

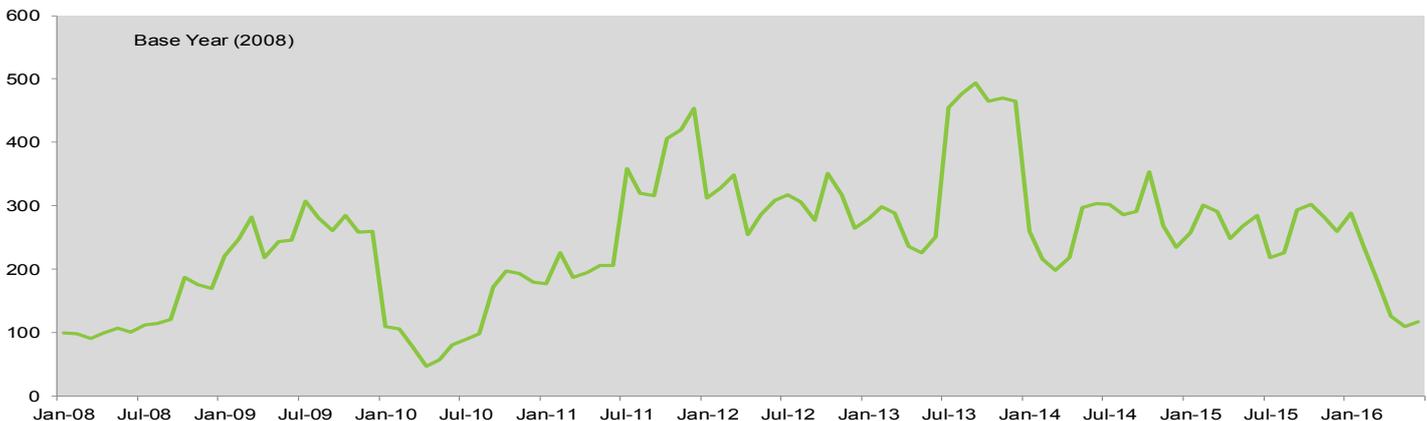
NCB Construction Contracts Index Second Quarter 2016

NCB Quarterly Review of Contract Awards in the Construction Sector

Headlines

- 1 NCB Construction Contracts Index (CCI) reached 117.5 points by the end of the second quarter of 2016, while the total value of awarded contracts reached SAR20.3 billion. The index fell due to the sharp decline in the value of awarded contracts through the first half of 2016 amounting to only SAR48.2 billion.
- 2 April's contract awards were valued at approximately SAR9.3 billion, led by the oil & gas and power sectors.
- 3 May's value of contract awards decreased to approximately SAR3.1 billion, mainly led by the urban development & petrochemical sectors.
- 4 June's value of contract awards rose to approximately SAR7.8 billion, led by petrochemical and residential real-estate sectors.

NCB Construction Contracts Index



Value of Contracts

Trailing Twelve Months (2015-2016)	Jul	Aug	Sep	Oct	Nov	Dec	Jan (2016)	Feb	Mar	Apr	May	Jun
Contract Awards Value (SAR Millions)	3,169	25,123	32,624	31,264	9,810	4,526	14,741	3,203	9,994	9,300	3,124	7,835
CCI Value	218.8	226.3	293.9	302.0	282.0	260.0	288.0	235.0	179.0	125.8	109.4	117.5

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Construction Contracts Award Index During the second quarter of 2016*

