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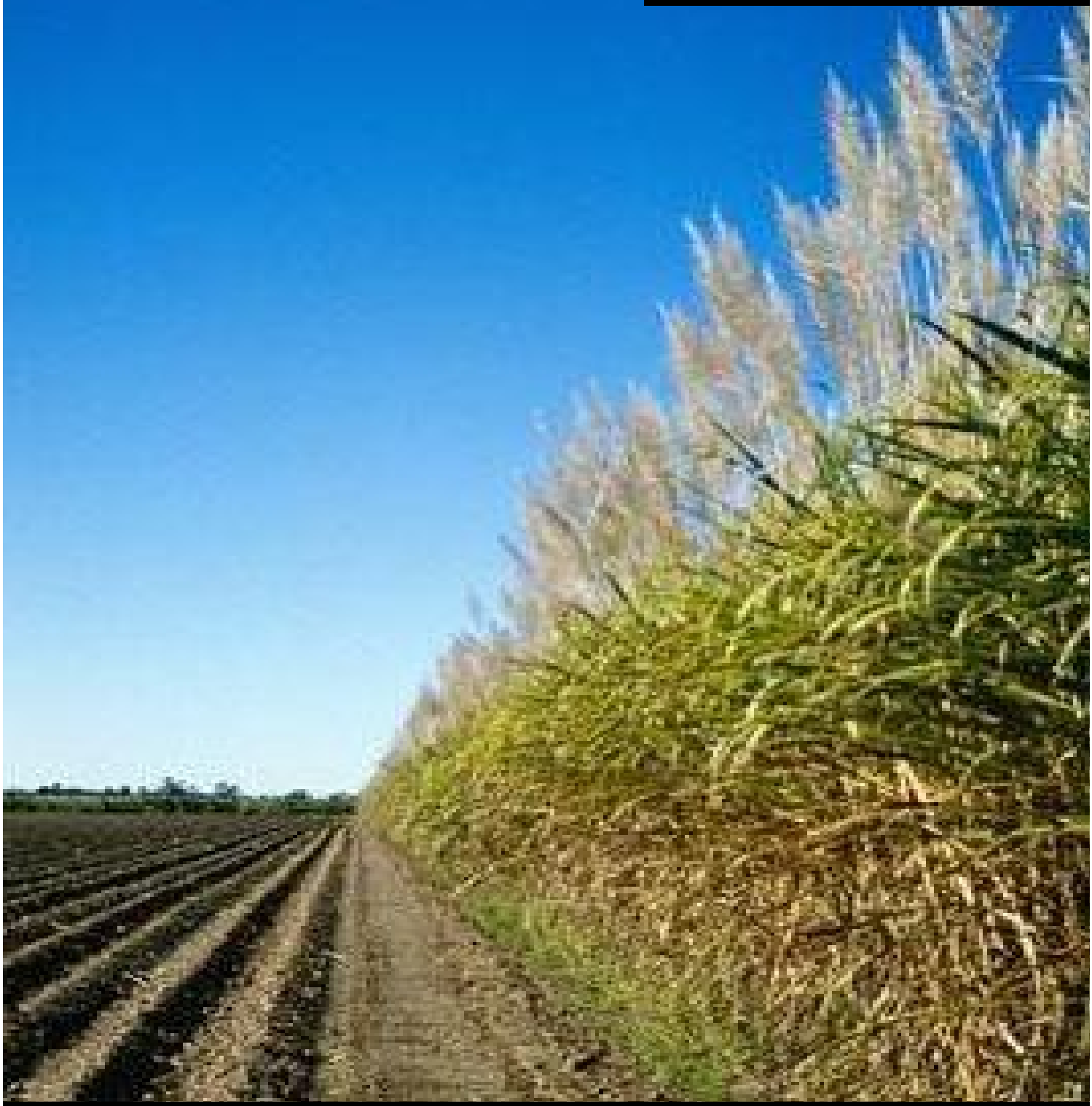

ERNST & YOUNG

Quality In Everything We Do

Arabian Sugar Company BSC (c)

Private Placement Memorandum

Important Notice

This private placement memorandum ("the Memorandum") has been documented by Ernst & Young (the "Financial Advisor"), based on information provided by Tanmiyat Aloula Holdings W.L.L. (the "Promoters"). This Memorandum is provided solely for use by invited recipients ("the Recipients") for the purpose of considering their interest in acquiring an equity stake in a newly formed company, Arabian Sugar Company B.S.C (Closed) - under formation - ("ASC", the "Company", or the "Refinery"), to be incorporated in the Kingdom of Bahrain.

This Memorandum is not a prospectus and does not constitute or form any part of any offer or recommendation to subscribe for, underwrite or purchase securities, nor shall it, or any part of it, be relied upon in any way in connection with any contract for the acquisition of shares in the capital of ASC or shares in the capital of the Promoters nor shall its issue be taken as any form of commitment on the part of ASC or the Company to proceed with any transaction.

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The Recipients should read and consider all of the information contained in this Memorandum. The contents of this Memorandum are not to be construed as legal, financial or tax advice. Each Recipient should consult his, her or its own legal advisor, financial advisor or tax advisor for legal, financial, taxation or other advice. The Recipients are required to conduct their own due diligence and seek their own advice prior to making any investment decision relating to the proposed transaction.

The distribution of this Memorandum in some jurisdictions may be restricted by law and therefore Recipients should inform themselves about and observe all applicable legal and regulatory requirements in their jurisdiction in relation to this Memorandum and the investment contemplated therein.

This Memorandum relates to the offer as per this document (the "Offer") made in accordance with the Laws of the Kingdom of Bahrain.

The Central Bank of Bahrain has not approved this document nor taken steps to verify the information set out in it, and has no responsibility for it.

If you do not understand the contents of this document, you should consult an authorised financial advisor.

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Certain statements in this Memorandum constitute "forward-looking statements". All statements other than statements of historical facts included in this Memorandum including, without limitation, financial position, business strategy, plans and objectives of management or future operations (including development plans and objectives relating to products), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company, its subsidiaries and its management, present and future business strategies of the Company, its subsidiaries and the environment in which the Company and its subsidiaries will operate in the future. Important factors that could cause actual results, performance or achievements to differ materially from those in the forward-looking statements include, but are not limited to, those discussed in financial section this Memorandum. These forward-looking statements speak only as at the date of this Memorandum.

All projections and forecast in this Memorandum are for illustrative purposes only using resources as described. Actual results may be materially affected by economic and other circumstances. Any reliance placed upon the accuracy of projections, forecasts and other information provided and appropriateness of assumptions and qualifications used, is a matter for any prospective investor's own commercial judgement. No representation or warranty is made that any projections, forecast, values, assumptions contained in this Memorandum should, or will be achieved.

Dated: March 2008

Contents

Offering Summary

The Offer	A private offer for subscription of up to 84,478,000 ordinary shares of Arabian Sugar Company B.S.C. (Closed) under formation ("ASC" or the "Company") at a cost of US$ 1.00 each; US$0.90 going towards subscription of shares for the investors and US$ 0.10 towards subscription of shares for the Promoters. The investors will hold approximately 80 percent (assuming full subscription) of the share capital of ASC, comprising 94,478,000 shares (the "Shares") on successful completion of the offer as described in this document (the "Offer"). ASC currently has a paid-up capital of US$ 10 million, comprising of 10,000,000 shares held by Tanmiyat Aloula Holding W.L.L. (as defined below).
Arabian Sugar Company B.S.C. (Closed)	A Bahraini Closed Shareholding Company incorporated in the Kingdom of Bahrain.
The Promoters	Tanmiyat Aloula Holdings W.L.L.
The Turnkey Contractor	Located in Seville and have completed six projects, focused primarily in the sugar industry.
The Technical Advisor	Mr. Michel Kerc (Marketing and Costing Consultant) – experience in supplying the MENA region with high-quality ICUMSA 45 sugar and assisting in setting up various sugar refineries and; Sugar Knowledge International Ltd (SKIL) which is a UK based sugar process and engineering consultancy which has been assigned the role of Project Technical Manager for the refinery until the successful commissioning of the Plant.
Eligible Investors	Selected high net worth individuals, corporate and institutional investors invited by the Promoters to participate in the Offer.
Offer Price per Share	US$ 1.00 at US$ 0.9 par value per share, in addition to US$0.1 towards Promoters' shares.
Minimum Investment	The minimum investment will be not less than US$ 1,000,000 worth of shares (1,000,000 shares at US$ 1.00 each).

Subscription Fees	Subscriptions are subject to a 2.5% placement fee in addition to the offer price.
Investment Returns	The base case financial projections indicate an expected annualized return of 34.3% over an eight year period (which include a two year construction period.)
Receiving Bank	Subscription amount is to be transferred to: Bank Name: Kuwait Finance House, Bahrain SWIFT: KFHOBHBM FOR FURTHER CREDIT TO A/C: 01-101-1010024108 ARABIAN SUGAR COMPANY B.S.C. (Closed)
Financial Advisors	Ernst & Young, Bahrain are the financial advisors ("Financial Advisors") for this investment opportunity.
Allocation Policy	The Promoters will determine the allocation of Shares to Eligible Investors exercising absolute discretion and without giving any reason in respect thereof.
Withdrawal of the Offer	The Promoters reserve the right to withdraw this Offer, in whole or in part, at any time, for any reason.
Subscription Agreement	Successful Eligible Investors will be required to execute a Subscription Agreement pursuant to which they will agree to subscribe for the shares allocated to them and pay the Offer Price and Placement Costs in respect of such shares on the terms and conditions set out therein.

NOTE: Please note that any variations or changes at a later stage will be communicated to all potential investors in writing.

1 Executive Summary

1.1 The Company

Arabian Sugar Company B.S.C. (Closed), under formation ("ASC" the "Company" or the "Refinery") will be incorporated in the Kingdom of Bahrain being the third refinery to be established in the GCC region (the "Project"). ASC will be producing high quality White sugar recognised by the International Commission for Uniform Methods of Sugar Analysis ("ICUMSA") known as ICUMSA 45. ASC will predominantly focus on selling sugar to the local and the Gulf Cooperation Countries ("GCC") markets and will partially sell to European companies through off-take agreements. Market analysis indicating high demand displays potential for more participants to enter such an industry in the GCC region, satisfying both regional and foreign demand.

The Project's construction will include the sugar refining facility, channel dredging and the construction of a jetty and will take approximately 2 years to complete. The sugar refining facility will be completed by a turnkey contract worth US$ 137 million contracted to Ingeneria Franco Espanola OMEGA S.L. The Company will be located in Hidd Industrial Area, north of Bahrain on a seaside plot of land that has been secured by the Promoters. The company is expecting to commence production during 2009, with a daily production capacity of 1,800 tonnes.

1.2 The Sugar Industry

Over the past 5 years, 10 countries have dominated the sugar industry in terms of production and export. However, with World Trade Organisation ("WTO") initiatives for free trade, barriers in the sugar industry have been lowered to create a more competitive landscape for participants in the sugar market. This has been reflected in the European Union's ("EU") sugar subsidy cut (discussed in Section 5 of this document) which led to an increase in the industry's attractiveness and an increase in the number of White sugar refineries worldwide.

The Middle East is a major importer of most agriculture commodities including sugar. The average per capita sugar consumption in the MENA region is 32 kilograms per annum against the world's average per capita consumption of 23 kilograms per annum. The GCC is currently

experiencing a sugar deficit and the preference for locally produced sugar from industrial consumers has been increasing.

Currently there are 2 refineries located in the Kingdom of Saudi Arabia and the United Arab Emirates, where the majority of the demand is satisfied by theses refineries. However, market analysis and high demand portrays the requirement for additional participants to enter the market. ASC will receive its supplies from a specific supplier, even though raw sugar is available in the open market, where the majority of the sugars are found.

1.3 Investment Consideration

The key investment considerations behind this opportunity are clearly dictated by the strengths and competencies of the Promoter existing operations and the opportunities identified in the market. Among these considerations is Tanimiyat's diversified and in-depth knowledge in planning and managing projects in other industries, in addition to the current favourable market conditions.

1.4 The Transaction

Arabian Sugar Company will be formed as a Closed Bahraini Shareholding Company in the Kingdom of Bahrain with a paid up capital of US$ 94,478,000. The Company's paid up capital will be comprised of 94,748,000 ordinary shares at a par value of US$ 1.00 per share.

1.5 Financial Highlights

Table 1 below reflects ASC's financial performance over a 6 year horizon, starting from the commencement of operations (expected to be 2 years after the commencement of construction).

Table 1: Financial Highlights (US$ million)

	Year 1	Year 2	Year3	Year4	Year 5	Year6
Total Sales	239	248	248	248	248	248
Operating Profit	41	42	42	42	42	42
Total Assets	195	206	216	226	237	250
Total Liabilities	62,	69	60	51	42	33
Total Equity	122	143	165	188	211	234
Net Income	37	39	40	41	42	43

Source: Promoters Management

The financial performance of the Company is basically a function of 3 key factors:

1) The sugar premium, which is the difference between the traded price of raw sugar and the traded price of White sugar;

2) The quality level of the White sugar produced (in this case being ICUMSA 45) which has completely not been factored into our projections to remain conservative. This figure fluctuates between US$ 10 to 20 depending on market conditions; and

3) The freight difference between the cost of shipping in Raw sugar and freight cost of shipping out White sugar. The net freight differential can add or detract from the returns achieved from the overall premium.

A Raw sugar inward freight of US$ 40 was assumed in the financial projections to determine the cost of Raw sugar delivered to the Company. The terminal value calculated in the table below is based on a 12 EV/EBITDA multiple based on comparable Emerging Markets Multiples. The US$ 30 freight differential projects an IRR to the investor of 34.3% over the projection period.

2 The Project

2.1 Introduction

Following the recognition of opportunities in international sugar markets, a group of investors and technical partners (the "Promoters") are looking to establish a White sugar refinery in the Kingdom of Bahrain with paid up capital of US$ 94,478,000. The remaining project cost will be financed through debt financing amounting to US$ 62,800,000.

ASC will produce high quality sugars, internationally recognised as ICUMSA 45, currently imported from international markets. In order to meet such standards, the Company will purchase specialised equipment from Europe that is capable of producing the quality accepted by the targeted European market. In addition, ASC is expected to produce a capacity of 1,800 tonnes of White sugar and approximately 74 tonnes of molasses on a daily basis.

ASC is seeking to be the sole White sugar refining company in Bahrain. However, two other refineries currently operate in the GCC, United Sugar Company in Saudi Arabia and Al-Khaleej Sugar Refinery in the United Arab Emirates in Jabal Ali.

This Private Placement Memorandum will serve to assist the Promoters in introducing the investment opportunity in ASC to new strategic investors. As such, the financial projections that are prepared for the purposes of this Private Placement Memorandum only capture the value of ASC in Bahrain. The Promoters will only target strategic investors that can aid in implementing their vision of expanding their business lines and establishing regional presence, meeting the latent demand.

2.2 The Promoters' Background

The Promoters of this transaction include Tanmiyat Aloula Holdings W.L.L. ("Tanmiyat") and its Directors Fuad M. Jalal, Omar Ali Babtain, Anmar Al-Arrayed, and Mohammed Aba Aloula. Tanmiyat is a recently established holding company, specialised in the development of industrial ventures in the Arabian Gulf and the Middle East region. The Company's Directors have substantial experience in developing and managing industrial ventures from planning to production. The Directors have experience in committing their own investments in industrial

ventures which includes steel, aluminium, and cement industries through large scale projects in the Middle East.

The Directors have pooled in their respective resources education and experience into Tanmiyat to oversee and develop various projects from an economical and professional viewpoint including the migration of talent from leading consultants in specific industries that Tanmiyat are exploring. The group aims to put up a comprehensive outlook with regards to various industries where the potential of the ventures has been assessed. Collectively, the Directors have over 60 years of industry experience in the region, covering areas such as planning, project development, financing, banking, advisory, investment analysis and execution.

