

**White Paper
Investment Opportunity**

Establish Manufacturing Facility for

“VALVE’S ACTUATOR”

In the Kingdom of Saudi Arabia

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1. EXECUTIVE SUMMARY

The Valve's Actuator is the heart of most valves used in the industrial facilities. As such, the market demand for the valve's actuators is strongly associated with the market demand for the valves. In the kingdom and the GCC region, the market demand fundamentals associated with the manufacturing of **valve's actuators** appears to justify further market study. It appears that a local manufacturing facility for valves & valve's actuators can be set up to capture part of the local and regional demand.

Based on the current and anticipated future demand in the region- due to mega projects executed in Saudi Arabian and the GCC countries, the Local Enterprise Development Division (LEDD) of Saudi Aramco recommends establishing a manufacturing facility for industrial **valve's actuators** to service as integral manufacturing facilities to the potential valve manufacturing facilities in the kingdom of Saudi Arabia.

2. OVERVIEW

2.1. Selection of Valve's Actuators as an Opportunity

The valve's actuators come in different types and sizes including pneumatic, electrical, and hydraulic. However, it is left for the investor to decide on the type and size of **valve's actuators to** be produced based on the results of the feasibility study.

The following Saudi Aramco Material specifications govern the requirements concerning Valve Actuators:

- 34-SAMSS-716 for Pneumatic Actuators On-Off Service
- 34-SAMSS-717 for Hydraulic Valve Actuators Systems
- 34-SAMSS-718 for Electric Motor Operated Valve Actuators

To receive a copy of these standards, you may contact New Business Evaluation Department thru the following link:

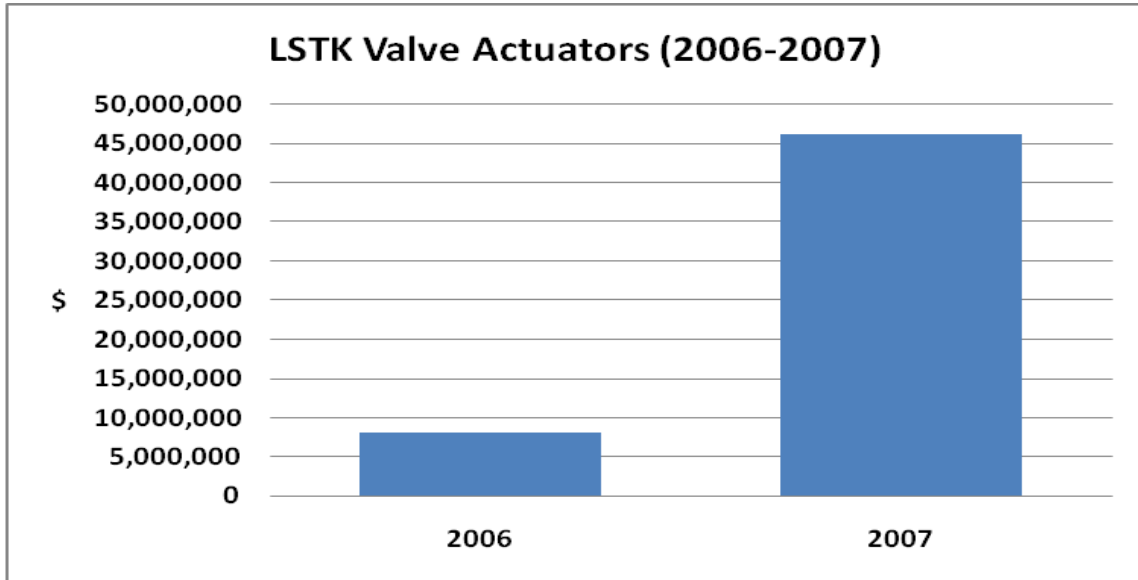
NBD-LEDD@aramco.com

2.2. Present Situation

Currently, there are no local manufacturers in the kingdom that produce valve actuators.

