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UNITED SECURITIES LLC.

Sultanate of OMAN **Economy Overview and Outlook 2009**

March – 2009



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Executive Summary

With a new hope for a whole new year ahead, the realization counts “how much has the world changed in one year- from hope to despair, from excitement to fear, from frenzy to panic, from exuberance to distress. The cascade of crisis has now spread as a global epidemic that poses different effect on respective economies. It has also taken its initial toll on countries such as Iceland, Belarus and (almost) Argentina in terms of bankruptcies while making recession a reality for as many as 50 countries thus far. The crisis of confidence in the financial ecosystem has compounded to a full-blown credit crisis, while the squeeze in conventional credit markets is understandable. The economies and the policy makers around have come forward for immediate remedy like reducing the interest rates, infusing liquidity and inject stimulus through fiscal spending on internal infrastructure.

But how far these activities have been successful in doing so. The severity of immediate worries has certainly intensified. While the world remains united on commitment to wither this crisis, it is also uniformly clueless on the path one needs to take. To be very specific, how our economy is behaving at present and has reacted to the global conundrums in 2008.

According to the Ministry of National Economy, “GDP jumped by around 61.4% in the third quarter, its highest quarterly nominal growth in the history.” In the first three quarters, the GDP grew by 52%, led by the high oil prices and the country's crude output,

In the third quarter, the oil sector jumped up by 96.3% compared with around 58.6% in the second quarter and 62.7% in the first quarter. The contribution from non-oil sector also increased by 48.8% in the third quarter. Oman crude basket averaged around \$113 a barrel in the third quarter of last year compared with \$117 in the second quarter and \$92 in the first quarter. The decline in the average in the third quarter was largely offset by a surge in Oman's crude output, which averaged around 780,000 barrels per day (bpd) compared with 745,000 bpd in the second quarter and 707,000 bpd in the first quarter, according to data by the Oman Ministry of Oil, Omani crude averaged at \$103.90 a barrel in 2008.

Oman's banking sector has also fared better than most. While access to credit is falling which will hurt Omani companies and financial institutions, the sultanate is experiencing a “credit squeeze rather than a credit crunch”. We expect such problems to continue for short term, since the banks are still strong, well capitalized, and are not exposed to the crisis affected instruments or institutions.

As we have already seen some earning surprises from the leading banks in the beginning of 2009. Oman's banking system has hardly any direct exposure to any of the financial derivatives or the distressed international institutions. So in this sense, it's highly insulated from the direct adverse ramifications of the global financial crisis.

A surge in food prices and rents allied with higher public spending doubled inflation in Oman in the first 10 months of 2008 but the rate is projected to fall in 2009. From 6% in the first 10 months of 2007, inflation jumped to a record 12.4% in the same period of



2008, showed the figures released by the Central Bank of Oman (CBO) in its monthly bulletin.

The increase was caused mainly by a sharp rise in rents and food prices, some of which shot up by more than 60% during that period. We expect inflation would likely be lower in 2009 but noted that Oman's decision not to join its partners in the six-nation Gulf Cooperation Council (GCC) in the Middle East's first monetary union could keep inflation high.

To add to all this above this odds, there is at present projects worth US\$ 92 bn, under construction, which is almost 168% of the GDP. To be very specific, in the safer side, if we exclude the construction projects of US\$ 51 bn, still the remaining value of the projects poses to 75% of the GDP.

<i>Projects to Support GDP Growth</i>					
	GDP(\$ Bn)	Projects(\$ Bn)	As % of GDP	Projects Excluding Real Estate(\$ Bn)	As % of GDP
Oman	54.6	92	168	41	75
Kuwait	112	267	238	88	79
Bahrain	17	40	235	8	47
Qatar	73	215	295	108	148
Saudi Arabia	382	492	129	251	66
UAE	191	904	473	142	74

Source: IMF, MEED

With markets feeling the hit of the global slow down, and the policy makers across the world announcing fiscal stimulus plans to support the economy, the local Government is no exception too. The government has already laid the plan and announced an OR150 mn fund to stabilize the stock market. The effect of the market stabilization fund has been felt among the securities and the MSM 30 Index is also experiencing support at this level. As we have seen in past one month the market is moving up with the number of trades increasing with the volume and value as well.

We believe, Oman, while hardly as rich as many of its Gulf neighbors, has also saved prudently in recent years, which will give it a robust budgetary “cushion” in the next few years. According to Moody's estimates, “Oman has net foreign assets in excess of 50 per cent of GDP”.

So there is no need to panic in the short term for, as Oman probably has at least \$6 bn in spare foreign assets, and relatively low debt financing costs (a huge difference to 1998). With the currency linked to the dollar has now helped the economy lately. We estimate that real GDP growth will have increased to 6.4% in 2008, owing to stronger export volumes on the back of slightly higher crude oil output.

**Macro Economic Indicators**

	2004	2005	2006	2007	2008
Nominal GDP (In RO mn)	9516.0	11855.6	13709.7	16394.8	21021.0
Nominal GDP(In US\$ mn)	24716.9	30793.8	35609.6	42584.0	54600.0
Nominal GDP Growth	13.60%	25%	16%	20%	28%
Real GDP (In RO mn)	6696.1	7081.2	7484.8	8126.3	8703.3
Real GDP (In US\$ mn)	17392.5	18436.0	19763.4	21107.3	22605.9
Real GDP Growth	5.4%	6.0%	7.2%	6.8%	7.1%
Oil Activities / GDP	42.20%	48.80%	48.40%	45.30%	45.0%
Industries and Mining / GDP	12.80%	12.20%	14.20%	14.30%	10.0%
Agriculture / GDP	1.80%	1.40%	1.30%	1.30%	3.0%
Services / GDP	44.80%	39.00%	37.70%	39.00%	42.0%
Population (in mn)	2.416	2.509	2.577	2.743	2.953
Inflation	0.80%	1.90%	3.20%	5.90%	12.80%
Exchange Rate	0.385	0.385	0.385	0.385	0.385
Oil Sector					
Average Daily Crude Oil Production (000, Barrels)	722	774	738	711	757
Annual Oil Exports (In Mn Barrels)	264	262	233	222	236
Oil Export Price (US\$ / bbl)	34.3	50.3	61.7	65.2	103
Oman Refinery Co.					
Production (000, barrels)	28945	31863	31307	25130	28857
Sales (000, barrels)	30851	33857	32021	33920	28857
Filling Stations	319	329	352	372	NA
Government Finance					
Revenue(In US\$ mn)	10494.0	11715.6	12934.8	15377.0	21613.9
Expenditure(In US\$ mn)	9895.8	10928.8	12821.0	13953.0	24732.4
Surplus/Deficit(In US\$ mn)	598.2	786.8	113.8	1424.0	-3118.5
Foreign Trade					
Exports(In US\$ mn)	13326.2	18667.5	21558.4	24690.1	32212.4
Imports(In US\$ mn)	-8784.2	-8959.2	-10883.4	-15595.0	19062.8
Current A/c Balance(In US\$ mn)	800	4171.4	4371.4	3236.4	10101.0
Current A/c Balance (% of GDP)	3.2%	13.5%	12.3%	7.6%	18.5%

Source: Ministry of National Economy, CBO, United Estimates, IMF Estimates
Export and Import Figures as on Oct 2008, Population for 2008 sourced from IMF estimates



Key Economic Announcements 2008

March 2008

- ◆ Central Bank of Oman decided to reduce the ceiling interest rate on new personal loans from 1st April 2008, from 9% p.a. to 8.5% p.a.

June 2008

- ◆ Central Bank of Oman decided to reduce the ceiling on interest rate from 8.5% p.a. to 8% p.a. on all new personal loans (including housing loans) extended by banks from 14th June 2008.
- ◆ In an attempt to curb the excess liquidity in the money markets, Central Bank of Oman decided to raise reserve ratio from 5% to 8%. Lending ratio of licensed commercial banks reduced from present 87.5% to 85% with effect from 1st August 2008 and to 82.5% with effect from 1st November 2008. Central Bank of Oman decided to raise quantitative ceiling, on commercial banks, of housing loans from 5% to 10% of total credit.
- ◆ Five day working week for banks in the Sultanate introduced
- ◆ Central Bank of Oman decided that all licensed Finance and Leasing Companies shall have at all times maintain a paid up capital of not less than RO 20 mn as against RO 10 mn . Existing companies falling short of this stipulated capital allowed to increase their capital to the minimum required level of RO 20 mn before the end of June 2012.

October 2008

- ◆ October 2008: Commercial banks are permitted to hold reserve up to 3 of deposit liabilities in the form of currency held by banks and/or investments in CDs issued by Central Bank of Oman. Central bank suspended the decision to reduce lending ratio from 85% to 82.5% from 1st November 2008. With a view to assisting the local banks to overcome the liquidity constraints CBO decided to make available USD funds to the local banks by way of Reverse Swap Facility and by way of Direct Lending of US dollars.
- ◆ November 2008: In view of the market instability and heightened volatility in the capital markets, the Ministry of Commerce and Industry decided to start a market stabilization fund with an approximate capital of RO 150 mn.