The value of awarded contracts during Q2'16 declined sharply by 27% compared to the first quarter of 2016. The SAR20.3 billion in awarding contracts during Q2'16 reversed the trend seen in previous years through 2015, recording lower quarterly values of awarded contracts in 2016. The decrease was mainly attributed to the reduction in awarding of mega-projects, as a result of the fiscal restructuring by the government. However, there was a significant increase in the number of smaller contracts that focused on strengthening the Kingdom's infrastructure capabilities. After amounting to SR9.3 billion in April, the value of awarded contracts in May dipped to SAR3.1 billion, which was one of the lowest values since April 2010. While Kingdom's largest metro projects in Jeddah, Medina, and Dammam will stall in 2016, investment in oil and gas projects is continuing, as well as in power sector. The main contributing sectors in Q2'16 were oil & gas, which has accounted for 32% of the total value of awarded contracts to reach SAR6.5bn, followed by petrochemical at SAR5.6bn (28%), and residential real estate at SAR2.9bn (15%). The power sector witnessed a rise in the value of awards compared to the previous quarter to reach SAR2.4bn (12%). The other sectors accounted for 13% share of the remaining value of awarded contracts. (Chart 1), (Chart 2).

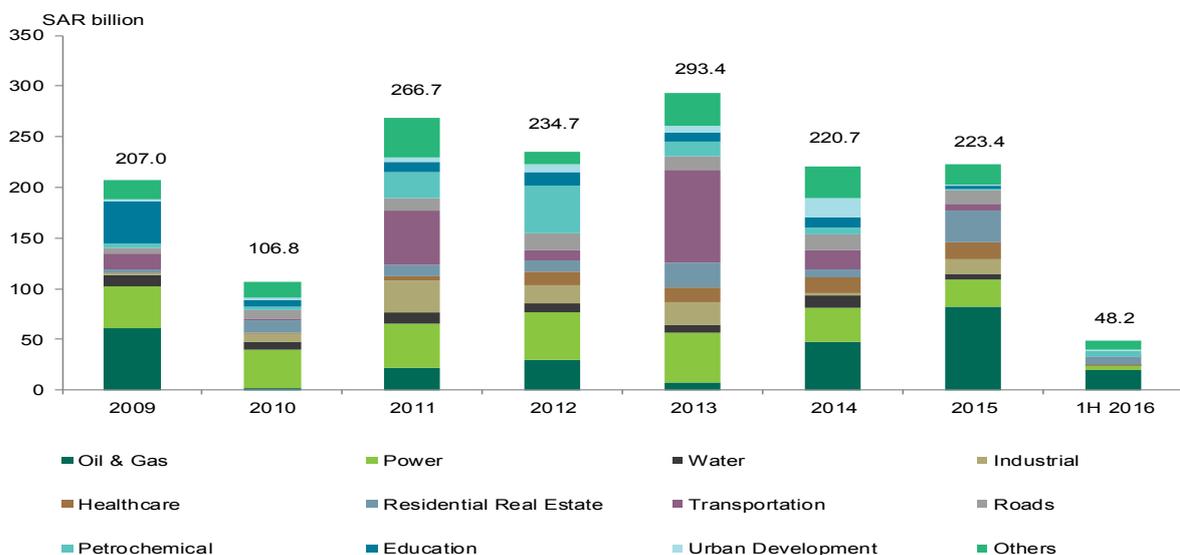
The momentum of the value of awarded contracts has declined during the first half of 2016. The sharp drop in contract awards activity followed the collapse of oil prices, as the government tightened spending and postponed its spending plans. Approximately SAR48.2 billion

worth of contracts has been awarded though the first half of 2016 compared to SAR116.9 billion worth of contracts awarded during the same period in 2015. The project awards in the second half of the year and into 2017 will be dependent on the government's current plan of scaling down and prioritization of projects. An upward trend in oil prices will ease the situation, but since this is an unlikely scenario, further decline in contract awards appear to be the most likely outcome.

The Construction Contracts Index (CCI) dropped in two consecutive months from 125.8 points in April down to 109.4 in May. However, CCI rose to 117.5 in June. The noticeable drop in awarded mega-project contracts during the second quarter was the main factor in the reduction of the CCI, as it exhibited unstable movements since the first quarter of 2016. The CCI recorded 66% drop at the end of the second quarter of 2016 compared to the same period in 2015, when CCI reached 285.1 points.