Over the past two years, the Promoters have been researching the sugar industry by visiting and participating in extensive discussions with leading sugar trade houses, refineries, wholesalers and equipment suppliers from Brazil, Europe, North Africa, and the GCC. The purpose behind these visits was to understand and evaluate the following aspects:

- Dynamics of the Raw sugar and the White sugar market;
- Comparison between the ICUMSA 45, ICUMSA 100s, and ICUMSA 150s market;
- Monitor sugar refining operations and compare with regional refining plants; and
- Regional pricing determinants, quality requirements, and logistical dynamics.

The Promoters have concentrated on those trade houses and refineries with offices located in the region. Furthermore, the Promoters have attended various sugar conferences discussing future outlooks for the regional market in terms of demand and supply as well as pricing considerations likely to occur over the next ten years,

2.3 The Turnkey Contractor

Ingeneria Franco Espanola OMEGA S.L. ("IFEO" or "OMEGA") is the Turnkey contractor for the proposed Refinery and was formed in 2001 as a result of an international expansion by Ingenria Tecnica OMEGA S.A. The Turnkey contractor is located in Seville, Spain with subsidiaries and affiliates located in various parts of Spain and France. The Chairman and the founder of OMEGA is Pierre Guillen.

OMEGA's core competency is the planning, execution, construction and management of projects on a Turnkey basis with a specific emphasis on industrial projects in the agribusiness sector, particularly the sugar industry.

2.4 The Technical Advisor

Mr. Michel Kerc (the "Marketing and Costing Consultant") is a sugar specialist based in Paris, France with over 30 years extensive experience in the sugar trading business in all its aspects including supplying the Middle East North Africa ("MENA") region with ICUMSA 45 sugar. Additionally, Mr. Michel Kerc has also assisted in setting up various sugar refineries.

Sugar Knowledge International Ltd (SKIL) which is a UK based sugar process and engineering consultancy which has been assigned the role of Project Technical Manager for the refinery until the successful commissioning of the Plant.

3 Arabian Sugar B.S.C. (Closed)

3.1 The Vision

Tanmiyat has in-depth knowledge and experience in the industrial sector of Middle East and Gulf region. Further to the potential sectoral and economic developments, the Promoters are of the view that Tanmiyat must continue developing ventures in demand in the region, where Tanmiyat will need to start penetrating new industrial arenas. In doing so, the Promoters are taking the initiative of developing ASC to execute the vision of being the first sugar refinery in the Kingdom of Bahrain, offering premium White sugar regionally and internationally.

3.2 The Offer

Assuming full subscription, ASC will have a share capital of US$ 94,478,000 million on completion of the offer. The private placement offers up to 84,478,000 shares in ASC at US$ 1.00 per share, being US$ 0.10 above the par value of US$ 0.90 per share. The US$ 0.10 will go towards the subscription of Promoter's shares. The minimum investment in the offer is US$ 1,000,000 worth of shares.

The main factors contributing to the success of the refinery business and its profitability are:

- Price differentials between Raw and refined White sugar (the "Premium");
- Inward freight for Raw sugar;
- Cost of refining and processing;
- Distribution network; and
- Outward or export freight.

3.3 Rationale for Arabian Sugar B.S.C (Closed)

Being the largest region that imports agricultural goods, mainly from Brazil and the European Union ("EU"), the Middle East is currently experiencing a shortage in refined White sugar. This shortage is expected to increase as per capita consumption in the region is expected to grow alongside population growth. Currently there are approximately seven sugar refineries operating in the Middle Eastern region and only two in the GCC.

The world sugar market has experienced significant changes in recent years, with upheavals in production quotas, reduced output due to erratic weather conditions and increasing prices. Over the past 5 years, the majority of the Raw and White sugars imported in the Middle Eastern region came from Brazil and the EU. The EU has been a constant exporter of White sugar to the Middle East, irrespective of world market price fluctuations since the 1980's.[1] However, with the increase of intra trade of White sugar within the region, the dependence on Brazil and the EU for White sugar is expected to decrease.

The EU was finally forced to overhaul its entire sugar regime last year, following years of pressure to open its markets, particularly from sugar producing developing nations such as Brazil. EU sugar producers received major government support through import protection, high producer support prices and export subsidies. The new regime imposed in July 2006, limits its exports by approximately 5 million tonnes to 1.3 million tones by 2010. This regime has placed major restrictions on the majority of sugar producers, creating difficulties for producers to profit from raw sugar, thus forcing refineries to close. However, this has created an opportunity for refineries from emerging markets to satisfy the demand.

The GCC has several advantages for sugar refineries over other regions, including:

- *Solid Infrastructure*: Strong mobility between countries, together with technologically advanced ports, with a potential to increase the intra regional movements and exports.
- *Low Operating Costs:* In addition to low labour costs relative to Europe, the region also has low energy and water costs per unit of production of White sugar.
- *Un-congested Ports:* Ports in the GCC are unconjested, increasing the availability of berths for ships

Tanmiyat has recognised the opportunity to capitalize on the changes and reforms in the sugar market and is seeking to leverage on the opportunity by establishing a sugar refinery to refine raw sugar into both White sugar and molasses. ASC will be the third sugar refinery in the region and will compete with the other two by producing a premium sugar (ICUMSA 45), detailed in the market section of this document, which will be partly sold through off-take agreements to European companies, in addition to selling directly to the local and regional market.

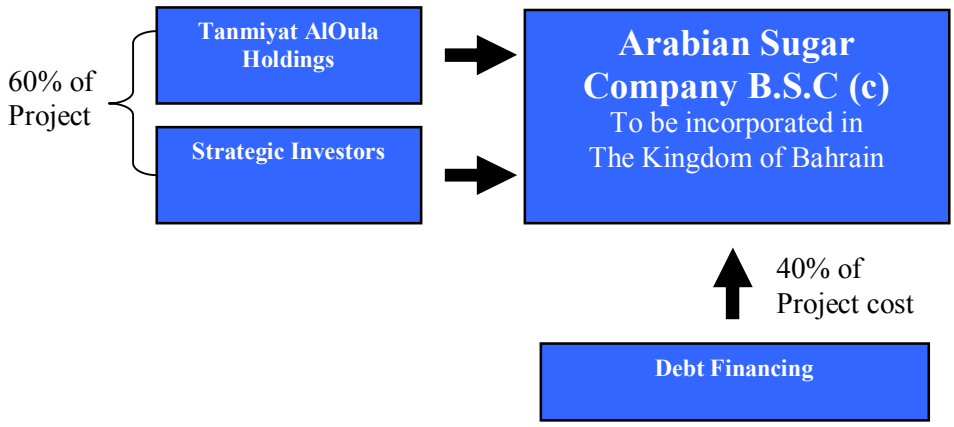
Source: ISO 'MECAS' Report[1]

3.4 Project Return

Returns relating to projects of this nature will not be based on sales returns. Since both Raw and White sugar prices are determined daily by international trading markets the return is predominantly driven by the difference between these two prices in addition to a premium paid for ICUMSA 45. This difference also known as "the premium" (refer to section 5).

3.5 Capital structure

Figure 1.ASC Capital Structure



Source: Management of Tanmiyat

The capital structure of ASC will comprise of 60 percent equity and 40 percent debt. The paid up capital will be US$ 94,478,000. The debt component in the capital structure will be raised through syndicated loans for the amount of US$ 62,800,000 in Year 1.

3.6 Land and Location

The Refinery plant site will be situated in Hidd Industrial Area, north of Bahrain. The proposed plot for the Refinery is leased from the Ministry of Industry and Commerce. It has a total area of 50,000 square metres and is located on the sea side next to the new Sheikh Khalifa Port, a strategic location for its operations.

The main advantages of the Refinery's location include the following:

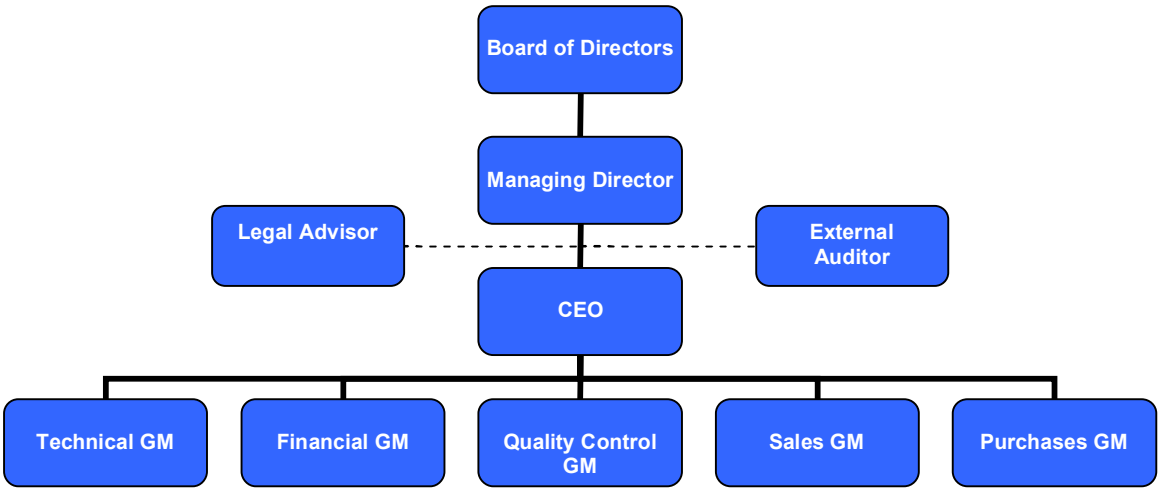
- Zoned for industrial and logistics developments;
- Moderate visibility from main road; and
- Sea side access to Shaikh Khalifa Port.

Raw materials will be directly delivered by sea, and received via a jetty ("Jetty") to be constructed as part of the plan. Prior to that, a channel will be dredged according to the specific required standards. The Jetty would provide the Company an advantage over timeliness and costs involved with logistics. Raw materials will be offloaded at ASC's docks instead of having to be delivered by road following customs clearance (refer to Appendix 1 for the Master Plan).

3.7 Corporate Structure of Arabian Sugar B.S.C. (Closed)

In the proposed ASC corporate structure, the external auditors will report to the shareholders while the legal advisor will be reporting to the Board of Directors. The CEO, will report to the Managing Director whom is a member of the Board of Directors and will overlook five general managers ("General Manager" or "GM"), namely; the Technical GM, Financial GM, Quality Control GM, Sales GM and the Purchases GM, as illustrated below.

Figure 2.ASC Corporate Structure



Source: Management of Tanmiyat

- Technical GM: Appointed by OMEGA (the equipment provider) with minimum of 5 years experience in overseeing the technical issues relating to sugar companies. He will be responsible for managing the Refinery's processes.

- Financial GM: Will have a minimum of 5 years experience in matters such as financial reporting, dealing with auditors and financial institutions.

- Sales GM: Will be responsible for developing relationships with existing and new buyers together with a clear understanding of market dynamics. These relationships will be with both regional sugar wholesalers as well as European sugar traders.

- Purchases GM: Will be in charge of dealing with raw material suppliers and will have a minimum of 5 years experience in a similar field.

- Quality Control GM: Will be a Chemical Engineer with experience in checking and maintaining the quality aspects of a Sugar Plant. In addition, he will have worked in a similar capacity for at least 3 years in a Sugar Plant that specializes in the production of Icumsa 45 quality Sugar.

3.8 Clientele Base

ASC will be selling its ICUMSA 45 White sugar to local and regional markets. Additionally, part of the refined sugar will be sold through off-take agreements to European sugar trading companies and the remainder will be sold to sugar wholesalers and retailers in the GCC region.

ASC has in place two letters of intent from potential off-takers for quantities of 300,000 tonnes (150,000 tonnes each) of White sugar in a period of 12 months per years with Mark Trade and Bauche, representing 53 percent of the annual potential capacity. The LOI is for an initial off-take period of 3 years and is renewable. This will provide ASC with a solid client base securing a proportion of its expected sales.

3.8.1 Bauche

Founded in 1880, Bauche SA specializes in sugar trading in the international marketplace, with a tonnage in excess of 600,000 metric tonnes. The company secures the majority of its supplies in the EU where it has strong relationships with the production industry.

Bauche's clientele comprise of local importers as well as users such as Nestle, PepsiCo and Coca Cola. The company has become a leading exporter a number of markets including West Africa, the Mediterranean basin and has enhanced its presence on the Asian and Indian Ocean markets.

3.8.2 Mark Trade

Mark Trade was established in 2004 as a sugar trader and a sugar project co-ordinator registered in France. Its Chief Executive Officer has over 20 years experience in the Sugar

industry and trade with major French sugar trading companies and has long established relationships with sugar wholesalers in the MENA region as well as Europe.

3.9 The Supplier

DELTA Negoces International S.A ("DELTA") was set up in 1998 and is currently an active trader in various commodities including sugar, coffee, cacao, flower, milk etc.

ASC has signed a letter of intent with DELTA for the supply of Raw sugar for the amount of approximately 650,000 metric tonnes per annum, from Brazil. The contract will be a 5 year agreement, subject to being renewed.

4 GCC Economic Snapshot

Between 2001 and 2006, the GCC economy grew by more that 100 percent with a GDP of approximately US$ 723 billion in nominal terms, according to the Institute of International Finance ("IIF"). The GCC region is currently experiencing an economic boom mainly stimulated by the high international price and strong global demand for oil. The economies of the Gulf region are expected to continue such growth despite last year's correction in quoted equity prices and rise in short-term interest rates. The surge in oil revenues provides GCC countries the means with which to increase fiscal expenditures, undertake mega infrastructure projects and invest in various industries. Government sponsored projects will provide a stimulus for private sector growth[2].

4.1.1 Macroeconomic Overview

Oil revenues in the Middle East region rose further in the first half of 2006, due to higher prices and noticeable expansion in production (notably in Kuwait, Saudi Arabia and the United Arab Emirates). Reflected in income gains, oil-exporting countries have continued to enjoy robust growth, particularly in the non-oil sectors, while current account and fiscal balances have improved further. With non-oil sector growth running at 8 percent, inflation began to increase, although it remains generally well-contained by the combination of pegged exchange rates, open product and labour markets and low global inflation. Equity markets in the region faced major corrections in early 2006, prices fell by some 25 to 35 percent from previous levels, however, financial stability has been preserved and the macroeconomic impact is likely to be contained.[3]

4.1.1.1 GDP Growth

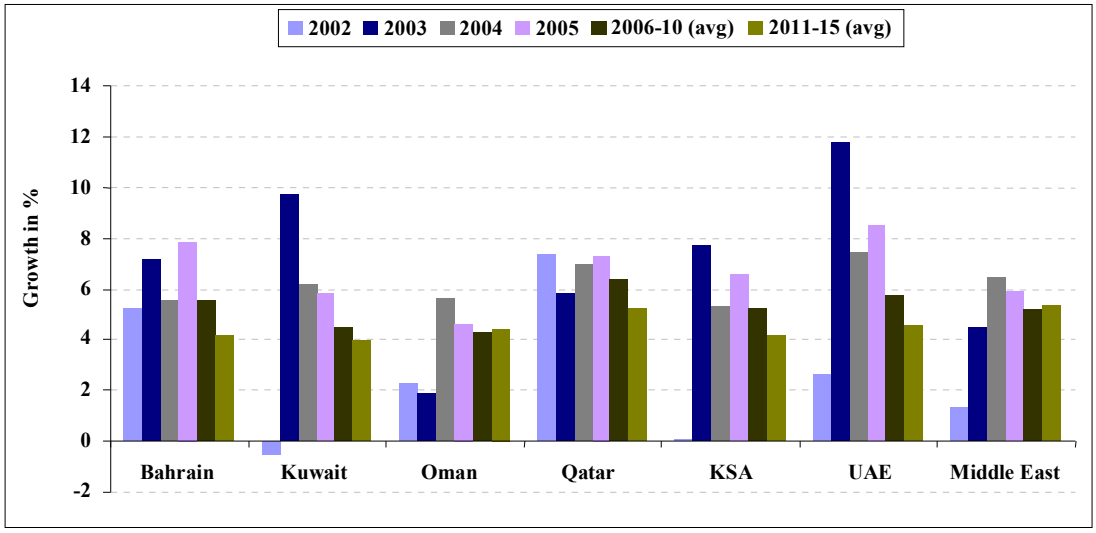
The GCC region is characterised as having one of the highest GDP growth rates globally with oil revenue playing a major role (albeit that economic dependence on oil is decreasing). The rise in oil prices within recent years has lead to 75 percent (or US$ 90 billion) increase in oil revenue along with increases in non oil revenues between 2002 to 2006, resulting in an

