2.63	11.88	9.69	8.20	9.40	7.52	8.97
Non-hydrocarbon Nominal GDP/GDP (%)	73.43	71.38	67.89	64.14	62.72	65.45	66.08
Inflation Rate (CPI % change)	2.90	3.20	5.00	6.20	9.30	9.80	7.60
Consolidated Government Revenue/GDP (%)	42.14	31.07	34.91	41.95	50.49	46.60	41.77
Hydrocarbon Revenue/Total Revenue (%)	78.11	75.56	73.81	74.99	76.07	76.34	76.34
Consolidated Government Expenditure/GDP (%)	31.74	28.47	24.52	21.51	21.68	20.85	18.78
Consolidated Government Gross Total Debt/GDP (%)	8.34	10.85	12.54	14.34	21.36	21.14	20.12
Consolidated Government Balance (AED Bn)	28.38	8.36	40.16	99.26	172.62	177.85	190.36
Current Account Balance (USD Bn)	3.41	7.55	10.59	24.96	35.14	38.25	50.00
Current Account Balance/GDP (%)	4.59	8.62	10.06	18.88	21.54	20.34	22.16
M2 (AED Mn)	173,653	196,550	242,242	324,064	399,293	480,757	558,159
Official Forex Reserves (USD Mn)	n.a	15.10	18.70	21.30	27.90	34.30	41.80

Source: IIF, IMF,UAE Central Bank, SHUAA Capital Analysis

Negative Real Interest Rates

The past few years, the UAE has been watching its real interest rates decline steadily while already in the negative. More recently, the UAE Central Bank had to follow the US Federal Reserves' rate cuts, albeit moderately, given the Dirham's peg to the dollar. With continued inflationary pressures and further potential US interest rate cuts, real interest rates are likely to remain in negative territory for the foreseeable future.

For the sake of illustration, we have constructed banks' real deposit interest rates by subtracting observed "headline" CPI inflation from the yearly EIBOR average[1]. The observed negative real interest rates, in the first instance, impact individuals' wealth which influences the economy in various ways: inter-temporal substitution and financial intermediation.



Source: Reuters, IMF, SHUAA Capital Analysis

When the real interest rate falls, current spending increases as it becomes cheaper to buy goods now rather than later. Hence, in the short term, negative real interest rates will give the domestic economy a timely and healthy boost. However, a period of sustained negative real interest rates, as has been the case in the UAE, will cause significant increases in spending, leading to further economic overheating and asset price inflation. This inter-temporal substitution further aggravates inflationary pressures, leading to further falls in real interest rates - a vicious cycle ensues.

Co-occurrence of low interest rates and high inflation leads to negative deposit rates in real terms. If deposit rates, in real terms, remain negative for a prolonged period of time, as is the case in most GCC countries, depositors begin to withdraw their funds, leading to financial disintermediation or shift of funds from low-yielding assets, usually at commercial banks, to high-yielding investments mainly capital markets and real estate.

1. *Although we acknowledge that the appropriate measure of inflation used to construct the real interest rate should be based on expected as opposed to past inflation, as the former determines the relative attractiveness of spending now versus later, our usage of past inflation can only be justified as a proxy for expected inflation in measuring real interest rates. Our approximation is further justified by the fact that expected inflation in the UAE is at least equal if not higher than past inflation.*

Inflation

Across the GCC, inflation has consistently made headlines over the past year as concerned consumers and governments watched prices continue to climb at a record pace. The UAE faced a 9.3% rate in 2006, and we expect it to have faced an average rate of 9.8% in 2007. A much higher rate is expected for Dubai, while official inflation in Abu Dhabi is around 11.3%.

Inflationary pressures currently weighing on the country (and the region more broadly) are being driven by three factors: 1) supply bottlenecks in the face of soaring demand, especially in the real estate and housing sectors; 2) the unprecedented levels of excess liquidity brought about by the global surge in oil prices; and 3) imported inflation due to the dollar peg and the weakening dollar.

