Europe, Middle East & Africa: Portfolio Strategy

Emerging Matters

UAE: The place to be

Within the GCC we focus on the UAE as an investment opportunity due to structural support for strong economic growth and potential currency re-valuation. We highlight three ways to invest in the region: Baskets of stocks which provide index level exposure, our analysts' key stock recommendations and European oil services companies.

Structural support for continued economic expansion

Economic growth has doubled across the GCC in recent years fuelled by both a strong cyclical and structural story. Our economists believe this economic expansion will continue. In particular we focus on the UAE where high inflation increases pressure to re-value the currency. A higher currency coupled with high growth in the region provides an investment opportunity in our view.

UAE Baskets: GSECDUBA and GSECADBB

For those who wish to invest in the region at an index level but are prevented from doing so due to liquidity and foreign ownership considerations, we recommend buying our liquid Bloomberg baskets. These baskets correlate well with the local equity indices: DFM and ADSMI.

UAE stock recommendations: Banks and infrastructure plays

Our banks analysts have initiated on the UAE banks and highlight two key Buy recommendations: First Gulf Bank and Union National Bank. Our Middle East analysts focus on infrastructure development in the region – we highlight their key stock recommendations.

Developed Europe: European oil services (GSSBOILS)

For investors with mandates restricted to the developed markets we recommend our tactical research team's sub-sector oil services basket, ticker GSSBOILS. We also highlight four stocks with high exposure to the Middle East: Petrofac, Technip, Boskalis Westminster and Tenaris.

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Structural changes support continued economic expansion

Economic growth in the GCC has doubled in recent years driven not only by a strong cyclical story, but also by strong structural forces currently at work. Our economists believe the economic potential is still huge and the region provides an opportunity for investors. We focus on the UAE and highlight three ways to gain exposure (i) baskets of stocks which provide diversified exposure and reduce liquidity and foreign ownership issues, (ii) key regional stock recommendations from our analysts, and (iii) the European oil services sector is one way to gain access to oil production in the region.

Investment opportunities in the GCC: Focus on the UAE

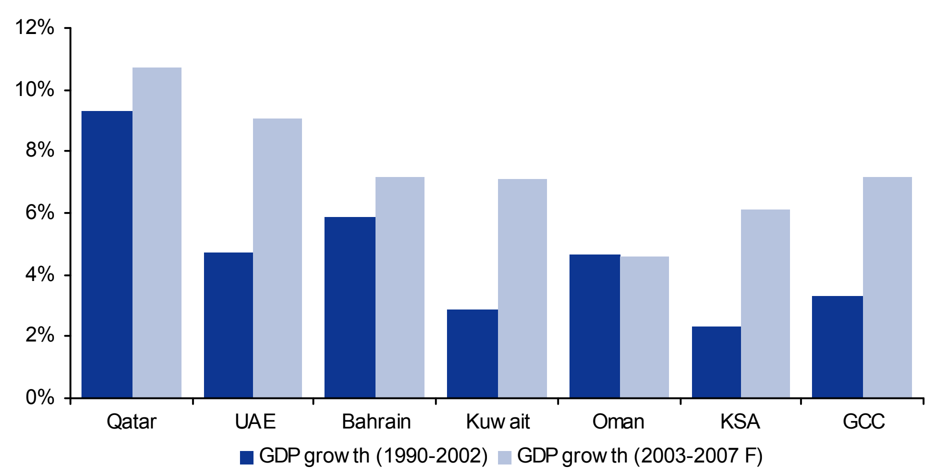
We focus on the UAE and highlight three investment opportunities in the region:

1. **For investors interested in taking a top-level view**, we recommend buying our liquid Bloomberg baskets (BBG codes GSECDUBA and GSECADBB). Through this medium, foreign investors have access to index proxies which reduce ownership restrictions and liquidity issues. (Exhibits 13 and 14).
2. **For single stock investors**, our banks team initiated on nine stocks in UAE markets, with a Buy recommendation on First Gulf Bank and Union National Bank (Exhibit 15). We also highlight our analysts' Buy-rated stocks across the region (Exhibit 17).
3. **For investors with mandates restricted to the developed world**, we recommend our tactical research team's sub-sector basket of oil services companies (BBG code GSSBOILS). UAE markets and this basket are related through their respective exposure to the oil price (Exhibit 18).

Economic growth to remain above trend

The GCC region has seen a sharp rise in economic growth since 2003. Annual real GDP growth over the last five years has been close to 8%; from 1990-2002 growth was on average 3.3% (Exhibit 1).

Exhibit 1: Economic growth has picked up and is expected to remain above trend



Source: IMF, IIF and Goldman Sachs Economics estimates.

Despite the global economic slowdown that our economists expect (they forecast global economic growth to drop from 4.8% in 2007 to 3.7% in 2008), GCC countries appear relatively well positioned to weather the downturn.

The GCC region has significant oil and natural gas reserves and it has been the primary beneficiary of higher energy prices. Across the commodities complex, GCC countries are the top producers and top exporters and have enjoyed a windfall of c.US$500 bn dollars according to our commodities analysts (Exhibit 2).

Exhibit 2: The GCC has been the top beneficiaries of the commodities boom
In this table, GCC figures includes Iran and Iraq

