



KUWAIT

Investing in the Future

A Focus on Kuwaiti Companies' Investments Globally

Since the dawn of the modern era of oil wealth, and even before, Kuwait's bankers and businesspeople have built a reputation for entrepreneurial success and business acumen. They have grown their firms and conglomerates, based in this small country on the northwestern tip of the Arabian Peninsula, to include operations and branches across the region and the rest of the world. However, too often these skills were never fully utilized inside Kuwait itself.

Today, change is afoot in this country of 3 million as recent economic reforms and first-of-a-kind real estate and infrastructure developments begin to take form. While further steps need to be taken, there is a growing consensus that the status quo must not be allowed to continue unchallenged.

As a result, businesspeople, politicians and policy makers are making the kinds of investments in the future of Kuwait that will benefit the country for generations and provide opportunities for investors, companies and others worldwide.

Economic Reforms Signal That Change And Opportunity Are Coming to Kuwait

Home to some of the region's oldest and most entrepreneurial financial institutions, as well as to some of its largest and most successful diversified holding companies, Kuwait has nevertheless been outshined in recent years by flashier city-states elsewhere in the Gulf.

However, with a growing domestic consensus that change is necessary within Kuwait to fully unlock the potential of this nation of 1.3 million Kuwaitis and 1.3 million foreign expatriate workers, Kuwait is on the brink of a major transformation.

More significantly, the government and parliament have already approved several long-delayed reforms, and is considering others for the first time. The government has been authorized to sell unprofitable national carrier Kuwait Airways within two years. A half-century-old law that taxed foreign firms at up to 55% was replaced with simplified legislation that places a flat 15% rate on the profits of foreign firms. In addition, capital gains on the stock market will be tax-free for foreign investors. Another major reform increased government outsourcing of activities such as warehousing.

Some of the reforms are still under discussion, including the establishment of a financial regulator, the creation of a telecommunications regulator and the privatization of numerous state assets, including some in the oil sector.

The Heritage Index of Economic Freedom places Kuwait in second place among 17 Middle East and North African countries ranked in its annual survey. This high ranking is supported in part by low taxation, a flexible labor market and extensive trade freedoms.

In another sign of the kind of change coming to the country, the private sector is championing more eye- and headline-catching projects and developments in the country. These include the landmark 70-story InterContinental Kuwait Hotel and Towers; the Lagoon, a 37.7-million-square-foot mixed-use development and the first freehold real estate development in the country; and the \$500 million Sulaibiya Wastewater and Reclamation Plant in Kuwait, the largest of its kind in the world.

In addition, the country's macro-economic situation continues to look extremely healthy, particularly in light of strong oil prices, regionwide economic growth and market liberalizations. The economy of the world's seventh-largest oil exporter expanded at more than 6% in real terms in 2007, about the same pace as in 2006, according to central bank figures. It has also posted robust budget surpluses for the past nine fiscal years and now has assets worth more than \$250 billion, according to the central bank.

And while inflation is affecting Kuwait, just as it is affecting other Gulf States, policy makers here have taken a more proactive approach to dealing with the problem. The most high-profile step was to de-peg the Kuwaiti dinar from the U.S. dollar, to which the currencies of the other five members of the Gulf Cooperation Council are linked. In May 2007, Kuwait dropped the dollar peg in favor of a basket of currencies.

Despite these encouraging steps and the country's high ranking in the Heritage study, there is a sense that more can be done on the economic reform track. After all, Kuwait's economy is still dominated by the public sector, which contributes about 77% of the country's GDP and stood at \$110 billion in 2007.

Economists and politicians alike have said that the only way to reform the domestic economy is to privatize major economic sectors and services, which the state still controls and runs. This is why the decision to sell off Kuwait Airways is an important step.

Change — and opportunity — are coming to Kuwait. While the reforms that many in the business community are awaiting have not yet materialized, several steps have been taken that hint at what is possible. Kuwait is a small country, so when new reforms are initiated, change can happen quickly and dramatically.

From government to business, Kuwaitis and the rest of the world are committed to investing in Kuwait's future. As such, it's only a matter of time before the people of Kuwait, the region and the wider global community begin to reap the rewards of these visionary investments. ■



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Kuwait Finance House: Thinking Global, Acting Global

Be sure not to blink when tracking Kuwait Finance House's growth record. Because if you do, you'll miss out on witnessing how one of the Middle East's most respected and profitable financial institutions became a global player in the investment world.