December 2008

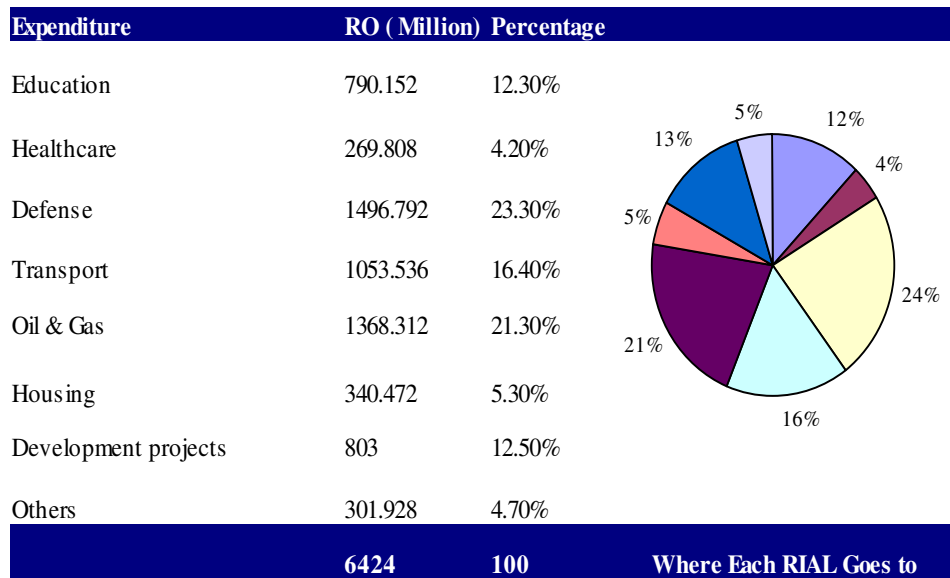
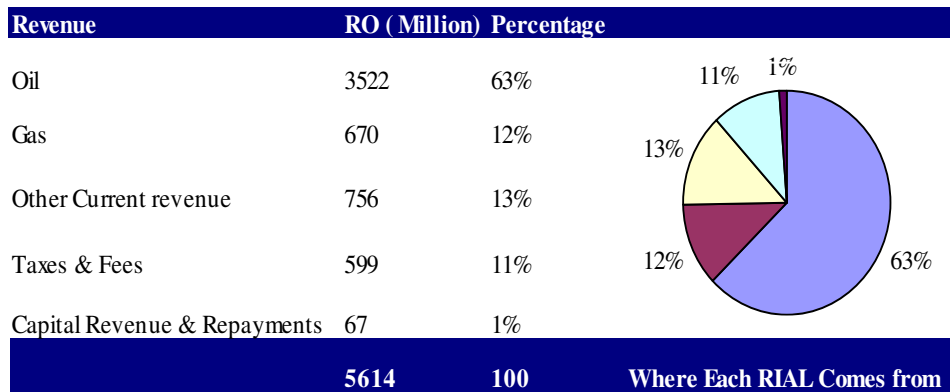
- ◆ In order to increase the liquidity in the banking system, Central Bank of Oman decided to increase the lending ratio of commercial banks from 85 to 87.5. Cash reserve ratio of commercial banks brought down to 5% from 8%.



National Budget 2009

The government’s budget for the 2009 fiscal year was endorsed by Royal decree on 1st Jan 2009. It was drawn up during a period of extreme financial turbulence that has seen the global economy slip in to recession and oil prices fall by 74% from the highs. Nonetheless, the government has increased spending compared with the budgeted total for 2008 in order to push ahead with its investment program.

A deficit of RO 810 mn is projected based on revenues of RO 5,614 mn and spending of RO 6,424 mn. Education, health, and defense and social security remain the major focus areas of government spending. The government hinted that this budget could be a flexible one in that it may entail adjustments if oil prices fall below \$45 per barrel (bbl).

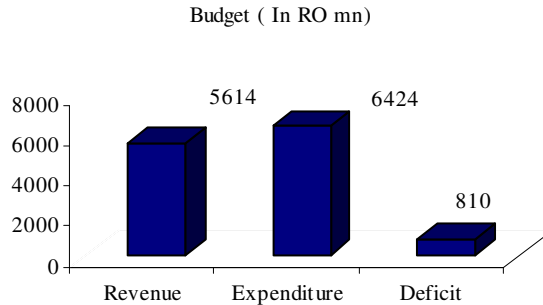


Source: Ministry of national Economy, CBO, United Securities Estimates



The major highlights of the budget are:

- Oil revenue estimated at \$45 a barrel with 805,000 bpd production
- Enhanced spending on seventh five year plan
- RO 665 mn allocated for new development projects
- Substantial allocations for roads, infrastructure, housing
- Revenues, expenditure at RO 5,614 mn and RO 6,424 mn
- Current, capital revenues estimated to reach RO 1,422 mn

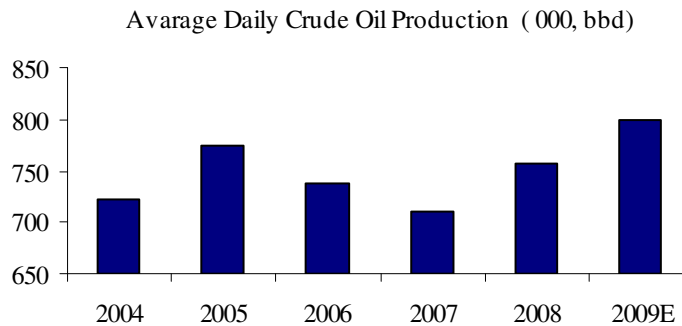


Source: CBO, Ministry of National Economy

The increase in budgeted spending reaffirms the government’s commitment to proceed with its investment program. Given the lower project costs and raw material prices are supporting this move. This shows the underlying health of the economy and the strength of government finances.

Budget 2009 details

Oil production and price assumptions: The government expects total oil production to reach an average of 805,000 barrels per day (bbd), which is 7.3% higher than current production of 753,000 barrels per day (bbd). Average daily oil production has been on a declining path during the period from 2003 to 2007. But during the first 9 months of 2008, oil production increased by 6 percent over 2007 average. Continuing with this momentum, we feel that achieving the targeted production for 2009 would not be overly optimistic.

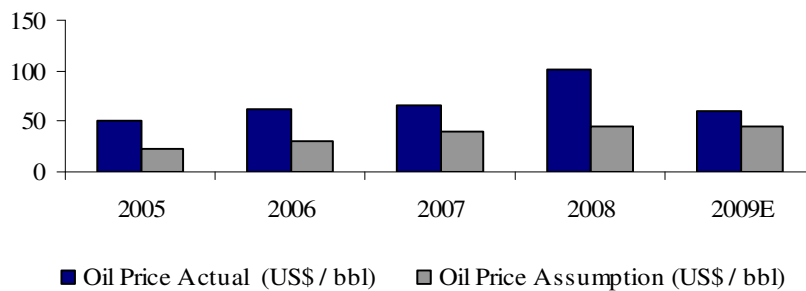


Source: CBO, Ministry of National Economy



Oil revenues are estimated on the assumption of an average price of \$45 per barrel. Based on these assumptions, net oil revenues are estimated to be RO 3,522 mn, accounting for a contribution of 67% of the total revenues. This revenue is 2.5% less than that was expected in the budget for 2008. Revenues from gas are estimated at RO 620 mn, unchanged from 2008 estimates, and accounts for 12 per cent of the total revenues.

Current and capital revenues are estimated to reach RO 1,422 mn, showing an increase of 22 percent over the 2008 budget. Total government revenues of RO 5,614 mn are expected to increase by 4% as compared with the revenue estimates of 2008. Oil and gas revenues estimated for 2009 represent 75 per cent of the total while current and capital revenues constitute 25 per cent.



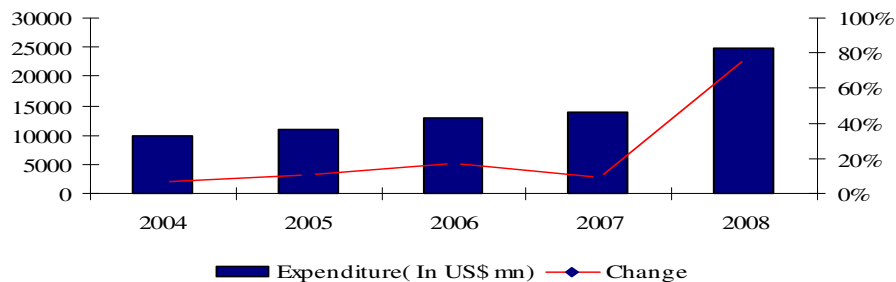
Source: CBO, Ministry of National Economy

Diversification measures

When the oil revenue prediction is highly uncertain during the modern times, government is expecting more revenue from non oil sectors. Revenue from gas is estimated to be unchanged while the non oil revenue is expected to grow by 16.9% to RO 2,092 mn.

Expenditure

Total expenditure for 2009 is budgeted at RO 6,424 mn. This is up 11 percent on the amount budgeted for 2008. It represents a 17 percent decline on actual spending this year. Total spending projected indicates an increase of RO 624 mn or 11 per cent during 2009 in total expenditure compared to 2008. We estimate that capital spending is budgeted to rise by RO 600 mn to RO 2,600 mn, up by 39% on the level budgeted for 2008.