	Total commodities[1]					
Rank	Top producers		Top exporters		Top importers	
1	GCC	774,043	GCC	502,330	EU-27 + Switzerland	-518,357
2	United States	603,550	Russia	197,882	United States	-327,392
3	Russia	417,679	Norway	99,228	Japan	-164,136
4	China	318,857	Canada	84,736	Korea	-93,489
5	EU-27 + Switzerland	309,181	Algeria	60,576	China	-53,171
6	Canada	172,803	Nigeria	58,560	Taiwan	-50,521
7	Mexico	128,593	Mexico	49,548	Total Eastern	-31,028
8	Brazil	124,457	Total Caspian	48,338	Turkey	-29,886
9	India	109,228	Venezuela	47,615	India	-28,775
10	Norway	107,181	Libya	41,617	Thailand	-15,060
11	Total Caspian	97,498	Australia	36,381	Pakistan	-7,126
12	Venezuela	90,892	Angola/Cabinda	36,251	Croatia	-5,319
13	Indonesia	85,707	Brazil	29,712	Cuba	-4,074
14	Algeria	82,245	Indonesia	29,065	Morocco	-4,036
15	Nigeria	79,040	Chile	28,101	Bangladesh	-3,424
16	Australia	67,023	Malaysia	17,480	South Africa	-2,898
17	Argentina	57,587	Argentina	15,140	Hong Kong	-2,741
18	Libya	53,660	Colombia	12,866	Singapore	-1,195
19	Malaysia	48,971	Vietnam	12,815	Ghana	-799
20	Egypt	39,577	Ecuador	10,168	Mongolia	-35

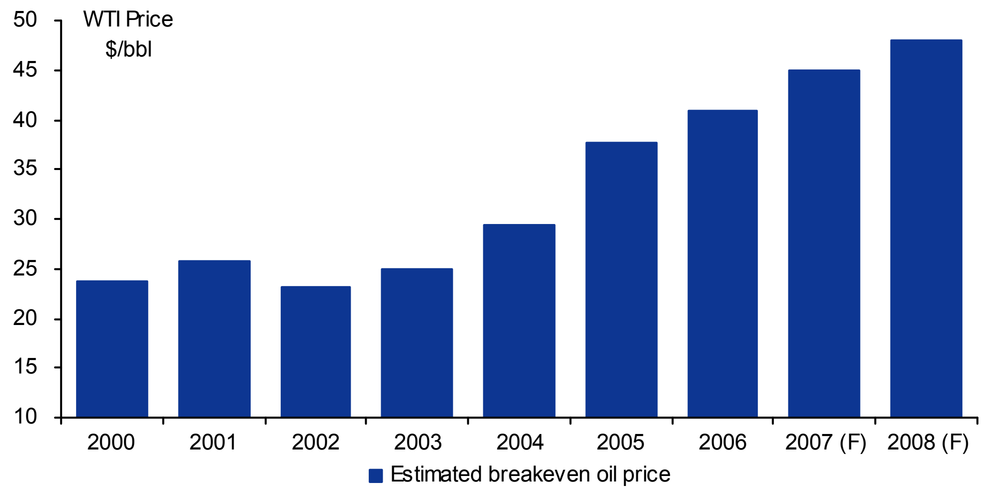
[1] Petroleum, natural gas, coal, aluminum, copper, nickel, zinc, lead, cotton, sugar, coffee, cocoa, corn, wheat, soybeans, palm oil, barley, oats, sorghum, rice and meat.

Source: Goldman Sachs Commodities Research.

In a recent report, *The revenge of the old 'political' economy*, published March 14, 2008, our commodities analysts discuss the current commodities boom. They see the current rise in commodity prices as an extension of the structural bull rally in commodities that is now in its ninth year. The fact that the rally continues in the midst of an economic downturn underlines the structural nature of the bull rally. It has been driven by severe imbalances in the capital markets for commodity investment and this lack of investment will likely remain a key issue as long as policy constraints continue to weigh on free flow of capital, labour and technology, regardless of the price or expected return.

Even if energy prices fall, the GCC region should remain well funded. Although the estimated breakeven oil price has increased sharply over the last four years, it remains significantly below the current spot levels. As long as oil stays above $50/bbl, the region should continue to benefit (Exhibit 3).

Exhibit 3: Breakeven at $48/bbl: A good cushion in case of a drop in oil prices



Source: IMF, IIF and Goldman Sachs Research estimates.

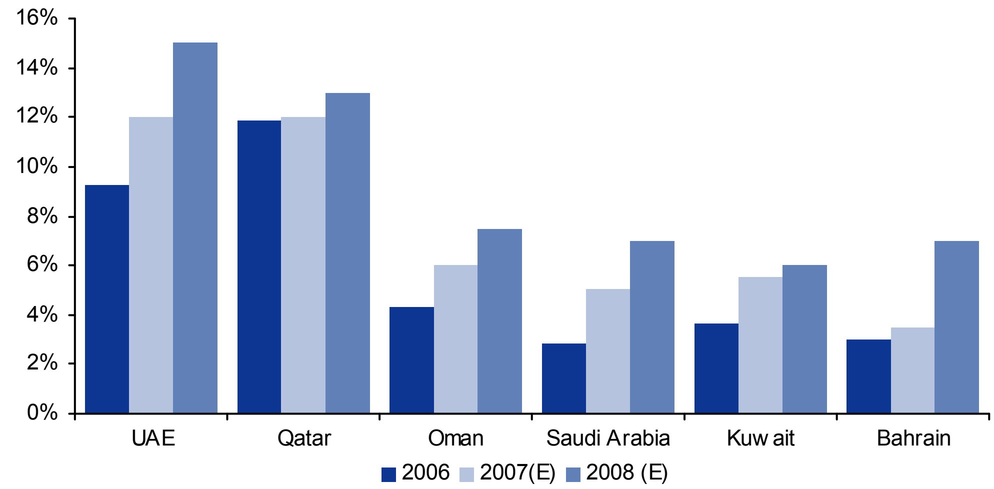
Equally if the oil price does fall, the UAE economies in particular may not suffer as much as other commodity-related regions. The rise in oil prices over the past few years has undoubtedly boosted the rate of economic growth in the region, however the share of the oil sector in the economy has fallen – in Dubai the oil sector now only accounts for c.5% of GDP versus nearly 20% in 1995 and over half the economy in 1980. From an equity market perspective the stock market is far less dependent on oil and gas as there are very few oil companies actually in the region – this may provide some cushioning on a relative basis if oil prices do weaken versus other more commodity-dependent markets.

Focus on the UAE

High inflation in the UAE – pressure to re-value the currency

However there is one flashing red light amidst all the positive signals for the region: Inflation is high and continues to accelerate. With high energy prices and still strong demand, it is increasingly difficult under the current fixed exchange rate regime to reconcile price stability and rapid economic development objectives. The UAE is seeing very high inflation which is currently running around 12%. Our economists expect inflation to continue to rise throughout 2008.