Kuwait Finance House, or KFH as it is known by its shareholders and investors the world over, was established in the State of Kuwait in 1977. It was Kuwait's first bank to manage assets according to *Shari'a* (Islamic religious law). And as Mohammed Sulaiman Al-Omar, the company's Chief Executive Officer, explains, it soon became a dominant player in the region.

"Our tremendous success over the past 31 years has been driven by our staff and clients' trust," Al-Omar says. "We are truly a people-powered company that relies on the experience and expertise of all our team members to develop the right mix of products and investment opportunities for our shareholders."

The high demand for products and services from KFH has made this financial institution number one in its home market. The trust placed in it is best symbolized by its volume of deposits, which now exceeds 25% of the total banking sector.

"We continue to step up our performance and increase market share by diversifying our products while also showing greater care for our clients' needs in this ever-changing marketplace," Al-Omar says.

According to Al-Omar, KFH's main areas of focus today are its global expansion, industry-leading service and unique product offerings.

Through the firm's solid reputation and position of high regard among other global institutions, KFH has managed to expand its network of subsidiaries and reach beyond the Gulf Arab region to include Turkey as a window to the West, and Malaysia as a doorway to the Far East. Furthermore, it expects to have 175 branches by the end of the year representing the group's various business operations.

"It has required much hard work on our part, but our driven and determined outlook has resulted in KFH unveiling a number of innovative and competitive products that consistently attract new clients and more business," Al-Omar says.

This, coupled with greater interest and demand for Islamic financial services, has rapidly transformed KFH into a leading player in the *Shari'a*-compliant financial services industry.

The firm's investment and business acumen is evident in its ability to invest in the right areas at the right time. But equally important has been KFH's capacity to avoid



Mohammed Sulaiman Al-Omar
Chief Executive Officer
Kuwait Finance House

investment opportunities that would have proven disastrous.

Instead of following other big global financial firms into the catastrophic U.S. subprime market, KFH steered clear of it and focused on the flourishing Asian real estate market. KFH stands out among its peers as the number one company listed on the Kuwait Stock Exchange according to its market capitalization, which exceeds \$22.3 billion as of the second half of 2008.

And the news only gets better for KFH. It has succeeded in achieving a whopping total profit of \$1.23 billion for the first half of 2008, marking a 30% growth rate over the previous year.

KFH's net profit for shareholders reached \$594 million in the first half of 2008, a 35% increase over last year, while earnings per share increased 27% over last year. In addition, assets topped \$38.75 billion with 28% year-over-year growth. The deposits for the second quarter of 2008 reached \$23.81 billion with a \$5.62 billion increase, a 31%

jump over the same period last year.

The good news has been felt industry-wide as the Islamic financial services sector has become one of the fastest-growing financial sectors in the world. Other global institutions, such as HSBC, have taken note of this flourishing industry and developed Islamic financial services as well. Al-Omar welcomes the increasing competition and believes there is much room for KFH to grow outside its Kuwaiti borders.

Although he declined to give further details about KFH's global expansion, Al-Omar says the bank will look to build on its business operations either through the establishment of new ventures or through acquisitions of existing institutions.

KFH is also considering investment opportunities in Hong Kong, Singapore, Australia and China.

"It is our belief that the Asian markets possess some of the greatest potential for growth, and we are excited about the opportunities there," Al-Omar says.

In addition, KFH is increasing its emphasis on investment opportunities in the Gulf Cooperation Council as new financial markets continue to open in these countries.

This all complements the diversification strategy for the KFH group of companies, which covers many fields of operation, including health, education, aviation, technology and energy.

And if the last 31 years are any indication, wherever KFH decides to go next and whichever industry or investment opportunity it pursues, it will undoubtedly see continued success and profitability. ■



With over 25 years' experience in finance and Islamic banking, Al-Omar is a driving figure in the advancement of Islamic investment products at KFH. He is Chairman of the Kuwait Turkish Participation Bank (KFH-Turkey) and led this firm's successful expansion to more than 100 branches and a \$2 billion increase in assets. He is a Business Economics graduate from Chapman University in California.