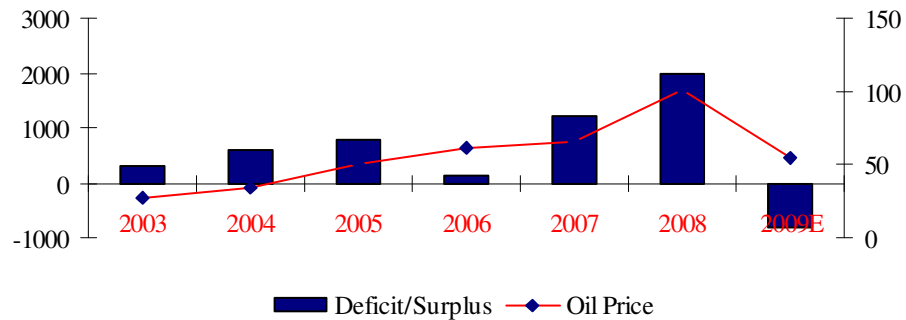
Source: CBO, Ministry of National Economy



The current expenditures of the government civil ministries and units stand at RO 2,170 mn, showing an increase of 13 per cent over estimates of the 2008 financial year. The excess of planned aggregate expenditure of RO 6,424 mn over budgeted revenue receipts of RO 5,614 mn is estimated to leave a budget deficit of RO 810 mn in 2009 which is 14.4% of revenues and 4.1% of 2008 GDP.

Financing deficits

We don't expect that financing this budget deficit would be a problem as it can be done by withdrawal from State General Reserve Fund or by drawing down the stock of foreign assets built up in recent years. At the end of November net foreign assets at CBO stood at RO 4,330 mn. This stock of foreign assets the government can call on gives Oman an advantage of easing the impact of extreme financing pressures while many of the advanced economies are facing problems.

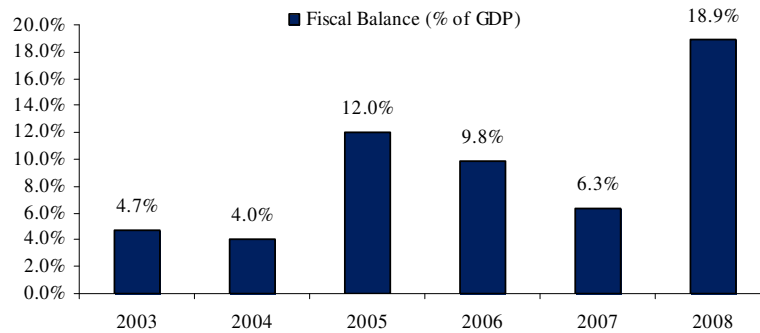


Source: CBO, Ministry of National Economy



We expect budget surplus for 2009

The budget addresses all segments of the economy like oil and gas, infrastructure development and social welfare, and stresses on economic diversification. We expect that the oil prices would rise again during the second half of the year and would average around \$55 for the whole of the year. If this turns out to be a reality, we expect that the fiscal balance to show a surplus towards the end of 2009.



Source: CBO, Ministry of National Economy

Overspending to be cut down

Actual spending by the government tends to be almost 15 percent higher than the budgeted level. Given the fact that the oil prices are trading at levels very close to the assumed average price, we expect overspending to be curtailed during the year. Supporting this fact is the hinting by the government that if oil prices continue to remain lower than expected, it might consider revising the budget and cut down a number of projects.

Positive on the economy

We continue to be positive about Oman’s economy in the long term as the government moves ahead with its investment expenditures even at lower oil prices. We believe that in spite of relatively lower levels of oil production, ongoing investments in infrastructure related projects are sustainable and this would spur the economy over the long term. This is supported by the government’s willingness to move ahead with its spending plan.



Sectoral allocations in 2009 budget

RO 665 mn for new development projects

A total of RO 665 mn has been allocated for new development projects to be implemented during 2009. RO 140 mn has been earmarked for consultancy studies, designing and supervision with regard to development and renovation of Muscat international and Salalah airports. Another RO 46 mn has been allocated for consultancy studies for designing and supervision for constructing six regional airports at Sohar, Al Duqm, Ras Al Had, Adam, Haima and Shaleem.

Development of ongoing projects

10 Increase in allocation for current developmental projects

Allocations for the development budget stand at RO 800 mn, showing an increase of 10 per cent over the 2008 budget. These allocations are set to cover the ongoing as well as new projects listed in the Seventh Five-Year Plan (2006-2010) under the different sectors. This sends a strong signal that the government is determined in its plan of going forward with developmental projects. We see this as a major positive boost for contracting companies operating in the Sultanate.

Defense

Allocations for defense and security have been raised to RO 1,545 mn as against RO 1,360 mn allocated in the budget for 2008.

Civil Ministries and Units

The current expenditures allocated for civil ministries and units were estimated at about RO 2,149 mn, an increase of RO 245 mn, or 13 per cent over the estimates of 2008 budget. The current expenditures represent 34 per cent of the total general expenditures. These appropriations include coverage of the basic government services, the operational expenses of the government ministries and units, expansion of the educational and health services, expenses of operating the new projects and the cost of promoting the employees of the civil ministries who had been entitled to such promotion by the years 2003 and 2004.



Highest allocation for education and health care

Education and Health care

Educational and health sectors have been given top most priority in the latest budget. The allocation to these sectors amounted to 49 per cent of the total current expenditures. Of this, the educational sector accounts for 36 per cent at RO 791 mn. Similarly, the health sector accounts for 12 per cent or RO 271 mn of the total civil ministries' expenditure, showing an increase by RO 43 mn (19 per cent) over the 2008 allocations.

Participation and Subsidy

Estimates of the budget allocated for participations and subsidy amount to about RO 485 mn, with an increase by RO 100 mn, 26 per cent over the approved estimates for the year 2008.

RO 355 mn has been allocated to finance the projects executed by Oman Waste Water Company, Salalah Sanitary Drainage Services Company, Oman Oil Company, Oman Tourism Development Company and Oman Dry Dock Company.

Additional Projects

Port Development

RO 697 mn has been allocated in 2009 for the development of Al Duqm port. A total of RO 922 mn has been earmarked in 2009 for development of various ports in the Sultanate.

Oil & Gas

Estimates for the expenses of the production of oil and gas amount to Ro 1,370 mn, which represent 21 per cent of the total general expenditures, an increase by 1 per cent over the year 2008.

Development of existing Natural Gas projects

An amount of RO 262 mn has been earmarked for the gas sector to implement projects for supply that includes purchase of compressors, construction of gas pumping stations, laying networks for gas distribution and replacing gas lines.

Housing

RO 339 mn has been set aside for the housing sector projects that include construction of 2,200 housing units for owners of affected properties along the coastal road at Al Batinah as first phase, building of 718 housing units at Qurayat for those affected by the climatic conditions and building of 184 houses for social security and limited income families totally affected by the climatic conditions in a number of wilayats.



Social Security

Allocations for town planning and municipal services sector projects include proposed compensations as first phase for owners of properties affected by the Al Batinah coastal road (RO 200 mn), removal of residues, pumping water and opening the main and internal roads affected by the exceptional climatic conditions in Muscat (RO 15 mn), repair of parks and afforestation in the aftermath of the climatic conditions in Muscat (RO 10 mn) and several similar projects.

Transport & Tourism

<i>Name of the project</i>	<i>RO mn</i>
Hasik-Al Shuaymiya road	70
Al Amerat-Qurayat road	66
Salalah-Thumrait road	48
Traffic renovation in Muscat Governorate	50
Nizwa-Thumrait road Pahse-3	51
Bausher-Al Amerat road	25
Khasab-Al Khalydia road —first phase	8
Internal roads	278
Wadi Adai-Al Amerat Road	268
Other roads	189
Total for Roads	1,053

Source: Central bank OMAN, Ministry Of national Economy.



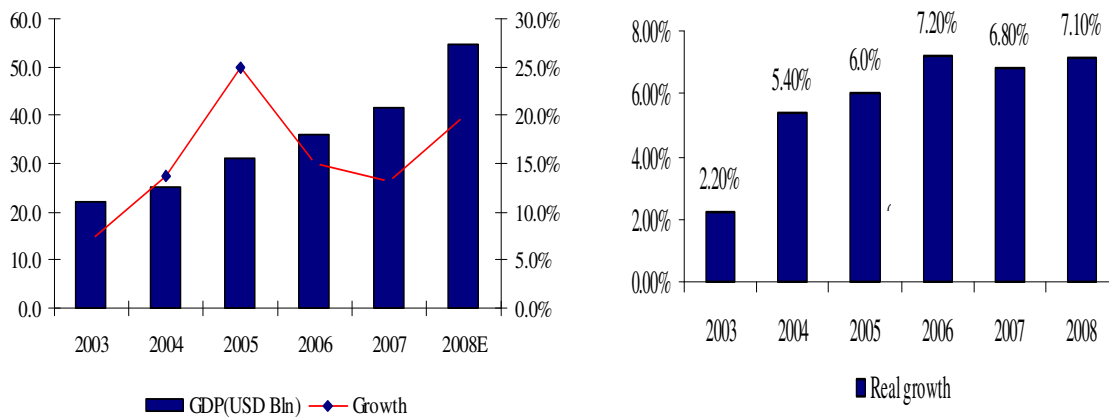
Gross Domestic Product

In 2008, Omani economy registered a Y/Y growth of 19.9% in its nominal GDP reaching RO21.02 bn. This is the fourth consecutive year, when the Omani economy continued its north-bound growth. Increasing focus on non-oil sectors for future growth is playing an important role in driving the GDP growth. The non oil sector contributed about 13% of the nominal GDP whilst the Oil and Gas sector share was 45% in 2008.

