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2012 Discovering Business



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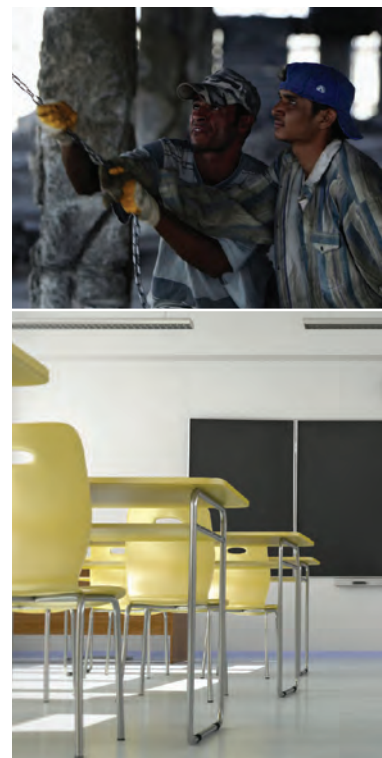
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Introduction

Iraq was known as Mesopotamia (from the Greek between the rivers) until the end of the First World War. The region is thought to contain the legendary Garden of Eden and is where Ur, Babylon and other historic and religious sites are located.

Following the end of the First World War and the end of Turkish Ottoman rule, Iraq was placed under British administration in 1920 by a League of Nations mandate. In 1932, the area achieved independence as a kingdom with Britain retaining military bases and rights of transit for its forces until the overthrow of the monarchy.

A Republic was declared in 1958 after a military coup. Saddam Hussein took control in 1979. After his demise, the country became a parliamentary democracy following ratification of the country's constitution on 15 October 2005.

Iraq has a land area of 432,162 square kilometres and borders Jordan to the west, Syria to the northwest, Turkey to the north, Kuwait and Saudi Arabia to the south and Iran to the east.

Iraq is composed of 18 governorates or provinces. These are Anbar, Babil, Baghdad, Basrah, Dahuk, Diyala, Erbil, Karbala, Kirkuk, Missan, Muthanna, Najaf, Nineveh, Qadissiya, Salah Al-Din, Sulaymaniyah, Thi Qar and Wassit.

Iraq's population is estimated at 30.4 million with an average age of 20.9 years. The population is 97% Muslim. Main ethnic groups are Arab and Kurd but Iraq also has distinctive Turcoman, Chaldean, Assyrian, Armenian, Bahai, Mandeian and Yazidi communities.

Main religion: Islam (60-65% Shia and 32-37% Sunni).

Principal cities (by population/estimates)

Baghdad - capital (5.8 million)

Mosul (1.5 million) | Basrah (923,000)

Erbil (1 million) | Sulaymaniyah (836,000)

Kirkuk (600,000) | Ramadi (700,000)

Fallujah (850,000) | Karbala (800,000)

Najaf (800,000) | Dahuk (600,000)

Zubayr (600,000) | Al Hillah (510,000)

Amarah (450,000) | Kut (450,000)

Tal Afar (450,000) | Baquba (410,000)

The 2005 constitution guarantees Iraqis basic rights with an independent judiciary. The President protects the constitution and unity of the state, while the Prime Minister is the direct executive authority and Commander-in-Chief; he is nominated by the Council of Representatives.

The Head of State is President Jalal Talabani since 6 April 2005. The Head of Government is Prime Minister Nouri Al-Maliki since 20 May 2006. A new government was announced in December 2010 following elections held on 7 March the same year. The elections were based on an open list system that elected the members of the Council of Representatives, who in turn elect the President and approve the executive branch appointments.

Prime Minister, Nouri Al-Maliki's State of Law coalition won 89 seats, the Iraqi National Movement coalition led by former Prime Minister, Ayad Allawi, won 91 seats. The Kurdish bloc, led by Kurdistan

Democratic Party President Masoud Barzani and Patriotic Union of Kurdistan, President Jalal Talabani, won 57 seats. The Iraqi National Alliance led by Muqtada Al-Sadr have 70 seats and other parties 18 seats.

The main industry is the production of crude oil with an estimated 2.7 million barrels per day (bpd) in 2011. Estimated oil reserves are 143.10 billion barrels and estimated natural gas reserves are 3.17 trillion cubic metres. Other industries include production of chemicals and fertilisers, textiles, construction materials, pharmaceuticals, metal products, processed foods, tobacco and paper.

Approximately 13% of Iraq is arable and some 35,000 square kilometres is irrigated. The country cultivates wheat, barley, rice, vegetables, dates, cotton, coffee and also farms sheep and poultry.

Iraq's main export trading partners (2009) are the US (27.6%), India (14.5%), Italy (10%), South Korea (8.6%), Taiwan (5.6%), China (4%), Netherlands (4.1%), Japan (4%).

Main import partners (2009) comprise Turkey (25%), Syria (17.3%), US (8.7%), China (6.8%), Jordan (4.2%), Italy (4%) and Germany (4%).

Transport:

There are 19 civilian airports of which six have international connections – Baghdad, Erbil, Sulaymaniyah, Mosul, Basrah and Najaf. Scheduled services are operated to and from Baghdad International Airport by Austrian Airlines, Emirates, Etihad Airways, Egyptair, Gulf Air, Middle East Airlines, Royal Jordanian and Turkish Airlines.

A railroad network of 2,272 kilometres standard gauge track is on course for rehabilitation and expansion.

37,851 kilometres of paved roads in varying states of repair.

Rivers and waterways of 5,279 kilometres including Euphrates (2,815 kilometres) and Tigris (1,899 kilometres).

58 kilometres of coastline located between Umm Qasr and Al-Faw.

Main ports:

Umm Qasr, Basrah, Khor Al-Zubayr.

Telecommunications:

International Dialling Code: 964.

Cellular services based on three nationwide GSM networks – AsiaCell, Zain Iraq, Korek Telecom. A fourth operator is due to be licenced.