M.A. Al-Kharafi Group: Partnerships and Corporate Responsibility Equal Global Success

What do an airline in Albania and a float glass manufacturing plant in Egypt have in common? What about a major road project in Syria, a wastewater treatment plant in Kuwait and a golf resort in South Africa? All of these developments are owned or built by the Mohammed Abdulmohsin Al-Kharafi and Sons Group of Kuwait, a family-owned holding company that is one of the largest diversified conglomerates in the Arab world.

Now more than 100 years old, the group operates or has ownership in 25 countries in a range of sectors, including engineering and construction, agribusiness and food industries, finance and banking, manufacturing and industry, real estate, infrastructure, tourism, leisure and hospitality. In 2007, it had a turnover of \$5 billion.

For the holding company's President, Nasser Al-Kharafi — one of the richest men in the world (tied with corporate raider Carl Icahn for 46th place on the 2008 *Forbes* "Billionaires" list) — building the businesses has always meant more than just making money. "We also like to see a job done well, to create jobs, to improve living standards, not just at home, but anywhere we can make a difference," Al-Kharafi says. "We always go for the long term and never the short term."

This sentiment of responsibility is no surprise given the family's pedigree. Al-Kharafi's older brother, Jassem, is known as the speaker of Kuwait's National Assembly. His sister, Faiza, was the first female president of Kuwait University. Their father was a founder of the National Bank of Kuwait, one of the oldest, most respected and most successful financial institutions in the Gulf.

With such a large and diversified set of holdings and more than 120,000 employees worldwide, the group boasts a number of distinctions. The \$500 million Sulaibiya Wastewater and Reclamation Plant in Kuwait is the largest of its kind in the world, while the Kuwait Food Company (also known as Americana) is the largest food company in the Middle East. It is both a manufacturer and an exclusive franchisee in the Middle East for brands such as Krispy Kreme Doughnuts (the group is the doughnut maker's largest individual shareholder), Pizza Hut and T.G.I. Friday's.

In Egypt, the group has built the Marsa Alam International Airport, the first BOT (build-operate-transfer) airport project in the Middle East. The airport is part of a massive, \$1 billion green-field



Nasser Al-Kharafi
President
M.A. Al-Kharafi Group

resort development that also includes the Ghalib Marina and Resort Community, built along 11 miles of coastline on the southern Red Sea.

Because the holding company is continually looking to enter new geographies and new sectors, it is "constantly talking to business groups and governments ... to understand their practices, culture, needs and potential," Al-Kharafi says. Right now, like many business groups and banks based in the Gulf, M.A. Al-Kharafi is looking to invest in Africa, particularly West Africa.

Established by Mohammed Abdulmohsin Al-Kharafi, the group remains family owned and run by Nasser Al-Kharafi and his sons. Despite the growth of the company and the size of its projects, the group relies primarily on internal funding, though it does turn at times to bank loans and bonds.

As individual business units grow, those that grow particularly large are transformed into independent, wholly owned subsidiaries. The most recent

example of this was the launch of Sovereign Hospitality Holdings, a hospitality, tourism and real estate investment company based in Geneva, Switzerland. Responsible for managing and growing M.A. Al-Kharafi's \$800 million hotel and real estate portfolio, the subsidiary is based in Geneva, and not Kuwait, "for the international exposure," Al-Kharafi explains.

"As a company, we benefit from cooperation and partnerships with different companies and countries, exchanging knowledge and experience."

Other examples of this independent subsidiary strategy include Americana and Kharafi National, the largest electro-mechanical contractor in the Middle East.

Al-Kharafi is adamant about the value of regional and global partnerships to the group and to its clients. "As a company, we benefit from cooperation and partnerships with different companies and countries, exchanging knowledge and experience," he says. "[This] has the beneficial effect of improving the quality of life and standard of living for everyone, as well as fighting terrorism by creating jobs and improving the economics of countries where it is needed most." ■



Born in Kuwait on June 17, 1943, Nasser Al-Kharafi is married with three sons and two daughters. He received a degree in Business Administration from the Liverpool College of Commerce in the U.K. At a young age he started working in the family business and he has turned it into the multinational group it is today.