Source[2] Gulf States to Continue Strong Economic Growth – Arab News
Source[3] IMF 'Country and regional perspectives' working papers 06

estimated annual GDP growth of 7.2 percent in 2006 (up from 7.1 percent in 2005 and 6.6 percent in 2004).[4]

Overall, it is expected that real GDP in 2007 in the region will slightly decline as compared to that in 2006. Owing to its relatively diversified economy, real GDP growth in Bahrain is forecasted at 6.3 percent for 2007, compared to the estimated 7.1 percent in 2006. The United Arab Emirates' is also expected to decrease from 11.5 percent to 5.8 percent. Saudi Arabia is the only country that is expected to experience an increase in real GDP growth from 5.8 percent to 6.5 . In Oman, there will not be significant change in the GDP growth. Real GDP growth in 2007 is forecast at 5.7 percent, compared to an estimated 7.1 percent for 2006. In Qatar, real GDP is expected to decrease to 4.7 percent in 2007, compared to 6.7 percent in 2006. In Kuwait, GDP growth is expected to decline from 56.2 percent in 2006 to 4.7 percent in 2007 as oil revenue growth tapers off and export possibilities to Iraq stabilize.[5]

Figure 3.Historical GDP Growth & Forecasts



Source: Data Monitor Global Research

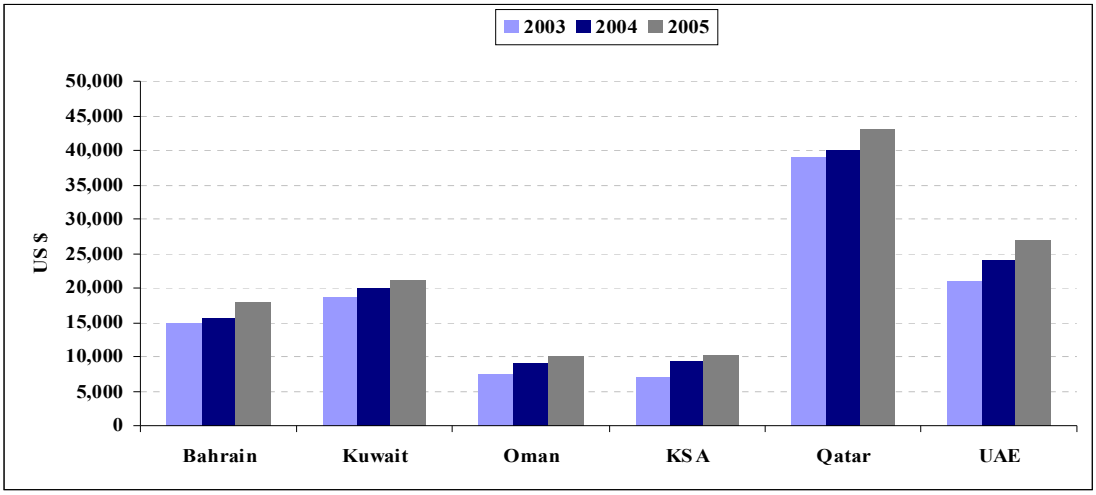
4.1.1.2 Per Capita Income

A positive increase in per capita income in the region displays a higher purchasing power for individuals, which in turn is a benefit to local investments in various sectors. Average per capita income in the GCC region rose at a rate of 9.4 percent annually from US$ 11,419 in

Source: IMF – Regional Economic Outlook (Middle East Sept 2006)

2000 to above US$ 19,560 in 2006[6], with Qatar and the UAE showing the highest per capita GDP rates.

Figure 4.GDP Per Capita Income



Source: Global Investment House – GCC Investment Strategy, March 2006

4.1.1.3 Oil & Other Sector Contribution to Economy

Increasing oil prices in recent years have underpinned growth in government spending and increased investors' confidence, resulting in a surge in activity in the GCC's non-oil sector. The International Institute of Finance ("IIF") estimated that oil export revenues were approximately US$ 291 billion in 2005 and US$ 305 billion in 2006. This displays large growth in the oil sector, which averaged only US$ 100 billion in revenues between 1993 and 2003. In return, a number of key economic trends have developed as a result of increased government and private spending in the region, resulting in the current property boom, increase in equity prices excluding mid 2006, and a large increase in tourism and an acceleration of real estate projects within the GCC. GCC exports (including oil) are expected to rise to approximately US$ 540 billion in 2007, from US$ 499 billion in 2006[7], displaying a combined total greater than that of Brazil, India and Russia combined. Most non-oil exports will come in the form of re-exports focused mainly on the UAE, due to its world class ports, however, Kuwait will continue to contribute further due to Iraq's ongoing infrastructural development.

Major booming non-oil sectors across the GCC's economy include:

- Real Estate;

Source[6] The Middle East 2006
Source: Al Khaleej Times Article 'GCC Export Grows 8 pc from 2006'[7]

- Industrial;
- Banking & Financial Sector;
- Health Care; and
- Education Sector.

4.1.1.4 Investment Friendly Environment

10 years ago, policymakers of the GCC economies did not give due importance to investment as a driver of economic growth, nor did they make serious efforts to create a business friendly climate and promote opportunities to investors. However, during the last three years, the large rise in liquidity due to higher oil prices has led to a change in attitude of the policymakers in creating an investment friendly environment in the region. These factors have facilitated the attraction of foreign direct investment into the region and have promoted the government's objectives to diversify their economies away from the energy and oil sectors.

Governments have significantly increased their spending to develop infrastructure, commercial, tourism and the financial sector. These public sector-led projects have helped boost private sector investment opportunities, further encouraging the flow of money into the GCC[8].

Table 2: GCC, Annual FDI Inflows

	2004	2005
	US$ bn	*US$ bn*
Bahrain	0.87	1.05
Kuwait	0.02	0.25
KSA	0.20	0.72
Oman	0.20	0.72
Qatar	1.20	1.47
UAE	8.36	12.00

Source: Business Monitor

Simultaneously, governments are investing in the energy and oil sector in order to further increase production levels. Public sector led projects are helping boost private investment

Source[8] Standard Chartered 'Middle East Focus' 12/2005

opportunities with an estimated US$ 1 trillion in project financing deals in the pipeline within the GCC over the next 10 years[9].

4.1.1.5 Significant Regulatory Changes

Regulatory reforms have been implemented by the governing bodies in the GCC to increase private sector investment and integrate industries with the global economy in order retain consistency with stipulations set by the WTO Agreement and International Financial Regulations. These regulations include:

- The three most important reforms passed in KSA in recent years are the foreign investment law, capital market law and insurance law creating more stringent governance and privatisation attempts in certain areas;
- Qatar approved foreign investment in equity markets in early 2005;
- Kuwait issued the first license for a foreign bank to operate in early 2004 and enforced a new FDI law in 2003 permitting 100 percent foreign ownership of a business venture in selected sectors of the economy; and
- Bahrain has also been aware of these activities and has, in turn, created investment-friendly regulations to ensure the current strong growth is maintained. In January 2005, the Central Bank of Bahrain launched a consultation paper on a proposed integrated license framework for financial institutions operating in, or from, Bahrain

Major plans and developments have allowed foreign companies and investors to enter countries in the GCC economy. Such regulatory developments include:

- Governments' budget surpluses resulting in increased projects/spending;
- Reforms in line with membership of the WTO;
- WTO membership (KSA), Free Trade Agreements (FTA) signed by Bahrain and FTA negotiations by several GCC nations (including Oman and the UAE) with US, EU and other markets[10];
- Privatisation has helped to develop many of the GCC markets, with some state owned enterprises having been sold to the private sector through IPOs.;

Source[9] Khaleej Times '$1 trillion worth of Mid-east projects are in the pipeline' 2/3/2006.
Source: Office of the US Trade Representative [10]

- Private local and foreign participation in sectors previously monopolised by governments;
- Conversion of privately held companies into joint stock listed companies;
- Increased merger and spin-off activities; and
- Increase in cross border trading by governments' investment funds and institutional investors.

5 Global Raw sugar

5.1 Types of Raw sugar

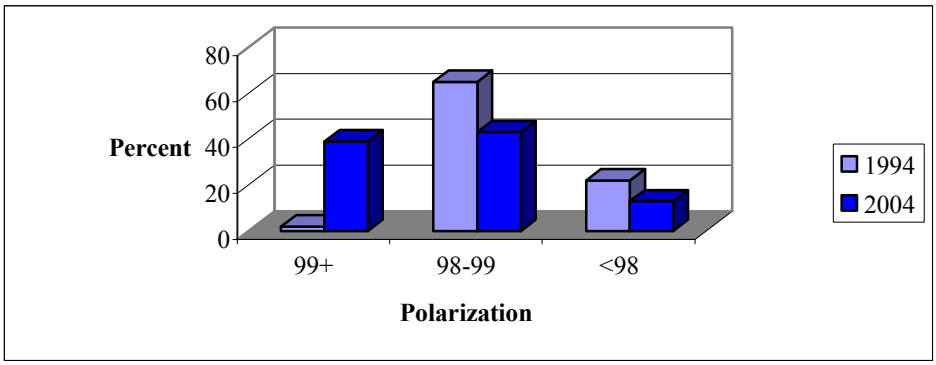
Raw sugars come in the form of beet and cane sugar. Approximately 121 countries worldwide produce sugar. 70 percent is produced from sugar cane, a tall grass with long stems, and is grown in tropical countries such as Brazil. The remaining 30 percent is produced from sugar beet, a root crop resembling a large parsnip grown mostly in cooler climates such as the EU. Raw sugar quality is determined by the degree of polarisation and includes the following high quality Raw sugars:

- Very High Polarization ("VHP"): minimum of 99.4 degrees of polarization; and
- Very Very High Polarization ("VVHP"): minimum of 99.8 degrees of polarization.

The Raw sugar trade has become differentiated by quality. Importantly, Brazil, emerging as a major source of exports of Raw sugar of different qualities has changed the market's dynamics. In the late 1990s, Brazil began exporting VHP and VVHP which can be considered as very low quality White sugar, (however, they are defined as Raw sugar as they are not refined). This quality is showing increasing demand with refiners, especially those who aim at producing ICUMSA 45s (which is the highest quality refined White sugar). Refineries can produce this quality from normal Raw sugar but the extra cost of VHP and VVHP is relatively less than what the refiners save during the processing stage. These high quality Raws come mainly from the centre and south of Brazil, where millers are able to produce efficiently because of the production process arising from co-production of ethanol and sugar.

Figure 3 below demonstrates Raw sugar exports by quality.

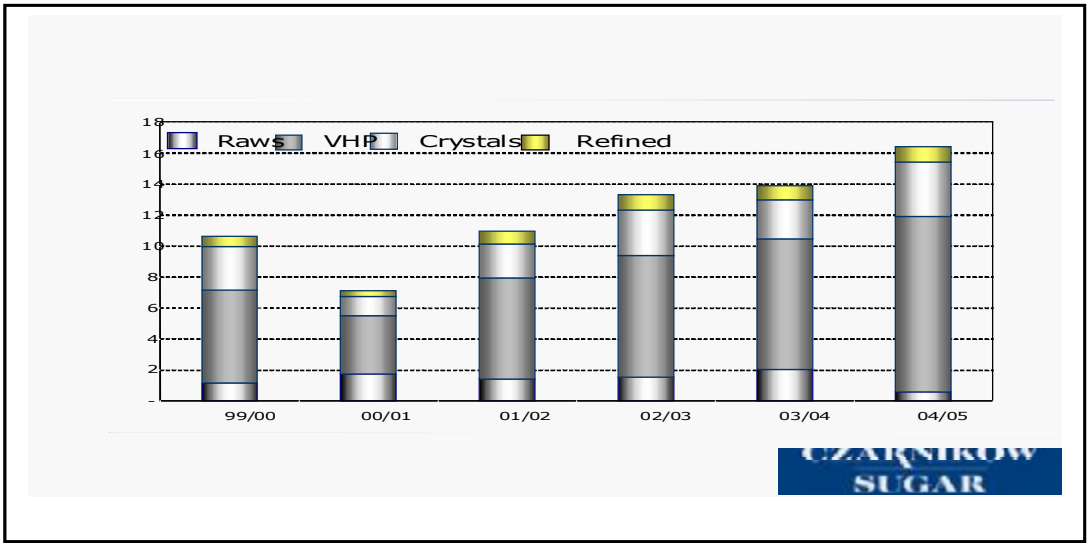
Figure 5.Raw exports by quality



Source: EDF Man Sugar Ltd

Today, Brazil's bulk VHP sugar dominates the Raw sugar trade worldwide. VHP sugar has become the standard of the world Raw sugar trade, reflecting the massive growth in market availability (see figures 1 and 2). However, suppliers from Australia, Thailand and Central America are now starting to emerge in the market.

Figure 6.Brazilian Sugar Exports by Quality



Source: Czarnikow Sugar

The map in Figure 3 shows the distribution of Raw sugar production geographically in terms of Cane or Beet:

Figure 7.World Cane and Beet Sugar

Source: www.sucrose.com

5.2 Raw sugar Price

The main times for the growth of beet sugars are in the early autumn, before the winter season. Prices usually decline at harvesting time from November to February, as supplies are processed and the final product, the White sugar, is placed in the market. When the beet plant reaches maturity in July, prices normally decrease through to August, since the market is assured of a new supply of beet and then prices rebound.

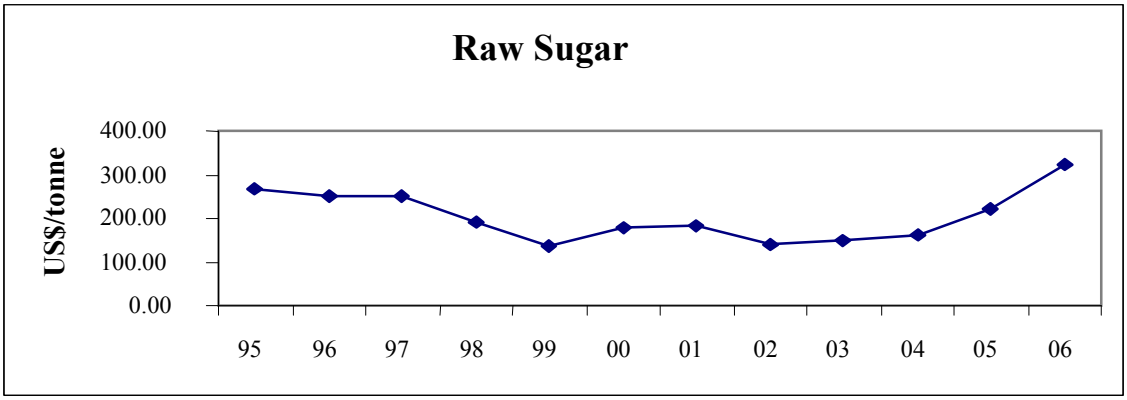
The planting stage is usually the riskiest because of numerous variables such as the unpredictability of the growth process and the potential risks in the crop growing process. Therefore, prices tend to increase during the first quarter of the year in anticipation of these risks.

Additionally, cane supply starts being introduced to the market and so prices tend to weaken because of basic supply and demand fundamentals. In late March through to May, a price weakness due to the cane harvest is common.[11]

Source: Silver State Sugar Company [11]

Raw sugar is traded on the New York Coffee, Sugar, and Cocoa Exchange ("NYCSCE") and the contract for Raw sugar is known as contract No. 11 and is traded in US Cents per pound (USc/Ib). (see figure 6 for historical values)

Figure 8.New York Coffee, Sugar, and Cocoa



Source: www.sugaronline.com

5.2.1 Factors Affecting Raw Sugar Price

5.2.1.1 Weather

Unstable weather conditions result in exporter inability to meet demand in the short-term by expanding production.

5.2.1.2 Shortage

The reduction in sugar stocks as a result of consumption outweighing production in several major markets causes domestic prices to increase significantly.