Press:

Al-Sabah - state sponsored

Al-Zaman - private London based daily, printed in Baghdad and Basrah with English language pages

Al-Mada - Baghdad private daily

Al-Mashriq - Baghdad private daily

Al-Dustur - Baghdad private daily

Al-Manurah - Basrah private daily

Television:

Al-Sumaria - a private satellite TV broadcaster

Al-Iraqiya - state sponsored

Al-Sharqiya - Dubai based private satellite TV channel

Kurdistan satellite channel - operated by Kurdistan Democratic Party

Kurdsat - operated by Patriotic Union of Kurdistan

Internet news services:

Aswat Al Iraq

Al-Bawaba.com

Iraq-businessnews.com

Iraq.net

Iraqdaily.com (part of WN network)

sustainableiraq.com

baghdadtonight.com

Radio:

Two public and three private stations

Source: CIA World Fact Book, BP Statistical Review of World Energy, IMF and the BBC

Map - cities, oilfields, international airports & borders



Message by Dr. Sami Al-Araji, Chairman of the National Investment Commission



Dr. Sami Al-Araji

Greetings and welcome to the third edition of The New Iraq – Discovering Business.

Iraq's economy has lain dormant for decades. But the potential is clear with a largely untapped market and rapidly increasing population, predicted to reach 40 million in the next 15 years, recently restated high oil & gas reserves (among the highest in the world) and the country's strategic location. This fundamental strength is underpinned by steadily increasing oil production and rising export revenues.

While the oil sector is a vital development sector, the investment map is far broader. Our Five Year National Development Plan for 2010-2014, targets economic growth of 9.4% per year, with projects worth up to US\$186 billion.

In the transport sector new railways are expected to be developed by 2014, including cross-border links to Syria, Jordan, Kuwait and Iran. A doubling of Baghdad's airport capacity is planned, in addition to a number of new facilities such as Middle-Euphrates airport, to serve Karbala and Najaf.

Other projects are also set to take off. These include the Grand Faw Port, a metro project in Baghdad, a national housing programme to build one million new housing units and agricultural development projects. Huge opportunities exist for water engineering companies to improve conservation and distribution of the country's water resources. Education and healthcare are among our high priorities.

Iraq needs to vastly increase its capacity to produce cement, steel and other inputs for the construction surge due to occur within the next few years. Many more investment opportunities are opening up in manufacturing, financial services, consultancy, training and tourism development among others.

The sky really is the limit for investors. As Chairman of Iraq's National Investment Commission (NIC) my mission, with the support of my team, is to help foreign companies and investors become involved in this massive reconstruction opportunity.

We have taken several steps to facilitate this, making a number of exemptions, incentives and guarantees available to foreign investors

under Iraqi law. The National Investment Law 13 of 2006, has been amended to allow non-Iraqis to own land for housing projects, as well as investment partnerships with State Owned Enterprises. The same Law exempts foreign companies from tax for up to ten years and import fees for a period of three years.

We work on a national and provincial level, acting as a one-stop-shop to assist foreign companies enter and operate efficiently in Iraq and to help investors to obtain licences, tax exemptions and land.

We are committed to creating mutually beneficial relationships with investors from all parts of the world and encourage you not to miss out on Iraq's huge investment potential.

Iraq has all the ingredients and national drive to become one of the region's richest and most successful economies. We want to be a vibrant part of the global economy. We at the NIC are here to help you and your business and look forward to welcoming you to Iraq - a land of unique opportunity.



Dr. Sami Al-Araji speaking at the Al Anbar Investment Conference, Istanbul October 2011 | Picture courtesy of the Haimour Group

Message by HMA Michael Aron, British Ambassador to Iraq



HMA Michael Aron

As I approach the six month point as Ambassador to Iraq, this seems a good time to take stock of the progress Iraq has made both in its recovery post 2003 and in seeking to regain its historical position as a major regional market.

We all know that Iraq has huge economic potential. With a population of over 30 million and a heritage of innovation and engineering prowess, coupled with vast hydrocarbon reserves, that now place Iraq third in terms of proven oil reserves in the world, the underlying fundamentals suggest a market ripe for investment. And as the country seeks to overcome the decades of conflict and stagnation, the combination of the need to rebuild and modernise infrastructure, develop the provision of public services, guarantee better security and train the population in the range of skills needed in a modern economy, offer excellent opportunities for international companies prepared to deal with the very real challenges of doing business here.

But if the opportunity is there, how much has Iraq delivered? Looking at the difficulties Iraqis continue to face, whether it is the continuing dangerous security situation, the relative lack of electricity provision, or the high level of unemployment, you could

“ We all know that Iraq has huge economic potential ” .

be forgiven for thinking not much. Add the tales of the difficulties companies still encounter operating here, from visas to payment and the picture seems bleaker. But that, in my view would be to overlook the very encouraging signs of progress that have been made this year.

There has now been a government in place for almost a year, formed after last year's elections held by observers to have been, for the most part, free and fair. This is a major step forward. So too is the steadily improving security situation that is increasingly allowing international companies to visit and set up here. The Government has shown great commitment and success in encouraging increasing international investment - US\$42 billion last year and projected to be more than US\$52 billion in 2011. At a time when the global economy is still recovering from recession, this is an impressive performance. I congratulate Dr. Sami Al-Araji and the National Investment Commission on this. And only two years after the bidding round to redevelop major oilfields in Iraq, the likes of BP and Shell, with their international partners are now stepping up oil production to the point where significant income is flowing into Government of Iraq's coffers. It is this monetarisation of Iraq's huge hydrocarbon wealth that will, quite literally, fuel the development of the wider economy.

Of course there is still much work to be done to provide all Iraqis the jobs and living conditions to which they aspire. Iraq is still at the wrong end of the Global Ease of Doing Business and Perceptions of Corruption indices. I welcome Government efforts to tackle

corruption and increase transparency and HMG is determined to continue to help our Iraqi friends with this - and with their efforts to reduce red tape and bureaucracy. International companies, with intense competition for their investment and business, will wish to see continued progress in these fields, as well as increasing transparency and continuing government stability. And they will want to see a more internationalised and open financial sector and business friendly visa regime.