Rent has been the major contributor to the increase in inflation in the UAE. Housing prices are being pushed by surging demand, with the costs of construction materials also increasing globally. Expatriate workers have seen their remittances decrease in value as the dollar weakens, prompting demands for higher pay. The UAE saw some of its main construction projects brought to a halt by a series of labour strikes demanding higher salaries and better working conditions. Dubai and Abu Dhabi have both implemented a rent cap in an attempt to rein in soaring rent and property prices. The caps were adjusted at the end of 2007 to 5% in Dubai while both Abu Dhabi and Sharjah kept it at 7%. This measure seems to be effective, at least in the short-term, but recent official data on the matter is not yet available. Nonetheless, we expect it to put some downward pressure on general prices levels.

The rise in food prices is a global trend fuelled partly by the expanding bio-fuels industry, but mainly by the demand pressures from Asia, with India and China being the main contributors. Rising incomes in those countries, especially for households previously in lower income brackets, has meant greater demand for food stuffs in general, and high-protein foods in particular, as families can now afford to diversify and eat better.

Incomes of public sector employees in the UAE also received a sudden boost when the government announced a 70% raise in public wages, ostensibly to offset lessen the burden of inflation on their employees. This move, however, is expected to further fuel inflationary pressures.

Though the dollar peg has not been the main culprit, it has indirectly helped fuel inflation by restricting central banks' ability to control money supply. The flood of liquidity currently drowning the region is not being contained by a tight monetary policy to curb inflation.

Except for Kuwait, all GCC countries have reiterated their commitment to a US Dollar peg policy. Seen in the context of one the main drivers of inflation in the UAE - and across the GCC - we believe this policy robs central banks of the mainstream monetary tools used to contain inflation (see box on revaluation and monetary policy).

We forecast inflation to remain high in the coming years. Our forecast below takes into account the following factors:

- the composition of the UAE inflation basket
- various inflation levels in Dubai, Abu Dhabi and the rest of the emirates
- the effects of rent caps
- A possible 5% currency revaluation in 08/09 that would pull back inflation by about 2-3%.

	2006	2007e	2008f	2009f	2010f	2011f	2012f
UAE CPI % change	9.3	9.8	7.6	6.1	5.8	5.6	5.6

Monetary policy, revaluation and the dollar peg

The oil boom, rising inflation, a slumping US economy (and its loosening monetary policy), and a weakening dollar have increased the pressure on the UAE's central bank to de-peg from the US Dollar.

In December, the UAE central bank issued certificates of deposit in euros, dollars and dirham with maturity up to five years (previously the longest maturity was 18 months). The move aimed to create a yield curve that could be used by the financial industry as a benchmark to price and develop fixed income products and foster corporate bonds. As IMF had been recommending, such a step helps further develop the "thin" money and debt markets, especially in the absence of government securities and sovereign bonds due to a fiscal surplus. In parallel, the UAE central bank also set its first overnight repurchase rate - the rate at which the central bank would lend Dirham funds to banks against pledging CDs.

These developments indicate that the UAE central bank is building and developing the monetary tools needed to implement an independent monetary policy. If and when the UAE decides to change its foreign exchange policy and move away from the peg, it would have the necessary tools to manage such a shift.

A sizeable diversified economy looses its ability to control its monetary policy (such as money supply) once it maintains both capital control openness and a fixed exchange rate. Pegged to the US Dollar, GCC countries are forced to follow the Federal Reserve's moves, whereas a more flexible currency would allow central banks to control money supply and set inflation-curbing interest rates.

A flexible currency has at least one main advantage - it acts as a safety valve. Any shocks to the economy can be partially absorbed by the fluctuations of the exchange rate. If a currency is pegged, the brunt of the shock is borne by the economy itself. For instance, the high current account surpluses in GCC countries were not reflected in nominal exchange rates. Instead, the change in the real exchange rate is manifested in a rise in domestic prices and inflationary pressure.