	2003	2004	2005	2006	2007	2008
GDP growth(%)	7.2	13.6	25.0	15.0	13.1	19.9
Nominal GDP (USD bn)	22	25	31	36	41.6	54.6
Current A/c Balance(% of GDP)	4	1.8	13.5	12.3	7.6	18.5
Fiscal Balance (% of GDP)	4.7	4	12	9.8	6.3	18.9
Inflation	0.2	0.8	1.9	3.2	5.9	12.8
Average Interest rate(%)	7.1	6.7	6.4	7	7.1	7.5
Average Daily Crude Production(In ,000)	820	775	774	737	711	756

Source: Ministry of National Economy, Central Bank of Oman

The services sector was on a boom given the Governments boost in infrastructure spending and the high oil prices. In 2007, it registered an increase of 13.1 in its nominal GDP to reach RO16.39bn for the year. Whilst the oil sector accounted for 45 of the Sultanate’s in 2008, the non oil sectors also were the engines of growth during the period.



Source: CBO, Ministry of National Economy

Oil the growth driver.....

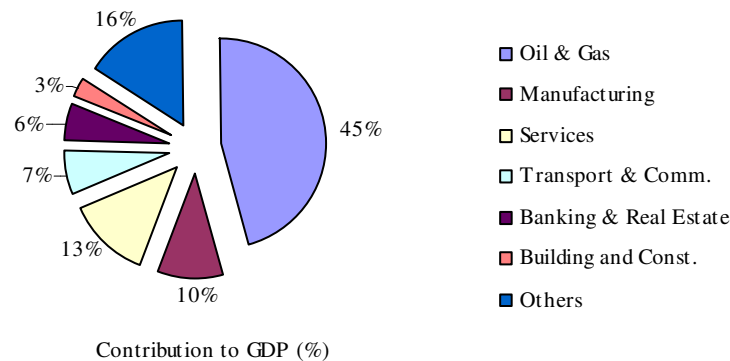
During the first 9 months of 2008, the oil and natural gas sector contributed to about 70.2% of government revenues. The Omani economy though broadly oil dependant is now trying to diversify into other sectors as well in the recent years. Oil and gas activities contributed 45% of the GDP in 2008 compared to 45.4% in 2007. The recent surge in average Omani crude oil prices that increased by almost 90% to US\$103.6/bl



(Previous year it had increased by 5.6% to about US\$65/bl) is a predominant factor supporting the growth.

Non Oil Sector

The non-petroleum industrial activity, driven by strong growth in manufacturing and services sector, increased by 54.6% by the end of 9 months for 2008. Its percentage share of overall GDP composition has also increased to 17% in 2008 relative to its level of 14.5% in 2007. Manufacturing sector was the main contributor to the growth in the non-petroleum activities in the Sultanate, where they increased by 63% in 2008 compared to their growth rate of 44.6% in 2007. Their percentage contribution to GDP was 10.4%, the highest amongst non-petroleum industrial activities.



Source: Ministry of national Economy, CBO, United Securities Estimates

Manufacturing gaining pace...

The contribution from manufacturing is expected to grow substantially after the completion of several ongoing projects in oil and gas sector. Construction in the Sultanate saw its share to GDP grow to 3.0% in 2008, driven by the continued expansion of physical infrastructure in 2007, together with major tourism, commercial, as a well as residential real estate projects. Electricity and water supply also registered a growth of 5.4 and is expected to grow further going forward as the projects in power and desalination plants gets on stream. The development plan for 2006-2010 adopts diversification as a pillar in driving the Omani economy forward.

Other non-petroleum activities in Oman include the agriculture and fisheries which increased by 18% in 2008 y-o-y to reach RO 186.3 bn, and contributed 2% of total GDP. Overall, the services sector achieved a 24.7 y-o-y growth to reach RO6.3bn in 2007 and contributed 40.5% to GDP. During 2006, the services had contributed only 37.7% displaying a growth in the services revenue pie in the nominal GDP over the recent years. For the 9 months ended the services sectors increased by 24.7%, reaching at RO 5.552 bn.

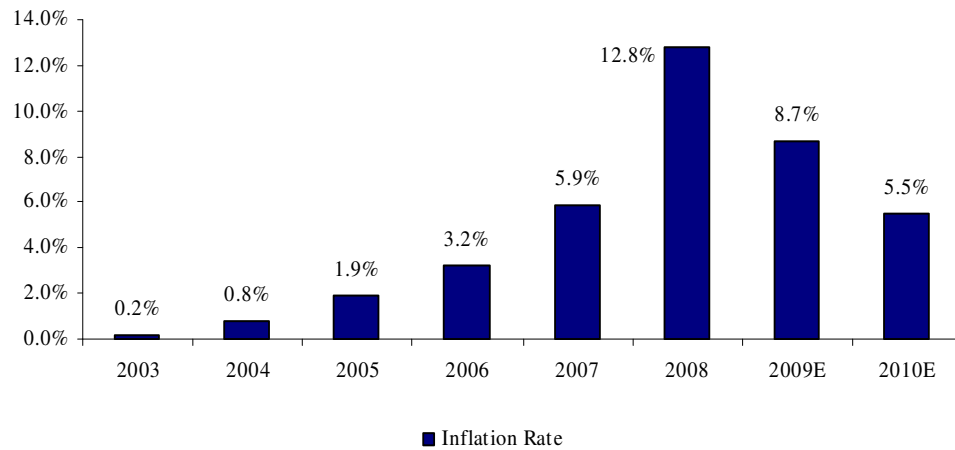


Total petroleum activities decreased its share in GDP from 45.3% in 2007 to 45% in 2008. The contribution from “Natural Gas” activities to GDP has been increasing at a compounded annual growth rate (CAGR) of 31% during the period of 2003 to 2007.



Inflation

Oman has historically had extremely low or negative inflation. However, price growth has recently been on an upward trend, partly because of the weakness of the dollar (and, by extension, the riyal) against the currencies of Oman's main import suppliers, particularly the European Union.



Source: CBO, Ministry of National Economy, HSBC Estimates, IMF Country Outlook

We estimate that consumer price inflation would have touched an average of 13% in 2008, up from 5.9% in 2007. The rising cost of imports had a significant impact on local food prices. Inflation woes were also exacerbated by wage pressures, particularly as the government continued its policy of raising public-sector salaries and the minimum wage for Omanis employed in the private sector.

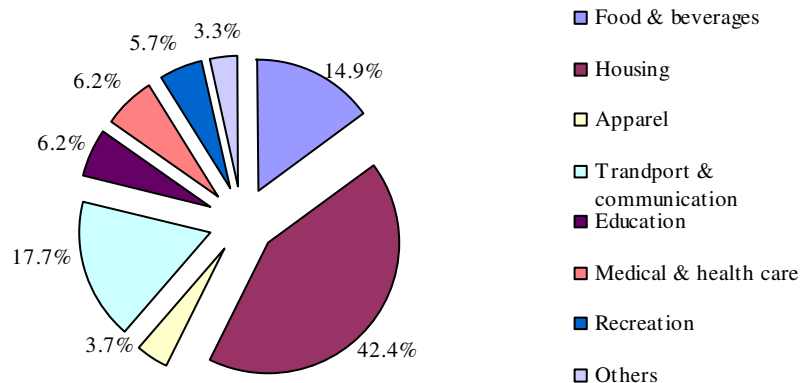
However, with oil and non-oil commodity prices expected to fall sharply next year, we forecast that inflation will drop to an annual average of 8.70% in 2009 and 5.5% in 2010. Inflation will also remain constrained by the government's extensive subsidy system, which holds in check the prices of a range of core goods and services.

Prices 2008

CBO figures showed there was a sharp increase in food prices in Oman in the first 10 months of 2008, with cooking oil and fat rocketing by 60.7 per cent.

The prices of cereal, and meat and poultry jumped by around 43 and 20.6 per cent respectively, while fish prices leaped by 28.3 per cent although Oman is one of the largest fish producers in the Middle East.

Egg prices soared by 31.8 per cent, while the price of milk and other dairy products surged by nearly 28 per cent. The report showed the food, beverage and tobacco consumer price index jumped by nearly 22 per cent during January-October last year from 0.7 per cent during the same period of 2007.