3. PRODUCT DEMAND

In Saudi Aramco, the major demand for the actuators comes from the current mega projects executed by LSTK contractors. In 2007, LSTK contractors spend \$ 46 Million in purchasing valve's actuators as illustrated in the graph below:



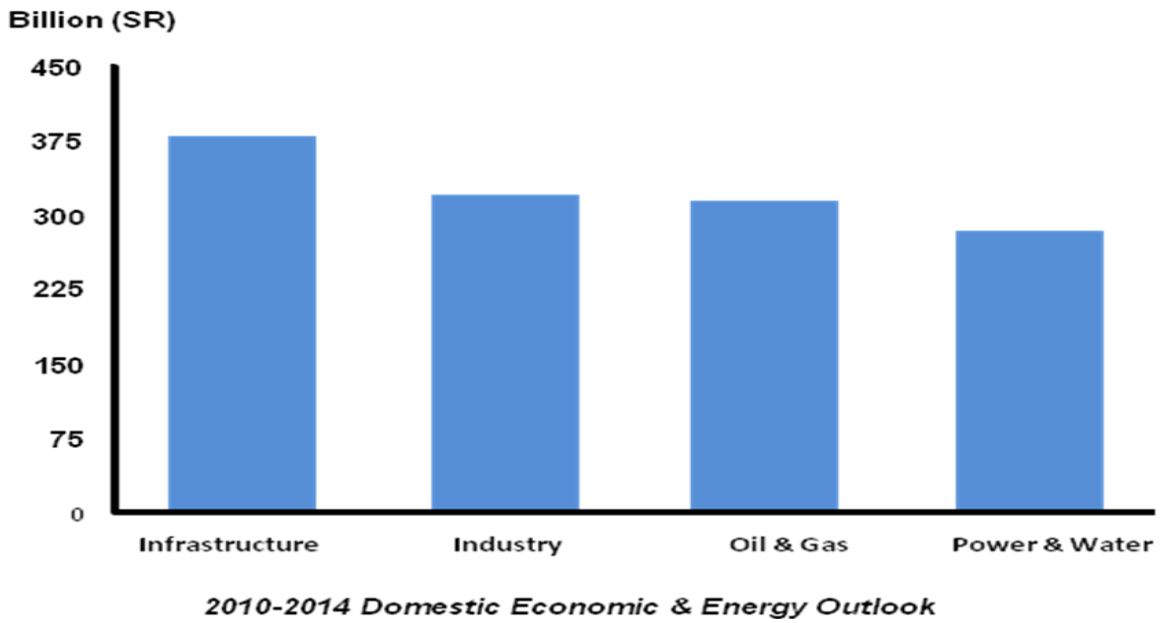
Moreover, the demand for actuators is strongly correlated with the demand for valves. Therefore, investors can see the potential of manufacturing valve's actuators based on the current demand on valves which is illustrated in the following sections:

3.1. Regional Valve Demand Outlook

Global demand for valves is expected to continue growing fueled by projects in the Oil & Gas, Petrochemical, Power, Infrastructure, and other sectors. The growth percentage varies from one area to another and from one type to another. The GCC region in particular is going through a major industrial expansion via number of mega projects through 2013 in Oil & Gas, Petrochemical, Power, and Manufacturing sectors.

Based on the regional overview, it appears that the prospects for valves manufacturing facility in KSA is favorable aided by the geographical location, the current industrial base, the availability of low cost energy, and the upcoming mega projects in the Oil, Gas, Petrochemical, and Power sectors as shown in the below graph.