But in a country where GDP growth is outpacing China's, companies are increasingly realising that the challenges of the Iraqi market are surmountable. Many British companies have already done so and are playing a leading role in the development of the oil & gas, security and professional services sectors amongst others. My UKTI teams in Baghdad and Erbil and those in the UK have helped many of these to build their businesses here and stand ready to help your company understand the increasing opportunities for you in Iraq and how best to approach them.

Looking ahead the future looks brighter. GDP is set to continue to grow rapidly and oil revenue will provide the necessary funding for development of infrastructure and other sectors of the economy, as well as being the catalyst for increasing reform and internationalisation with the global market. And with the Arab Spring encouraging companies to look more widely across Middle Eastern markets, Iraq may well be about to fulfil the potential we have all been talking about. I hope so and hope that you and your company will be a part of it.

Message by Baroness Nicholson of Winterbourne, Executive Chairman, IBBC (Iraq Britain Business Council)



Baroness Nicholson with Prime Minister, Nouri Al-Maliki

Almost a decade since the departure of its former regime, Iraq is once again at a historic point in its development as a nation. The Government of Iraq is now investing substantial sums of money in the hydrocarbons industries and a major building programme is underway to provide millions of homes, highways, schools, hospitals, ports and railways for the new Iraq.

After years of isolation, the country's full economic development remains its most important international challenge.

Iraq is already welcoming international investment to overcome this challenge and the organisation which I co-founded in June 2009, IBBC (Iraq Britain Business Council), is playing a key role in bringing together global business leaders with Iraqi politicians, government officials and Iraqi business partners.

Moreover, IBBC is more than a catalyst for business initiatives. The Council is also working with the Iraqi Government to promote international standards in areas such as banking and accountancy. Already there are signs that this initiative is working well and we at IBBC are immensely proud of that.

Events in 2011

2011 proved to be an extremely busy and important year for IBBC. It began with a January reception at the House of Lords, with guests including CEOs from a broad range of businesses from the UK, USA, Europe, Iraq and the Middle East. The Rt. Hon. The Lord Howell of Guildford, Minister of State at the Foreign and Commonwealth Office, praised what he called the "phenomenal" work of the IBBC, meanwhile emphasising the British Government's optimism about Iraq and in particular the importance of Iraq's potentially colossal oil & gas production.

A month later, I led a trade delegation to Baghdad where IBBC members met high ranking Iraqi politicians including Deputy Prime Minister for Energy, Dr. Hussein Shahrastani, Deputy Prime Minister, Dr. Rosch Shaways and Chairman of Iraq's Investment Commission, Dr. Sami Al-Araji.

The month ended with a further trade delegation, this time to Iraq's southern city of Basrah, where IBBC held its second Basrah Conference and its members were invited by BP to visit the Rumaila oilfield.

In May, IBBC hosted a landmark 'Iraq Day' at London's Mansion House. Delegates heard the positive message that Iraq was steadily emerging from financial isolation and is increasingly attracting international investment.

IBBC's next major event took place in July at Cumberland Lodge in Windsor Great Park. Participants heard that Iraq's oil industry required US\$12 billion of investment in order to bring it up to international standards. The guest speaker Michael Aron, Britain's Ambassador to Iraq, delivered a fascinating and valuable insight into his work there.

In September, Iraq's mineral wealth was the focus at a mining conference in London in which IBBC was the principal partner. The conference attracted a large number of high ranking Iraqi politicians, including Deputy Prime Minister, Dr. Rosch Shaways and Deputy Oil Minister, Dr. Ahmed Shamma.

In October, IBBC hosted the Speaker of Iraq's Council of Representatives and 25 Iraqi MPs at the Foreign and Commonwealth Office. Later that month, IBBC returned to Basrah for a conference jointly hosted by the Governor of Basrah, Dr. Khelaf Abdul Semad. This third IBBC Basrah conference welcomed a large delegation from Baghdad, led by Deputy Prime Minister, Dr. Rosch Shaways and including six ministers and deputy ministers. Among the senior Iraqi representatives, we were delighted to welcome the Governor of the Central Bank, Dr. Sinan Al Shabibi.

News of the conference was covered by Iraq's national rolling news station and dozens of media outlets. United Kingdom Foreign Office Minister, Alistair Burt, delivered a keynote speech in which he

stressed the importance of business ties between Iraq and the United Kingdom. IBBC members also visited Shell's Majnoon and BP's Rumaila oil & gas fields, with both companies pledging to turn them into some of the biggest producing fields in the world.

A further IBBC Investment Conference was held in London in mid-November, attended by senior Iraqi politicians including Deputy Prime Minister, Dr. Rosch Shaways.

The future

IBBC's 2012 calendar is already filling up, with a Baghdad conference scheduled for February and another IBBC Iraq Conference at Mansion House, London, in May. The successful Cumberland Lodge Weekend will also be repeated in the summer.

Throughout the year there will be regular trade missions to Baghdad, Basrah and Erbil, as well as sector table meetings focusing on oil & gas, construction and infrastructure, financial and professional services.

IBBC members: Aegis, AMEC, Avicenna Capital, Basra Engineering Co, BP, Chevron, Consolidated Contractors International, Clyde & Co LLP, Control Risks, Dome Group, DLA Piper LLP, Erbil Chamber of Commerce, Ernst & Young Iraq, Exxon Mobil, Fluor, Foster Wheeler, G4S, Gulfsands Petroleum, KBR, KCA Deutag, Kier Construction, Kuwait Energy, Mamnoon Limited, Mott MacDonald, Olive Group, Penspen Limited, PwC, Rafidain Construction and Engineering, Resource Management Int., RPS Energy, Shell, SKA Air & Logistics, SNC Lavalin, Swagelining Limited, Tata Steel, Titon Middle East, Trade Bank of Iraq, TRC, UB Holding, Vitol Group of Companies, Weir Group.

OBVIOUSLY, GREAT MINDS THINK ALIKE.