Inflation Components; Source: CBO, Ministry of National Economy

Rents soared by 17.7 per cent mainly as a result of supply bottlenecks caused by strong demand, an economic boom and high population growth. Like other Gulf oil producers, Oman had relatively low inflation rates in previous years before a surge in global prices allied with a weakening in the US dollar brought about an inflation problem in the GCC nations, which peg their currencies to the dollar, with the exception of Kuwait.



Exchange rate

The Central Bank of Oman remains firmly committed to the US dollar peg, which it has maintained since 1986. The outlook for Oman's external accounts and foreign-exchange asset levels is sufficiently robust to help the Central Bank defend the peg. The announcement that Oman will not join the planned GCC currency union also means that the peg is less likely to be adjusted in response to any upward revaluations of the currencies of the other Gulf States.

The country believes that it cannot live up to conditions such as ensuring that public debt not exceeds 60 per cent of the gross domestic product (GDP). Oman is not suffering from debt problem at present.

However, Oman may be in need of piling up debt as part of its efforts to generate maximum GDP growth level, and consequently help address the unemployment problem. Partly because of demographic statistics, many Omani youths will be entering the job market in the years to come. More than 40 per cent of Omani nationals are below 15 years, which puts pressure on the authorities to find jobs that suit the nature of the local workforce.

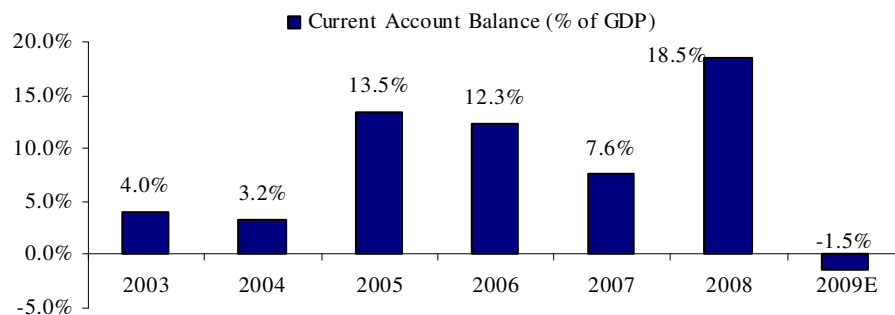
Additionally, the country seems to be interested in maintaining the link of the planned unified currency to the US dollar that Omani officials feel at comfort in maintaining their currency's peg to the greenback. The practice gives investors the confidence in dealing with Oman. Small investors, who are the majority, tend to seek stability, and avoid volatility associated with floating currencies. In addition to the stability issue, the link uniquely fits the nature of Omani exports, which are in turn priced in the US dollar. Oman's merchandise exports primarily comprise of crude oil, petroleum products such as diesel, petrochemicals, and textiles. So, Omani officials want to avoid the sort of uncertainties associated with making an extraordinary move such as that of having a unified currency.

Of all the GCC currencies, the Omani riyal is the least expensive, a matter that helps attract visitors to the sultanate, which is full of scenic places, given the government's initiative to encourage and boost the tourism sector. Also, relatively low-priced currency helps make Omani products more competitive in exports markets.



External Account

We estimate the export revenue to fall by 25% in 2009, having risen by an estimated 29% in 2008, before picking up again, by 13%, in 2010, broadly in line with movements in global oil prices. Owing to a slide in government revenue, the import bill will also fall in 2009, to US\$15.5bn, from US\$16.7bn in 2008. However, because of an increase in demand for consumption goods in 2010, imports are forecasted to rise by almost 7%. Nevertheless, the trade surplus is expected to remain strong, at an annual average of US\$9.6 bn in 2009-10.



Source: CBO, Ministry of National Economy, HSBC Estimates, EIU Research, United Securities Estimates.

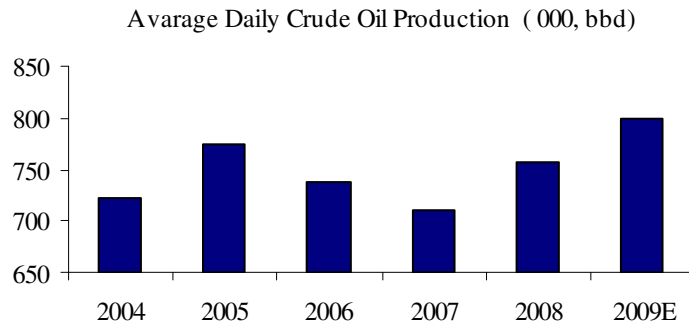
The increase in spending nearly doubled the forecast budget deficit to RO810 mn from RO410m in 2008. Although the deficit this year is considered high in absolute value, We believe that it is within safe limits and economically accepted levels relative to the gross domestic product, which can be financed through withdrawal from the state reserve fund in case actual revenues remain lower than actual spending through 2009.

According to the government sources, the surge in oil prices sharply boosted the country's external account position, with the current account recording a surplus of around RO1bn in 2008 and the trade surplus peaking at RO5.3bn despite a surge in imports.

The Current surplus totaled around RO1.979bn during January-November 2008 and we believe it would smash through the RO2bn mark by the end of the year for the first time in the country's fiscal history. The huge jump was a result of a sharp increase in the country's income, which rose to an all-time high of RO7.7746bn in the first 11 months of 2008, far higher than the total revenues in 2007. Spending also soared to a record RO5.767bn during January-November and more than half of it was in current expenditure.

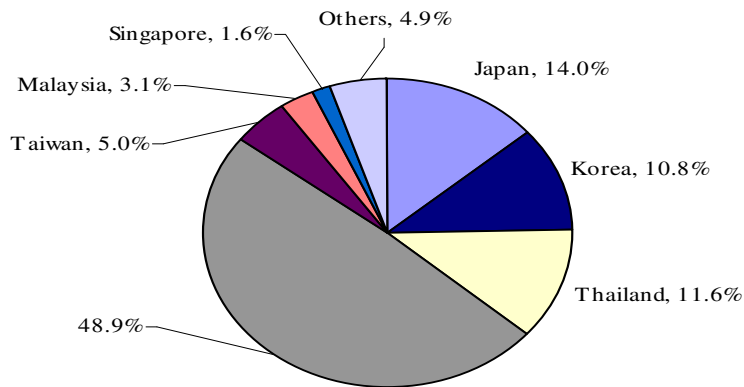


Crude Oil



Source: CBO, Ministry of National Economy, HSBC Estimates, EIU Research, United Securities Estimates.

In the third quarter, the oil sector jumped up by 96.3% compared with around 58.6% in the second quarter and 62.7 per cent in the first quarter. The non-oil sector also increased by 48.8% in the third quarter. Oman crude basket averaged around \$113 a barrel in the third quarter of last year compared with \$117 in the second quarter and \$92 in the first quarter. The decline in the average in the third quarter was largely offset by a surge in Oman's crude output, which averaged around 780,000 barrels per day compared with 745,000 bpd in the second quarter and 707,000 bpd in the first quarter, according to data by the Oman Ministry of Oil. In 2008 the crude averaged at \$103.90 a barrel.



Oil Export By country in 2008

Source: CBO, Ministry of National Economy, HSBC Estimates, EIU Research, United Securities Estimates.

Oman, which is not a member of the 12-nation OPEC, pumped nearly 714,000 bpd of crude oil in 2007, far lower than the 2002 peak of 898,000 bpd. Production has steadily receded during that period, dropping from 328 mn barrels in 2002 to 299 mn barrels in 2003 and 285 mn barrels in 2004. It reached 283 mn barrels in 2005 and 269 mn barrels in 2006.



Production dived to 259 mn bpd in 2007 however the government has quoted that output would recover sharply as it based its 2008 budget on higher oil production. The surge in output and prices boosted Oman's total revenues in the first nine months of 2008 above RO6 billion (Dh57bn) for the first time since the country began pumping crude three decades ago.

Actual oil and non-oil revenues soared to an all time high of RO6.2bn surpassing the country's total 2007 income of around RO5.9bn, according to the Ministry of National Economy. The surge largely boosted Oman's fiscal surplus, which peaked at an all-time high of RO1.567bn in the first eight months of 2008 compared with RO652.4bn in the same period of 2007.



OMAN REFINERIES & PETROCHEMICALS COMPANY 2008

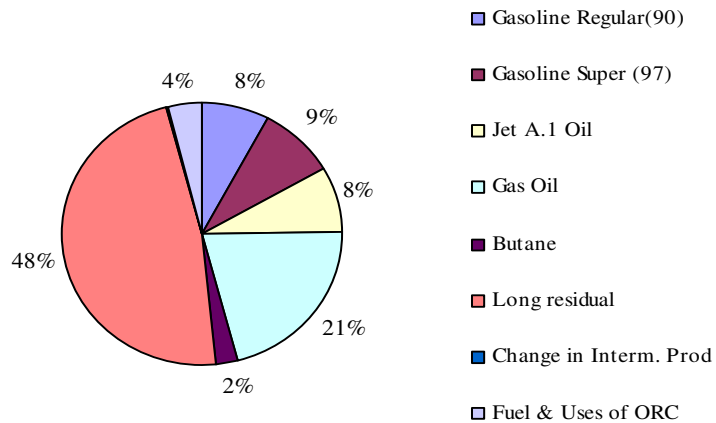
The quantity of oil used at Oman Oil Refineries and Petrochemicals Companies rose by 66.7 per cent to 28,856,700 barrels during the first nine months of the year 2008, as compared to 17,305,900 barrels during the same period in 2007, according to the statistics bulletin issued by the Ministry of National Economy.