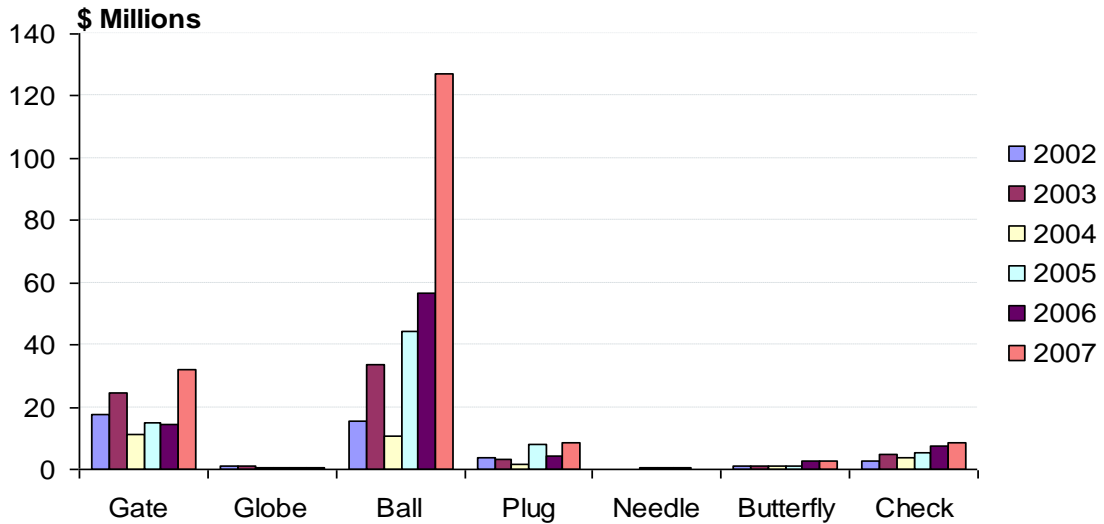
Saudi Arabia will spend 1500 Billions in the next five years (2010-2014)



3.2. Saudi Aramco Valve Demand

Saudi Aramco direct expenditures of valves from year 2002 until 2007 are shown in the below picture.

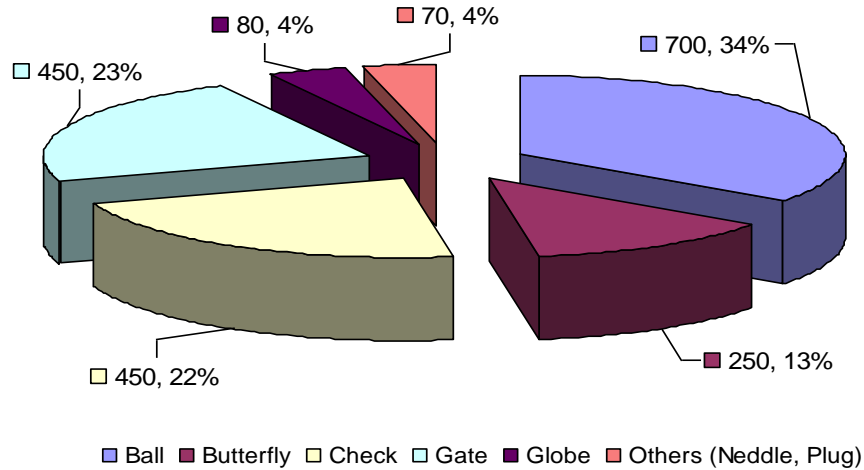
Saudi Aramco's Direct Procurements of Valves (US\$ MM)



Source: Saudi Aramco Records

On the other hand, Saudi Aramco forecast of direct expenditures for valves until 2012 are shown in the below picture.

Saudi Aramco's Projects Procurement Forecast of Valves till 2012 (US\$ Millions, %)



Source: Saudi Aramco Records

Saudi Aramco demand is one major piece of the pie and investors are encouraged to consider the demand of the other major clients in the region in developing the demand analysis part of their feasibility study.

4.1. Way Forward and Conclusion

Provided the above analysis, there may be a feasible investment opportunity to set up the first manufacturing facility for valve actuators in the Kingdom to exploit being the first into the market and to enjoy the local content benefits. Interested investors are encouraged to do due-diligence and conduct feasibility study to verify the viability of this venture. Furthermore, investors need to broaden their horizon and consider GCC market as only one piece of the pie & to think internationally. Also, investors are encouraged to consider merging valve's actuator facility with valve manufacturing facility in order to have one integrated valve manufacturing facility. We propose to solicit interest from local agents of international companies that are potential technology partners to enable them to conduct a feasibility study for the proposed venture.