National Offset Company: Bringing Venture Capital Thinking To Economic Development

The Australian College of Kuwait (ACK) is a good school, but certainly not a global name in higher education. Yet it is getting major support for its programs from some of the world's biggest aeronautics conglomerates, including Boeing Co. and Lockheed Martin. The two firms are providing the college with a modern aviation-maintenance training center, a maritime simulation center, a Boeing 737 aircraft and a range of sophisticated workshop training equipment.

This support for ACK is just one example of how the National Offset Company (NOC), a wholly owned company of the Kuwait Investment Authority, is pursuing its mission of promoting the transfer of technology to Kuwait and creating jobs and training opportunities for Kuwaitis.

It has been two years since the NOC was taken out of the Kuwait Ministry of Finance and transformed into a separate and "dynamic entrepreneurial entity ... that works like a venture capital company free from the bureaucracy and red tape of government offices," says NOC Chairman Dr. Adel Asem.

Since its launch, the company has secured \$135 million in investments by offset obligors. Offset obligors are multinational firms with large government contracts that stipulate the firms' obligation to commit funds and resources to economic development in Kuwait, according to NOC General Manager Mazen Madooh, who has been in charge of the Kuwait Offset Program since its inception back in 1992 and thus was chosen to manage NOC when it was established in September 2006.

However, given Kuwait's large oil revenues, it is not the dollar amount of the investments that is so important, Asem says, but rather the "technical and managerial know-how of the big international companies" that will help "boost economic development efforts and achieve economic diversification through expanding the role of Kuwait's private sector."

The NOC is doing this by supporting small- and medium-size companies from all sectors of the Kuwait economy. The only criteria for investments or joint-venture projects to receive support from the NOC are that the projects must support the core mission of the NOC regarding employment, education and technology transfer.

In addition to bringing together multinational companies that have offset obligations with Kuwaiti entrepreneurs, the NOC works to set up or certify investment funds that support its goals. Two recent examples of these types of funds include the Kuwait Investment Opportunities Fund, managed by NBK Capital, and



Dr. Adel Asem
Chairman
National Offset Company

the Markaz Energy Fund, managed by Kuwait Financial Centre (KFC). The NBK Capital fund invests in education, healthcare, manufacturing and technology, while the KFC fund invests in existing and new companies in the energy sector in order to help them develop and expand.

Madooh explains that upon the completion of its first business plan with Ernst & Young Consulting and sponsorship by the World Bank and Ministry of Finance, NOC enters its third year, and the company is preparing to implement a new organizational structure. This will allow it to upgrade its matchmaking services, provide more efficient and professional services to offset obligors and Kuwaiti investors, and develop new offset project ideas and follow up with timely implementation.

The NOC has already succeeded in increasing the value of offset investments in the country, from an average yearly value

of around \$31.5 million during the period from July 2002 to September 2006 to an average yearly value of \$70 million as of September 2, 2006.

The NOC has achieved this in part because of the way it supports foreign companies with offset obligations. The NOC does this by explaining program requirements, helping multinationals assess investment options and identifying Kuwaiti joint-venture partners for offset projects.

All of these efforts are supported by the country's strong macroeconomic environment, according to Asem. Kuwait's high economic growth rate, substantial fiscal and external current account surpluses, prudent monetary policy and ongoing structural reforms are promoting the country's dynamic private sector as "the main engine of growth and employment and enhancing incentives for bringing in foreign know-how," Asem says.

Kuwait's recent fiscal reforms have included a dramatic slashing of the tax rate on foreign investor profits from 55% to 15% and exempting the capital gains on stock investments from taxation.

The NOC's private-sector operating style has also contributed to its success. By "creating a balance between attaining developmental objectives and establishing commercially viable projects that serve the broader economic objectives of the Kuwaiti government," the NOC has contributed to the country's economic development, Asem says.

"This is a program that will guide the country into a flourishing future as a prominent commercial and financial center, a future that will witness close coordination and cooperation between Kuwaiti and international investors and entrepreneurs," Madooh concludes. ■



Dr. Adel Asem has been Chairman of the National Offset Company since September 2006 and is the Deputy Chairman and Director General of the Public Authority for Assessment of Compensation for Damages Resulting from the Iraqi Aggression (known as PAAC), which is in charge of distributing U.N. compensations for Kuwaiti individuals and businesses and overseeing the rehabilitation of Kuwait's environment.