The distribution of awarded contracts by region confirms that the Eastern Province continues to receive the largest share of sizeable projects. Approximately 48% of the value of awarded contracts was in the Eastern Province due to heavy investment by Saudi Aramco in the oil & gas sector. Makkah region's came second with 21% share, which was mainly attributed to weighty projects in the petrochemical sector. The Riyadh region had a 17% share of the awarded contracts, mainly due to several contracts in the real-estate and urban development sectors. Al-Qassim region contributed 8% to the overall value of contract awards after a major contract in the real estate sector was awarded by Sulaiman Al-Rajhi College, (Chart 3).

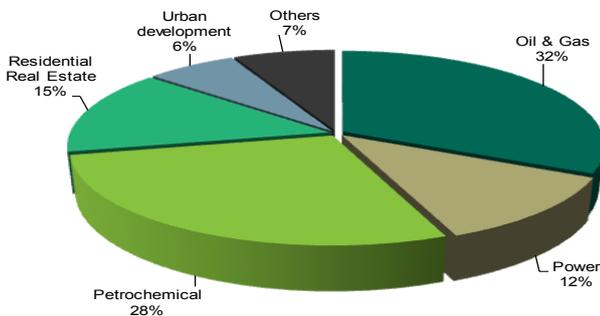
Chart 1: Value of Awarded Contracts by Year (SAR millions)



Source: Various sources, NCB

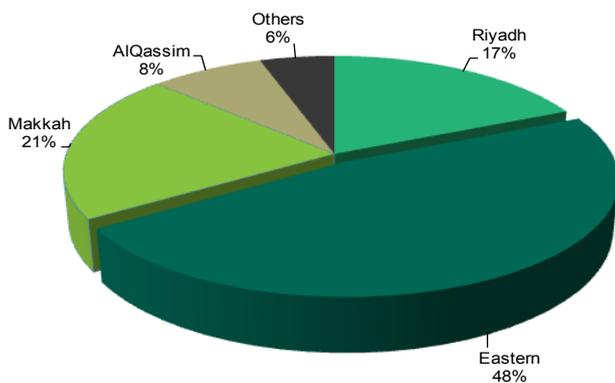
*See Appendix for the NCB Construction Contracts Index methodology

Chart 2: Value of Awarded Contracts by Sector During Q2'16



Source: Various sources, NCB

Chart 3: Value of Awarded Contracts by Region During Q2'16



Source: Various sources, NCB

April

The SAR9.3 billion in awarded contracts during April was led by the oil & gas sector. A sizeable single contract within the oil & gas sector accounted alone for 69% share of the value of awarded contracts during April. The contract was awarded by Saudi Aramco to Larsen & Toubro/ Emas joint venture in the amount of SAR6.4 billion. Saudi Aramco is coming up with Hasbah sour gas field expansion project in the Eastern province, which will feed the Fadhili gas plant. The Hasbah offshore gas facilities increment II project will supply the Fadhili plant with 2.0 bcf/d of gas, while the remaining 0.5 bcf/d will come from Khursaniyah. The scope of work includes unmanned offshore wellhead gas platforms, unmanned tie-in platforms, flare platforms and bridges to gather and export the produced gas from wellhead platforms and export it through separate trunk lines. The project is expected to be completed by the first quarter of 2019.

Approximately a total of SAR1.3 billion worth of several contracts were awarded within the power sector in April. The most significant contract was the transmission line project for Al Dawadmi substation in Riyadh. Saudi Elec-

tricity Company (SEC) awarded the contract to Arabia Electrical Transmission Line Construction Company in the amount of SAR206.3 million. The scope of project includes transmission line (132kV), insulators, conductors, cables and associated facilities, and it is expected to be completed by the third quarter of 2018.

A single contract was awarded within the healthcare sector by Abha Private Hospital to Al Mahmoudia contracting in the amount of SR600.0 million. Abha Private Hospital is planning to construct a 300 bed hospital in Abha region. Scope of the project includes ICU, operation theater, car parking, garden area, and associated facilities. The project is expected to be completed by the third quarter of 2018.