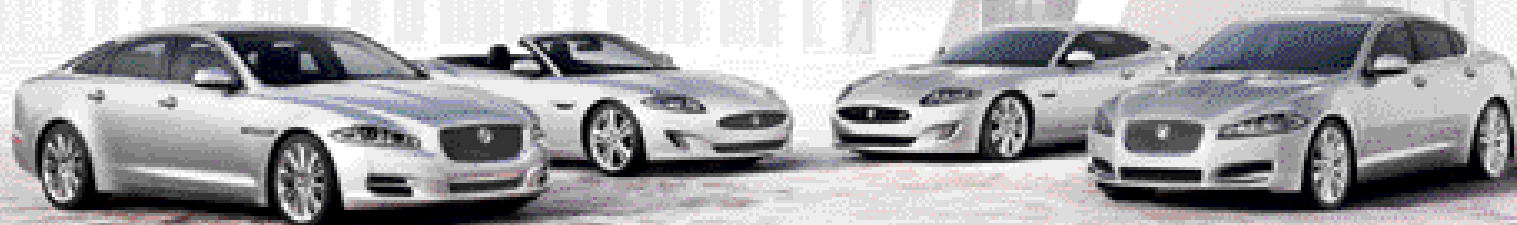
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Iraq private sector role in economic development and growth



Ismail Maraqa, PwC Country Senior Partner, Iraq

Today, Iraq is at its most stable since the 2003 US-led invasion. It is no longer the failed state that it once was: it is reclaiming both its sovereignty and domestic status. Violence is also down to its lowest level since the 2003 invasion and the overriding concern is now a struggle for political control through peaceful methods. In spite of the economic stability since 2003, the many challenges currently facing Iraq mean that the country is at a substantial risk of reverting to turmoil once again. Iraq's political prospects are closely connected to the likelihood of its institutions supporting the private sector in becoming a partner in the management of the state.

Prior to 2003, economic growth was based on the public sector giving the private sector a trivial role of limited scope. Although the private sector has tried to keep pace with economic and technological progress, the laws ruling the country's economic and

The successive wars and crises endured by Iraq, as well as rapid changes since 2003, have created social conditions that are incapable of adapting to new changes and transformations. This has led to cases of corruption that have had a negative impact on the path of development.

operational activities have restricted the private sector's contribution to Iraq's economic growth. This has led to a general increase in the level of unemployment, an increasing regression in the standard of living and a shift in the private sector's capital to abroad, which in turn has affected the country's development and efficiency. Subsequent to 2003, the state established a three year plan (2007-2010) which focused on strengthening the basis of economic evolution, invigorating the private sector, enhancing the standard of living and reinforcing governance and security in the country.

This three year plan was set up with the purpose of enhancing the private sector's contribution towards employment opportunities and balanced economic growth, in addition to its becoming one of the main income streams of the state. Although the plan was established with a focus on the private sector, the role of the private sector was not clearly defined and for that reason, the development of this strategy has been nominal.

According to the Ministry of Planning and Development's Technical Committee, a new Five Year Plan (2010-2014) has been developed with a focus on illustrating an agenda for economic, financial and administrative reform. This aims primarily to redefine the role of the state and to set up an effective partnership between the state and the private sector through the state's combination of the foundation of security, the rule of law and the establishment of a structural and institutional basis, as well as to acquire economic stability and achieve the completion of the infrastructure and the provision of public services. At the same time, this plan aspires to support and encourage the private sector in fulfilling its role in furthering

economic development and engaging in sectors that have previously been monopolised by the state.

Although this plan appears to be promising in terms of Iraq's economic stance, the evolution of the plan has been restricted by the security and political considerations surrounding the country.

Challenges facing the growth and development of the private sector

The private sector is confronted by a range of internal and external impediments which cap the development and growth of its production capacities whilst increasing its production costs and diminishing its capabilities. Internal challenges are primarily linked to comprehensive, selective or partial economic reform programmes. This challenge is classified into two groups.

The first group challenges the government itself and is steered by the disparity in the organisational and legal structures, in addition to insufficient infrastructures. This relates back to the clarity issues with regard to the role of the private sector in restructuring the economy and diversifying the production foundation. This challenge also relates to the initiation of reforms associated with privatisation in the economic reform programmes, improving the investment environment, campaigning on non-oil exports and setting up uniformity between legislation and laws in favour of the private sector: hence, strengthening the financial institutions represented by banks, trading markets and stock markets.

The second group challenges the civil society represented by the private sector and individuals. This challenge is linked to boosting the competition capability of individuals and productive businesses, implementing transparency, fairness and trust with local and foreign lenders, promoting and lifting the level of export (non-oil), lessening the cost of transport, production and marketing, concentrating on public relations and focusing on the basic needs and development priorities, as well as assisting in finding a clear vision that promotes integration between small and medium enterprises, thus establishing larger entities that are able to compete.

The external challenges are associated principally with offering the requirements of globalisation and with production technology,

marketing techniques and access to foreign markets. External challenges also revolve around restraining the impact of external political and economic interventions in national development and governance, as well as working to realise the rapid changes in the global market and keep up with them, as one of the components of competition.

Overcoming the challenges facing the private sector

The Five Year Plan established in 2010 is regarded as the foundation for accomplishing the transformation towards granting a bigger role to the private sector and improving its contribution to Iraq's economic development and growth. In order for this plan to attain its objectives, it must receive the necessary ingredients to meet the internal and external challenges previously stated; mainly promoting an environment for attracting investment, developing partnerships between the public and private sectors, intensifying the role of the specialised investment banking systems, supporting financial organisations and enhancing export capabilities and competitiveness within the private sector.

The crucial components necessary to stimulate an environment for attracting investment are the existence of goods and incorporated infrastructure at reasonable prices, the stability of exchange rates and the presence of favourable tax and customs exemptions, as well as an advanced financial system. The key to attracting and encouraging the private sector to establish projects involves giving way to its agricultural land at affordable prices, granting financial facilities, reducing customs exemptions and facilitating the regulatory processes involved in granting licences to the projects.

Establishing a public-private sector partnership requires an increased emphasis on various aspects of interaction between private and public sectors, including utilisation of the human, financial, administrative, organisational, technological and knowledge potentialities on the basis of a partnership. The partnership can take the form of either a cooperative partnership or a contractual partnership. A cooperative partnership is based on management and organisation of partnership on a joint basis and is portrayed by having a horizontal relationship between the two parties.