	January - September		Year End
	2008	2007	2007
Gasoline Regular(90)	2272.6	719.4	1013.8
Gasoline Super (97)	2568.4	1961.1	2893.8
Jet A.1 Oil	2289.8	1460.9	2160
Gas Oil	6089.6	3115.3	4848.6
Butane	694	728.3	914.5
Long residual	13761.5	9112.6	13177.4
Change in Interm. Prod	23.5	234.4	344.2
Fuel & Uses of ORC	1157.3	-36.1	-682.6

The production of the company rose by 66.7 per cent by the end of September 2008 to hit 28,856,700 barrels compared to 17,305,900 barrels during the same period in 2007, the statistics added. The products included super and regular car petrol. Super petrol production rose by 31 per cent to 2,568,400 barrels by the end of September 2008, as compared to 1,961,100 barrels during the same period in 2007.

Production of regular petrol rose by 215.9 per cent to 2,272,600 barrels during the first nine months of the year 2008, as compared to 719,400 barrels by the end of September in 2007.

OMAN REFINERIES & PETROCHEMICALS COMPANY
2008



Source: Ministry of National Economy, United Securities Estimates.



Production of aircraft fuel rose by 56.7 per cent to 2,289,800 barrels by the end of September 2008, as compared to 1,460,900 barrels during the corresponding period in 2007.

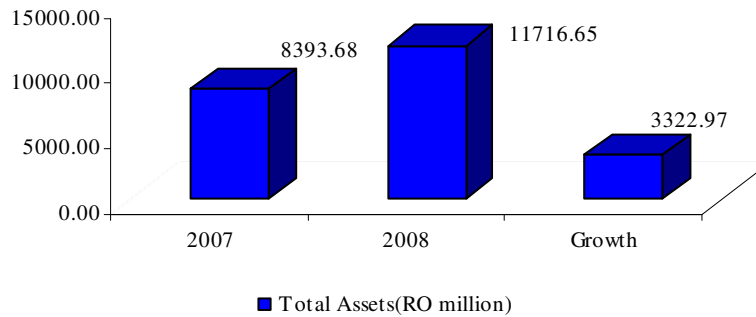
Production of diesel rose by 95.5 per cent to 6,089,600 barrels by the end of September 2008, as compared to 3,115,300 barrels by the end of September 2007. The bulletin said production of petrol gas (Biotin) fell by 4.7 per cent to 694,000 barrels by the end of September 2008, as compared to 728,300 barrels by the end of September 2007. Refinery waste rose by 50.9 per cent to 13,761,500 barrels by the end of September 2008, as compared to 9,122,600 barrels during the same period in 2007.



Banking Sector – Barometer of Economy

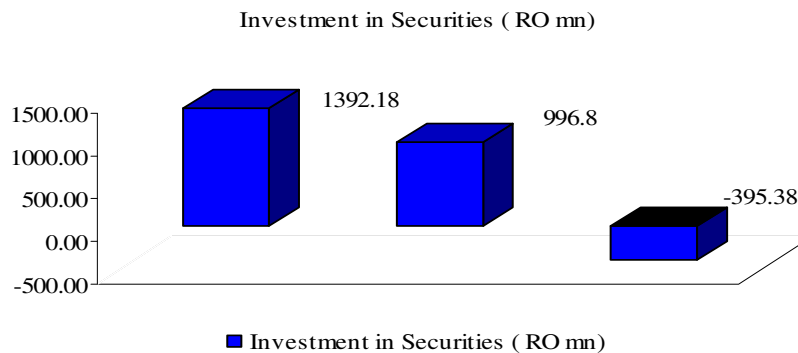
The remarkable improvement in the performance of the banking sector throughout the year 2008 compared to the corresponding last year is a good evidence that the banking sector has not been directly affected by the global financial crisis. On the whole commercial banks operating in the sultanate have witnessed a positive growth.

The total assets of Oman’s commercial banks in the fiscal year 2008, increased by 33.3 per cent on a year-on-year basis to reach RO13,780.9 mn leveraging on an annual growth of 42.3 per cent in credit, despite the current worldwide financial downturn.



On a monthly basis, however, the pace of growth in total credit during December 2008 alone slowed to 1.1 percent from 3.1 per cent during the month of November 2008, suggesting some signs of credit squeeze in domestic markets.

According to the latest report issued by the Central Bank of Oman (CBO), investments in securities (both domestic and foreign), which accounted for 7.2 per cent of total assets, decreased by 28.9 per cent to RO996.8 mn in comparison to its level in December 2007.



Source: CBO, Ministry of National Economy, United Securities research.



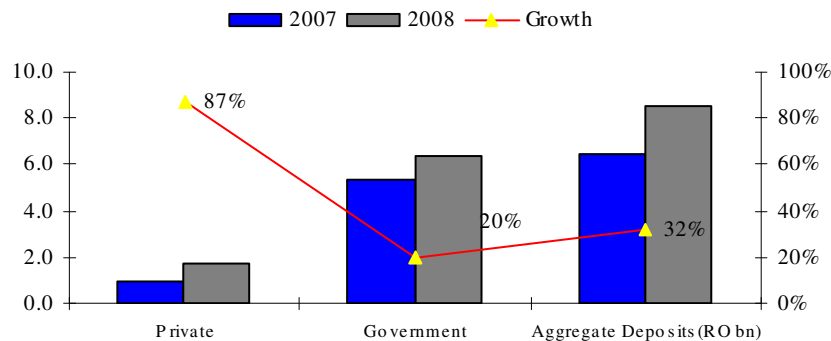
Commercial banks’ outstanding investments in certificates of deposit (CDs) issued by CBO decreased from RO1,083.1 mn as at the end of December 2007 to RO390 mn at the end of December 2008, whereas outstanding investments in foreign securities increased from RO92.6 mn to RO347.6 mn during the same period. Assets held in the form of cash and deposits with CBO increased to RO1,430.4 mn at the end of December 2008 from RO666.7 mn a year ago.

Oman’s banking system has so far has been able to avoid the effects of the crisis in the global financial markets. However, the Sultanate’s economy has still to contend with challenges associated with global and regional slowdown, sharp fall in oil prices, contraction in world demand and trade, and greater risk aversion influencing capital flows.

Domestic economic activity, however, continues to be resilient, with support from appropriate fiscal policy and easy domestic liquidity conditions. It’s noteworthy that cash deposits of commercial banks with CBO during December 2008 alone increased by RO698.2 mn over its level of RO732.2 mn in November 2008.

Aggregate deposits increased significantly

On the liabilities side, aggregate deposits (domestic plus foreign currency) increased significantly on a year-on-year basis by 32.1 per cent to RO8.577 billion at the end of December 2008. In particular, government deposits rose by 87.0 per cent to RO1.696 billion, representing 19.8 per cent of total deposits, whereas private sector deposits increased by 19.7 per cent to RO6.353 billion.



Source: CBO, Ministry, United Securities Research.

On a monthly basis, however, total deposits declined marginally by 0.4 per cent over its level at the end of November 2008. Core capital and reserves increased year-on-year by 7.3 per cent to RO1,564.9 mn and accounted for about 11.4 per cent of total commercial bank assets at the end of December 2008.

The overall monetary conditions continued to be characterized by high growth in domestic money supply, year-on-year.



Broad money supply (M2) increased by 23.1 per cent in 2008 over the corresponding period in 2007. The main components of money supply, currency held by the public rose by 11.6 per cent, demand deposits by 0.5 per cent, and quasi money (comprising RO savings and time deposits, certificates of deposits issued by commercial banks, margin deposits and foreign currency designated deposits) by 31.9 per cent.

Among the key sources of money supply, while combined domestic assets of commercial banks and the Central Bank of Oman surged by 42.7 per cent, net foreign assets of the same expanded by 11.8 per cent, primarily on account of higher central bank net foreign assets, which increased by 20.2 per cent.

Given the structure of the Oman economy and the fixed exchange rate arrangement of the Oman rial to US dollar, domestic interest rates are expected to closely track interest rate developments in the US. Reflecting the sharp decline in the US federal funds target rate from 4.25 per cent in December 2007 to a range of zero to 0.25 per cent in December 2008 – an outcome of severe monetary easing by the Federal Reserve.



Policy Change

Oman's economic reform programme is intended to diversify the economy and create employment opportunities for the rapidly growing young population. The government has initiated steps to shift the economy away from its reliance on hydrocarbons, because of the realization that Oman's natural gas reserves are insufficient to support a wholly gas-based industrial sector. Attention has been focused on tourism and real estate. An overhaul of tourism development plans was undertaken after a devastating cyclone in June 2007, and the revised plans concentrate on reconstructing coastal areas, many of which may be susceptible to future extreme weather conditions. The government has also announced plans to develop better flood protection in and around the capital, Muscat. Efforts to increase the role of the private sector are expected to intensify, especially in electricity, water and telecommunications. However, the impact of the global financial crisis may force the government to rethink the pace of its privatization programme.

