BUILDING OPPORTUNITIES IN CERAMIC CONSTRUCTION MATERIALS

There currently a construction boom happening in the Middle East, creating a strong demand in the region for construction goods of all varieties.

In 2012 alone, the Gulf region and India and Pakistan collectively imported over 11 million tonnes of construction goods worth about USD $5.5 billion.

By far the biggest market is Saudi Arabia, which imports about 5 million tonnes per year. This has been a major growth industry in the region for some time now, and can be expected to continue to grow, given the young, fast growing population, and high economic growth rates.

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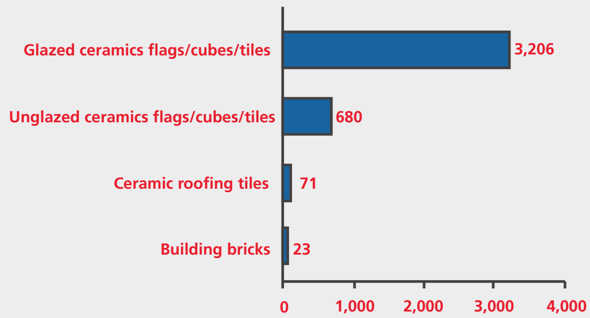
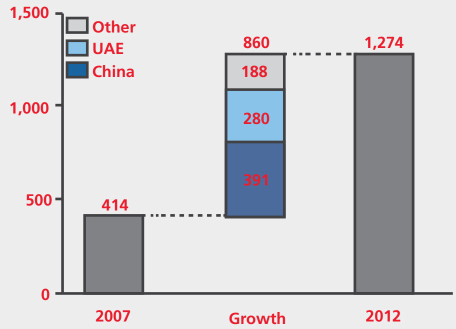
Imports volumes to Saudi Arabia - 2012
Tons (000's)



The Saudi market in particular imports significant quantities of glazed ceramics, with simpler products like building bricks insignificant in volume (presumably manufactured domestically)

Source: Seabury Ocean Trade Database

Saudi imports, ceramic construction materials (USD) M



The countries that have benefited most from this demand from Saudi Arabia have been China and the UAE. Spain, which was in the largest supplier to Saudi Arabia only ten years ago, is now the 3rd largest supplier, with only a third of the volumes of the UAE.

Built to serve regional demand

There are two major disadvantages to servicing the Middle Eastern market from outside the region. The first is slower response times to customer requests, which leads to lower service levels and a competitive disadvantage.

Shipping ceramic construction materials from Asia and Europe are also ultimately expensive, especially when the demand in the Middle East is strong enough to justify regional manufacturing.

SOHAR is ideally located to serve these markets, with major Saudi Arabian cities (Riyadh and Jeddah) currently reachable by truck in 4-6 days.

SOHAR offers significant shipping savings

Freight rates from Shanghai to the UAE over the past year have fluctuated between USD $1,300/40ft box and USD $2000/40ft box. Adding on hundreds of dollars in additional charges, including terminal handling charges could realistically achieve savings of USD $2,000 per box.

Considering that the average weight of a 40ft container of ceramic construction materials imported to the Gulf is roughly 24 tonnes, savings of $2000 per box is equivalent to $83 per tonne.

Lower manufacturing costs

Other than providing easy access to the Saudi Arabian market, SOHAR's competitive energy and land costs create an attractive environment for developing manufacturing. Crucial raw materials like clay and kaolin are available in Oman; mining output of these materials is currently roughly 300,000 tonnes per year, and that number can increase quite a bit, with a number of deposits not yet exploited.

Advantage SOHAR

SOHAR Freezone has appealing conditions for traders, distributors and manufacturers. Warehousing costs are competitive and smaller players will be able to sublease warehousing space while still operating with 100% ownership.

- **Captive Omani market, with limited competition** in contrast to the UAE, where there is stiff competition within the free zones and local market
- **Professional and experienced Freezone and Port team through Port of Rotterdam** connection. With a high quality management team in place development will proceed as planned
- **100% foreign ownership** for Freezone tenants
- **Duty-free imports** in the Freezone
- **Tax holidays** for up to 25 years in the Freezone
- **Low local labour requirements** with up to 85% overseas workforce allowed
- **Low capital requirements,** with only OMR 20,000 required to set up a company in the Freezone
- **Lower cost of living** compared to the UAE
- **One-Stop-Shop service** in the Freezone limits the bureaucracy that tenants have to face, and improves the ease of doing business

Competitive rates and resources

	SOHAR	Jebel Ali	DWC	Hamriyah	KIZAD	RAK
Power (US$/kWh)*	0.04	0.09	0.09	0.12	0.04	0.11
Open land (US$/sqm)*	7.00	5.44 - 21.78	5.44 - 10.98	6.81 - 10.89	2.72 - 6.81	9.53 - 13.61
Registration FZ company (US$)*	2,700 - 4,100	4,100	Free	2,500	1,400	1,900
General trade license (US$)*	7,800	8,200	Not available	3,300	1,400	4,100

**All US$ costs subject to possible exchange rate fluctuations*

Source: SOHAR Port and Freezone

	20' Laden	40' Laden
SOHAR import THC (USD)	$104	$142
Jebel Ali import THC (USD)	$187	$296
SOHAR advantage (USD)	$83	$154

These indicative THC rates are for February 2014. Please note that these values will change over time, can vary by carrier, and do not represent a full costing of all landside charges.

Traders in the UAE have already taken advantage of the country's geographic proximity to Saudi Arabia to capitalize on growing demand there. The same opportunity exists in SOHAR, where the cost of doing business is competitive with the UAE. SOHAR is equal to or cheaper than Jebel Ali in all cases, and competitive with other free zones in the UAE across all categories. Power costs in SOHAR are about half of what they are in most competing free zones, and approximately equal to KIZAD while SOHAR's Freezone offers readily available, affordable and competitively priced land. SOHAR also benefits from lower terminal handling charges (THC) relative to Jebel Ali.