Bayan Investment: Small in Numbers, Big in Achievements

The interview is meant to be about Bayan Investment, but Faisal Ali Al-Mutawa, the company's Chairman and Managing Director, seems as eager to talk about regional politics and how to improve Kuwait's business environment as he is Bayan's latest accomplishments.

There are many reasons for this political talk, including the fact that 60% of the company's investments are located in a small, oil-rich Gulf state situated in what Al-Mutawa calls a "Bermuda Triangle," since it is close to both Iran and Iraq. Ultimately, it's Kuwait's tremendous investment potential that drives Al-Mutawa's political talk. "There are so many investment opportunities here in Kuwait, [but] only if the government takes the cap off and lets us compete," he says. "The Kuwaiti private sector is very vibrant."

This leads to a point Al-Mutawa makes repeatedly throughout the interview, which supports his bullish view of the country.

"Kuwait is not a supertanker, it's a boutique country," he says. "Things can turn around very quickly. When Kuwait opens, I advise foreign investors to come quickly because the potential is great — whether in the oil industry, in services, in real estate or as a commercial center to serve neighboring countries such as Iraq. Kuwait could become the door to investment in a secure Iraq."

Launched 11 years ago, Bayan Investment is today publicly traded on the Kuwait Stock Exchange and the Dubai Financial Market and has operations in private equity, asset management, real estate development, industry and information technology. Al-Mutawa describes Bayan as a boutique investment company that is "small in numbers, but big in achievements."

One of its largest ongoing projects is Dar Al Dhabi Holding, which it launched in 2007 to develop real estate in Abu Dhabi. Following a capital increase earlier this year, Bayan still holds a 37% stake in the company. The holding company is developing a \$2 billion mixed-use residential, commercial and office project with six towers, including two "iconic" 80-story towers on a piece of prime waterfront real estate in the thriving oil-rich city of Abu Dhabi in the UAE.

It also manages several wholly owned subsidiaries, including Al Noor Holding, which operates in the field of IT; Arkan Holding, which manufactures construction materials; and



Faisal Ali Al-Mutawa
Chairman and Managing Director
Bayan Investment

Launched 11 years ago, Bayan Investment is today publicly traded on the Kuwait Stock Exchange and the Dubai Financial Market and has operations in private equity, asset management, real estate development, industry and information technology.

Bonyan Real Estate, which handles real estate investments.

Bayan also operates two open-ended mutual funds. The Eammam and Estethmar Fund invests in regional real estate and securities while the Al-Themar Securities Fund invests primarily in large-cap companies that operate according to Islamic law and are listed on Gulf exchanges.

Al-Mutawa says Bayan differs from other investment companies because of its studied approach and long-term commitment to its investments and projects. "We are persistent and have vision," he says. "For example, we were one of the first to go into Abu Dhabi, and we are looking at Libya, where very few have gone before us."

The company funds its activities either through private placements associated with specific projects — such as Dar Al Dhabi, which recently increased its capital by \$374 million — or through loans and bonds.

Bayan's private equity activities generally take the form of opportunistic investments that seek a controlling stake in target companies. This often involves "providing capital to Kuwaiti entrepreneurs who have an idea but not the capital," according to Al-Mutawa. Examples include Teshkeel Media Group, a creator of Muslim superhero cartoons; Idea, a leading outdoor advertising company in Kuwait; and Bahri, a media company with a TV channel and magazine devoted to water sports, boating, fishing and yachting.

Al-Mutawa says Bayan is looking to increase its investments outside Kuwait and will continue to grow based on a strategy that has delivered solid returns to its shareholders over the past 11 years: "A lot of hard work, a lot of thought, a lot of planning, a lot of good people and some luck." ■



Faisal Ali Al-Mutawa obtained a bachelor's degree in Management and Political Science from the American University of Beirut (AUB) in 1969. Since then, Al-Mutawa has held many executive positions and led many reputable organizations. He currently serves as Chairman and Managing Director of Bayan Investment Company, Chairman and Managing Director of Ali Abdulwahab & Sons Co., Member and Undersecretary of the National Democratic Group, Board Member and Executive Committee Member of the American Kuwaiti Corporation and Founder and Board Member of the Kuwait Heart Organization.