Exhibit 4: Inflation has been rising and will likely accelerate further



Source: Haver analytics and Goldman Sachs Economics forecasts.

The current economic environment would typically require higher rates and a stronger currency to re-balance growth. However central banks in the region have followed the Fed and slashed interest rates over the last few months. Our economists believe firmly that the current macro situation is unsustainable and that it will become more difficult for economies in the region, especially the UAE, to uphold the current dollar peg arrangement, especially at a time when the cycles of the anchor US and the overheating UAE economies are decoupling rapidly.

Last month, the central bank of the UAE set up a task force to help implement a possible de-pegging of the AED. The committee will oversee any potential de-pegging of the AED and report its findings to the government by the end of the year. Although GCC governments are reluctant to abandon the peg that has been working for several decades, we think that ultimately the currency will have to appreciate to smooth inflation pressures.

Despite the economic risks from a higher currency, from an investment perspective we believe it could be a positive for the region:

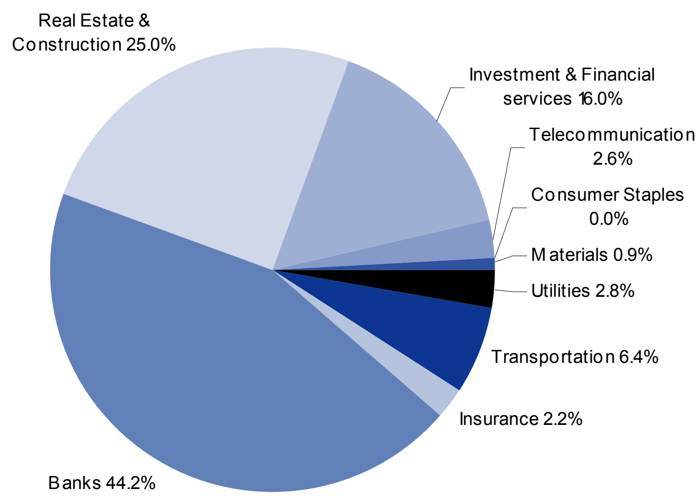
- For global investors the currency appreciation would increase returns from investing in the region;
- The stock market remains domestically focused and therefore the risks from reduced competitiveness are not as high as for other markets;
- Imported price inflation would likely fall which would be a benefit from a cost perspective for domestically based companies.

UAE equities: A way to diversify Emerging market exposure

Two of the most active and open markets in the region are Dubai and Abu Dhabi. Goldman Sachs covers 14 stocks from DFMGI and 12 stocks from ADSMI.

In Exhibits 5 and 6, we display the sector breakdown for these two markets. Banks, real estate and diversified financials are the dominant sectors in Dubai whereas Abu Dhabi is slightly more diversified - there are some big cap telecoms and industrials.

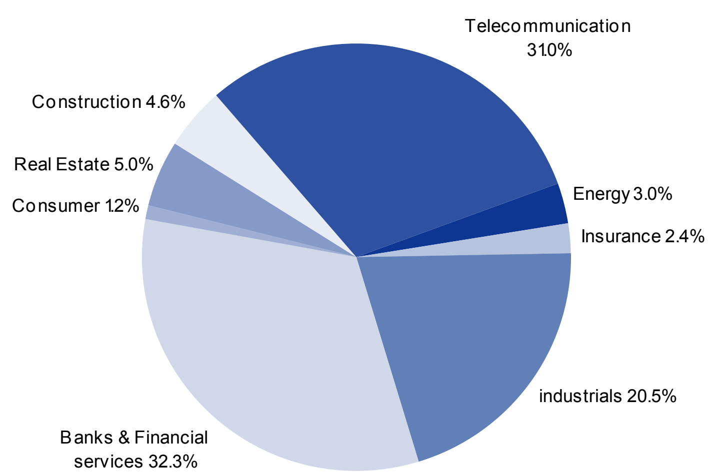
Exhibit 5: DFMGI sector breakdown
DFM classification



Source: Bloomberg, DFM, Goldman Sachs Strategy Research.

The DFM general index comprises 28 members; financials and real estate make up c.85% of the index. The nine most important stocks are classified as banks, real estate or diversified financials and the top 3 stocks have a weight above 35%.

Exhibit 6: ADSMI sector breakdown
ADSM classification



Source: Bloomberg, ADSM, Goldman Sachs Strategy Research.

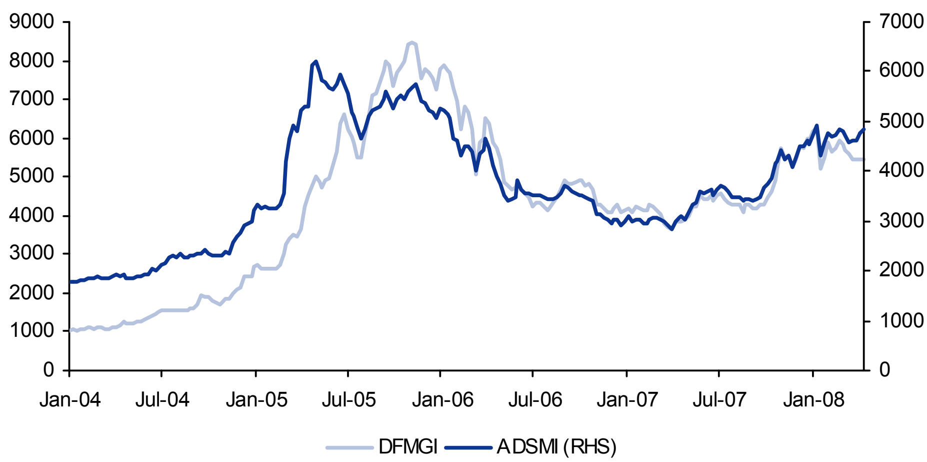
The Abu Dhabi index is larger as it comprises 57 stocks. It is also less skewed towards financials and real estate. However, the large weights in telecoms and industrials do not mean that there are a lot of companies in these sectors. In fact, there is only one telecom stock and foreign ownership is fully restricted for this company.