5.2.1.3 Exchange Fluctuations

The currency appreciation of the world's largest exporters of raw sugars.

5.2.1.4 Oil & Ethanol prices

Substantial rises in oil and Ethanol prices affect the US dollar opportunity cost of making sugar at integrated sugar mills.

5.2.1.5 Commodities

Increased attraction for commodities by investors may push future prices of raw sugars to record highs.

5.2.1.6 EU regime

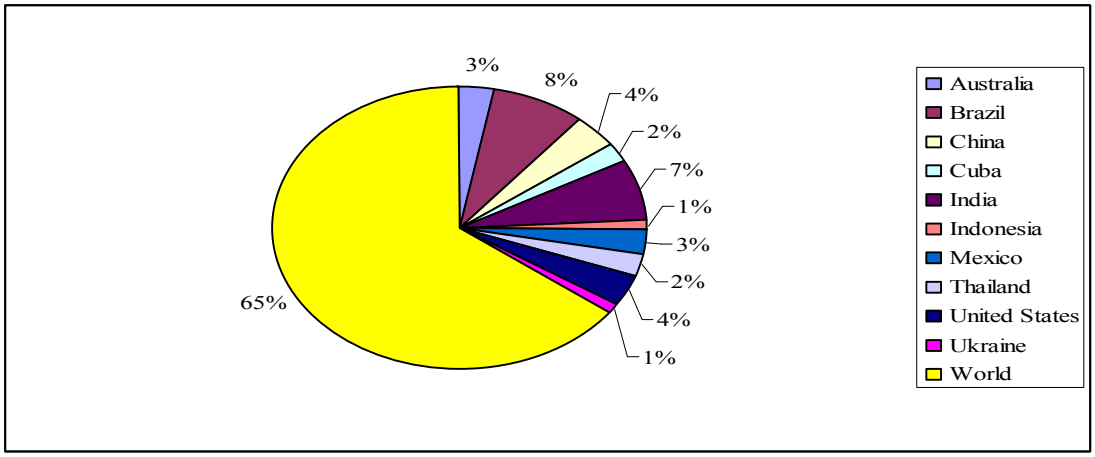
The announcement of the reform of the EU sugar regime is expected to encourage less efficient Raw sugar producers to leave the market. This may result in a shortage of supply and a consequent increase in raw sugar prices.

5.3 Supply

The world economy experienced a shortage of Raw sugar during 2005, and that was due to the shortfall from major producers, especially from the European market. Another factor behind the deficit was crop harvest problems from exporting countries such as India. At present, the world sugar economy is experiencing a healthier supply of Raw sugars.

Figure 5 presents the major Raw sugar producers and their percentage of production.

Figure 9.Raw sugar Production



Source: Silver State Trading Co.

Most of the Raw sugars produced come from Brazil followed by India, China and the United States. The industry expects production to reach approximately 22 million tonnes of Raw sugar by the end of 2007. The global market has experienced significant growth in the volume of

Raw sugar traded. Farmers from other countries around the world have also recently increased there crop amount after noticing the opportunity for filling the gap created by the EU regime.[12]

Following the limited production of Raw and White sugars imposed on the European market, Brazil has become the main source for Raw sugar production, as Europe's own Raw sugar production does not satisfy the European market's internal requirements.

Table 3: Raw sugar Producers

10 Largest Raw Sugar Producers (mln metric tonnes, raw value)			
Sugar Beet		*Sugar Cane*	
EU	21.40	Brazil	28.13
USA	4.01	India	15.22
Russian Federation	2.72	China	9.15
Turkey	2.17	Mexico	5.62
Ukraine	2.06	Australia	5.39
Iran	0.93	Thailand	4.59
Japan	0.83	Pakistan	2.83
China	0.63	USA	2.77
Morocco	0.45	Colombia	2.68
Belarus	0.44	South Africa	2.51

Source: ISO Sugar Yearbook 2005

Table 1 is a list of major Beet and Cane sugar producing countries (ASC will use cane as its raw material) accompanied by the production figures. This table presents Brazil's domination over the world's Raw sugar cane production. The top ten producers account for approximately 90 percent of the trade worldwide. Brazil being the largest producer and exporter of cane sugar has experienced a tremendous growth in the past ten years. The second largest producer is India, however India's local requirement of Raw sugar for their own White sugar production limits their role as exporters.

Over the past 5 years, the production of Raw sugar has increased due to favourable weather conditions along with other factors that positively affect production that are explained in other parts of this document.

The USA is the only country that produces and exports both Cane and Beet sugars. The US accounts for approximately 10 percent of the world's Raw sugar production, mostly in cane

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Source: ISO Market Report & Yearbook [12]

form.[13] However, similar to India, the USA's internal requirement for refining is large due to its population size.

Sugar cane is normally harvested from autumn through to the spring. This type of Raw sugar accounts for approximately 60 percent of the world's sugar production. Table 2 lists the largest Raw sugar exporters. One can see that the export role of any country depends on its production level as well as its local population size and demand. India and the USA are large producers but due to also being large consumers, they are not included in this list.

5.3.1 Export

Table 4: Raw sugar Exports

10 Largest Raw Sugar Exporters (mln metric tonnes, raw value)	
Brasil	12.94
Australia	4.06
Thailand	1.58
Guatemala	1.35
South Africa	0.85
Cuba	0.77
Mauritious	0.53
Colombia	0.40
El Salvador	0.35
Fiji	0.30

Source: ISO Sugar Yearbook 2005

Source: www.baptistonline.org[13]

he major destinations for the flow of Raw sugar are shown in table 3 below:

Table 5: Major Raw sugar Trade Flows 2000-2004 (tonnes / annum)

Origin	Destination	2000	2001	2002	2003	2004
Far East	Far East	4853	4657	4678	5022	5534
Brasil	Former Soviet Union	2094	4127	3886	5003	3654
Brasil	Middle East	1035	1126	2013	1506	2527
Caribbean	Former Soviet Union	2887	2822	2249	1325	1245
Brazil	N America	369	460	737	929	782
Far East	N America	715	739	487	587	728
Sub Sahara Africa	W Europe	496	758	737	720	699
Far East	W Europe	217	203	200	199	183
Other	Other	3401	3657	5669	6444	6105
World Total Raw Sugar Exports		**16067**	**18549**	**20656**	**21735**	**21457**

Source: ISO Market Evaluation Consumption & Statistics Committee

Brazil is the key origin and supplier to the Former Soviet Union (FSU), Middle East, and North American destinations. Also, Far East origins such as Thailand satisfy a significant part of the Far East deficit, exporting also to North America and Western Europe (the Middle Eastern section is further discussed in detail in another section of this document).

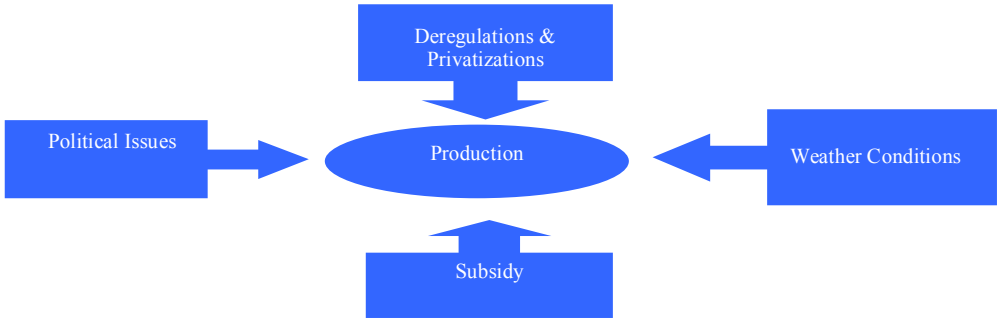
5.3.2 Raw sugar production

The major factors affecting Raw sugar production include:

- Deregulations & Privatizations;
- Weather Conditions;
- Subsidies; and
- Political Issues

As detailed in Figure 8 below:

Figure 10. Factors Affecting Raw sugar Production



Source: Ernst & Young Analysis

Deregulations and Privatizations

The Deregulation and Privatisation of sugar industries in certain countries has provided investment opportunities for Raw sugar producers in their respective countries. Obvious examples of such investments are the Eastern European countries such as Poland, Hungry and the Czech Republic to name a few. French producers are investing in Brazil, and Belgian producers are investing in Australia. Therefore, Raw sugar producers are becoming multinational.[14]

Weather conditions

Weather, alongside economic performance, affect sugar production i.e. Brazil is exporting a larger crop due to heavier rainfall. India sprung back from producing approximately 15 million tonnes in 2005[15] to more than 19 million tonnes of crops in 2006[16] due to better weather conditions and higher domestic prices. In China, better weather has resulted in a record of 11 million tonnes compared to roughly 9 million tonnes in 2005[17]. However, China also still imports Raw sugar to fill its existing requirement gap. Today, China imports between 1-2 million tonnes of Raw sugar which is expected to increase substantially in the next 5 years.

Subsidy

As a result of the EU ruling on exportable White sugar, Raw sugar production in Europe is expected to decrease by approximately 4.7 million tonnes from 21.8 million tonnes, raw value, not reflecting premium adjustments. This affects the world sugar markets in many aspects as the EU has been a major producer of its own requirement of Raw sugar and has been a major exporter of White sugar, especially to areas in Africa and the Middle-East.

Political issues

Another important factor in the production of Raw sugar is political environment and context. Political issues impact the supply of sugar. For example, India's decision to ban Raw sugar exports (even when it exceeded their demand) in order to curb inflationary pressures on Raw sugar and effectively control the local price will affect the world's supply of Raw sugar.

Source: ISO Monthly Market Report 'April 2006'[14]
Source: ISO Monthly Market Report 'December 2006'[15]
Source: www.sugartech.co.za[16]
Source: ISO Monthly Market Report 'December 2006'[17]

Ethanol Demand

Ethanol is an alternative product that uses the same raw material used to produce White sugar. Although ethanol has become an important fuel source in Brazil, it is yet to have such a status in the rest of the world due to many factors such as high costs and difficulty in transportation. In addition, international demand has yet to be substantial or economical for the Brazilians to cause a dent in their ability to furnish the world's Raw sugar requirements. The price for ethanol will have great affect on Raw sugar price internationally, because it has affect on Brazil's domestic Raw sugar price.

5.4 Demand

Table 4 below lists the world's largest net-importers of Raw sugar.

Table 6: Raw sugar Imports

10 Largest Raw Sugar Net-Importers (mln metric tonnes, raw value)	
Russian Fed.	2.89
EU	1.86
USA	1.77
Rep. of Korea	1.62
India	1.55
Japan	1.37
Malaysia	1.35
Algeria	1.33
Canada	1.25
China	1.19

Source: ISO Sugar Yearbook 2005

Over the past 5 years, world Raw sugar imports have increased by approximately 1.9 percent. The two largest net-importers are Russia and the EU. Both countries receive most of their supplies in the form of cane sugar from Brazil, although most of their local Raw sugar production is in beet form. The UAE is a growing importer of Raw sugar but is not in the above table because the country is not a member of the ISO. Therefore, it's statistics are not tabulated separately. However, the UAE having one refinery in Dubai has imported an average 1.2 million tonnes of Raw sugar over the last 6 years which would put its imports of Raw sugar close to China's. Also, the Saudi refinery is slowly catching up to that figure. (This is discussed in detail in the Middle-East section).

Demand for Raw sugar worldwide will increase following lower shipping costs and the increase of refineries worldwide. It has been predicted by many sugar experts that China's imports of Raw sugar will increase by 5 million tonnes per year to 2015.

In conclusion, it is evident that Raw sugar supplies are a factor of harvests, and Brazil is becoming the most important country in terms of providing various quality levels (VHP/VVHP) of Raw sugar to the international market.

6 Global White sugar

6.1 Types of White sugar

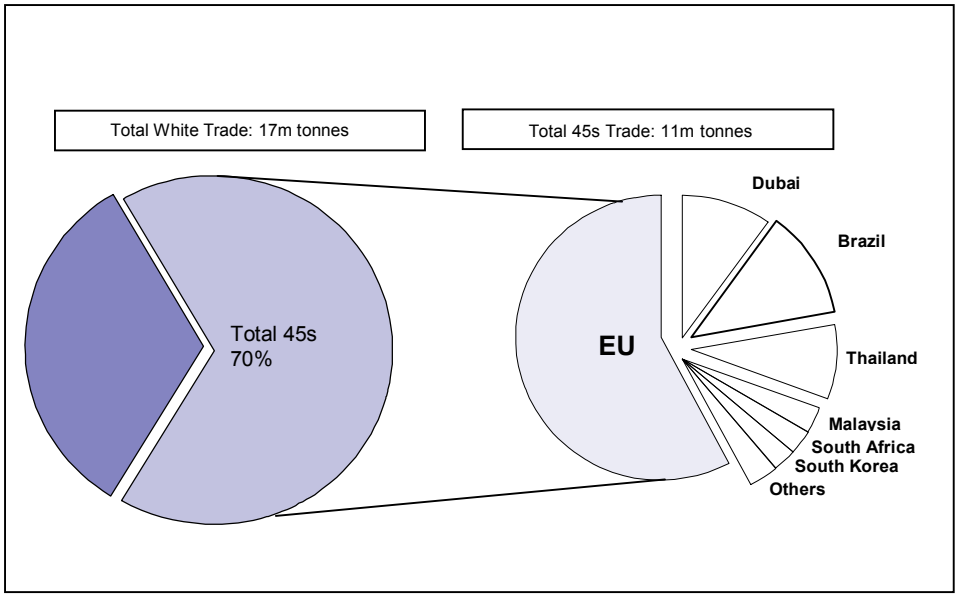
White sugar is an important commodity that is used world wide in the food industry and its trading is differentiated by origin and quality. In terms of quality, Polarisation and Colour are the main parameters and the colour grading scheme, is determined according to the recommendations of the International Commission for Uniform Methods of Sugar Analysis ("ICUMSA").

ICUMSA 45 (traditionally referred to as EC no. 2 Sugar) is the highest quality sugar and is traded at a premium higher than both ICUMSA 100 and ICUMSA 150, which are lower quality sugars and relatively darker than the ICUMSA 45. Raw sugar usually varies between 800 to 5000 ICUMSA. The premium paid for ICUMSA 45 is due to the better quality and clarity of the sugar which can be determined by its degree of polarisation. For example, on March 2006, White sugar prices were approximately traded at US$ 320 per tonne, however the trader added a premium of US$ 15 on his ICUMSA 45 receiving a total of US$ 335 per tonne.[18]

The quality difference is the main reason for countries in Europe, Middle-East and Africa to focus on ICUMSA 45's for their major supply. In addition, ICUMSA 45 demands a higher price than the price quoted on the NYCSCE depending on the level of purification. Additionally, ICUMSA 45 is required by most major soft drink and confectionary conglomerates. According to traders, ICUMSA 45 accounts for approximately 55 to 70 percent of the international White sugar market, of which 55 to 60 percent was within the EU. Other suppliers have included Brazil, Dubai, South Korea, Malaysia and Thailand. However, following the recent sugar market reforms imposed on the EU, Brazil is becoming the major supplier.[19] Figure 7 & 8 clearly illustrate the position of ICUMSA 45 in the world White sugar market and the importance of Europe (prior to the WTO ruling taking effect) as an exporter of ICUMSA 45s.