Temporary shocks in oil prices typically do not require an adjustment – an oil exporting economy can save instead of increasing consumption. This strategy has served the region well in the past. However, we believe that the current shock is a more permanent one -a permanent shock results in strong economic stimulus and higher spending that are not temporary. Given the sustained current and fiscal account surpluses and local governments' rightful decision to embark on massive infrastructure and development spending, a tightening monetary policy should be adopted to curb exploding liquidity and inflation. The US Federal Reserve's adoption of a loosening monetary policy makes it increasingly difficult - and undesirable - for the UAE to continue importing US monetary policy.

In the short term, we believe that the UAE is likely to engage in a one time revaluation of the Dirham against the US Dollar, most probably early in 2008. This one time appreciation would be in the range of 3-5%, but still significant. After a potential small revaluation, the UAE could immediately announce its intent to move to a currency basket regime. The sequence of events would reduce speculation of further currency appreciation.

We also believe that monetary authorities in the GCC are likely to move, in a synchronized manner, to a currency basket that is heavily weighted towards the US Dollar. This move will most likely occur towards the year 2009.

Though after the last GCC summit in Doha, the central bank repeatedly denied any plans to drop the peg in the near future, some of the steps it has taken recently lead us to believe that they may be preparing for just such an eventuality on the long run.

Appendix I (market timeline)

Pre- 1970	Establishment of NBAD & NBD- acting as both Central banks and Commercial banks
1971	
1972	Union of the UAE established
1973	
1974	
1975	
1976	Etisalat offers 40% to UAE nationals
1977	
1978	
1979	
1980	
1981	Petrodollars channeled into Al Manakh market in Kuwait triggering massive equity market bubble
1982	Collapse of Al Manakh in Kuwait and shelving of exchange in the UAE
1983	
1984	
1985	
1986	
1987	
1988	
1989	
1990	
1991	Gulf war causes collapse in equity prices
1992	
1993	
1994	
1995	First Recent IPO in UAE- Dubai Investments Company
1996	
1997	First Recent IPO of a bank- ADIB; IPO of Emaar Properties First Mutual Fund launched by Emirates Bank International
1998	UAE OTC market bubble burst
1999	
2000	Dubai Financial Market established Abu Dhabi Securities Market established ESCA establishment
2001	Oil prices embark on an upsurge
2002	IPO of Amlak Finance after four year absence of primary market
2003	Petrodollars funneled into equity and real estate markets
2004	SC UAE rises 103%
2005	UAE market cap crosses USD 100 bn mark UAE markets raise nearly AED 45 bn in new equity UAE 3rd Exchange setup- DIFX UAE market peaks on Nov 10th- up 132% & market cap USD 232 bn
2006	UAE market crash DFM goes public- first regional stock exchange to IPO Oil prices record a high above USD 75
2007	UAE markets rebound Oil prices reach USD 98. DP World lists its shares on the DIFX in what becomes the largest IPO in the region.

Appendix II (market logistics)

	DFM	ADSM	DIFX
Governing Body	Emirates Secuities and Exchange Commission	Emirates Secuities and Exchange Commission	Dubai Financial services Authority
Trading Days	Sunday to Thursday	Sunday to Thursday	Monday to Friday
Trading Hours	10.00 - 14.00	10.00 - 14.0	11.45 - 16.45
Settlement Period	T + 2	T + 2	T + 3
Trading Mechanism	Electronic	Electronic	Electronic
Daily fluctuation limits	15% (5% for illiquid stocks)	10%	10%
Trading currency	AED	AED	USD
Short selling	n/a	n/a	n/a
Short lending	n/a	n/a	n/a
Commissions	0.15% to broker	0.15% to broker	n/a
	0.05% to market	0.05% to market	0.06%
	0.025% to Authority	0.025% to Authority	n/a
	0.05% to Clearing	0.05% to Clearing	0.01%
Brokerage Membership fees	AED 50,000	AED 25,000	USD 5,000
	AED 100,000	AED 125,000	USD 10,000
Taxation	Witholding Tax (none)	Witholding Tax (none)	Witholding Tax (none)
	Income Tax (none)	Income Tax (none)	Income Tax (none)
	Capital gains tax (none)	Capital gains tax (none)	Capital gains tax (none)
Number of licensed brokers	96	94	19
Number of listings	77	66	9 equity listing
	of which 7 debt instruments and 15 mutual funds	of which 2 debt instruments	20 debt instruments
Total underlying market cap	$ 114.7 bn	$ 113.9 bn	$ 20.5 bn
Phone number	(04) 355 5555	(02) 627 7777	(04) 361 2222
Website	www.dfm.ae	www.adsm.ae	www.difx.ae