In the Appendix, we show the index composition, the weight of each stock in the index, the allowed foreign ownership as well as the liquidity data for Dubai and Abu Dhabi general indices.

Playing catch-up with other European emerging markets

The DFM rose over 400% between the beginning of 2004 and the end of 2005, and the ADSMI rose nearly 200%. At the beginning of 2006 the markets fell c.50%, unwinding in part the bubble which had formed in these markets. However unlike developed markets which last year touched their 2000 peaks, the UAE markets remain 20%-30% below their 2005 highs.

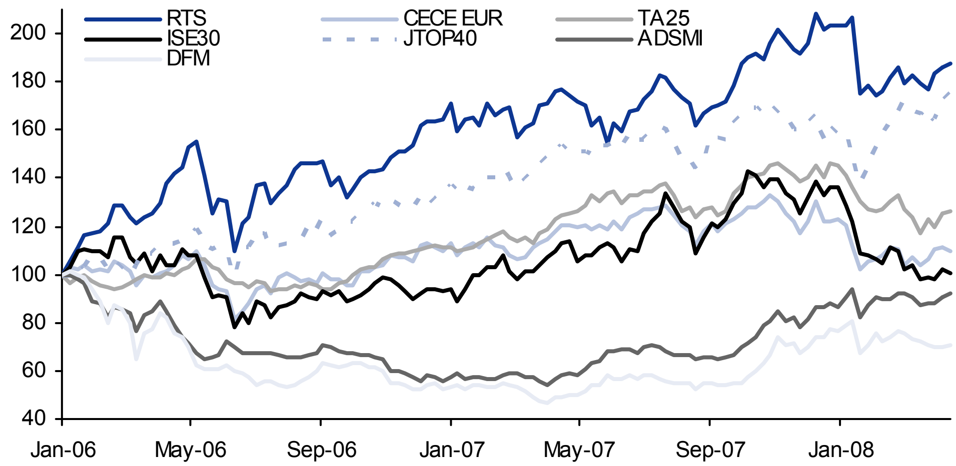
Exhibit 7: Markets remain below the bubble peak back in 2005
Local performance



Source: Bloomberg, Goldman Sachs Strategy Research.

While Emerging Markets more broadly were enjoying the benefits of a strong macro environment, a low cost of financing and ample liquidity during 2006 and in the first half of 2007, UAE markets continued to suffer from the post-bubble overhang. The DFMGI and the ADSMI have significantly underperformed the RTS, the JTOP40 or the TA25 over the last two years (Exhibit 8). However, they have outperformed year-to-date and we expect this trend to continue over the coming months.

Exhibit 8: The UAE markets have underperformed major EMEA markets since 2006
Performance in local currency



Source: Bloomberg, Datastream, Goldman Sachs Strategy Research.

A good way to diversify emerging markets exposure

As highlighted above, the UAE markets have to a certain extent decoupled from other emerging markets over the last couple of years. This is reflected in the correlation of the UAE markets with other Emerging Market indices. The five-year correlation is low as it incorporates the bubble and burst periods. However, one-year correlations between the UAE markets and the rest of the emerging markets complex are lower than the usual correlations within the emerging universe. The average correlation between emerging markets is generally between 60% and 70%, however the UAE markets have an average correlation with other emerging markets between 40% and 50%.

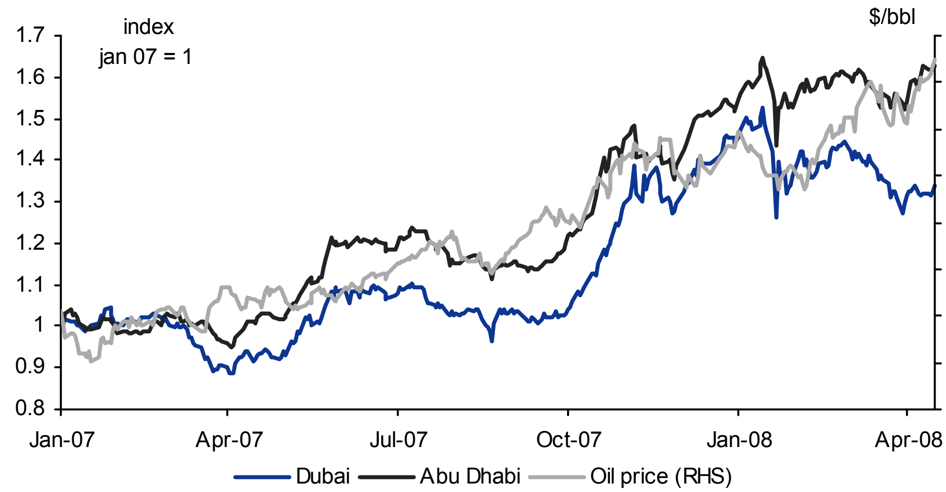
Exhibit 9: UAE markets less correlated with other Emerging markets
One-year weekly correlation calculated in local currency

	S&P BRIC	Bovespa	HSCEI	Nifty	RTS	CECE EUR	TA25	ISE30	JTOP40	ADSMI	DFM
S&P BRIC	100%	80%	89%	75%	79%	82%	65%	76%	75%	57%	53%
Bovespa		100%	57%	46%	60%	76%	52%	64%	69%	46%	43%
HSCEI			100%	76%	57%	69%	59%	64%	64%	52%	47%
Nifty				100%	63%	64%	60%	69%	53%	52%	58%
RTS					100%	72%	43%	65%	59%	45%	47%
CECE EUR						100%	61%	78%	64%	43%	43%
TA25							100%	71%	49%	45%	43%
ISE30								100%	59%	42%	43%
JTOP40									100%	42%	45%
ADSMI										100%	90%
DFM											100%

Source: Datastream, Goldman Sachs Strategy Research.