A contractual partnership is based on providing services in accordance with a contract between the two parties and is portrayed by having a vertical relationship with the existence of one single point of reference applying control over the activity.

Strengthening the role of the specialised investment banking systems would necessitate conducting a performance analysis of the financial sector, liberalising the interest and exchange rates, smoothing the flow of capitals and granting ongoing backing of the banking system, the financial market and other investment institutions by means of establishing programmes, policies and performance evaluations to guarantee the organisation of these institutions.

Promoting the development of commodity exports involves completing the infrastructure for export, initiating competition between companies operating in the ports, concentrating on quality, packaging and marketing, investigating potential export markets, organising rigorous regional and international promotion campaigns, augmenting trade exchange and making best use of the partnerships with foreign companies to facilitate access to foreign markets.

Development plan by private sector activities

Agriculture and irrigation activity: Improving agricultural revenue and increasing production is based on development and expansion of the agricultural private sector's activities, to achieve high economic efficiency. The development plan intends to achieve food security and contribute to the provision of employment opportunities and improvement of the standard of living in rural areas.

Construction and housing activities: The private sector is given a leadership role in this area, first and foremost through solving the housing problem by putting into operation, reconstruction projects with a focus on housing low income individuals. This plan would, however, require provision of the necessary funding for the private sector and facilitation of the lending process and the procedures involved in granting building licences, land registrations and transfer of ownership.

Communication activity: The private sector role entails promoting opportunities for the development of the telecommunications sector through the creation of an information community, supporting a new

industry of communication technology and enhancing the level of competitiveness in this field. The achievement of this plan would require the deployment of IT infrastructures and communication services, the use of them in state facilities (schools, universities, health centres, banks and other financial institutions) and the designing and enacting of regulations and laws that support and develop private sector participation in this area.

Electricity and energy activity: The plan established for electricity and energy activities aims at achieving higher levels of power generation that are able to sustain new and existing investment projects, thus contributing to an improved standard of living and better services in Iraq. Although the implementation of such a plan is a long term process, which would call for support to be provided by the private sector, in terms of setting up projects and providing the necessary electrical power for these projects, this would ultimately be achieved at a lower cost and with better specifications.

Industrial activity: The plan for industrial activities is to realise an advanced level of competition and a broad base of small and medium enterprises and to grant the private industrial sector a significant role in expanding this base horizontally and vertically. This can be achieved through the adoption of new programmes for private industrial development which focus on the establishment and development of industrial areas and cities. Furthermore, the plan encourages the preparation of industrial investment opportunity projection maps, to facilitate the setting up of private sector projects.

Oil & gas activity: The plan aims to involve the private sector in the development of oil & gas activities and create collaborative and contractual partnerships with the public sector. This entails encouraging the private sector to enter into petrochemical industries and set up maintenance projects for oil wells, gas, pipelines and oil refining.

Personal and social services: The private sector must be involved in implementing social policies and programmes, in order to improve the lives of individuals and society at large and to upgrade the Iraqi people to progressive civilisation standards, with a focus on creating a balance in the needs of the Iraqi society, especially for low income classes. This can primarily be achieved by encouraging the private



sector to establish training and rehabilitation centres, social care and custody houses with an advanced level of service.

Trade activity: It was essential to develop a plan that would strengthen the competitive business environment to face the challenges of increasing globalisation and economic openness, whilst decreasing the impact of the deficit on trade balance. Promoting authentic partnership between the public and private sectors is a key factor in meeting the requirements of world trade and its conditions for enhancing the freedom of export and trade competitiveness internationally. The private sector is encouraged to participate in the formulation of laws and regulations supporting commercial activity and in the establishment of insurance funds against the risks of export.

Transportation activity: The private sector role aims at achieving an efficient, competitive and environmentally friendly transportation system, either by taking the responsibility for managing this activity or by following the systems of contractual partnership to make Iraq a central point for regional transportation lines. In order to achieve the objective of this plan, a semi-complete withdrawal of the public sector from the role of operator is required. The public sector can instead take the role of the organiser, regulator or observer of transportation activities.

Water management and sanitation activity: The plan developed for water management and sanitation activities revolves around utilising the capacity of the private sector in the development and management of water resources whilst developing the existing resources and looking for new ones, which would improve performance and increase the level of services provided. The plan can be accomplished through the creation of partnership for the sustainability of water resources and tackling the disproportion in securing water resources and controlling the prevention of these resources from contamination.

Transformational learning and development through PwC Middle East Public Sector Institute

For the sole purpose of adding value through human capital, knowledge and performance, PwC has established a comprehensive centre of excellence, which combines customised pedagogy underpinned with public sector research, to provide capacity building programmes for the Iraqi government and private sector practitioners in both Arabic and English.

The Middle East Public Sector Institute (MEPSI), includes an impressive suite of comprehensive programmes for building national capability in core areas including functional, non-technical and behavioural through insightful design, a strong contextual understanding of client

“PwC is committed to supporting and celebrating the future growth and success of Iraq and its people”.

needs and industry-focused experience. They have unique access to tap into their Middle East, UK and global PwC network to create an exceptional educational experience by first, developing a close understanding of individual and organisational learning preferences and needs and second, designing meaningful and practical content with a high level of transferability back to the workplace.

Using leading edge practices and learning tools, workshops, conferences, forums, round tables and e-learning modules, the centre of excellence provides fresh insights, research findings and direct skills enhancement on topics such as leadership, managing change, integrating ICT, strategy development, project management and government-specific knowledge.

Impacting several key industries, the role of MEPSI, from a growth and capability perspective, aims to improve conditions of learning and development for the rehabilitation of the most critical facilities in Iraq. The approach is to build legitimacy and trust in order to overcome barriers to sharing information openly and transparently. Furthermore, by establishing peer to peer mechanisms that build confidence and create sustainability over time, imported or external expertise will slowly in time, give way to local capability and expertise.