Bukhamseen Group: Unrivaled Diversification, Unparalleled Expertise

Fifty years ago, Jawad A. Bukhamseen, with a 15,000-rupee investment in a wholesale business in Kuwait, took the first steps toward creating what today is the multi-billion-dollar Bukhamseen Group Holding Co. He spent six years building the business before moving into a second industry — real estate. Over the next 15 years, his company constructed in excess of 480 buildings during an oil-led economic boom in the country.

After achieving success in real estate, he moved into equities in the informal market that operated in Kuwait before the 1983 launch of the country's stock exchange. Bukhamseen, now Chairman and Founder of the Bukhamseen Group Holding Co., points to this strategy of focusing on just one new sector at a time as an important reason for his success. "I don't move into a new sector until I've achieved success in the current one," he says. "I don't want two different projects competing for my attention."

Over the years, Bukhamseen has diversified further into hospitality, manufacturing, banking and insurance. Most recently, the Bukhamseen Group launched the Arab Investment Company as an investment banking and asset management vehicle. Currently, assets managed by the Company in the regional stock markets are equivalent to \$1 billion. Given the liquidity in the region and the strong demand for its services, the Company is expected to become a regional leader in its sector by 2011.

"Kuwait has 10 or 11 big groups, but none of them operate in more sectors than the Bukhamseen Group."

Bukhamseen is proud of his success, but he isn't arrogant. He readily concedes that his company is not the country's largest or oldest. However, he does assert that it is the most diversified. "Kuwait has 10 or 11 big groups," he says, listing them, "but none of them operate in more sectors than the Bukhamseen Group."

He also points out that not only is the Bukhamseen Group more diversified than other groups, but its ownership stake is often substantial. "I take a controlling stake because I need [to be sure of] good management," he says. Among the listed companies, the Bukhamseen Group controls 51% of Al Arabiya Real Estate Co., 49% of Kuwait International Bank and more than 60% of Warba Insurance Co.



Jawad A. Bukhamseen
Chairman and Founder
Bukhamseen Group Holding Co.

Within the Bukhamseen Group, no one sector dominates. Even the largest sector, real estate, represents no more than 20% of the group's total operations. And while the company has a heavy Kuwait focus — today about 70% of its assets are in Kuwait — it will move aggressively over the next three years to reduce that to about 50%. A big driver of this is real estate and hospitality investments in Egypt and Saudi Arabia, two markets that "have big potential," Bukhamseen says, and into which the Bukhamseen Group has already branched out.

This internationalization is facilitated by the Bukhamseen Group's long history of cross-border investing. In fact, the Bukhamseen Group is a founding shareholder of First Gulf Bank of the UAE and the Egyptian Gulf Bank and has numerous other business interests in Lebanon, Syria, Bahrain and Qatar.

The Bukhamseen Group is entirely family owned — with shares apportioned between Bukhamseen and his four sons — and to date has funded most of its

growth with retained earnings. Bukhamseen says the value of current loans does not exceed 15% of the Bukhamseen Group's assets, which he conservatively estimates at more than \$3 billion. Each son is a director and is responsible for a different business sector.

Currently, the Bukhamseen Group is in the middle of a multi-year restructuring to create a handful of industry-specific subsidiaries that will manage the Bukhamseen Group's operations in those sectors. Once consolidated, many of these business units will issue shares on public markets; however, the Bukhamseen Group will always remain a major shareholder.

Looking forward, the Bukhamseen Group plans to launch the Al Nahar satellite TV station, following last year's launch of the Al Nahar newspaper. In addition, the Bukhamseen Group is a founding shareholder of Wataniya Airways, a luxury airline set to start operations next year. In hospitality, the Bukhamseen Group's real estate arm is building the wholly owned landmark, the 70-story InterContinental Kuwait Hotel and Towers.

The Bukhamseen Group has come a long way in 50 years. The Bukhamseen Group not only sustains its success in established sectors, but also adapts to changing environments and new market opportunities with a flexibility born of its relentless commitment to diversification. As the Bukhamseen Group prepares itself for the future, its culture of managed growth and relentless expansion into new sectors will help it thrive in an increasingly competitive and globalized economy. ■



Jawad A. Bukhamseen is Founder and Chairman of the Bukhamseen Group Holding Co., a diversified holding company with interests in more than a dozen sectors. He is Chairman of a number of companies in which the Bukhamseen Group holds a controlling stake. He is also on the board of many other companies in which the Bukhamseen Group has an ownership stake.