Using our Global Index Compass framework (*Introducing our Global Index Compass,* October 25, 2007) we find that the UAE markets are not that typical in how sensitive they are to common macro factors. We find that explanatory power is generally low, and only the oil factor has any significance. Positive shifts in equity market oil price views have a very large positive effect on the index returns (Exhibit 10).

Exhibit 10: The UAE markets tend to move in line with the oil price



Source: Goldman Sachs Research Estimates.

At one level this seems obvious - it should come as little surprise that equity market indices in the Gulf region are connected to broader oil price dynamics. On the other hand, as pointed out in Exhibits 5 and 6, the indices do not actually have many oil companies, so the significant estimated sensitivity to oil price views needs some explanation. This has to do with the fact that macro sensitivities of an index can work through different channels, and should therefore pick up more than just the sectoral composition of the index. The oil exposure is real and important, resulting from the impact on the economy rather than the presence of energy companies in these indices. We find similarly strong oil sensitivities for the other GCC indices, and indeed indices like Mexico, even though energy is not a significant sector in these indices.

Three ways to gain exposure to the UAE

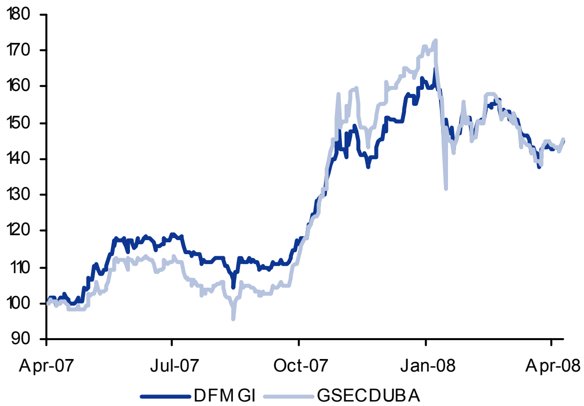
We highlight three ways of gaining exposure to Abu Dhabi and Dubai (i) baskets of stocks which provide diversified exposure and reduce liquidity and foreign ownership issues, (ii) the key regional stock recommendations from our analysts and (iii) the European oil services sector is one way to gain access to oil production in the region.

1. Index exposure via baskets GSECDUBA and GSECADBB

Although we recommend the UAE as an interesting investment opportunity, there are liquidity and foreign ownership issues with investing directly in the main UAE indices. Our equities division has created two baskets which we believe remove some of the underlying issues of liquidity and foreign ownership and therefore provide a useful tool for gaining exposure to the region.

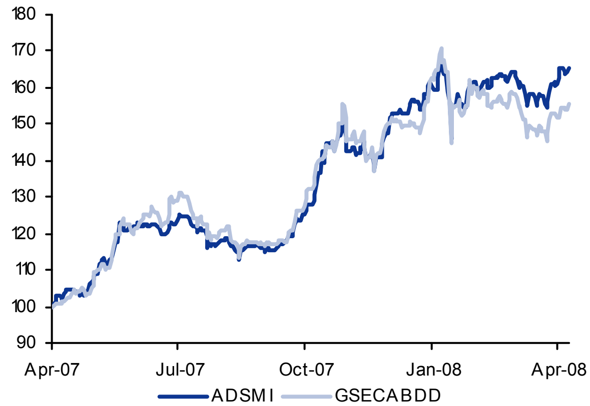
There are two baskets; one for Abu Dhabi (BBG ticker GSECADBB) and one for Dubai (BBG Ticker GSECDUBA). Each basket aims to reflect the weights of the aggregate indices and their performance has tracked the performance of the actual index pretty well (exhibits 11 and 12).

Exhibit 11: Performance of the Dubai basket vs. DFMGI
Basket Bloomberg ticker: GSECDUBA



Source: Bloomberg.

Exhibit 12: Performance of the Abu Dhabi basket vs. ADSMI
Basket Bloomberg ticker: GSECADBB



Source: Bloomberg.

From a valuation perspective we believe these baskets look reasonable, considering the high growth we expect in the region. We show the composition of the two baskets in Exhibit 13 and 14.

We compare the median valuation of the stocks in the basket, where we have consensus data available, to the aggregate MSCI EMEA index.

Exhibit 13: Consensus valuation and growth metrics for the GS Dubai basket (ticker GSECDUBA)
Based on I/B/E/S consensus estimates

Bloomberg ticker: GSECDUBA						
Ticker	**Company**	**Weight (%)**	**EPS growth 08E**	**EPS growth 09E**	**P/E 08E**	**P/E 09E**
EMAAR UH	Emaar Properties Pjsc	24.6	13.5	40.5	8.9	6.3
TABREED UH	Tabreed	3.2	-1.0	34.3	25.7	19.1
UPP UH	Union Properties	13.2	9.9	361.8	18.6	4.0
AMLAK UH	Amlak Finance	6.6	50.0	29.6	16.7	12.9
IAIC UH	Islamic Arabic Insurance Company	3.6				
GGICO UH	Gulf General Investment Co	7.4				
TAMWEEL UH	Tamweel P.J.S.C.	6.4	59.3	14.6	10.9	9.5
DFM UH	Dubai Financial Market	25.3	87.0	51.3	28.3	18.7
AIRARABI UH	Air Arabia Pjsc	9.6	8.9	14.3	19.7	17.2
		Median	**13.5**	**34.3**	**18.6**	**12.9**
		MSCI EMEA	**15.3**	**6.6**	**9.5**	**8.9**

Source: I/B/E/S, Goldman Sachs Research.

The aggregate index is trading on a significant discount however there is good reason for this, in our view. The broad EMEA index has a high weight in commodity-related stocks which tend to trade at a significant discount to the broader market. Secondly, although the Abu Dhabi and Dubai baskets trade at a premium, we have confidence in the underlying growth that the stocks are expected to deliver and therefore believe this premium is justified.