Within the real estate sector, a single contract was awarded by King Faisal Specialist Hospital to Al Bawani worth about SAR562.5 million. As part of Saudi Arabia's plan to upgrade infrastructure of the health sector across the Kingdom, King Faisal Specialist Hospital & Research Centre in Riyadh is planning to build housing project for single females. This contract is for phase 4 - I and J Complexes. The scope of work includes apartment buildings, public amenities. The project is expected to be completed by the first quarter of 2019.

The industrial sector witnessed a contract that was awarded by United Carton Industries Company (UCIC) to Zamil Steel in the amount of SAR168.8 million. United Carton Industries is coming up with a new manufacturing facility in Al-Kharj Industrial City. The new plant will add a further 120,000 tons to UCIC's existing installed capacity of more than 330,000 tons. The scope of work includes manufacturing facility, warehousing facilities, installation of firefighting and fire alarm systems, plumbing works and associated facilities. The project is expected to be completed by the fourth quarter of 2018.

Within the water sector, a contract worth SAR93.8 million was awarded by National Water Company (NWC) to Mutlaq Damook Al Ghowairi Contracting for Mecca strategic water project. NWC is planning to construct a water transmission pipeline, which will cover the Al Aziziyah area in Mecca. The scope of the project involves a construction of water transmission pipelines, house connections, firefighting connection and associated works. The project is expected to be completed by the second quarter of 2018.

May

A dramatic slowdown in the number and value of awarded contracts occurred in May. The value of awarded contracts dropped to SAR3.1 billion with the urban development sector contributing nearly SAR1.3 billion in two contracts and representing 42% of the total value of awarded contracts in the month. These contracts were

awarded by Riyadh Valley Company to Al Bawani for Riyadh Techno Valley project and Riyadh Techno Valley infrastructure project. Riyadh Techno Valley is a science and technology park in the King Saud University (KSU) campus in Riyadh. The project will cover an area of 1.7 million square meters. The scope of the project includes science and technology park, car park, electrical works, infrastructure works, drainage services, landscaping works and associated facilities. Both projects are expected to be completed by the first quarter of 2019.

Within the petrochemical sector, a single contract worth approximately SAR750.0 million was awarded by Saudi Basic Industries Corporation (SABIC) to Wison Chemical Engineering Company Limited. The contract calls for Ethylene Oxide/Ethylene Glycol unit (EOEG) in Eastern province. The scope of work includes expansion of the EOEG facilities and auxiliary units, ethylene oxide reactor, contactor, scrubber & regenerator, evaporator, air-fan coolers and associated facilities. The project is expected to be completed by the third quarter of 2017.

In the power sector, the value of awarded contracts amounted to SAR438.8 million. The most notable contract was awarded by Saudi Electricity Company (SEC) to Trading & Development Partnership in the amount of SAR296.3 million. In order to meet a rapidly growing demand for electricity, (SEC) has planned to come up with several new projects and reinforcement schemes of old supply facilities. The scope of works includes: sub-station, power transformers, switchgears, control and protection system, civil work and associated facilities. The project is expected to be completed by the fourth quarter of 2018.

A remarkable contract was awarded within the residential real estate sector by Emaar Properties to Arabian Construction Company in the amount of SAR281.3 million. Emaar is constructing three high-rise residential towers with one, two, three, and four bedroom apartments in Jeddah Gate community. The scope of project involves three high-rise residential towers, 283 apartments, parking garage, penthouses, swimming pool, indoor gym, spa & Jacuzzi, retail shops, restaurants, recreational playgrounds and associated works. It is expected to be completed by the fourth quarter of 2018.

In the roads sector, Saudi Aramco has awarded a contract to Abdul Ali Al Ajmi Company in the amount of SAR281.3 million for constructing bridge and improving other physical infrastructure at Fadhili in the Eastern Province. The scope of project includes bridge, interchange, four ramps, two roundabouts, access roads and associated facilities. Work on the project is expected to be completed by the second quarter of 2018.