AREPCO: An Innovative, Nonconventional Real Estate Developer

A subsidiary of the Al-Ahlia Holding Company, a leading publicly traded diversified holding group in Kuwait, AREPCO was launched in 2004 and is currently developing projects across the Gulf. Its parent, Al-Ahlia, is working on a private placement to sell a 30% stake in AREPCO and then list AREPCO on the Kuwait Stock Exchange.

AREPCO, which has more than \$500 million in assets, is in the middle of building its land bank across the region with a war chest amassed, in part, from its successful development of Kuwait's first and largest freehold real estate development, Lagoon City.

Building the Lagoon is a difficult task, given the high price of real estate in Kuwait and the region. "One of our main problems is we have too much money," AREPCO Chairman Dr. Adel Sami Al Mishri laments. "And since we are not fully invested, our leverage is very, very low. We really have to spend the money we have to maximize our returns and expand our reach."

To that end, the company has launched a subsidiary in Saudi Arabia called Kingdom Palaces, which is building single-family homes for upper-class Saudis. A similar company AREPCO established in Oman will build housing for lower-income Omanis. In addition, AREPCO is working on a luxury mixed-use development in the Dubai International Financial Centre.

"Our projects are not based on the typical purchase of land and development according to existing floor area ratios or allowable built-up areas," Al Mishri says. "We always try to do projects that have innovation in the way we approach them, in the way we select them, in the way we secure them and in the way we develop them."

Several years ago, the Kuwait Municipality granted the Asian Olympic Council (AOC) a plot of land in Kuwait's foremost commercial district for its headquarters and an AOC museum. But the association didn't have the funds to realize this dream. That's when AREPCO, a self-described "nonconventional" real estate developer, stepped in with a proposal for the association.



Dr. Adel Sami Al Mishri
Chairman
AREPCO

AREPCO said it would develop the land to include the headquarters and museum, provide the association with annual revenue (\$3.6 million a year), create a master plan, design and build the project and even provide much of the capital. The result was Olympia, the largest mixed-use development in the country.

"Compared to land prices in Kuwait, which are extremely high — unjustifiably high — we managed to get a really good deal," explains Al Mishri. "With extremely high revenue from this project and not having to pay so much up front, we expect to achieve an IRR [internal rate of return] of 28%."

The Kuwaiti firm has an IRR project hurdle rate of 20%, a percentage the company consistently exceeds because of how it innovates across all aspects of a project.

Another example of this innovation is the firm's \$800 million Dubai Wellness Center at Dubai Healthcare City Phase II. Its IRR, given current land prices, is more than 40%, although this is still just on paper, as ground will

not be broken until the end of the year.

The project, done in conjunction with Duke University, will be a unique and superior kind of hotel. During a stay at the hotel, guests will be able to get a health checkup, spend 30 minutes doing supervised exercise and receive a personalized health consultation. The upshot, according to Al Mishri, is that guests will eat the hotel's healthy food, "lose a couple pounds and feel good about themselves."

As a further example of AREPCO's innovative approach to real estate development, Al Mishri also points to a youth-focused movie and retail entertainment complex in Kuwait City that AREPCO is developing. Because the firm worked with zoning authorities to create a new land-use term — "entertainment" — it was able to get a larger floor area ratio.

Although its enormous cash balances might appear to be AREPCO's most valuable asset, Al Mishri believes that it's the company's human and intellectual capital that sets it above the rest.

"Our main asset is not the land or the money, but the people," he says. "The strong thinking and the way people act and react with each other here are really unparalleled." ■



Dr. Adel Sami Al Mishri is Chairman of AREPCO. Prior to that, he served as an advisor to the firm in his position as President of the Soor Engineering Bureau, which was a consultant to AREPCO on a range of architectural and engineering issues. Before that, he was Manager of the Projects Department at the Commercial Real-Estate Company in Kuwait. He held board positions at the Kuwait Commercial Markets Complexes Company, the Kuwait Center for Ready-Mix Concrete and the AQAR Real-Estate Investment Company. He earned a Ph.D. in Finance from Sunderland University in London, an M.Phil. from The American University in London, an M.A. from Bradford University in the U.K., and a B.Sc. from The George Washington University.