Exhibit 14: Consensus valuation and growth metrics for the GS Abu Dhabi basket (ticker GSECABDD)
Based on I/B/E/S consensus estimates

Bloomberg ticker: GSECABDD							
Ticker	Company	Weight (%)	EPS growth 08E (%)	EPS growth 09E (%)	P/E 08E (x)	P/E 09E (x)
ADCB UH	Abu Dhabi Commercial Bank	24.8	21.6	15.5	11.1	9.6
GCEM UH	Gulf Cement Company	7.7	-25.7	-19.9	17.9	22.3
AABAR UH	Aabar Petroleum Investment Company	4.3	-85.4	75.0	27.2	15.5
OILC UH	Waha capital	5.3	27.9	9.1	21.4	19.6
RAKCC UH	Ras Al Khaimah Cement Co	1.4	40.0	-14.3	53.2	NM
FGB UH	First Gulf Bank	25.5	16.9	17.3	13.5	11.5
DANA UH	Dana Gas	18.2				
AGTHIA UH	Emirates Foodstuff And Mineral Water Company	1.7				
ADNH UH	Abu Dhabi National Hotels	10.7	-3.1	3.2	17.7	17.2
ASMAK UH	International Fish Farming Company	0.4				
		Median	**16.9**	**9.1**	**17.9**	**16.4**
		MSCI EMEA	**15.3**	**6.6**	**9.5**	**8.9**

Source: I/B/E/S, Goldman Sachs Research.

2. Stock recommendations: Banks and infrastructure plays

Banks: Buy ratings on First Gulf Bank and Union National Bank

Our banks analysts recently initiated on the UAE banks sector in a report *Oiling a virtuous banking cycle,* April 17, 2008. They highlight the following key points:

- They see robust structural momentum in UAE banking and believe earnings growth will remain strong due to the supportive economic environment.
- Based on NAV they value the banks on 14.5x 2009E earnings and their 12-month price targets suggest significant upside potential from current levels.
- Their core recommendations are Buy ratings on First Gulf Bank and Union National Bank in Abu Dhabi, and a Sell rating on Mashreqbank in Dubai.

We show the valuation and growth summary for our coverage of UAE banks in Exhibit 15.

Exhibit 15: Valuation and growth metrics of the UAE banks coverage
Based on Goldman Sachs' analyst estimates

	EPS				08E/07	09E/08E	10E/09E	P/E (X)				P/BV	ROE	Dividend
	2007	2008E	2009E	2010E	growth	growth	growth	2007	2008E	2009E	2010E	2009E	2009E	Yld 08E
UAE					**16.0%**	**18.1%**	**17.8%**	**15.1**	**13.0**	**11.0**	**9.4**	**2.1**	**20.7%**	**2.0%**
Abu Dhabi					**12.0%**	**16.1%**	**15.9%**	**13.8**	**12.3**	**10.6**	**9.2**	**2.1**	**20.7%**	**1.1%**
National Bank of Abu Dhabi	1.31	1.47	1.67	1.92	12.3%	13.5%	15.1%	15.5	13.8	12.2	10.6	2.6	22.6%	1.6%
First Gulf Bank	1.46	1.81	2.23	2.61	24.1%	23.0%	16.9%	14.3	11.6	9.4	8.0	1.9	21.9%	0.9%
Abu Dhabi Commercial Bank	0.64	0.58	0.64	0.70	-8.6%	9.7%	10.3%	10.6	11.7	10.6	9.6	1.8	18.5%	0.0%
Union National Bank	0.62	0.71	0.82	0.99	14.5%	15.6%	19.5%	12.7	11.1	9.6	8.1	1.6	18.2%	2.2%
Abu Dhabi Islamic Bank	0.41	0.52	0.64	0.79	25.5%	23.5%	24.0%	15.3	12.2	9.9	7.9	1.8	19.8%	1.6%
Dubai					**19.6%**	**19.9%**	**19.4%**	**16.3**	**13.6**	**11.4**	**9.5**	**2.2**	**20.6%**	**2.7%**
Emirates NBD	0.80	0.93	1.06	1.27	16.2%	14.7%	19.4%	13.9	11.9	10.4	8.7	1.7	17.4%	2.8%
Mashreqbank	12.98	15.52	18.48	21.99	19.5%	19.1%	19.0%	19.9	16.7	14.0	11.8	2.8	21.5%	2.0%
Dubai Islamic Bank	0.55	0.72	0.94	1.13	32.0%	30.2%	20.4%	17.3	13.1	10.1	8.4	2.4	25.6%	3.7%
Commercial Bank of Dubai	0.68	0.71	0.84	0.99	3.6%	18.4%	18.4%	14.1	13.6	11.5	9.7	2.1	19.5%	2.5%

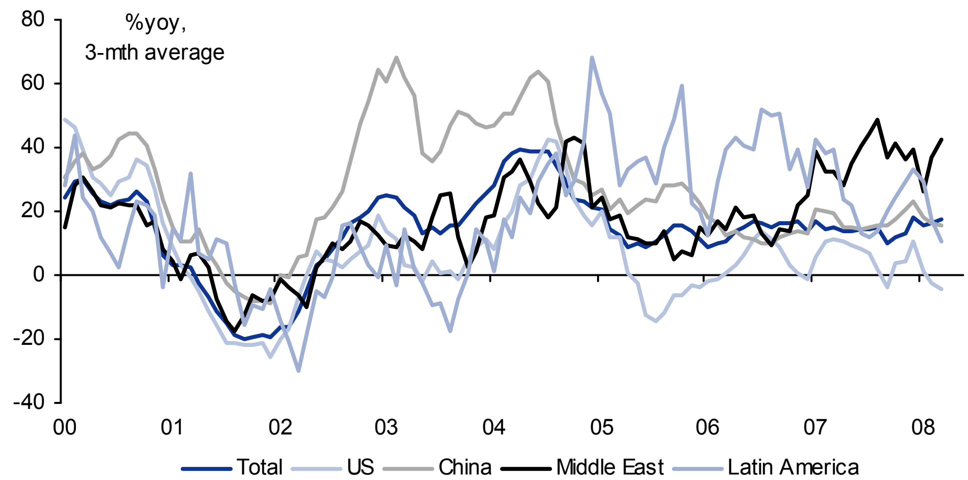
Source: Goldman Sachs Research estimates.