This page was intentionally left blank

Research

Head of Research

Walid Shihabi
+9714 3199 750
wshihabi@shuaacapital.com

Chief Economist & Strategist

Mahdi H. Mattar, Ph.D.
+9714 3199 839
mmattar@shuaacapital.com

Strategy and Economics

Ahmad Shahin
+9714 3199 742
ashahin@shuaacapital.com

Jafar Shami
+9714 3199 522
jshami@shuaacapital.com

Sahar Tabaja
+9714 4238 532
stabaja@shuaacapital.com

Commercial Banks and other Financial Services

Mohamed El Nabarawy, CFA
+9714 3199 756
melnabarawy@shuaacapital.com

Sofia El Boury
+9714 4283 533
selboury@shuaacapital.com

Ghida Obeid
+9714 4283 536
gobeid@shuaacapital.com

Data

Ahmad Shahin
+9714 3199 742
ashahin@shuaacapital.com

Heavy Industries and Utilities

Mohamed El Nabarawy, CFA
+9714 3199 756
melnabarawy@shuaacapital.com

George Beshara
+9714 3199 837
gbeshara@shuaacapital.com

Hala Fares
+9714 4283 539
hfares@shuaacapital.com

Telecommunications, Media and Technology

Simon Simonian
+9714 3199 763
ssimonian@shuaacapital.com

Jessica Estefane
+9714 3199 834
jestefane@shuaacapital.com

Consumer, Retail and Pharma

Laurent-Patrick Gally
+9714 4283 544
lgally@shuaacapital.com

Transportation and Logistics

Kareem Z. Murad
+9714 3199 757
kmurad@shuaacapital.com

Rasha Hamdan, CFA, FRM
+9714 4283 525
rhamdan@shuaacapital.com

Real Estate, Construction and Construction Materials

Roy Cherry
+9714 3199 767
rcherry@shuaacapital.com

Lara Hourani
+9714 3199 687
lhourani@shuaacapital.com

Chief Technical Analyst

Nabil Effat, CFTe, MSTA
+9714 3651 862
neffat@shuaacapital.com

Design

Jovan Ruseski
+9714 3199 759
jruseski@shuaacapital.com

Financial Editor

Anju Govil
+9714 3199 523
agovil@shuaacapital.com

Regional Sales

Mohamad Bleik
+9714 3199 773
mbleik@shuaacapital.com

Elias Bakhazi
+9714 3199 732
ebakhazi@shuaacapital.com

Faisal Rajeh
+9714 3199 794
frajeh@shuaacapital.com

International Sales

Nadine Haddad
+9714 3199 733
nhaddad@shuaacapital.com

Saad Tayara
+9714 3199 765
stayara@shuaacapital.com

Rabah Abu Khadra
+9714 3199 826
rkhadra@shuaacapital.com

Sam Quawasmi
+9714 3199 873
squawasmi@shuaacapital.com

Equity Advisory

Fares Mechelany
+9714 3199 745
fmechelany@shuaacapital.com

Nadeem Outry
+9714 3199 744
noutry@shuaacapital.com

Bassel Barbir
+9714 3199 635
bbarbir@shuaacapital.com

Jad El-Hakim
+9714 3199 822
jhakim@shuaacapital.com