Banking Policy

The Central bank of Oman (CBO) has also taken pre-emptive measures to stave off a possible lack of liquidity. The CBO has announced to reduce the reserve requirement by allowing CDs and cash portfolio of banks under the 8 reserve requirement up to 3. By doing so, about OMR 270 Mn would be injected back into the banking system, and that would be available to them for meeting their short-term liquidity needs.

Lending Norm has been Relaxed

The lending ratio norm, which had to be tightened from 85 to 82.5 effective from November 2008 to contain fast growth in credit in the banking system, has also been deferred till restoration of normal conditions in the international markets, so that banks could continue to lend and meet genuine credit demand in the country.

Commercial banks could also discount their eligible commercial bills with CBO and have access to additional liquidity. The commercial banks in Oman have about RO 770 Mn CBO certificates of deposit (CDs) and Government Development Bonds by the end of September which they can sell to CBO through repurchase agreements at any time they want and have equivalent ready access to liquidity from CBO.

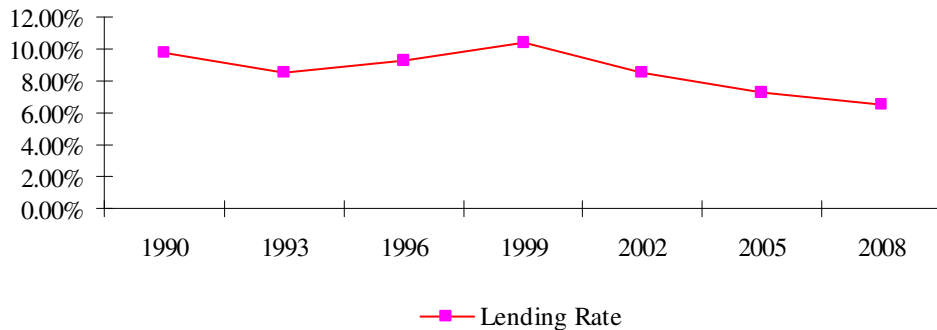


Blocking entry of hot money

Massive funds were pumped into the region's banks for such a purpose through 2007 and the first half of 2008 but officials and bankers have reported the exit of most of what they termed as hot money in the second half of last year after speculation about a GCC currency revaluation largely abated. Oman became the least attractive for such investments following its decision to pull out of the planned GCC currency union as this means it could keep its currency pegged to the US dollar. Speculation mounted about this peg after a landmark free trade pact between Oman and the US took effect on January 1, 2008.

As a part of this policy, the CBO does not allow Omani banks to obtain big foreign currency loans from external markets to finance their operations nor does it allow the entry of capital for speculative purposes. This step was taken with reference to the funds invested by foreign banks and other financial institutions in deposits with Gulf banks to take advantage of any appreciation in local currencies against the US dollar that hit one of its lowest levels in 2007.

Housing finance and interest rate



Source: CBO, Oman, United Securities Research

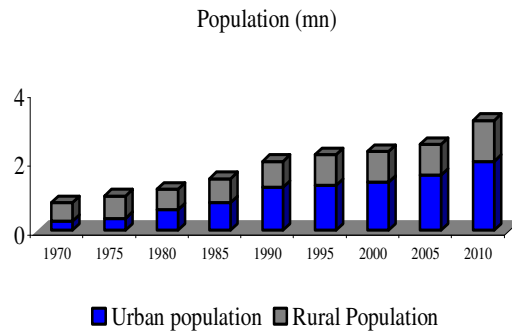
Over the past three years Omani banks have been given much more freedom to offer housing loans. Before 2006, only two banks were allowed to make housing loans – the government-owned Oman Housing Bank, and the private-owned Alliance Housing Bank. Then in 2006, commercial banks were permitted to offer housing mortgages up to a lending cap of 5 of the bank’s total loan portfolio. Then in June 2008, the Central Bank of Oman (CBO) raised the housing lending cap from 5 to 10 of the loan portfolio. Omani banks then started to offer housing loans to expatriates and foreign nationals. Typically, the maximum mortgage amount is 80 of the property value, payable over 20 years.

Personal loans, a category which includes mortgages, have steadily been rising since 2001. In 2007, personal loans grew 42.5 y-o-y to OMR2.6 (US\$6.75) billion. The CBO has also lowered the interest ceiling on personal loans from 8.5 to 8. The central bank’s previous cut on personal loan rates came in March, when it reduced the ceiling by 50 basis points.



Rising housing demand

Oman’s growing population means that housing demand is outstripping supply. In 2007, the total population of Oman was estimated to be 2.74 ; growing at an annual average rate of 2.Oman’s population is predominantly young. More than half of native Omanis are under the age of 20. In 2008, the median age is estimated at 18.9. Native Omanis comprise 70 of the population, while the remaining 30 are expatriates.



United nations population Division

The growing number of expat workers in Oman is fuelling the real estate boom. In 2007, the expat population grew 4.1 to 820,000, according to the Ministry of National Economy.



International Assumptions

According to the estimates published by IMF, world GDP growth declined to 3.6% in 2008, and that it will slow down further in 2009 to 2% in 2009, as the effects of weaker growth in the developed world begin to be felt. We expect the world economy to recover by the end of FY2009, as we have seen fiscal stimulus plans announced by the major developing and developed economies for stabilizing the market. Oil Prices are, however, forecasted to rise in 2010. Geopolitical concerns notably the stand-off between the US and Iran over the latter's nuclear programme could cause prices to climb sharply in the event of a rise in tensions.

We assume that the fiscal stimulus plans announced by the respective governments will help sooth the market and create demand, as well as changing the economic scenario.

Fiscal Stimulus Plan Announced by diff. Economies

Country	Total	USD Bln	% of GDP
US	\$800bn	800	3.6
Japan	Y10tn	105	2
European union	Euro200bn	254	1.5
Germany	31Bn	39	1.3
France	26Bn	33	1.3
Italy	6Bn	8	0.4
Spain	11Bn	14	1
Portugal	2Bn	3	1.3
Netherlands	6Bn	8	1
UK	20Bn	30	1
Hungary	HUF 1.4 tn	7	5.5
Norway	Euro 11.4	14.7	
Sweden	SEK 15bn	2	0.5
Russia	NA	100	5.8
Australia	A\$ 10bn	7	1
China	RMB 4000 Bn	586	8.9
India	Rs. 200 Bn	4	1.5
Korea	KRW 14Tn	11	1.1
Chile	Ps. 132.3tn	2	1.5
Mexico	Ps. 78bn	6	0.8

Source: Bloomberg, Financial Times



Stock Market and the Year Ahead

By any yardstick, 2008 was a year of significant turbulence and turmoil for the international and domestic capital markets. The sub-prime and leveraged loans crises led to a breakdown of confidence in the banking system and the subsequent lack of liquidity placed corporate and bank balance sheets under severe stress. Global credit contraction and de-leveraging led to unprecedented volatility in the global equity and credit markets. Various pools of liquidity steadily dried up during the course of the year

Equity capital markets were the first to feel the pressure, as foreign institutional investors withdrew from emerging markets. International bond markets were plagued by significant widening of credit spreads and diminishing risk appetite. During the second half of the year, this market was virtually shut for emerging market issuers. Foreign currency loan markets were primarily driven by relationship lending as risk capital was in short supply. Redemption pressures on hedge funds and significant widening of secondary public bond spreads completely shut down the private financing markets. The sole survivor were the GCC regional markets which though also witnessed temporary bouts of illiquidity, held on to support the financing needs of Indian banks and corporate, thanks to timely intervention from the respective central banks

As balance sheets got stretched, corporates were forced to review their expansion and investments plans. Regulators bent backwards to support the capital markets and core sectors through unprecedented global co-coordinated intervention using all forms of monetary and fiscal measures. As we enter into 2009, we expect the focus to be on ‘consolidation’ and ‘restructuring’ as corporates tackle slowing earnings growth, higher default rates and corporate governance issues.

From our current vantage point, 2009 can at best be viewed as the year of the **‘Survival of the Fittest’**

The world history is marked with periods of easy availability of money leading to asset bubbles. The sub-prime crisis of 2007 has eventually resulted in value destruction, capital raising and a changing landscape. Financial crisis gripped markets again, having a snowballing impact on economies and markets. The increase in leverage in the global financial system during 2001-2007 led to Sub-prime crisis which initiated with sub-prime and structured products crash in the developed markets. As the crisis unfolded, risk was spread from financial sector to real economy, causing a recession in the most developed global economies and subsequent causing the global economic slowdown. Companies postponed their expansion plans, slower economic growth joined hands with rising inflation in many parts of the globe and unemployment had started rising a faster pace.

The world economy took a U-turn after a long lasting bull run. Inflationary pressures suddenly changed gears to pose as deflationary forces, assisted by contracting growth and unemployment raising its ugly head.



Primary market comes to a standstill.....

Regional primary markets froze across products. Unprecedented dislocation in the financial sector and uncertainty regarding a path to recovery have brought the primary capital markets to a standstill and increased volatility in secondary trading. The scenario was of no difference in the domestic market as well. Companies reprised their offering, postponed their fund raising plans and still facing a tough time to find on the wake of bleak capital market picture.