Infrastructure development underpins stock selection

The underlying theme of infrastructure development in the Middle East underpins our analysts' broader coverage of Middle East stocks. Their coverage spans real estate development, construction, building materials, utilities, mortgage finance, logistics and transportation.

Our economists often refer to Korean exports as one measure of global economic activity, indeed it is one component of their Global Leading Indicators which they monitor closely. Recent data points suggest that exports to the GCC are continuing to grow very rapidly, whereas exports to the US have started to slow and exports to other emerging economies have stabilized. This reflects the strength of investment in the region, and underpins our analysts' themes for stock selection.

Exhibit 16: Korean exports breakdown
The Middle-East is the main region behind Korean export strength



Source: Goldman Sachs Economic Research.

Our analysts highlight the following points (see *Initiating coverage in the Middle East: We select our top ten beneficiaries of the boom*, September 28, 2007):

- They believe the theme of infrastructure investment is the unifying thread through their coverage universe which provides exposure to the economic transformation taking place in the region – particularly in the UAE.
- Their focus is on real estate development. They do not believe growth in construction and real estate is excessive given rapidly rising demand. Therefore their view is that growth and returns are more sustainable than the market believes.
- There is substantial upside potential to our analysts' target prices and they believe the markets look attractive relative to both Emerging and Developed market indices (as discussed above).

We show our analysts' Buy rated stocks in Exhibit 17.

Exhibit 17: Our Buy rated stocks
Based on Goldman Sachs analysts' estimates

	EPS				08E/07	09E/08E	10E/09E	P/E (X)				P/BV	ROE	Dividend
	2007	2008E	2009E	2010E	growth	growth	growth	2007	2008E	2009E	2010E	2009E	2009E	Yld 08E
Abu Dhabi National Hotels Company	0.64	0.62	0.64	0.68	-3.1%	3.0%	5.8%	9.6	16.8	17.2	16.2	2.6	15.3%	3.0%
Aldar Properties	1.10	1.90	2.07	2.18	73.0%	8.6%	5.5%	6.2	5.5	5.3	5.0	1.4	25.7%	1.8%
Arabtec Holding PJSC	0.86	0.72	0.72	0.75	-15.4%	-0.9%	4.4%	7.0	18.7	19.9	19.0	4.3	18.6%	1.3%
Aramex PJSC	0.10	0.11	0.13	0.16	11.6%	14.4%	19.9%	22.4	21.4	19.7	16.5	2.4	11.5%	3.5%
Dubai Financial Market	0.13	0.23	0.38	0.50	75.2%	66.9%	31.0%	28.2	21.8	13.8	10.5	3.3	23.2%	2.2%
Emaar Properties	1.08	1.16	1.58	1.82	7.2%	36.5%	14.8%	11.3	9.1	7.0	6.1	1.3	18.4%	1.7%
Tabreed	0.06	0.18	0.23	0.28	183.8%	26.4%	23.5%	35.9	13.3	11.1	9.0	1.4	11.2%	3.8%
Tamw eel PJSC	0.45	0.56	0.65	0.75	23.9%	17.4%	14.7%	10.3	12.7	11.4	9.9	2.1	18.8%	
Union Properties	0.25	0.28	1.26	0.44	12.6%	354.0%	-65.2%	13.2	16.9	3.9	11.3	1.5	36.9%	

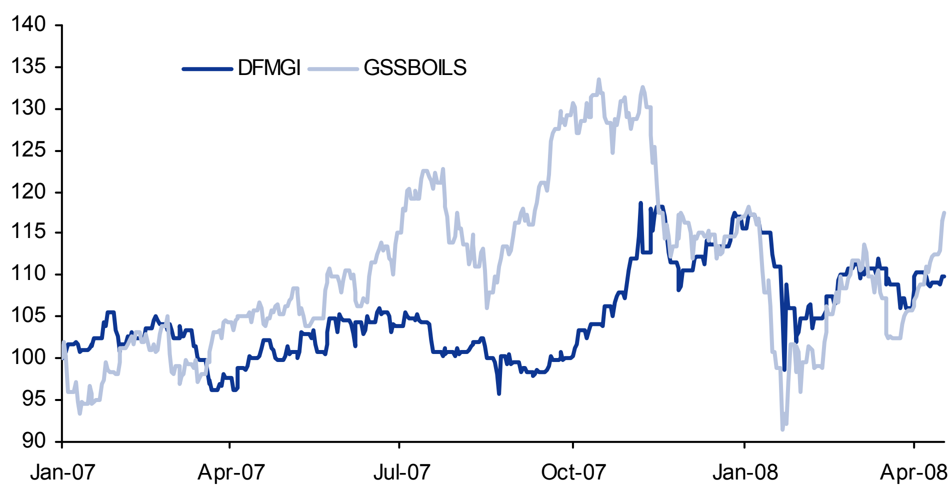
Source: Goldman Sachs Research estimates.

3. European oil services companies: Basket GSSBOILS

The domestic market offers very little exposure to oil companies themselves as highlighted by the weights of the indices (Exhibits 5 and 6). Therefore we recommend focusing on Developed European oil services companies and in particular those stocks with significant exposure to the Middle East. This strategy also allows investors with restricted mandates to get exposure to the region as we have highlighted in Exhibit 10 the relationship between the UAE markets and the oil price.

In Exhibit 18 below we show the performance of our Tactical Research team's oil services sub-sector basket (Bloomberg ticker: GSSBOILS) versus the performance of the DFM index. They have tracked each other relatively closely over the past year or so.

Exhibit 18: European oil services stocks have tracked the DFM closely
Re-based to 100



Source: Bloomberg.

There are four oil services stocks in particular with high revenue exposure to the Middle East. The four stocks we would highlight are Petrofac, Technip, Boskalis Westminster and Tenaris. We cover two of these companies – our analysts have a Neutral rating on Petrofac and a Buy rating on Technip.