APPENDICES

Many incentives are available to the investors who wish to pursue manufacturing in the Kingdom of Saudi Arabia including the general preference by Major Saudi companies to procure from local manufacturers. Except as otherwise noted and subject to limitations and/or exclusions published by the Saudi Government, the following incentives are provided to foreign and local investors.

Appendix 1: Incentives for Foreign Investors

- Can own 100 percent of their investment projects in The Kingdom of Saudi Arabia (KSA), as applicable.
- Shall enjoy all the benefits, incentives and guarantees extended to national (100% Saudi owned) investments
- Under the current Saudi Arabian Income Tax Law, shall pay a maximum of 20 percent tax on corporate profits above SR 100,000 (US\$26,700).
- Subject to the provisions of the Saudi Arabian Income Tax Law and Companies Regulations, are allowed to repatriate 95% of their capital, profits and dividends (5% is deducted as a withholding tax and there are no currency conversion or currency export restrictions).
- May freely transfer shares.
- Can enjoy (i) incentives provided under the Protection and Promotion of National Industries Act, including exemption from customs duties on imports of machinery and equipment, raw materials and spare-parts if imported for industrial use, and (ii) preferential treatment for national products in governmental procurement.
- Can apply for industrial loans on favorable terms from the Saudi Industrial Development Fund (SIDF) or other lending agencies.
- Will benefit from the Kingdom's WTO accession commitments and applicable bilateral investment protection and promotion agreements signed by the government.
- Subject to Saudization requirements, can sponsor foreign employees (i.e. to obtain entry and exit visas and residency and work permits) pertaining to the investment project.
- Can refer disputes to the Board of Grievances and Investment Disputes Settlement Committee.
- Can carry over current tax losses into future years to offset taxes on future profits.
- Can benefit from non imposition on personal income tax
- Shall receive the same treatment, protection and incentives accorded to a national investment since the Kingdom is member of the Multilateral Investment Guarantee Agency (MIGA).
- Shall be provided pre-investment assistance by Saudi Arabian General Investment Authority (SAGIA) such as in:
 - Conducting feasibility studies for industrial projects
 - Providing information and statistics for investment projects within the scope of Saudi Arabia's development plans.

Appendix 2: Investment Enablers

- Availability of low cost energy:
 - Gas is currently priced at US \$0.75/mmbtu and is subject to allocation by the Ministry of Petroleum and Mineral Resources.
- Availability of low cost feedstock:
 - Natural Gas & Ethane are currently priced significantly lower than international prices at US \$0.75/mmbtu and is subject to allocation by the Ministry of Petroleum and Mineral Resources.
- Availability of developed industrial sites on long term rental at nominal charges:
 - Royal Commission's land in Jubail & Yanbu cost SR1/m²/year (about US \$0.27/m²/year),
 - Industrial cities' land in Riyadh 1st & 2nd , Jeddah 1st & 2nd , Dammam 1st & 2nd cost SR 0.08 (US \$0.02) /m²/year plus one time payment of SR 20 (US \$5.3)/m²
- Provision of basic utilities at government set rate of:
 - 12 halalah/kwh (US 3.2 Cent/kWh) for electricity
 - 0.10 - 6 SR/m³ (US \$ 0.027-1.6 /m³) for water based on usage category.
- The SIDF is ready to provide interest-free loans up to 50% of project capital or up to SR 600 million (US \$160 Million) whichever is lower, at a predetermined management fee, on projects supported by sound feasibility study.
- Availability of duty free zone at Jubail & Dammam Seaports
- Availability of financial support from Human Resources Development Fund (HRDF) for indigenous manpower employment for vocationally qualified and non-qualified for a maximum of SR 1,500 (US \$ 400) per month during training, and up to SR 2,000 (US \$ 533) per month upon employment for a period varies up to 2 years.
- Promotion of non-oil product and service exports of by the Saudi Export Development Center (established under the umbrella of the Saudi Council of Chambers of Commerce and Industry)