In the Sultanate, the two new companies that approached investor's participation in ownership were Voltamp Energy and Sohar Power. The IPOs were received overwhelmingly by the investing community. Both the IPOs witnessed strong listing as well as subsequent trading gains.

Company	Listing date	Equity offered	Offer size (RO ,000)	Oversubscription
Sohar Power Company	18Aug08	35	13,330	21.00 x
Voltamp Energy	17Jun08	50	13,550	24.37 x

Source: United Securities Estimates.

Secondary market performs the worst in 10 years

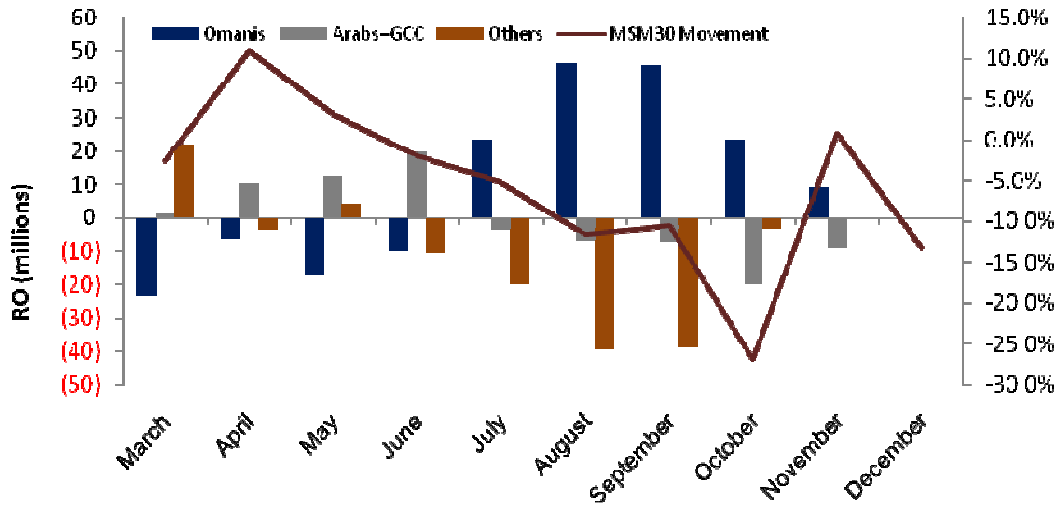
The domestic market fell 40 for 2008, the biggest fall in a decade. Global and regional macro economic factors combined with record fall in oil prices caused a significant increase in volatility in 2008. Elevated volatility added to investor woes. All sectors produced negative returns in 2008, with industrial index leading the way down with negative returns of over 46.

Index	Open	High	Low	Close	Net Change	Change
MSM30	9035.48	12164.54	4990.74	5441.12	-3594.36	-39.78
Banks & Investment	12312.8	16363.79	5869.94	6620.92	-5691.88	-46.23
Industrial	8137.06	13350.37	3992.28	4321.64	-3815.42	-46.89
Services & Insurance	3533.14	5260.57	2354.47	2527.87	-1005.27	-28.45



Foreigners pulled significant capital.

Foreign investors and FIIs pulled out their investments from regional markets to shore up resources for beating the global liquidity crunch. Foreigners were net sellers, the biggest ever in history. The year witnessed foreigners pulling out RO 200 mn from the capital markets.



Category	Sell		Buy		Net	
	Volume ()	Value RO ()	Volume ()	Value (RO)	Volume ()	Value (RO)
Omani	3,103.07	2,093.59	3,296.52	2,327.07	193.44	233.49
Arabs	112.28	70.15	109.34	69.81	(2.94)	(0.34)
GCC	485.29	520.85	414.22	484.26	(71.07)	(36.60)
Other foreigners	505.05	704.19	385.62	507.30	(119.43)	(196.89)

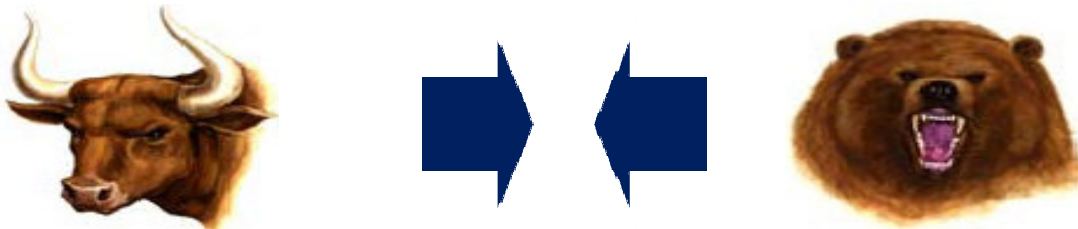
Source: United Securities Estimates.

Outlook 2009

What is in store for 2009...?

The Economic cost of a financial crisis can be measured as a of global GDP. The current global credit crisis is the largest in expected dollar terms –the current IMF estimate is \$1.4 trillion. As a percentage of developed world GDP (~\$30 trillion), the magnitude appears more benign at under 5. This means that the world economy is better cushioned compared to earlier crisis, but not enough to prevent a global recession. We see the global economy in recession. Based on previous recessions, investors seem to have discounted a lot of the expected earnings falls already. Domestic market valuations are at the lowest levels in five years. But many expect much more.

Strategists believe it's too early to turn bullish, however, there are increasing signs we are close to the bottom. Downside threats to the global outlook persist, as the credit crunch and falling asset prices ripple through the economy.



The battle rages...

Increased Govt. spending

Rapidly deteriorating economic and corporate data

Low valuations

Efficient regulators

Low trading liquidity / No conviction buyers

Lower oil prices

Supportive policies

Financial distress / de-leveraging

Capital market stabilization fund

- ▷ A lot of bad news to come in next 9-15 months, but much priced in..
- ▷ ..Too late to be bearish, too early to be (structurally) bullish.

Focus on “high quality” companies

It is quantitatively very difficult to define a good quality company. Defensive play would be the name of the game for at least a couple of quarters. Look for companies that have foreseeable earnings and dividend certainty. Companies possess strong balance sheet are more preferred during times of turbulence. High leverage in the balance sheet can lead to



unfavorable outcomes in future. Look for moderately leveraged companies who have the ability to refinance their debt. Stability in margins and good management efficiency as measured by the return on their equities are other ways of finding high quality companies.

Small chance of investor return to equity markets remain

Proactive steps taken by the regulators and government coupled with the recently started capital market bailout program (Market stabilization fund) are light at the end of tunnel. We feel that signs of improving global credit conditions and outlook for corporate profits will provide base for a moderate recovery in the market. We see investors are becoming more optimistic about the prospects for stocks and intend to build their exposure in the next 6-12 months.

But not without risks

The pace at which events unfolding are quite surprising. The extent and duration of deleveraging game and asset price declines act as the major driver of risk in equity markets. The extent of real estate down turn in Dubai is another major driver of risk. Sustained lower oil prices can pose serious threat to government income flow and result in reduced infrastructural spending.

Many investors are currently looking for an exit strategy. A portion of the investors might try to use the Market Stabilization Fund as means of exiting at higher prices. Stagnant capital markets pose serious threat to the cost of capital of companies by way of refinancing near term debt. Capital raising plans of a couple of companies had been constrained during the latter half of the year. Higher interest rates and stringent credit norms would affect corporate profitability dearly. If companies are becoming unable to refinance their medium term debt, we might see covenant breaches which may affect other sectors and trigger other events.



Key Challenges for 2009

We see challenging times in 2009 for Oman

We expect macro indicators to drive the markets in the near times. Recent global and regional developments have been worse than anticipated on the wake of lower oil prices. This can lead to a marked slow down in consumption and investment. While government consumption will likely hold up assuming that oil prices have bottomed out, private consumption would see a declining trend.

The sharp decline in commodity prices coupled with strengthening dollar has resulted in easing inflationary pressure. We expect inflation to stabilize and fall further during 2009 due to easing commodity prices. Further monetary easing would be required due to limited availability of non bank sources of funds. The early indications in 2009 points to slowing investment and private consumption growth as corporate delay capex plans and poor sentiment impacts consumption. We are closely watching the operating leverage capabilities of the economy.

We focus our investment theme on cash flow, earnings visibility, and demand that is relatively capital and interest rate non sensitive. We expect banks to achieve pricing flexibility and liquidity and enhanced regulatory forbearance.

In short, global credit contraction and deleveraging, currently underway, will continue in 2009 as the credit bubble deflates. In the domestic and regional markets, with oil prices at sub \$50 levels, growth remains subdued and business confidence low, the recent government budgets focusing on infrastructural spending will greatly help in providing the necessary boost for economy and keep macro indicators under control. Given the difficult market environment, cash remains to be the King and those with surplus cash will be best placed to move fast and seize available opportunities.

Markets are likely to remain range bound and would experience volatility until there is strong conviction that oil prices have bottomed out and clarity on corporate earnings growth. We tend to be optimistic while believing that financial markets would continue to be opportunistic. As we enter 2009, we expect the focus to be on **consolidation, restructuring, and the survival of the fittest to a whole new financial world order.**



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