Appendix

Exhibit 19: DFM General Index constituents
Priced as of April 16, 2008

Company	Index weight	Maximum foreign ownership	Average daily value traded (USD Millions)
Banks			
Amlak Finance	2.2%	49%	50.91
Commercial Bank Of Dubai	2.8%	0%	0.32
Dubai Islamic Bank	20.0%	15%	32.19
Emirates Nbd Pjsc	12.5%	5%	NA
Mashreqbank	4.2%	0%	0.11
Tamweel Pjsc	2.4%	40%	37.92
Consumer Staples			
Jeema Mineral Water	0.0%	0	NM
Insurance			
Dubai Islamic Insurance Co	0.2%	0%	3.77
Arabian Scandinavian Ins Co	0.0%	0%	0.02
Dubai Insurance Co. (P.S.C.)	0.1%	0%	0.01
Dubai National Insurance	0.1%	0%	0.01
Islamic Arab Insurance Com	0.8%	25%	15.04
National General Insurance	0.1%	0%	0.02
Oman Insurance Co Psc	0.8%	0	0.05
Investment & Financial services			
Dubai Financial Market	4.6%	49%	103.08
Dubai Investments	4.0%	20%	41.18
Gulf General Investment Co	5.5%	49%	1.53
Shuaa Capital	1.9%	49%	3.08
Materials			
National Cement Co	0.9%	25%	0.02
Real Estate & Construction			
Arabtec Holding Co	2.7%	49%	15.10
Deyaar Development	4.5%	0%	104.65
Emaar Properties Pjsc	14.7%	49%	126.38
Union Properties	3.0%	15%	23.97
Telecommunication			
Emirates Integrated Telecomm	2.6%	22%	23.59
Transportation			
Air Arabia	2.9%	51%	60.68
Aramex Co	2.8%	49%	10.07
Gulf Navigation Holding	0.6%	0	30.79
Utilities			
Tabreed	2.8%	49%	11.37

Source: Bloomberg, DFM, Goldman Sachs Strategy Research.

Exhibit 20: ADSM General Index constituents
Priced as of April 16, 2008

Company	Index weight	Maximum foreign ownership	Average daily value traded (USD Millions)
Banks & financial Services			
Abu Dhabi Commercial Bank	2.9%	25%	5.45
Abu Dhabi Islamic Bank	10.3%	0%	12.63
Bank Of Sharjah	0.4%	30%	1.41
Commercial Bank Internationa	0.3%	20%	0.74
First Gulf Bank	6.4%	30%	13.21
Finance House	0.2%	0%	0.93
Investbank	0.8%	20%	0.17
National Bank Of Abu Dhabi	4.2%	25%	2.89
National Bank Of Fujairah	0.6%	0%	0.01
National Bank Of Umm Al Qaiw	1.4%	0%	0.38
Sharjah Islamic Bank	0.7%	20%	4.15
National Bank Of Ras Al-Khai	1.0%	20%	0.19
United Arab Bank	1.3%	49%	0.81
Union National Bank/Abu Dhab	1.3%	40%	3.23
Waha Capital Pjsc	0.4%	49%	35.17
Construction			
Arkan Building Materials Co	0.8%	0%	42.17
Fujairah Building Industries	0.1%	0%	0.01
Fujairah Cement Industries	0.4%	49%	0.06
Gulf Cement Co	1.3%	49%	1.42
Umm Al Qaiwain Cement Co	0.2%	49%	0.06
Ras Al Khaimah Cement Co	0.1%	49%	4.71
Ras Al Khaimah Ceramics	0.6%	49%	0.13
Ras Al Khaimah Co	0.1%	49%	1.05
Sharjah Cement & Industrial	0.6%	49%	0.55
Union Cement Co	0.3%	49%	0.20
Consumer			
Abu Dhabi National Hotels	0.8%	25%	2.24
Emirates Food Stuff & Minera	0.1%	25%	5.53
Intl Fish Farming Co-Asmak	0.0%	49%	0.08
Emirates Driving Company	0.1%	0%	0.14
Foodco Holding	0.1%	49%	0.04
National Corp Tourism & Hote	0.1%	0%	0.13
Ras Al Khaima Poultry	0.0%	49%	0.01
Energy			
Aabar Petroleum Investments	0.3%	40%	27.93
Dana Gas	1.3%	49%	27.83
Abu Dhabi National Energy Co	1.4%	0%	12.84
Industrials			
Abu Dhabi Aviation	0.2%	0%	1.30
Abu Dhabi Ship Building Co	0.1%	25%	0.40
Abu Dhabi Natl Co For Buildi	0.1%	25%	0.39
Gulf Medical Projects	19.7%	49%	0.01
Gulf Pharmaceutical Ind-Julp	0.2%	49%	0.13
National Marine Dredging Co	0.2%	0%	0.12
Insurance			
Al Buhaira National Insuranc	0.3%	49%	0.16
Abu Dhabi National Insurance	0.8%	49%	0.16
Al Khaznah Insurance Co	0.2%	0%	0.74
Al Ain Ahlia Ins. Co.	0.4%	0%	0.03
Al Wathba National Insurance	0.1%	0%	0.03
Al Dhafra Insurance Co. P.S.	0.1%	0%	0.01
Emirates Insurance Co. (Psc)	0.1%	49%	0.09
Ras Al-Khaimah National Insu	0.0%	25%	0.00
Sharjah Insurance Company	0.2%	30%	0.04
Abu Dhabi National Takaful	0.1%	0%	0.10
United Insurance Company	0.0%	0%	0.01
Union Insurance Co	0.2%	0%	0.18
Real Estate			
Aldar Properties Pjsc	2.0%	40%	59.47
Rak Properties	0.5%	49%	30.87
Sorouh Real Estate Company	2.5%	20%	44.94
Telecommunication			
Emirates Telecom Corporation	31.0%	0%	14.97

Source: Bloomberg, ADSM, Goldman Sachs Strategy Research.

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Reg AC

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