The singular focus on driving capability and performance through people has relied upon engaging the end users and other

stakeholders up front and starting new ways of learning, problem solving and devising solutions, outside the box, with a clean slate. The philosophy is that individuals need to think less about how things are done now and focus, with a clear vision, on what could be done if they were not limited by current practices, processes or technologies.

One of the most promising components is PwC's flagship research piece currently underway across the Middle East, examining in detail how Arabs learn. To prepare current and future Arab leaders and in particular Iraqi leaders, to effectively manage their businesses and compete successfully in the 21st Century Knowledge Economy, PwC leadership development programmes are tailored and customised to meet their specific learning needs. PwC is conducting an in-depth exploratory investigation, aimed at discovering the extent to which cultural values impact on education and subsequently occupational effectiveness, in Arab nations. The development of culturally relevant education models is of great significance to the future success of an emerging country such as Iraq.

Paying special attention to opportunities for transferring skills and knowledge in-house and embedding best practices to sustain new learning, PwC is committed to supporting and celebrating the future growth and success of Iraq and its people.

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Foreign investment in Iraq - establishing a presence

Mena Associates in association with Amereller Legal Consultants



Mr Al-Janabi – Partner, Mena Associates Iraq

Background

The Republic of Iraq, once the historic site of Mesopotamia, is home to a rich and distinct variety of social groups, cultures and religions. It is endowed with a wealth of natural resources and a human aptitude for development and progress. The country's affluent natural resource base makes it potentially one of the richest countries in the world, with the production and export of petroleum continuing to set Iraq on the path to sustained economic growth and long term prosperity.

The pre-war Iraqi legal system was restrictive in many respects, particularly from the viewpoint of foreign businesses intending to do business in and with Iraq. It neither provided a legal framework for foreign investment nor an efficient banking system, little intellectual property protection and generally insufficient regulations and legal instruments for today's more complex commercial transactions.

To address this problem and to ensure the flow of much needed foreign investment in various parts of the economy, the post-war

Iraqi Governments have taken significant steps to modernise laws governing many areas of the financial system, public sector and broader economy.

Nevertheless, the process of securing, stabilising and rebuilding Iraq has been uneven, with corresponding repercussions on foreign investment in the Iraqi market. There was widespread euphoria in the months immediately following the Gulf War, followed by a period of considerably reduced expectations as the security situation remained unstable. More recently, there appears to be growing confidence in the Iraqi government's ability to reduce sectarian violence and otherwise maintain stability, with concomitant increased interest in foreign investment.

It is generally accepted that investment needs in Iraq will exceed income from oil exports, at least during the near term. All of this means an enhanced economic role for the private sector and a need for privatisation. Any such plans will require continued stability and further evolution toward a modern legal framework, if they are to succeed.

Other economic laws pending in parliament would allow for billions of dollars in government and private sector investment in oil & gas and infrastructure and authorise the government to issue bonds to finance such expenditure. In addition, Iraqi politicians have long discussed amending the constitution drawn up after the 2003 liberation. At stake are issues relating to the separation of religious and state laws and the power balance between the central government and the regions.

Foreign investment regime

To promote foreign investment, Iraq has provided in recent years various legislation with the aim of setting forth a seamless regime for attraction of foreign investment.

On 20 September 2003, the Coalition Provisional Authority (CPA) issued Order No. 39 which replaced “all existing foreign investment law[s]” and was intended to serve, for an interim period, as the basis for future foreign investment in Iraq. CPA Order No. 39 set a very liberal framework for foreign investment in Iraq and many foreign investors used the opportunities it provided, in particular the possibility to establish wholly foreign owned subsidiaries in Iraq.

In order to enhance investment opportunities and to secure the operation of foreign businesses in the country, the Presidency Council on 15 October 2006, issued the Investment Law No. 13/2006, expressly repealing the earlier CPA Order No. 39 and the Arab Investment Law No. 62/2002. The Investment Law has recently further been amended by Law No. 2/2010 (the New Investment Law), which is the prevailing legislation regulating foreign investment in Iraq.

The competent authority for the implementation and operation of the New Investment Law is the National Investment Commission. Contrary to many other investment laws in the region, the New Investment Law does not contain a list of eligible activities but opens its benefits and guarantees to all investments except for those in oil & gas extraction and production, banks and insurance companies.

According to the New Investment Law, an investment licence will grant the investor the following benefits: (i) equal treatment with Iraqi nationals; (ii) ability to acquire land for the exclusive purpose of housing projects to house Iraqi nationals (iii) repatriation of capital and profits; (iv) ability to hold shares and bonds of



“To promote foreign investment, Iraq has provided in recent years various legislation with the aim of setting forth a seamless regime for attraction of foreign investment”.

companies listed in the Iraqi Stock Exchange; (v) ability to lease land for a period of up to 50 years; (vi) ability to insure the investment project with any foreign or national insurance company; (vii) ability to open accounts in Iraqi or foreign currency or both at a bank inside or outside Iraq for the licenced project.

In addition, the licenced investment will enjoy the following guarantees: (i) employment of foreign workers, provided that it is not possible to employ an Iraqi national with the required qualifications; (ii) right of residency in Iraq; (iii) no seizure or nationalisation of the investment project in whole or in part; (iv) non-Iraqi technicians and administration employees working in any project may transfer their salaries and compensations outside Iraq.

The licenced investment project may benefit from an exemption from taxes and fees for a period of ten years as of the date of commencing commercial operations, which is extendable by a period of further five years upon meeting certain criteria. In addition, a licenced investment project shall be exempt from (i) import duties on any item imported for the purposes of the investment project for three years as of the date of the grant of the investment licence; (ii) import duties on any item imported for the purposes of expanding, developing or modernising the investment project for three years as of the date of the notification of the Investment Authority by the investor of the intended expansion; (iii) import duties on all spare parts imported for the purposes of the project, if the value of these parts does not exceed 20% of the fixed assets value.

The New Investment Law thus provides for extensive benefits, exemptions as well as guarantees to foreign investors for protection of their foreign investment in Iraq.