The industrial sector has one contract in the amount of

SAR60.0 million that was awarded by Northern Region Cement Company (NRCC) to IKN GmbH in Riyadh. NRCC is coming up with a white cement plant to produce 850,000 tons of white cement by converting some of its current production lines. The scope of work includes conversion of regular cement to white cement, storage facility, conveyor, raw mill unit, grinding unit, cooling unit, clinker and associated facilities. The project is expected to be completed by the first quarter of 2017.

June

The value of awarded contracts rebounded in June to reach SAR7.3 billion, led by petrochemical and residential real estate sectors, accounting for 62% and 27% of the total value of awarded contracts during June of 2016, respectively. Kingdom's petrochemical sector market has shown resilience amid persistently low oil prices, recording significant awarded contracts worth SAR4.9 billion.

The largest contract was awarded to Amec Foster Wheeler by Rabigh Refining & Petrochemical Company for clean fuels project in Makkah Province for about SAR2.1 billion. Saudi Aramco and Sumitomo Chemical is planning a Petro-Rabigh clean fuels project at the joint venture partners refining and petrochemical complex. The propose scheme, which is in line with the Kingdom's policy of significantly lowering the sulphur content in its refined products. The scope of work would include hydrogenation unit, splitter, distillate, sulphur recovery unit, sour water stripper, and handling and associated facilities. This project is expected to be completed by the third quarter of 2018.

The second contract was awarded by Sahara Petrochemicals to Jacobs in the Eastern Province. The SAR1.5 billion's project is coming up with a range of small- to medium-sized capital projects at Jubail Industrial City. The project will include propane dehydrogenation unit, polypropylene unit, ethylene dichloride, peripheral utilities installations and associated facilities. The project is expected to be completed by the third quarter of 2020.

Another notable contract was awarded to Saipem by Saudi Arabia's Rabigh Refining & Petrochemical Company (Petro-Rabigh) in the amount of SAR780.0 million. The project is the second-phase expansion at the Rabigh power plant, Makkah Province. It includes a plant to process and recover vanadium, a unit to dispose of caustic soda, and other facilities to handle and store chemicals. The project also involves expanding its ethane cracker and building a new aromatics complex. The project is expected to be completed by fourth quarter of 2018.

Approximately SAR2.1 billion worth of two contracts were awarded in the residential real estate sector. The

first contract was awarded by Sulaiman Al Rajhi Colleges to Al Mehanya Real Estate Investment and Housing Company in Al-Qassim region for SAR1.6 billion. The scope of work includes faculty, students and nurses accommodations and associated facilities. The completion of the project is expected to be achieved by the third quarter of 2021.

The second contract in the real estate sector was awarded by Naif Saleh Al Rajhi Investment to First Saudi Contracting in the amount SAR495.0 million. Naif Alrajhi is planning to construct a high rise residential tower located on King Fahd Road in Riyadh. The project is known as "Ramla Tower". The scope of work includes residential tower (40 floors), gym, podium, parking garage, landscaping works, utilities and associated facilities. The project is expected to be completed by the fourth quarter of 2018.

The power sector had two contracts worth approximately SAR600.0 million. A notable contract worth about SAR480.0 million was awarded by Yamama Saudi Cement Company to Finland's Wartsila. Yamama Saudi Cement Company is planning to develop cement plant expansion in Riyadh. The scope of the work includes 133MW power plant, switchgear, transformer, compressed air system, civil works and associated facilities. The project is expected to be completed by the second quarter of 2019.

Within the hospitality sector, Omar Kassem Alesayi Group awarded a SAR180.0 million contract to Al Angari Projects & Trading. Alesayi Group is constructing Ibis and Adagio apartment's hotel, located at Alesayi Plaza in Jeddah. The scope of the project includes Ibis hotel (13 stories, 300 rooms), Adagio apartment's hotel (13 stories, 200 units), cafe corner, fitness center, small meeting rooms and associated facilities. The project is expected to be completed by the third quarter of 2018.