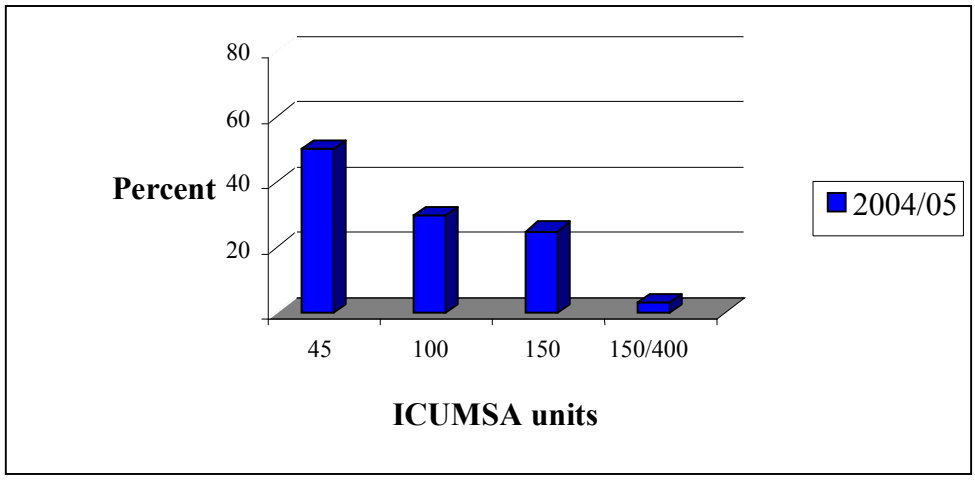
Source: ISO Report[18]
Source: ISO Report[19]

Figure 11. Europe & the White sugar Market



Source: Czarnikow Sugar

Figure 12. White sugar imports by ICUMSA



Source: EDF Man Sugar Ltd

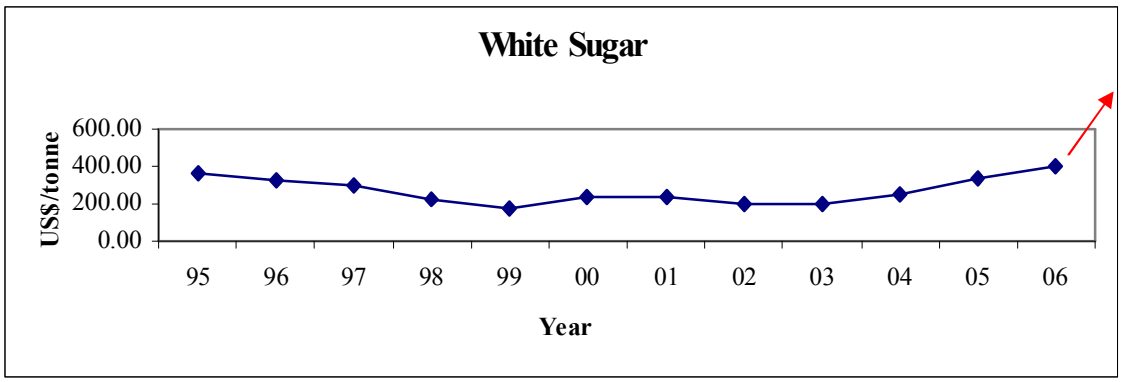
6.2 White Sugar Price

Demand and supply fundamentals affect sugar prices internationally. Therefore, domestic prices differ from one country to another. As a result of being a part of the volatile commodities market, commodities prices in general also affect sugar prices and alternative products such as ethanol. White sugar futures are traded on the London International Financial

Futures and Options Exchange ("LIFFE") and these prices change on a daily basis. Forecast prices are predicted by specialised sugar experts. Since the EU is a major exporter of White sugar, the quoted price is based on its exports. The contract for White sugar is known as Contract No. 5 and is traded in US$/metric ton. It is an indicative price for future contracts and therefore, is only a guideline for the actual physical pricing of White sugar as will be explained in the following pages.

Figure 9 presents the White sugar prices on LIFFE for the past 10 years in raw value

Figure 13. Price Trend (LIFFE) – Contract No. 5



Source: ISO Market Reports / analysed by E&Y

According to the ISO November 2006 Market Report, one of the reasons behind the high volatility in White sugar prices is the reduction in the supply of high quality sugar from the European market. Prices are expected to further strengthen following gradual implementation of the EU sugar regime, which was brought into effect in July 2006, came in the context of the WTO placing a limit on the amount of White sugar exported to approximately 1.3 million tonnes by 2010, resulting in the increase in Brazil's role as a major alternative exporter of ICUMSA 45s sugar.. The focus is, therefore, shifting towards Brazil and away from the EU.

World sugar prices affect the price-inelasticity evident in sugar markets. It is expected that by the end of 2012, world sugar prices would increase by approximately 27 percent with the imposition of free trade and by 48 percent when all trade and production distortions are removed. [20] With the EU's exports being limited, Brazil will become the major exporter of quality White sugar pushing prices further due to higher freight costs.[21]

Source: www.news.tradingcharts.com[20]
Source: Multinational Trade and Agriculture Policy reforms in Sugar Markets [21]

Since Raw sugar prices are linked to oil prices, the increase in the bio-fuel industry worldwide will make forecasts on price developments uncertain. However, the price appreciation expected in the following 5 years appear supportable.[22] However, a refiner is more interested in the price differentials between physical Raw and White sugars and how to maximize his benefit over freight differentials.

6.2.1 Factors Affecting White Sugar Price

6.2.1.1 Surpluses and Deficits

Sugar surpluses and deficits are a common phenomenon in the world sugar market. A sugar surplus is subsidised and historically received a price lower than the world's average cost of production.[23] One reason behind this was that in early 2006, crop supplies exceeded the market's expectations. Another reason is that most of the EU White sugar suppliers offloaded their storage supplies into the market in order to benefit from export subsidies prior to their removal.

6.2.1.2 Supply

The reduction of reliable supplies of quality sugar from the EU is one reason why prices are volatile. Fewer exports from the EU indicate more exports will come from countries in the Middle East & Asia. However in some countries, such as India, government interventions still highly affect this performance.[24]

6.2.1.3 Destination Refineries

The concept of Destination Refineries relies on building a refinery closer to its customers with designated access points to facilitate import and export activities of the refinery. Destination Refineries enjoy transport and utility cost savings as well as the availability of designated jetties, enabling less expensive production, lower costs in the unloading of Raw sugars and loading of White sugars after refining. Examples of Destination Refineries include Al-Khaleej Sugar Refinery Company ("KSR") in the UAE and United Sugar Company ("USC") in Saudi Arabia.

Source: www.sugaronline.com[22]
Source: American Sugar Alliance[23]

New refineries in the pipeline may be considered as a disadvantage for existing Destination Refineries. With more in the region, the White sugar freight advantage will continue to exist, however, this will be regionally determined instead of standing as an international figure.

Furthermore, as a result of the increase in the number of refineries, the number of intermediaries involved in the supply chain will decrease, as White sugar manufacturers will have to maintain a closer relationship with their buyers, thus selling directly to wholesalers in each country instead of relying on middlemen. A leading owner of a destination refinery in the region has often been quoted as saying "I am a trader first and a refiner second"[25]. This is understandable considering the size of many of these destination refineries such as Al-Khaleej or United Sugar Company which have the structure to deal directly with both suppliers of Raw sugar as well as major wholesalers of White sugar in different countries in order to increase their profit margins.

6.2.1.4 Subsidies

Subsidies in general cause domestic production to exceed domestic demand. Such surplus is usually exported. The price of White sugar is internationally based on the quoted price of LIFFE, which in turn is also affected by EU sugar supplies benefiting from EU subsidy. With the subsidy gradually being eliminated, market prices should eventually reach their natural market clearing levels. One has to keep in mind two major points: the first being that the quoted market price for White sugar is a trading price (no actual exchange of commodities takes place) and not a physical trading price and thus does not take into account the price premium for the quality of White sugar such as the ICUMSA 45 high quality sugar. The second point is that physical transactions take into account freight differentials that do not constitute a part of the quoted price.

6.2.1.5 Freight Differentials

The White sugar price is quoted based on supplies originating from Northern Europe, which will no longer be the case in the upcoming few years since prices will also reflect supplies from Brazil as the next major supplier. The freight differential from Brazil is expected to be higher because it is currently between the freight cost of bulk Raw sugar from Brazil to the Middle-East and bagged White sugar from Northern Europe. As the WTO ruling takes place, freight differentials will be between freight costs of bulk Raw sugar from Brazil to the Middle-East

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Source: Management of Tanmiyat[25]

and bagged White sugar from Brazil to the Middle-East. As a result, the margin of current freight differentials (being approximately US$ 30 to $40 per tonne) between Raw and White sugar is expected to increase.[26]

Raw sugar is shipped in bulk on larger vessels compared to the shipments of bagged White sugar. The following section explains how freight differentials play a major role in the physical trading of White sugar.

6.2.1.6 Physical Trade

The majority of White sugars traded worldwide are in the domain of large trade houses (some of which include: BAUCHE, CARGILL, CZARNIKOW, TATE & LYLE, LOUIS DREYFUS, SUCDEN, E.D.F. MAN, GLENCORE and MARUBENI). Most of these trade houses are vertically integrated, moving sugar from origin to destination. Some of these trade houses have additional experience with grain and trading in other commodities, benefiting from economies of scale in terms of logistics and integration. These trade houses are generally much larger in size and consequently have greater access to financing when compared to trade houses that specialise only in sugar.

Today, the ability to pre-finance sugar purchases from producing countries is one of the key prerequisites of global commodity trade. However, large scale destination refineries have large production capacities and also have the structure and financial means to deal directly with buyers.

The following example illustrates the pricing dynamics of physical trading in White sugar. In September 2005, China auctioned 139,000 tonnes of White sugar from state revenues at an average price of approximately US$ 531 per tonne. In a similar auction, held in September 2005, 147,000 tonnes of sugar sold for a price of US$ 504 a tonne. During that month, the price of White sugar on LIFFE was US$ 302 per tonne. This example shows that physical White sugar prices are much higher than quoted prices.[27] Further, this example shows that physical trading takes into account the quality level of White sugar and the demand and supply situation at the time. However, there will also be a further increase once freight differentials are also adjusted for. During the last few years, freight differentials in the MENA region and have

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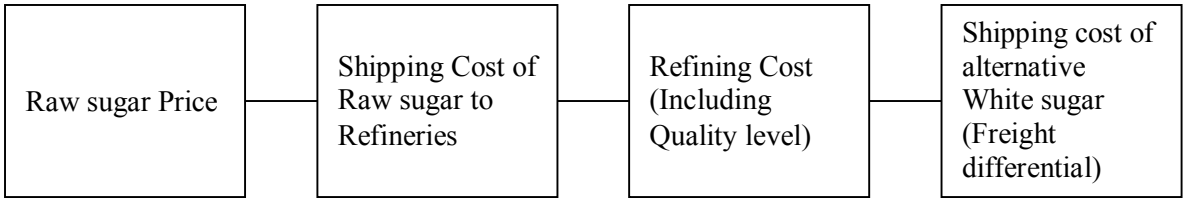
Source: ISO 'MECAS' Report[26]
Source: ISO Monthly Market report[27]

been between approximately US$ 30 to $40 per tonne[28], providing a large incentive for destination refineries and a buffering zone at times when premiums are reduced.

6.3 White Sugar Pricing

White sugar prices are based on the Raw sugar price traded. The cost of shipping Raw sugar is added to costs included in the refining process as well as the quality of the White sugar produced (ICUMSA 45). Then the alternative cost of shipping to the end user is added to the final price of the refined White sugar. For example, if the end user is in Bahrain, the alternative cost is the cheapest available purchasing option between Dubai, Saudi Arabia (Jeddah) and Europe, all entailing shipping costs significantly higher than purchasing from Bahrain. This would reduce the trader's margin in addition to freight handling, providing the refiner with a higher margin This process is explained in Figure 10 below:

Figure 14. White sugar Pricing



Source: Management of Tanimiyat Aloula Holdings Company

- Raw sugar price is an international price quoted on the NYCSCE. Brazil is the source for VHP & VVHP Raw sugar. Brazilian millers are able to produce a very high quality crystal sugar efficiently, because of the production process from the co-production of ethanol and sugar. Brazil's crystal sugar is sold as VHP Raw sugar in bulk for further refining. Large refineries such as the one envisaged in Bahrain as well as KSR purchase VHP Raw sugar. The higher polarisation premium included with the price of VHP Raw sugar is more than offset by the major cost saving because the Affination process (described below) can be entirely bypassed which means considerably less fuel and chemicals than otherwise

- Shipping includes the shipping of Raw and White sugars. Raw sugar is mostly shipped in bulk containers being much cheaper than shipping in bags. The costs per tonne depend on the size of the ship in addition to the location and the logistics associated

Source: Management of Tanmiyat [28]

with the refinery. The Raw sugar freight costs are expected to reduce with the direct shipping line from Brazil which is being developed due to increased demand for Raw sugar in the region. Shipping costs of White sugar will increase as Brazil will be the new international export source instead of the EU.

- Refining costs depend on the quality of Raw sugar together with the quality of the refinery itself as well as the quality of White sugar targeted through the refining process (in this case ICUMSA 45). Employment and utility costs are also included with costs of refining.

- The refined White sugar is then handed over to intermediaries such as the major sugar traders who distribute the White sugars to regional and local wholesalers. The cost of wholesalers takes into account the freight differentials currently with a regional average of not less than US$ 30 per tonne which is expected to increase. However, established trading houses are known to bully refineries in order to secure discounts providing them with strong brokerage fees for their relationships. This is the main reason why the role of traders is slowly diminishing. Larger destination refineries have the resources to establish direct relationships with the wholesalers thus eliminating middlemen and sharing the benefits directly with wholesalers.

- The quoted price for White sugar is used as an indicative price only when it comes to physical trading of White sugar.

6.4 Supply

Following the EU sugar reform, a reduction in exports will enable competitors such as Brazil, Australia and Thailand to replace the EU's historical export markets in Asia, the Middle East and Russia as well as exporting to the EU itself. These reforms are transforming the EU from being a current net exporter to a net importer of refined White sugar. Other less developed countries with little market share benefit from the impending reduction of EU sugar exports. However, the main beneficiaries will be the existing and upcoming destination refineries in the MENA region which will replace the existing EU exports as well as the increasing demand in this area.

6.4.1 White Sugar Exports

Table 5 lists the top exporters of White sugar.

Table 7: White sugar Exports

10 Largest White Sugar Exporters (mln metric tonnes, raw value)	
EU	6.11
Brasil	5.45
Thailand	1.72
Colombia	0.72
Belarus	0.52
Mexico	0.43
Persian Gulf	0.39
Rep. of Korea	0.32
Malaysia	0.29
Argentina	0.25

Source: ISO Sugar Yearbook 2005

The top ten exporters of White sugar account for 77 to 79 percent of the global sugar trade market. The EU has always been considered the biggest exporter of White sugar, despite the high cost of production due to the existing export subsidies which have not just assisted the EU exports, but have also been a pressure limiting White sugar prices from reaching their natural market clearing level. In short, the EU has met over half of all refined sugar demand largely as a result of European exports being insensitive to the White sugar refining margin, which has effectively marginalised competition from other exporters who produce White sugar from Raw sugar.

During 2000, the EU exported approximately 6.2 million tonnes while Brazil exported approximately 2.16 million tonnes. Therefore, Brazil's role as a supplier to meet the increased demand has been increasing long before the EU sugar subsidy elimination decision took place.[29]

Being a widely dispersed market, it is difficult to determine countries which play a crucial role in price formation as the overall impact dictates the price. The flow of White sugar is presented in table 6 below:

Source: ISO Report [29]

Table 8: Major White sugar Trade Flows 2000-2004 (tonnes / annum)

Origin	Destination	2000	2001	2002	2003	2004
Far East	Far East	1963	1934	2533	2499	2627
Western Europe	Middle East	2273	2101	1585	1844	1707
Brazil	Middle East	769	1544	1945	1267	1725
Brazil	West Africa	567	1193	1293	1304	1511
W Europe	Middle East	1186	1203	977	705	516
Middle East	Middle East	479	1019	574	429	827
Brazil	N Africa	185	349	894	558	803
W Europe	W Africa	578	583	426	391	206
Other	Other	4016	3964	5745	6852	5868
World Total White Sugar Exports		**12616**	**13890**	**15971**	**15849**	**15850**

Source: ISO Market Evaluation Consumption & Statistics Committee

Since 2000, the bulk of the White sugar entering the Middle East came from Europe. However, this is already changing following the EU reform with Brazil coming into the picture as the main market participant. The Middle East itself is also becoming a major source of White sugar exports mainly from KSR (Dubai) which exports to the region, as well as USC (Saudi Arabia) and Cevital (Algeria) which are serving their domestic markets. Yet these refineries are not able to meet the demand in the region.