Establishing a Presence in Iraq

Aside from the investment laws, foreign investors may benefit from commercial legislation for the setting up a presence in Iraq including the Kurdistan Region.

In 2004, restrictions with respect to foreign shareholding in Iraqi companies were abolished and under the current Companies Law, foreigners may own up to 100% of the share capital in an Iraqi company.

Hereinafter we provide a general overview of the most common types of entities available for establishing a presence in Iraq:

Limited Liability Company (LLC)

The LLC is the most common corporate form of establishing a legal presence in Iraq. An LLC is formed by one or more shareholders, who may be foreign or domestic natural or juridical persons.

The main characteristics of an LLC established in Iraq (including the Kurdistan Region) are as follows:

- There is no minimum number of shareholders. An LLC may be established by one single person. The maximum number of shareholders is 25
- The minimum share capital for an LLC is IQD1 million (approximately US\$870), except any company working and classified as an oil service company shall have a minimum share capital of IQD2 billion (approximately US\$1.7 million)
- Other than for insurance, re-insurance, banking business and financial investment, an LLC may pursue any legally permissible objective
- An LLC must have one general manager, one auditor and one legal advisor, who are to be appointed and dismissed by the general assembly of shareholders. Nationality restrictions apply only to the auditor and the legal advisor (i.e., they must be Iraqis); the manager may be a foreign citizen
- An LLC is required by law to hold two shareholders' general assembly meetings per year
- In case of transfer of shares to third parties, the other shareholders have a statutory right of first refusal

Branch Office

Based on existing regulations, registration of a branch office in Iraq, with the exception of Kurdistan, requires that the foreign company have a valid contract with the government. The latter could be any public entity or a company fully owned by the Iraqi government. Although not founded on any current legal provision, it is suspected that the Iraqi authorities will not allow an extension of the activity

of the branch office beyond the activity specified in the underlying government contract.

For the registration of the branch in the Kurdistan Region, the government contract is not a basic requirement. The registrar has the right, however, to request it on a case by case basis.

It is possible to appoint a foreign or Iraqi as the branch manager.

Representative Office

Foreign companies may establish “representative offices” in Iraq. The purpose of these offices will be limited to non-commercial activities conducting market studies and studies of production possibilities and such offices must be registered with a special register at the Companies’ Registrar. Applications for registration in the Commercial Register shall be submitted indicating the name of the foreign company, its nationality, object, capital, headquarters, branches in Iraq, if any, the type of the office that the Company seeks to establish in Iraq and its purpose and the permanent or temporary address of the office. The establishment of a representative office can trigger tax issues for a foreign supplier and should therefore be carefully considered.

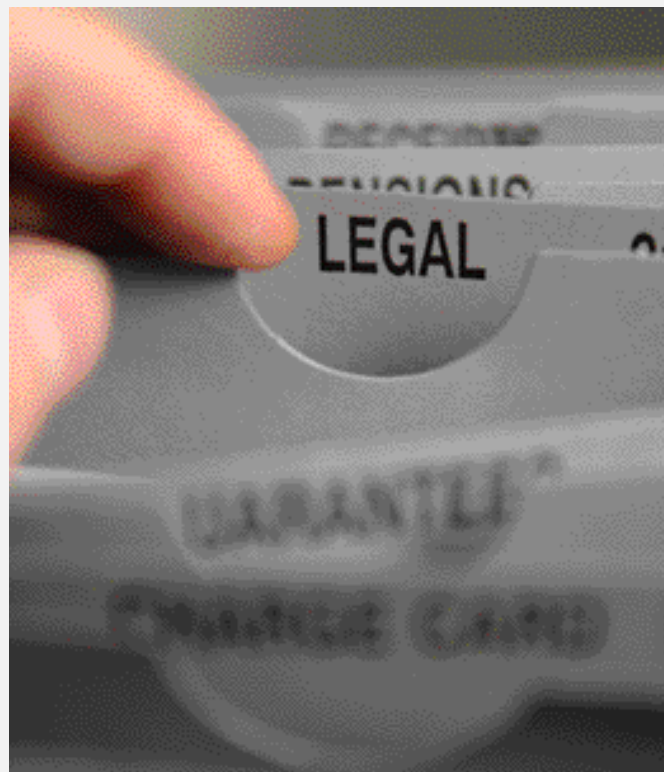
Conclusion

The overhaul of Iraq’s economy is no doubt a long term project, both commercially and politically and foreign businesses should be aware that – like most of the other Arab markets today – Iraq is no “hit and run” affair. Business success will require a systematic approach, strategic planning and long term cooperation with suitable local partners.

Iraq also requires further legal development including accession to international legal treaties. For example, Iraq is not currently a party to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (although there are indications that the Iraqi government will sign the New York Convention in the near future) and has not signed many of the relevant international treaties and conventions for the protection of intellectual property and foreign investment and it has no bilateral agreements for the avoidance of double taxation. Iraq became an observer at the World Trade Organisation (WTO) on 24 January 2007 and is reportedly making

steady progress in its efforts to become a full member in the near future. The Iraqi Government is also considering signing the International Centre for Settlement of Investment Disputes (ICSID) between States and Nationals of Other States (Washington Convention). This would allow international investment disputes against the Iraqi State to be determined by ICSID rules.

Nevertheless, there exists currently sufficient legal framework for protection of foreign investment as well as the regulation of an established presence in Iraq. Having a sound knowledge of the legal requirements and challenges in advance would enable foreign investors to minimise the legal risks inherent in such a developing market.





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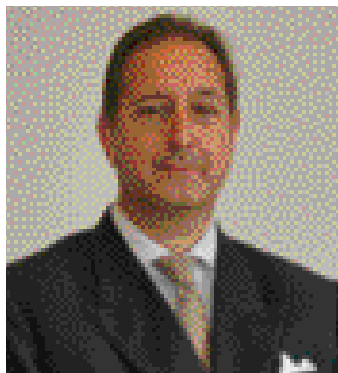
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The changing investment landscape in Iraq

MerchantBridge



Eric le Blan – Acting CEO, MerchantBridge

Since MerchantBridge, the international private equity and direct investment group, first entered Iraq eight years ago, the landscape for private investment has changed dramatically. Together with the improvements in the Investment Law, the 2010-2014 plan and increased petrochemical activity, Iraq has also enhanced the provision of information available to investors as well as market access. As an early entrant, MerchantBridge was successful in initiating investments in telecommunications, banking and construction materials amongst others. MerchantBridge also launched the Mesopotamia Fund, focused on Iraq Stock Exchange listed entities.