Outlook

The H1'16 showed a sharp decrease in the value of awarded contract, as this trend more likely will continue through the reaming of the year and into 2017. Following the Ministry of Finance (MOF) announcement to cut infrastructure expenditure by nearly 60%, dropping from SAR63 billion in 2015 to SAR23.9 billion in 2016, the progress on the Kingdom's project market was slow. The decision to halt expansion of the Prophet's Mosque is indicative that spending on metro projects would be scaled back or even delayed. Meanwhile, contracts awards in the oil and gas, petrochemical and power sectors continue, contributing a significant share of the value of the awarded contracts during the first half of this year. In the medium to long term, the projects market will be increasingly relying on the private sector. However, the progress as anticipated will take some time as new

legislation and regulations will need to be adopted. It appears that public-private partnership (PPP) is the most likely financing scheme for infrastructure projects.

Given the vital role the projects market plays in keeping the economy growing, a further suspension of contracts awards surely would have an adverse impact on the construction sector. There are strong indications of that already happening, as thousands of workers have been redundant, and also large contractors have been rolling down their debt with banks. Moreover, the GDP of the construction sector recorded -1.89% y/y in the Q1'16. However, if it was not for the large value of awarded projects in previous years that worth over SAR1.0 trillion and currently under execution, the construction sector GDP would've had a sharper decline. In turn, at the current pace of contract awards, witnessed in the first half, the GDP of the construction sector will continue to register negative growth, pulling other sectors down with it.

Selected awarded contracts during the second quarter of 2016:

Sector	Contractor	Clint	Details	Value SAR Millions
Oil & Gas	Larsen & Toubro/ Emas JV	Saudi Aramco	Hasbah Sour Gas Field Expansion	6,487.5
Residential Real Estate	Al Mehanya Real Estate Investment and Housing Co.	Sulaiman Al Rajhi Colleges	Sulaiman Al Rajhi University: Accommodation	1,593.8
	Al Bawani	King Faisal Specialist Hospital	Single Female Housing Phase 4	562.5
	First Saudi Contracting	Naif Saleh Al-Rajhi Investment	Ramla Tower	495.0
Petrochemical	Amec Foster Wheeler	Petro-Rabigh	Clean Fuels Project	2,070.0
	Jacobs	Sahara Petrochemicals	Petrochemical Facilities in Jubail Industrial City	1,500.0
	Wison (Shanghai) Chemical Engineering Company Limited	Saudi Basic Industries Corporation	Ethylene Oxide/Ethylene Glycol Unit (EOEG)	750.0
	Kinetic Technology	Petro-Rabigh	Clean Fuels Project: Sulphur Recovery Unit	555.0
Urban development	Al Bawani	Riyadh Valley Co	Riyadh Techno Valley	1,087.5
	Al Bawani	Riyadh Valley Co	Riyadh Techno Valley- infrastructure	225.0
Healthcare	Al Mahmoudia contracting	Abha Private Hospital	Abha Private Hospital	600.0
Power	Finland's Wartsila	Yamama Cement Company	133MW captive power plant - Riyadh cement facility expansion	480.0
	Trading & Development Partnership	Saudi Electricity Company	132/13.8 kV Substations	296.3

Source: Various sources, NCB

Appendix

NCB Construction Index Methodology

The purpose of the NCB Construction Contracts Index is to inform our readers of the scale of awarded construction projects in the Kingdom. The index tracks construction contracts that have been awarded only. It may take approximately six to eighteen months for awarded contracts to begin implementation and the length of the construction period averages around three years but is largely dependent on the size and scope of the project. Consequently, the index serves as an indicator for construction activities that will be implemented in the future.

Data from various available publications and reports are used to identify awarded construction contracts. Awarded contracts that do not state the value of the contract are excluded from the index. Additionally, construction contracts that meet the United Nations construction classifications are included in the analysis.

The NCB Construction Index begins with January 2008 as its base year. The base year is assigned an index score of 100 points and the index is also measured on a six-month moving average. Therefore, outliers are designed to have a reduced effect on the calculation of the index. In general, an index score that is higher than the base year of 100 reflects the expansion of awarded construction contracts while any value below the base year reflects a contraction.

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