6.5 Demand

World consumption of White sugar has increased to over 150 million tonnes in 2006 and grew approximately 555 million tonnes since 2001.. Also, the growth in world sugar trading is heavily influenced by this growth in sugar consumption. This is expected to rise in line with the growth in the world's GDP alongside the world's trade. Therefore, 80 percent of the world's demand now comes from developing countries. [30]

The optimism of the industry is shown by the increase in the number of refineries worldwide. The WTO's aim is to balance the amount of control several countries have on the market in terms of supply by placing a ceiling on their exports and allowing less developed countries to refine and export their own production. The market expects that by 2010, the majority of the refined sugar in the Middle East will be supplied by regional destination refineries which

Source: Societe J Kingsman [30]

include expansions and ones to be established. However, these refineries still will not meet the expected demand.

6.5.1 Imports of White Sugar

The EU sugar reforms have started and will gradually reduce their exports. As a result, the year 2009/10 is expected to be the optimal time for GCC countries to produce ICUMSA 45 White sugar. This is when ASC plans to be operational. Table 4 illustrates that North Africa itself requires major sources of White sugar which will be supplied from existing and upcoming refineries in that region (Algeria, Libya and Morocco). GCC countries, Iran, Iraq and its neighbouring countries such as Pakistan, whom are facing a deficit, will require major imports that current refineries even with their planned expansion cannot meet.

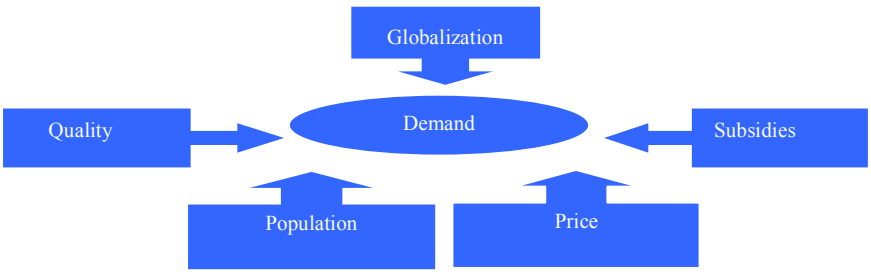
Table 7 presents the world's largest net-importers of White sugar.

Table 9: White sugar Imports

10 Largest White Sugar Net-Importers (mln metric tonnes, raw value)	
Indonesia	1.11
Pakistan	0.86
Bangladesh	0.68
Syria	0.60
Algeria	0.57
Sri Lanka	0.56
Russian Fed.	0.53
Yemen	0.50
Nigeria	0.46
Israel	0.45

Source: ISO Sugar Yearbook 2005

Table 10: Factors affecting demand



Source: Ernst & Young Analysis

Globalisation

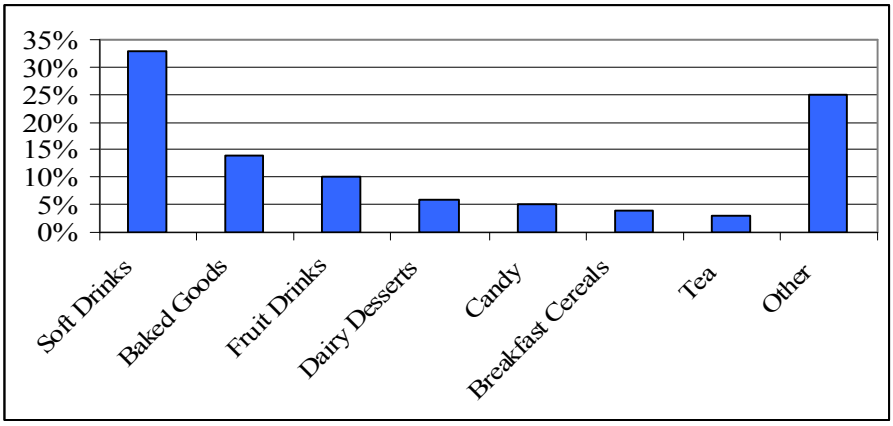
The world economy is becoming more integrated and interdependent. More positive evidence can be found in the economic opening of China, which may soon become the world's largest economy and one of the largest sugar consuming countries. Progressive economic integration, steady reduction in protectionism, and as market barriers and import tariff levels are further brought down under the impact of the WTO, the overall traded sugar levels are likely to increase.

Population

The increase in population worldwide will have an impact on the sugar consumption as it is a basic necessity. Sugar required for food and drinks will increase. Major soft drink and confectionary companies require ICUMSA 45 as their White sugar input. These factors are strong indicators that the demand for ICUMSA 45s will grow in the upcoming years.

Figure 14 shows the percentage of added sugar in different categories of food and beverages.

Figure 15. Figure 12. Sugar Added in Different Categories of Food and Beverages



Source: www.fas.usda.gov

Quality

In today's market, sugar is offered in a diverse range of qualities that correspond to buyers' requirements and different processor's sugar product situation.[31] Therefore, if the White sugar does not meet the market's requirements, then it may trade at a lower price.

According to the ISO market report, high polarisation sugar costs more than low levels of the same. However, high quality levels depict higher prices. Buyers pay a premium for Raw sugars with 96 degrees polarisation, according to the Pol Premium Scale.

Subsidies

Several low income countries that produce sugar will benefit from greater trade opportunities. There is demand for sugar resulting from many refineries in Europe shutting down. Other countries now have the opportunity to produce high quality sugar which is required to cover the shortage in the global market. According to Sugar Alliance, it is predicted that during 2008, more than 25 percent of the sugar refineries in Europe will be shut down.

Price

Many importing countries import under the tendering system in which they accept bids that best meet their expectations. Less developed countries are more price sensitive than developed countries. Meeting price and delivery requirements are certainly part of their conditions.[32] However, most less developed countries produce sugars that are in line with their own internal requirements. Therefore, they are not perceived as participants in the international Raw or White sugar market. For example, India is a large producer of Raw sugar. However, its plants produce for its own domestic market to refine White sugar. Therefore, even though India is a major producer and consumer of Raw sugar, its role as an exporter of high quality sugars is limited. India is aiming to increase its Raw sugar production and quality for export purposes.

Countries such as the UAE do not produce Raw sugars, therefore it imports from Brazil in order to refine high quality levels to export (due to its limited internal requirement) to

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Source: fas.usda.gov [31]
Source: Commodity and Trade [32]

neighbouring, as well as Far Eastern, countries. The UAE today plays a major role as a source of quality refined White sugar internationally.

6.6 Conclusion on Raw and White Sugar Market

This analysis of the world market product structure in terms of supply, demand, quality differentiation and markets, as well as taking into consideration the key elements of pricing of physical sugar allows us to draw conclusions which have been reiterated and stated by major sugar specialists such as the ISO as well as other major specialists.

While Raw and White sugar can be broken down into quality segments, it is the emergence of Brazilian crystal sugar in the late 1990s that changed the physical market, shipped in bulk as VHP sugar; it has become the standard and has forced other Raw sugar producers to improve the polarisation levels of their Raw sugar and thus the quality. Thailand also played a role in Raw sugar differentiation because it had to move away from a very uniform Raw sugar quality, leading to the inter-trade market in Thai Raws turning into a much slimmer market. The growing dominance of Brazil as the key source of all types of Raw sugar, and especially VHP sugar, as well as the expected rapid retraction of EU high quality White sugar exports are the key drivers impacting the future level of physical trade and trading patterns. These developments have large implications on the development and success of large destination refineries in the Middle East & North Africa as well as the future development of the global White sugar premium. As the EU retraction has just started, the full implications have yet to become apparent. It is expected that the global White sugar premium may be substituted by regional White premiums which depend on demand and supply as well as regional quality requirements.

In terms of the spot prices, New York No. 11 spot price Raw sugar will continue to be a major indicator of raw prices, while the quotation of the London No. 5 spot price for refined White sugar (f.o.b. Europe) will cease as exports from that region will decrease significantly Analysts have suggested that the ISA daily price issued by Kingsman may become the new indicator. However, the fact the Brazil will become the main world supplier of exports (as most countries use their production of White sugar for their internal needs with very little in terms of export), and the fact that Brazil is geographically further away from most area of high imports, and especially further away from the Middle-East, will make the level of freight an important factor in the landed cost of imported sugar for consumers and therefore impact the relevant competitiveness of sugar exporters. Ocean freight costs are a market in their own right, with its

own demand and supply factors. The ability to ship Raw sugar in large vessels in bulk in comparison to shipping White sugar in bags is a major cost factor that has aided and will continue to aid the profitability of destination refineries in this region.

7 Middle East

7.1 White sugar

Prices of agriculture and dairy products in the Middle East have increased as European countries have decided to withdraw the subsidies in phases by 2012, after developing countries have demonstrated extreme competition in the global market for sugar. According to an article in Zawya, ICUMSA 45 is still considered less expensive, and of better quality, than Asian or South American final sugar products that are supplied to the Middle East.[33]

Countries in the Middle East such as the UAE, Saudi Arabia and Algeria have entered as large participants and have invested heavily in large scale Raw sugar refineries. Such large existing investments indicate that the market existed even before the EU ruling took place. Refiners in the region have benefited from many factors in this industry and the EU ruling is the latest. Reduced exports from the EU will also mean an increase in premiums between the cost of White and Raw sugar due to Brazil which is further away logistically becoming the major alternative source of refined sugar, thus making it more profitable to refine Raw sugar in the region.[34]

Origin Refineries are refineries in exporting countries that are annexed or adjacent to sugar cane mills. These Refineries were the main source of White sugar, however, due to the freight cost of transporting White sugar in comparison to exporting Raw sugar in bulk, the concept of Destination Refineries was conceived. KSR is known to be the first international scale Destination Refinery and has proven to be successful. Since then, seven major Destination Refineries have been established in Saudi Arabia, Indonesia (two), Taiwan, Nigeria, Algeria and Canada in addition to plans for Destination Refineries in Syria, Egypt and Yemen[20] as well as Bahrain. The refineries in this region will be discussed in more detail in the following section.

Source: Zaywa article 'Farm, dairy products may become costlier' dated 16 February 2006[33]
Source: F.O.Licht international sugar market report 2005[34]
Source: ISO report

7.1.1 Supply & Demand

The Middle Eastern region's largest refinery is UAE's KSR, which imports Raw sugar from Brazil. The plant, in Jebel Ali, has an annual Raw sugar refining capacity of approximately 1.6 million tonnes. It began operations in 1995 with an annual capacity of 800,000 tonnes and has since increased its size. It feeds the UAE's domestic demand which is around 200,000 tonnes and the balance production is exported to many destinations including the east coast of Saudi Arabia as well as the Far East. KSR plans to become involved in the European market following the EU subsidies removal by exporting ICUMSA 45 sugar into the EU at a cheaper price.

Another regional participant is Saudi Arabia's USC, part of the Savola Group, with a plant capable of producing 805,000 tonnes of refined sugar per annum and plans to increase its capacity to over 1 million tonnes. USC's home market of Saudi Arabia is a large market which is why it currently has limited exports and prefers to concentrate on its local market. The Ministry of Finance and National Economy report recommends that these and other regional refineries make 'colossal' investments into this industry, particularly as world sugar prices are expected to continue to rise.

Cevital of Algeria is another destination refinery that was established in 2002 with an annual capacity of 650,000 tonnes and is currently undergoing expansion to meet Algeria's rising demand as well as opportunities to sell to other African nations and replace some of Africa's large existing imports of White sugar from Europe and Brazil.

There are opportunities for sugar producers in the Middle East, as per capita consumption in the region is estimated at 34 kilograms per year, considerably higher than the world average of 24 kilograms. It is estimated that the Middle Eastern region consumes 12 million tonnes of sugar annually, approximately 9 million of which is imported. These figures show that not only can Middle Eastern producers take advantage of newly opening markets that in the past were secured by European refiners, they are also in a favourable position to supply local demand at lower prices.[35]

Source: ISO Sugar Yearbook '2005'[35]

Table 9 below shows the Middle East per capita consumption of White sugar.

Table 11: Middle East Per Capita Consumption of White sugar

Per Capita Consumption						
Year	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Afghanistan	2.8	2.7	3.1	3.8	4.9	5.5
Egypt	35.2	35.6	36	36.8	36.6	36.1
Iran	30.8	30.4	30.1	30.5	30.5	30.8
Iraq	17.2	17.6	20.2	30.5	30.5	30.8
Israel	60.4	62.1	62.4	63.5	64.6	65.7
Jordan	37.2	36.1	37.0	40.1	43.5	47.2
Kuwait	33.1	33.0	35.4	34.3	35.6	36.7
Lebanon	34.9	37.9	36.4	39.4	42.6	42.4
Saudi Arabia	29.1	29.6	30.2	31.3	31.9	32.9
Pakistan	24.0	24.1	24.1	26.2	26.6	26.6
Rep. of Syria	44.7	44.6	44.4	44.2	44.4	44.1
Yemen	22.5	22.5	22.8	23.8	23.3	23.4
Cyprus	40.8	41.9	46.5	47.4	-	-

Source: ISO Yearbook 2005

The Middle-East region has experienced a 2.3 percent average growth in consumption of White sugar from 2000 to 2005. The largest consumers of Raw sugars are food/dairy companies that use sugar to produce products such as soft drinks, ice-cream, yoghurt and milk. Therefore, an increase in prices of White sugar has a strong effect on businesses as well as consumers using White sugar.[36]

This regional demand is expected to increase significantly, and the next sugar game will be in the Middle East. The demand for trading sugar is increasing, and with an increase in refineries more trade vessels are expected to focus on the region[37], further reducing freighting costs because of the increase in shipping competition.[38]

Source: www.zawya.com[36]
Source: Sugar online's Friday Editorial[37]
Source: www.sugaronline.com[38]

Table 10 below shows the Import of White sugar:

Table 12: Middle East White sugar Imports (tonnes)

White sugar						
Year	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Afghanistan	50635	61311	80080	76738	150322	141008
Egypt	552775	217136	662408	661607	275000	422057
Iran	239425	168527	370518	624167	637427	343320
Iraq	406272	415902	880002	791754	665894	398297
Israel	422940	466552	497639	427647	626026	551590
Jordan	181442	233343	200874	191027	234299	273175
Kuwait	61666	81769	78385	78709	84113	177414
Lebanon	93833	119912	130962	161250	157039	147079
Saudi Arabia	111292	0	261849	158795	149872	3487
Pakistan	824674	319248	5698	10498	11312	928000
Rep. of Syria	516031	874275	881541	1059906	965943	966570
Yemen	531609	425166	458437	668433	409108	561909
Cyprus	27561	31902	38598	34024	-	-

Source: ISO Yearbook 2005

The majority of these countries import White sugars from Brazil and the EU. These Middle Eastern countries import 20 percent of the total White sugar imported worldwide.

Table 13: Middle Eastern Exports (tonnes)

White Sugar						
Year	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Afghanistan	-	-	-	-	-	-
Egypt	14	11912	155183	5633	72663	59030
Iran	3	753	1526	11156	1962	0
Iraq	-	-	-	75000	100000	-
Israel	50,000	65,000	25000	48065	165000	100000
Jordan	-	25000	-	48	-	20000
Kuwait	-	-	-	-	-	80000
Lebanon	-	s	-	-	-	-
Saudi Arabia	2682	0	28	33713	116192	141503
Pakistan	11165	90	4114	104237	131495	69975
Rep. of Syria	-	-	-	-	-	-
Yemen	-	-	-	-	-	-
Cyprus	-	-	-	-	-	-

Source: ISO Yearbook 2005

Exports mainly focus on regional destinations. Table 10 indicates that the majority of countries do not export White sugar, as they have yet to fulfil their internal local requirements. The UAE, which is a major exporter, is not listed as it is not a member of the ISO and does not publish its figures.

At the same time, Destination Refineries are increasing their production capacities in the region, and new upcoming sugar refineries in the Middle East are in set-up phases from countries such as Dubai, Egypt, Syria, Saudi Arabia and Yemen[39]. With these refineries in the pipeline, exports are expected to increase with approximately 2.15 to 2.75 million tonnes of extra Raw sugar to be refined by 2008, in turn, increasing the demand for Raw sugar imports in the regional market.