Appendix 3: Other kingdom Advantages

- Strategic geographic location with convenient access to fast growing regional and international markets
- Abundance of natural resources
- Long history of political and economic stability
- Commitment to open market economic policies
- No history of labor disputes or work strikes
- Leading exporter/importer in the Middle East
- Largest consumer market in the Middle East
- Modern and well equipped industrial cities
- On going privatization process of public entities
- High market liquidity, and stable, strong and advanced banking system
- Availability of insurance service providers covering a variety of insurance risks (e.g. property" fire, theft", motor vehicles, contractors, 3rd party, health...)
- World Bank ranked the Kingdom number 23rd from 38th out of 178 countries. The report ranks Saudi Arabia as the best place to do business in the entire Middle East and Arab World, ahead of Kuwait (40th)
- The Kingdom, as per SAGIA, ranks within:
 - The first 7 countries of lowest inflation rates in the world (IMD).
 - the first 25 countries in total cash savings (index of Economic Freedom)
 - the first 24 countries of least cost public sector loans (from "SIDF")
 - The best 3 countries in the world as of proprietorship registration cost.
 - the first five countries in the world having easiest labor recruitment and work hours flexibility
 - The first 8 countries in best exchange rate policies (IMD).
 - The first 7 countries in total local savings (IMD).
 - the best country in the Middle East in exchange rate index (Doing Business '06)
 - the highest purchasing power in the Middle East
- The Kingdom, as per SAGIA:
 - is the biggest financial market in the Middle East.
 - has the largest foreign investment balance in the Arab world (Arab Investment Guarantee Corporation Reports).
 - Has the largest economy in the Middle East with gross local product exceeding 300 billion dollars, and a growth rate reaching 6% per annum over the last 3 years.
 - has the largest oil reserves in the world (about 26% of the world's total proven reserves), and is 4th in natural gas reserves.

Appendix 4: Important and Useful Links

- Saudi Arabia General Investment Authority www.sagia.gov.sa
- Human Resources Development Fund www.hrdf.gov.sa
- Royal Commission for Jubail and Yanbu , www.rcjy.gov.sa
- Saudi Organization for Industrial Estates and Technology Zones, <http://www.soietz.gov.sa/eng.htm>
- Rabigh Conversion Industrial Park, www.rabighCIP.com
- Saudi Trade & Export Development Company, www.tusdeer.com
- Dammam Bonded & Re-export Zone, www.reexport.com
- Saudi Ports Authority, www.ports.gov.sa
- Saudi Industrial Development Fund, www.sidf.gov.sa
- Public Investment Fund, (via) www.mof.gov.sa
- Council of Saudi Chambers, www.saudichambers.org.sa
- Saudi Customs, www.customs.gov.sa
- Department of Zakat and Income Tax, www.zakat.gov.sa
- Ministry of Commerce and Industry, www.commerce.gov.sa
- Ministry of Labor, www.mol.gov.sa
- General Organization for Social Insurance, www.gosi.gov.sa
- Saudi Arabian Standards Organization, www.saso.org.sa
- Water Utility Company for Jubail and Yanbu , www.marafiq.com.sa
- Ministry of Petroleum & Mineral Resources, www.mopm.gov.sa
- Ministry of Finance, www.mof.gov.sa
- Electricity and Cogeneration Regulatory Authority, www.ecra.gov.sa
- Saudi Basic Industries Corporation, www.sabiq.com
- Saudi Arabian Oil Company (Saudi Aramco), www.saudiaramco.com
- Saudi Electric Company, www.se.com.sa
- General Organization for Technical Education and Vocational Training, www.gotevot.edu.sa
- Saline Water Conversion Corporation, www.swcc.gov.sa

Appendix 5: Contact Details

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