Abyaar: Bringing Haute Couture To Buildings in the Middle East And Beyond

There are hundreds of real estate developers operating across the Gulf, and many of them are focused on luxury projects. But boutique developer Abyaar Real Estate Development is perhaps the only firm operating exclusively in the even more rarified ultra-high end of the market.

Marzooq Rashed Al-Rashdan, Vice Chairman and Managing Director of Abyaar, describes one aspect of the firm's business this way: "We create haute couture residences."

Working through joint ventures and collaborations with some of the world's most famous designers and architects, Abyaar designs and builds not only residential properties, but also commercial, retail and hospitality projects. All are situated in prime locations and feature innovative architecture and "aspirational" interiors, Al-Rashdan adds.

"We are one of the only developers specializing in luxury on an ongoing basis, as opposed to a project basis," he says. "And we only target the uppermost echelons of the market, offering exclusive opportunities to these investors. Our product is not for everyone; we target discerning buyers looking for property of outstanding quality."

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Abyaar's partners include the renowned French designer Christian Lacroix, with whom Abyaar has entered into a joint venture to build a unique 38-unit residential tower, the first project in a long-term partnership to develop similar projects around the region and beyond. Lacroix, whose work is noted for its exceptional use of color, is designing the building façade.

French designer Andrée Putman, known for her minimalist avant-garde furnishings and interior designs, is designing a number of projects for Abyaar, including residential towers and luxury sky villas. In addition, Abyaar uses leading European suppliers for many of its finishes.

"We have a modern approach to development," Al-Rashdan says. "Working with contemporary architects and interior designers means that 'contemporary design' is the result. The response we have had to date reinforces the appeal of this type of design among our target market."

Although it is based in Kuwait, Abyaar's geographic aspirations



Marzooq Rashed Al-Rashdan
Vice Chairman and Managing Director
Abyaar Real Estate Development

are international. In fact, all its initial projects have been in Dubai because of the emirate's attractive real estate market, Al-Rashdan explains. Revenue from Dubai-based projects has doubled the firm's original investment to nearly \$7 billion.

Building on its successes in Dubai, Abyaar is looking to expand into Saudi Arabia and Qatar by the end of the year, and in 2009, it will be looking beyond the six Arab states that compose the Gulf Cooperation Countries (GCC) to countries such as Egypt, Turkey, Malaysia and Singapore.

"These are developing regions where prime tracts of real estate are still available for purchase," Al-Rashdan says. "As a company, as well as an investor, these markets offer the potential of large returns — apart from obviously beautiful locations."

Acacia Avenues typifies the Abyaar approach. It is a 1.4-million-square-foot mixed-use gated community near the sea,

the iconic Burj Al Arab hotel and major business and leisure landmarks. It is the only freehold development of its kind in Dubai's upscale residential neighborhood of Jumeirah. "We see our allowance to offer freehold development as a feather in our cap," says Al-Rashdan. "There is confidence in our ability as developers."

Also in Dubai, Abyaar has built the VentiQuattro Tower, located in the luxury Dubai Marina district. While most property in Dubai is purchased "off plan" (before projects have been completed or even started), Abyaar did things differently with this tower. In order for investors to see the true quality of the building before making a purchase, Abyaar became the first developer in the city to put units up for sale only after completion, "allowing [investors] to see and touch the interiors and exteriors before purchase," says Al-Rashdan.

The project also is unique for Dubai in that it is operated by hotel group Rezidor Radisson SAS, which allows investors to maximize returns via a rental pool.

Founded in 2005, Abyaar trades on the Kuwait Stock Exchange and very soon will obtain a secondary listing on the Dubai Financial Market (DFM), making it the sixteenth Kuwaiti company to list on the DFM. The capital increase from this recent listing will fund acquisitions to its land bank and help with cross-border diversification.

"We are excited about what's ahead considering that we are such a young company in such a competitive industry," Al-Rashdan says. ■



Marzooq Rashed Al-Rashdan is Vice Chairman and Managing Director of Abyaar Real Estate Development. He also is a founder of the company. Prior to taking on his current role at Abyaar, he was General Manager of Al-Rashdan Real Estate Company. Before that, he was Deputy General Manager at Al-Rashdan Building Material Company. Al-Rashdan holds a bachelor's degree in Civil Engineering and this year was named an Ernst & Young Middle East Entrepreneur of the Year.