7.2 Raw sugar

Eight percent of Raw sugar worldwide is exported to the Middle East (mainly from Brazil and the Far East) which is relatively lower than the White sugar's rate as most of the countries within the region do not plant crops and do not have sugar refineries. The UAE and Saudi Arabia are within the top twelve major importers of Raw sugar, primarily importing from Brazil, due to the construction of large port based Destination Refineries importing high quality Raw sugars and refining them at lower cost. The region's import figures are expected to increase.

Table 11 provides data on the imports of Raw sugar and shows Saudi Arabia importing over 1 million tonnes per year. Again the UAE is not listed but imports on average, approximately 1.2 million tonnes per year.

Table 11. Middle East Raw sugar Imports (tonnes)

Raw Sugar						
Year	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Afghanistan	0	0	2353	0	12	517
Egypt	87499	218409	467734	346036	972919	600863
Iran	653732	554591	870064	186001	107100	443968
Iraq	0	8589	0	29198	0	0
Israel	2154	1587	2127	0	2789	2493
Jordan	-	-	-	-	-	-
Kuwait	48	3114	71	306	153	119
Lebanon	0	0	25100	468	174	710
Saudi Arabia	536768	648305	434297	515474	684453	1065670
Pakistan	44329	433807	69	0	0	0
Rep. of Syria	0	43600	74390	56870	129498	85145
Yemen	220	0	11	12240	1	0
Cyprus	1027	0	68	5310	-	-

Source: ISO yearbook 2005

Source: www.fas.usda.gov[39]

Currently, Raw sugars are not directly shipped to the region, adding an additional cost to its freight. However, a French shipping company has recently announced that it will begin a new shipping line direct from Brazil to certain ports in the Arabian Gulf, the Red Sea and North Africa and other shippling lines are expected to follow suit. Not only will this increase imports, it is estimated that approximately 15 to 20 percent of freight costs will be saved. The savings will benefit the refineries that will be shipping large amounts of Raw sugar. The shipping industry has already witnessed a growing demand for large vessels to ship Raw sugar in bulk and this is expected to increase in the coming years as new refineries are built.

7.3 Competition

7.3.1.1 Yemen

The Hayel Saeed Anan Group is planning to build a sugar refinery in Aden Free Zone. The group will form a joint venture with other regional investors to develop the plant, which will have a capacity of 1 million tonnes a year. Yemen imports its sugar requirements mainly from Sudan. This plant is being constructed to meet the internal demand of Yemen which is a large importer of White sugar. It is aimed at the local market.

7.3.1.2 Egypt

A new joint venture of Saudi and Egyptian investors, the United Sugar Company of Egypt, is establishing a sugar refinery at the Sokhna Port. USC and the Savola Group, both of Saudi Arabia are among the main shareholders in the project which is due to be operational in the third quarter of 2007. The plant will have a capacity of 600,000 tonnes per annum of refined sugar and 150,000 tonnes per annum of liquid sugar, aimed at the local market. Egypt imported approximately 450,000 tonnes of White sugar in 2005.

7.3.1.3 Syria

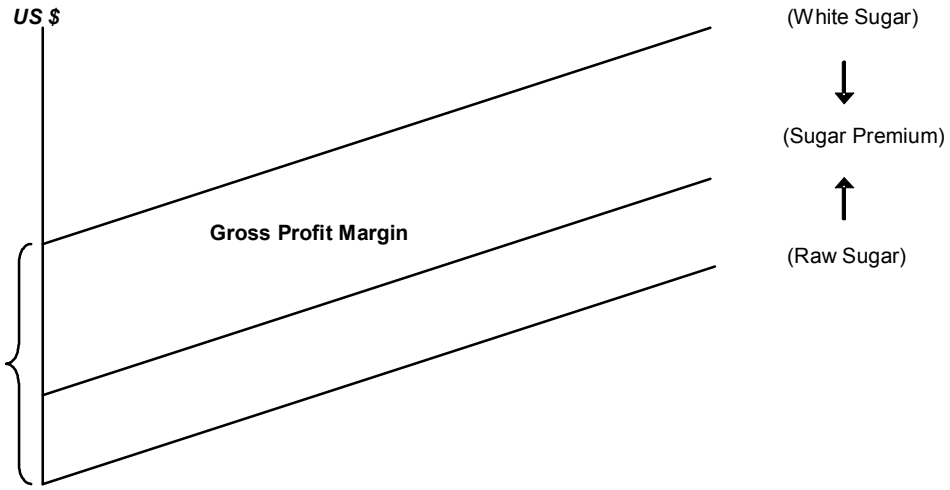
Construction is set to commence in early April 2007 on a 1 million tonne per annum sugar refinery at Jandar, 30 kilometres south of Homs. Feedstock for the refinery, in the form of raw cane sugar, will be shipped from Brazil. The refined sugar will be sold in the domestic and regional markets, targeting Jordan and Lebanon. However, Syria imported approximately 966,000 tonnes in 2005 and so effectively it will be similar to USC in Saudi Arabia concentrating on domestic needs.

According to an article from Sugar Online, refineries in the region will continue to benefit from an expected widening of the sugar deficit in the coming years, however, the markets historically dependent on the EU for their White sugar requirements are markets that in the near future need to find alternative suppliers of which Bahrain would be a perfect source.

7.3.2 Premiums

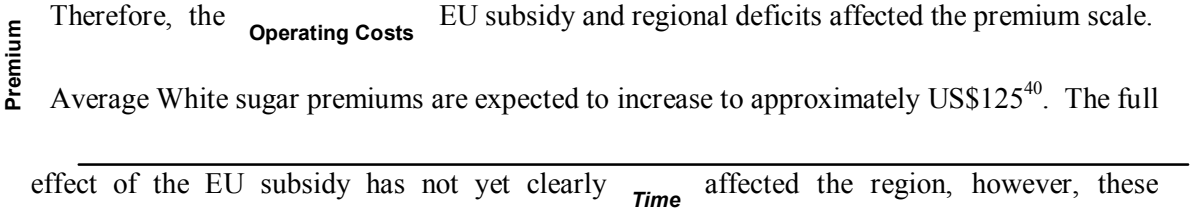
The Sugar premium is the difference between the White sugar quoted price and Raw sugar quoted price, as presented in Graph 1 below. Traders determine their profit by subtracting their operational costs from that premium. Operating costs include freight insurance, unloading costs, consumable costs, processing costs, utility costs and selling costs.

Graph 1.White Sugar Premium



Source: Ernst & Young Analysis

During the beginning of 2006, premiums were as low as US$5 per tonne following the high EU White sugars and the strong value of Raw sugar. However, by mid-2006, premiums reached a ten year record high of US$125 per tonne.



The volatility behind premiums is determined by the White and Raw sugar markets. Therefore, the EU subsidy and regional deficits affected the premium scale.

Average White sugar premiums are expected to increase to approximately US$125[40]. The full effect of the EU subsidy has not yet clearly affected the region, however, these dynamics are expected to occur by 2009/10.

7.4 Important Factors to Consider

7.4.1 Removal of EU Subsidy

Refining sugar in Europe comes along with high costs. This, together with the gap created by the removal of the subsidy, has created an opportunity for other countries to replace the gap with the same quality of White sugar at lower costs. Therefore, Destination Refineries will be able to replace the existing EU subsidised exports of White sugar, as the EU will no longer be able to compete when government subsidies are no longer available.

7.4.2 Freight Costs (natural freight protection)

Brazil's shipping cost (being an alternative supplier of ICUMSA 45) of White sugar to the region is higher than the EU's. The role of Brazil as the new price determinant of White sugar, as well as Raw sugar, will provide stronger freight differentials to Middle East importers. Importers of Raw sugars in bulk will benefit from decreasing costs per tonne as shipping lines will be dealing directly with the growing market in the Middle East instead of heading to Northern Europe prior to reaching Asia and Africa. However, White sugar is shipped in bags and is usually in smaller vessels or containers. Therefore the freight differential for physical sugar movement will only increase.

The freight advantage involved with shipping White sugar from the Middle East to Asia is the low back haul rates, which allow exporters from the region to access the Asian market at low

Source: Management of Tanmiyat[40]

rates. Loaded ships arrive from Asia, however, they return with empty containers. This is advantageous for regional refiners that can tap Asian destinations at a large discount in shipping costs.

7.4.3 Demand & Quality

Regional demand is growing substantially; USC has yet to meet its domestic demand in the Kingdom of Saudi Arabia. Additionally, KSR cannot solely fill the gap in the GCC region from Dubai. Therefore, there is room for other refineries producing ICUMSA 45 in the region.

This is also an opportunity for manufacturing companies to produce confectionary products within the region, especially with the availability of ICUMSA 45 White sugar from nearby locations. It is expected that many international European companies in high quality food related businesses will benefit by locating themselves close to these refineries.

8 SWOT Analysis

A crucial element in the success of any new business proposition is the development of a thorough SWOT analysis. The results of the analysis undertaken is summarised as follows:

Table 14: Strength, Weakness, Opportunities and Threats

STRENGTHS	**WEAKNESSES**
• Management and technical advisers' experience and know-how skills within the industry • Off-take agreement with European companies • State of the art specialised European equipment • The free trade agreement with the USA and Bahrain	• A start-up business with no operational track record • Higher shipping costs relative to other GCC countries

OPPORTUNITIES	***THREATS***
• High demand for sugar • EU subsidy cut • Relatively low energy and labour costs • Direct Shipping Line from Brazil • EU – Bahrain Free Trade Agreement • Direct Shipping Line	• Attractive industry entailing increase in number of new market entrants • More competitors will appear by the time project becomes operational. • Volatility of sugar and freight prices

Source: E&Y analysis

9 RISKS AND MITIGANTS

9.1 Performance Risk

ASC's management will be specialised in the management of companies of the same industry nature. Management proficiency will be vital in realising above average returns to shareholders. Consequently, diligent performance of ASC's management will be imperative.

This risk is mitigated at ASC by having a strong, qualified management team assisted by technical advisers who have a proven track record of managing and advising companies in the sugar refining industry. Moreover, ASC has ensured the involvements of OMEGA, the Technical Advisors, during all stages of the Project, including the construction stage.

9.2 Operational Risk

Operational risk is the risk of financial loss to ASC arising from inadequate internal controls and procedures, breakdowns in processes, systems and technology, fraud or deliberate and malicious damage.

ASC's organisational structure mitigates this risk by having external auditors overlook the business activities of the company to provide assurance of adequate internal controls and procedure to the Board of Directors.

9.3 Climate Risk

Climate risk is the risk involved during plantation of crops. ASC will be importing its raw materials from Brazil. Therefore, unsuitable weather conditions during the planting process will cause price increases.

9.4 Legal Risk

Legal risk is the legal consequence of actions, deliverables or situations that lead to material unexpected negative results. Inadequate documentation, legal and regulatory incapacity or insufficient

authority of a counter-party, contract invalidity or unenforceability, are all examples of legal risk. Management of this risk is through effective consultation with internal and external legal counsel.

The legal counsel is responsible for mitigating any legal risk that may arise of ASC's activities and report any potential risks to the Board of Directors.

9.5 Regulatory and Taxation Risks

Changes in taxation laws or policies could affect the after tax returns received by shareholders and therefore make investment in the Company more or less attractive. Similarly, a change in taxation laws or policies regarding the refining industry could make parts of the investment opportunity more or less attractive.

Although under the existing Bahrain Law, there is no income, withholding or capital gain taxes, investors are advised to consult their tax and legal advisors as to the implications that may arise of the investment in ASC and the taxation treatment at their respective countries.

9.6 Competition Risk

As the sugar refining industry has become a very attractive target, especially after implementing the WTO regulations on free trade and the implication of the EU subsidy, the industry has become very attractive to companies seeking diversification, higher profit margins and a relatively less risky environment. Competition risk may arise if companies with similar interests enter the market and offer any or all of ASC's offerings.

ASC is mitigating this risk by ensuring that client satisfaction is met by providing the demanded quantities of high quality sugar and on time deliveries to customers to maintain a strong competitive position among its competitors. In addition, ASC has signed two off-take agreements with European companies (refer to Appendix 2), guaranteeing the sale of 300,000 tonnes per annum of its White sugar.

9.7 Liquidity Risk

The nature of investment in a closed shareholding company is illiquid comparing to listed companies. There is no established secondary market for sale of shares in ASC and investors have no right to require shares to be purchased by ASC or to have their shares redeemed.

9.8 Volatility of Profit Margin

The returns of the sugar refining industry depend predominantly on the margin between the international selling price determined by demand and supply in international exchanges and the cost of sugar produced by the company.

This margin can vary at times with the changes determined by traded sugar prices and narrows at time when sugar is traded at low prices which may result in lower than average profits.

9.9 Risk of International Exposure

ASC will be selling its production of white sugar to clients from all around the world, including GCC countries, Asian and international markets. The sale transactions will expose ASC to risks of international markets and foreign exchange rates.

9.10 Risk of Loss

Corporate investments entail the risk of the loss of part or the entire invested amount. As such, only investors who can bear such risk should invest in the Company. No guarantee can be given to the success of the Company or its various investments and expansion plans.

9.11 Other Investment Risks

The risks of any company/investment are affected by changes in the economic conditions. This includes local and world economic conditions, interest rates, local and world financial and foreign exchange markets, level of tax, taxation law and accounting practise, government legislation and intervention and inflation or inflationary expectations.

10 Financial Projections

This section provides detailed information about the financial returns and projections expected from the ASC project, based on assumptions provided by the management of ASC and third parties including the technical advisers involved in the Project. In addition, the section includes details on project costs, revenue streams and profitability.

10.1 Key Assumptions Underlying the Financial Projections

The financial projections used in this section are based on assumptions provided by the Promoters and their Technical Advisers for this Project. The assumptions include project costs, general and administrative expenses and production cost parameters. Raw and White sugar are traded commodities and their prices are determined on daily trading prices. To construct the financial projections, a price of US$ 350 (FOB) per tonne has been assumed for White sugar and a price of US$ 250 (FOB) per tonne for Raw sugar. (Actual prices do not matter as the difference between these two prices is the White sugar premium and is the relevant variable to the refinery and financial returns). The price of White sugar represents the end product for the sugar refining process and the price for Raw sugar is the raw material price, becoming the cost of goods sold assumed in the financial model. The documentation of this section is based on a US$ 30 freight differential which reflects current market conditions. This is calculated as the difference between a US$ 70 freight-out and a US$ 40 freight-in.

10.1.1 General Assumptions

The general assumptions made in the financial model, including working hours per day and working days per year were confirmed with the Technical Adviser. The Promoters expect the refinery to work 3 shifts per day. The net production capacity for both White sugar and Molasses assumed in the model has been confirmed with the Technical Adviser. The general assumptions in the financial projections include:

Table 15: General Assumptions

	Assumption
Working hours per day	24 hours
Working days per year	325 days
Net production capacity per day (Whit sugar)	1,800 tonnes
Net production capacity per day (Molasses)	73.85 tonnes

10.1.2 Project Cost

Turnkey contract

The Project is based on a Turnkey contract with OMEGA for US$ 137 million. The contract includes the following:

Table 16: Turnkey Contract

	US$
Plant and Machinery	90,000,000
Building and Construction	45,500,000
Other Assets	1,500,000
Total	**137,000,000**

The financial parameters regarding operating costs and equipment provided by the equipment suppliers have been confirmed by the Technical Advisor.

Jetty Construction

The construction of the jetty is based on specifications provided by OMEGA, which are based on conservative estimates provided by Alliance Projects (Civil Contractor) as well as being verified by an international Marine Consultant in Bahrain.

Table 17: Jetty Construction

	US$
Construction of jetty	5,000,000

Channel Dredging

Costing related to channel dredging is assumed based on quotations from Sinai International Services and Vision Development Company.

Table 18: Channel Dredging

	US$
Channel dredging	5,000,000

Other Project Costs

In addition to the above capital costs, pre-operating costs are estimated at $6.6 million. As the project will be partly funded by a term loan, pre-operative financing and interest expenses of $3.4 million has been factored in to the total project cost. There will also be a requirement to make use of a working capital facility of $7.5 million to fund the purchase of initial raw materials. Total project cost, based on the above mentioned elements is $164.7 million, as summarised below:

Table 19: Total Project Costs

	US$
OMEGA turnkey contract	137,000,000
Construction of Jetty	5,000,000
Channel Dredging	5,000,000
Pre-operative costs	6,600,000
Pre-operative interest	3,400,000
Working capital / Free cash	7,700,000
Total	**164,700,000**

10.1.3 Technical Assumptions

Technical assumptions relating to production costs for 1,800 tonnes of White sugar per day were obtained from OMEGA and confirmed by the Technical Advisor. ASC will not have loading cost of Raw sugar or White sugar because of their private dedicated jetty that will be used for loading and unloading sugar. Technical assumptions include:

Table 20: Technical Assumptions

Production Process Element	Cost per tonne (US$)
Polarisation	3.65
Drainage	3.65
Consumables	2.90
Packing	5.20

Other assumptions related to the technical operation of the proposed company are the wastage rate which is used to determine Raw sugar input to the White sugar output, while insurance cost is expressed as a percentage of total plant and machinery.

Table 21: Other Assumptions

Other Technical Assumptions	Percentage
Wastage Rate	4%
Insurance	2%

The sugar production facility will incur an ongoing maintenance capex of approximately $2.6m per annum, in proportion to the white sugar produced and sold.

10.1.4 Financial Highlights

ASC's construction phase will take approximately two years and the production of White sugar will begin during the third year, Year 1 of operations. Total sales and total operating profit remain constant between year 2 and 6 as the quantity of White sugar produced does not change throughout the projection period. Total liabilities decreases throughout the projection period as the term loan instalments are paid. As a result of lower interest payments, net income increases over the projection period from US$ 36.9 million to US$ 42.7 million.

	Year 1 (US$m)	Year 2 (US$m)	Year3 (US$m)	Year 4 (US$m)	Year 5 (US$m)	Year 6 (US$m)
Total Sales	238.5	247.6	247.6	247.6	247.6	247.6
Operating Profit	41.2	42.5	42.4	42.3	42.2	42.4
Total Assets	195.3	205.6	215.7	226.2	237.1	250.1
Total Liabilities	73.6	62.2	50.3	38.3	26.3	15.9
Total Equity	121.8	143.4	165.4	187.9	210.8	234.2
Net Income	36.9	39.3	40.1	40.9	41.6	42.7

10.1.5 Key Investment Ratios

Net income over sales is 15.5 percent in Year 1, 15.9 percent in Year 2 and 16.2 percent plus from Year 3 onwards. Return on assets decreases from 18.9 percent in Year 1 to 17.1 percent in year 6 due to an increasing raw material inventory and strong cashflows, which result in a cash build up on the balance sheet. Return on Equity ("ROE") decreases from 30.3 percent in Year 1 to 18.2 percent by Year 6. While net profit is projected to increase year on year, this reduction in ROE is due to the increase in ASC's equity base from retained earnings during the projection period, rather than any drop in financial performance. Investors' dividend yield increases over the projection period from 18.7 percent in Year 2 to 20.3 percent by Year 6.

Table 22: Key Investment Ratios

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Net Income/Sales	15.5%	15.9%	16.2%	16.5%	16.8%	17.2%
ROA	18.9%	19.1%	18.6%	18.1%	17.6%	17.1%
ROE	30.3%	27.4%	24.2%	21.8%	19.7%	18.2%
Dividend yield	0.0%	18.7%	19.1%	19.5%	19.8%	20.3%

10.1.6 Project Returns

As explained in section 3.4, profit and returns in the sugar refining industry are not calculated in the same manner as for other industries. Return is basically a function of 3 key factors:

4) The sugar premium, which is the difference between the traded price of raw sugar and the traded price of white sugar;

5) The quality level of the White sugar produced (in this case being ICUMSA 45) which has completely not been factored into our projections to remain conservative. This figure fluctuates between US$ 10 to 20 depending on market conditions; and

6) The freight difference between the cost of shipping in Raw sugar and freight cost of shipping out White sugar. The net freight differential can add or detract from the returns achieved from the overall premium.

A Raw sugar inward freight of US$ 40 was assumed in the financial projections to determine the cost of Raw sugar delivered to the Company. The terminal value calculated in the table below is based on a 12 times EV/EBITDA multiple based on Emerging Markets Multiples. The US$ 30 freight differential projects an IRR to the investor of 34.3% over the projection period.

It can be seen that if the quality premium for ICUMSA 45s together with the widening White sugar premium (US$ 100) were used in our financial analysis, returns would increase substantially. However we have preferred to remain conservative in our projections, even with market experts predicting that these factors will increase in the coming years, leading to additional profits for sugar refineries, including ASC.

Balance Sheet

All figures in US$ million	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
ASSETS								
Fixed Assets								
Plant, Property & Equipment	45.0	90.0	86.4	82.7	78.8	74.8	70.6	66.2
Building & Construction	29.5	55.5	52.7	50.0	47.2	44.4	41.6	38.9
Other Assets	0.0	1.5	1.2	0.9	0.6	0.3	-	-
Total Fixed Assets	**74.5**	**147.0**	**140.3**	**133.6**	**126.6**	**119.5**	**112.2**	**105.0**
Current Assets								
Cash	13.4	0.5	9.3	12.5	14.3	15.6	17.5	21.4
Account Receivables	-	-	19.6	20.4	20.4	20.4	20.4	20.4
Finished Goods Inventory	-	-	7.1	7.1	7.1	7.1	7.1	7.1
Raw Material Inventory	-	7.6	18.5	31.5	46.8	63.1	79.4	95.7
Raw material WIP	-	-	0.5	0.5	0.5	0.5	0.5	0.5
Total Current Assets	**13.4**	**8.1**	**55.0**	**72.0**	**89.1**	**106.7**	**124.9**	**145.1**
Total Assets	**87.8**	**155.1**	**195.3**	**205.6**	**215.7**	**226.2**	**237.1**	**250.1**
LIABILITIES								
Account Payables	-	-	15.2	15.9	15.9	15.9	15.9	15.9
Term Loan	-	62.8	52.3	41.9	31.4	20.9	10.5	-
Working Capital Facility	-	7.5	6.0	4.5	3.0	1.5	-	-
Total Liabilities	**0.0**	**70.3**	**73.6**	**62.2**	**50.3**	**38.3**	**26.3**	**15.9**
Net Asset Value	**87.8**	**84.8**	**121.8**	**143.4**	**165.4**	**187.9**	**210.8**	**234.2**
EQUITY								
Share Capital	94.5	94.5	94.5	94.5	94.5	94.5	94.5	94.5
Retained Earnings	(6.6)	(9.6)	27.3	48.9	70.9	93.4	116.3	139.8
Shareholders Equity	**87.8**	**84.8**	**121.8**	**143.4**	**165.4**	**187.9**	**210.8**	**234.2**

Profit and Loss Statement

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Revenues	-	-	238.5	247.6	247.6	247.6	247.6	247.6
Cost of Sales	-	-	185.2	193.0	193.0	193.0	193.0	193.0
Gross Profit	**-**	**-**	**53.3**	**54.6**	**54.6**	**54.6**	**54.6**	**54.6**
Margin			*22.3%*	*22.1%*	*22.1%*	*22.1%*	*22.1%*	*22.1%*
Pre-operating expenses	6.6	3.4	-	-	-	-	-	-
Operating Expenses	-	-	2.8	2.7	2.6	2.5	2.5	2.4
EBITDA	**(6.6)**	**(3.4)**	**50.5**	**51.9**	**52.0**	**52.1**	**52.2**	**52.3**
Margin			*21.2%*	*21.0%*	*21.0%*	*21.0%*	*21.1%*	*21.1%*
Depreciation	-	-	9.2	9.4	9.6	9.8	10.0	9.8
EBIT	**(6.6)**	**(3.4)**	**41.2**	**42.5**	**42.4**	**42.3**	**42.2**	**42.4**
Margin			*17.3%*	*17.2%*	*17.1%*	*17.1%*	*17.1%*	*17.1%*
Interest on cash balances held	-	(0.4)	-	(0.3)	(0.4)	(0.5)	(0.5)	(0.6)
Interest on Loan	-	-	3.9	3.2	2.5	1.8	1.1	0.4
Interest on working capital facility	-	-	0.5	0.4	0.3	0.2	0.1	-
Net Income	**(6.6)**	**(3.0)**	**36.9**	**39.3**	**40.1**	**40.9**	**41.6**	**42.7**
Margin			*15.5%*	*15.9%*	*16.2%*	*16.5%*	*16.8%*	*17.2%*
Less: Dividends	-	-	-	17.7	18.0	18.4	18.7	19.2
Retained Earnings	**(6.6)**	**(3.0)**	**36.9**	**21.6**	**22.1**	**22.5**	**22.9**	**23.5**

Cash Flow Statement

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Net Income	(6.6)	(3.0)	36.9	39.3	40.1	40.9	41.6	42.7
Add: Depreciation	-	-	9.2	9.4	9.6	9.8	10.0	9.8
Change in working capital	-	(7.6)	(22.9)	(13.2)	(15.2)	(16.3)	(16.3)	(16.3)
Cashflow from operations	**(6.6)**	**(10.6)**	**23.3**	**35.5**	**34.5**	**34.3**	**35.3**	**36.2**
Capital expenditure	(74.5)	(72.6)	(2.6)	(2.7)	(2.7)	(2.7)	(2.7)	(2.7)
Cashflow from investing	**(74.5)**	**(72.6)**	**(2.6)**	**(2.7)**	**(2.7)**	**(2.7)**	**(2.7)**	**(2.7)**
Cash contributions	94.5	-	-	-	-	-	-	-
Term Loan receipts	-	62.8	-	-	-	-	-	-
Working Capital Facility Receipts	-	7.5	-	-	-	-	-	-
Cashflow from capital injections	**94.5**	**70.3**	**-**	**-**	**-**	**-**	**-**	**-**
Term Loan repayment	-	-	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)
Working Capital Facility repayments	-	-	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	-
Cashflow from financing	-	-	(12.0)	(12.0)	(12.0)	(12.0)	(12.0)	(10.5)
Free cashflow before dividend payments	**13.4**	**(12.9)**	**8.7**	**20.9**	**19.8**	**19.7**	**20.6**	**23.0**
Dividend payments	-	-	-	(17.7)	(18.0)	(18.4)	(18.7)	(19.2)
Free Cashflow	**13.4**	**(12.9)**	**8.7**	**3.2**	**1.8**	**1.3**	**1.9**	**3.9**
Opening cashflow	-	13.4	0.5	9.3	12.5	14.3	15.6	17.5
Cashflow during the period	13.4	(12.9)	8.7	3.2	1.8	1.3	1.9	3.9
Closing cashflow	**13.4**	**0.5**	**9.3**	**12.5**	**14.3**	**15.6**	**17.5**	**21.4**

10.2 Alternative Scenarios

The two scenarios below reflect the Company's different returns given a US$ 40 selling freight premium (US$ 0 freight differential) and a US$ 85 selling freight premium (US$ 45 differential). The EV/EBITDA multiple and Terminal Value used in these scenarios are similar to the ones used for the US$ 30 freight differential base case.

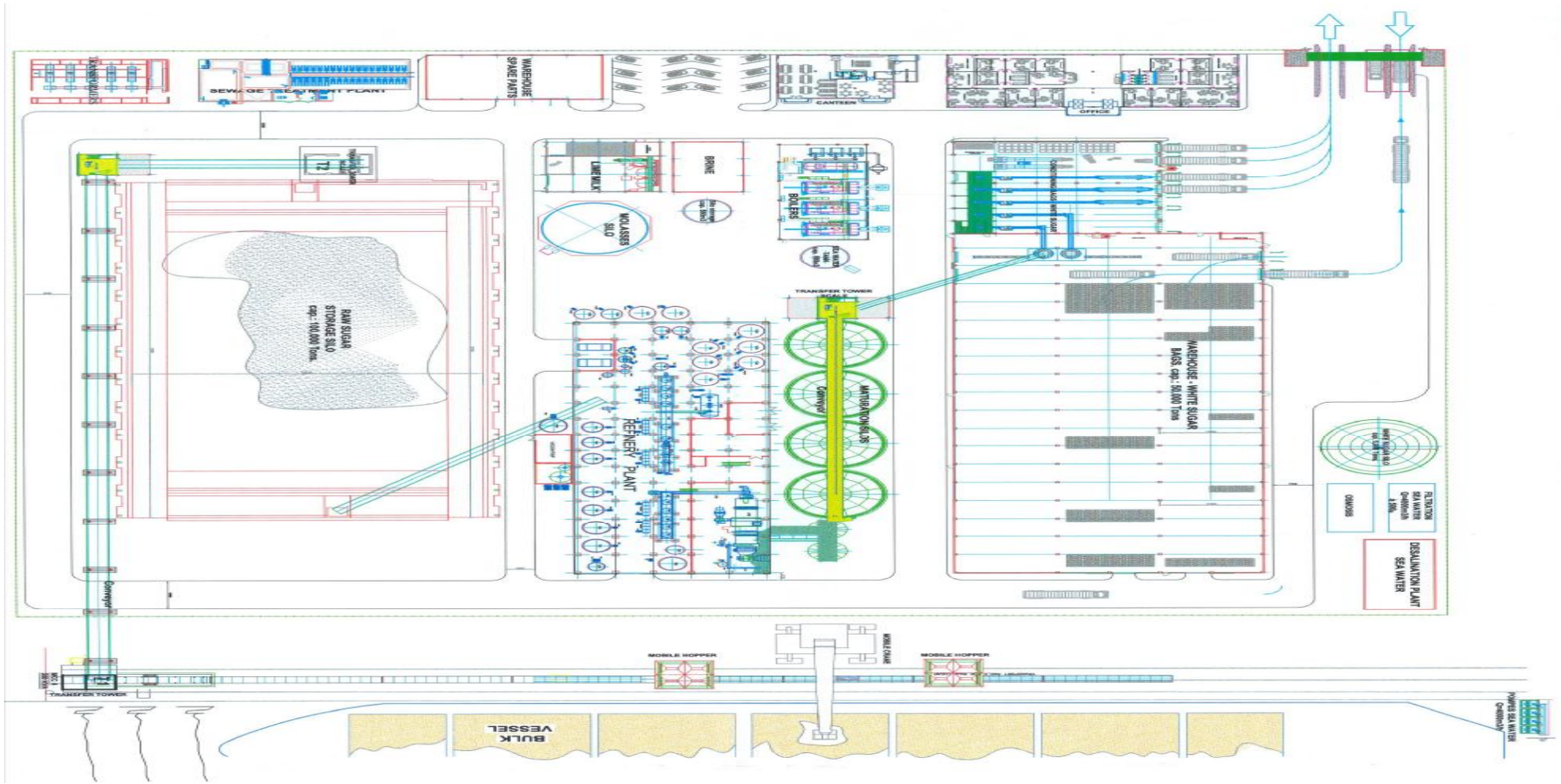
10.2.1 US$ 0 Freight Differential Scenario

Assuming no freight differential is a very pessimistic scenario. Under this assumption, no freight premium is added to the White sugar produced by ASC when sold and shipped to the buyer. The IRR of the investor in this scenario is expected to be 22.5% over the projection period.

10.2.2 US$ 45 Freight Differential Scenario

After sugar refineries in the EU shutdown, due to the subsidy cut (previously mentioned in section 3.4), the freight differential is expected to grow further. Assuming freight differential growth to US$45, investor's IRR of 38.5% is expected.

Masterplan


WAREHOUSE SPARE PARTS
CANTEEN
OFFICE
BRINE
BOILERS
MOLASSES SILO
TRANSFER TOWER
RAW SUGAR STORAGE SILO cap.: 100,000 Tons.
REFINERY PLANT
Conveyor
MITIGRATION SILOS
WAREHOUSE - WHITE SUGAR BASS. cap.: 50,000 Tons
DESALINATION PLANT SEA WATER
MOBILE HOPPER
MOBILE HOPPER
TRANSFER TOWER
BULK VESSEL