Iraq is now “open” to investors around the world, although Turkey still dominates foreign direct investment. Other developed economies, aside from Italy and France, have yet to invest in a meaningful way. Some signs of change are apparent as many leading Asian economies make their initial moves.

The major building blocks were put in place in 2010 and 2011 has been a year of continuation and stabilisation. Success, however, has

been limited but is work in progress. The mandatory initial public offerings (IPO) of the telecommunication companies, which would have massively increased the volume of the stock exchange (ISX), has not materialised yet. However, Asiaceil, in which MerchantBridge is an investor, has announced that it will be ready for IPO in early 2012.

MerchantBridge has also been awaiting the launch of reconstruction efforts in the country, with millions of homes and new major infrastructure projects in the pipeline which will help position Iraq for future growth and improve the standard of life for millions of Iraqis.

The building blocks of the 2012 investment landscape

In 2010, a Five Year Plan was put into effect delineating US\$186 billion worth of investments. The strategy set in place by the National Investment Commission will take nearly 30% of oil revenues, estimated at US\$100 billion and combine them with foreign investment funds for the development of sectors and provinces. An additional US\$82.6 billion was set aside under the 2011 federal budget, paving the way for massive investments.

As a result, Iraqi provincial councils and individual investment commissions flooded the market with potential mega projects across all sectors, although many of them have not developed beyond the planning phase.

Housing and construction

Under the Five Year National Development Plan, more than US\$394.4 million has been allocated for housing projects in 2011, in addition to a further US\$658.1 million for investment projects within the sector. According to the Iraq National Housing Policy, published in October 2010 and supported by the United Nations Human Settlements Program, the estimated number of housing units required by 2016 will exceed two million, implying the need for more than 200,000 units per year for the next ten years.

In answer to these estimates, Iraq announced a plan to allocate US\$2 billion for the construction of housing units for low income households and contracts have already been awarded for the construction of more than 230,000 units. In addition, masterplans for Iraqi cities were outlined inclusive of the Sadr City '10x10' project and new Basrah City, amongst others.

Transport and logistics

Despite being a major oil producer, the country currently has limited export capabilities, with the majority of its terrestrial pipeline infrastructure still not repaired following the war. In 2010, the government announced the construction of a new US\$1.3 billion floating oil terminal at the Grand Faw Port that would increase capacity by 1.8 million barrels per day (bpd) and transferred US\$135 million to the Ministry of Transport in financing for the first construction phase.

Three quarters of the works on the project have been completed, prompting the government to award two additional contracts for the construction of single point mooring buoys, adding further export capacities of 1.8 million bpd at a cost approaching US\$1 billion.

Power

The Iraqi Ministry of Electricity awarded up to US\$8 billion contracts in 2008 to General Electric and Siemens for the supply of turbines with power generation capacity of 8,800MW. In early 2011,



the Ministry of Electricity announced its first independent power project (IPP) scheme offering four plants to the private sector with total capacities of 2,750MW. Aside from the IPPs, more than 9,000MW have been tendered, awarded or announced at a total project cost of US\$4.5 billion. Kurdistan followed suit, announcing its first IPP programme for the construction of power plants with capacity in excess of 6,000MW.

Telecommunications

The telecoms sector has been the centre of attention in recent months and will remain a key focus in 2012. Major drivers will be the successful IPOs of the three telecom operators and the tendering of a fourth licence.

Asiacell, Zain and Korek have expressed their desire to offer more than 25% of their share capital. Recent announcements, including the assignment of a deal manager, conversion of the companies to private shareholding and the implicit government support (evidenced by the cancellation of penalties for delay) pave the way for a strong year for the sector and an opportunity for Iraqis to be investors in their country's assets. Once listed, the companies could add more than US\$4 billion in value to the ISX, providing additional liquidity.

The fourth mobile licence will open up the sector for additional growth. Under the current terms, the fourth operator will hold a 40% ownership, the public 35% and the Ministry of Telecoms 25%. Mobile penetration in Iraq is estimated at 75%, which is far lower than the rates reported in the GCC countries and therefore, makes it attractive for many investors.

Banking

The Central Bank of Iraq issued new capital requirements for private banks in 2010, stating that commercial banks should achieve IQD100 billion capital by June 2011, IQD150 billion by June 2012 and IQD250 billion by June 2013. This prompted banks to tap into their balance sheets for 24% of the 2011 requirement. The remaining funds were raised from: (i) existing shareholders (inclusive of circa US\$70

million from foreign shareholders), (ii) mergers and acquisitions (including the three way tie up of Mosul Bank, Ashur International Bank and Union Bank of Iraq) and (iii) new investors (an Iraqi shareholding group provided US\$33.8 million, 92% of Gulf Commercial Bank's capital increase in 2011). For upcoming deadlines, the banks will be required to raise more than US\$2.5 billion in funds.

Bank Name	2010 No. of Shares (million)	Rights Issue Shares (IQD million)	Bonus shares (IQD million)	Potential Private Placement (IQD million)	Current/Planned Capital (IQD million)
United Bank	150,000	20,000	30,000	-	200,000
North Bank	100,000	5,126	10,874	-	125,000
Bank of Baghdad	100,000	-	12,900	-	112,900
Dar Es Salaam Investment Bank	72,000	33,800	-	-	105,800
Credit Bank of Iraq	100,000	-	-	-	100,000
Kurdistan International Bank	100,000	-	-	-	100,000
Economy Bank	76,000	14,000	10,000	-	100,000
Wassour Bank	75,000	17,000	8,000	-	100,000
Sumar Commercial Bank	70,000	30,000	-	-	100,000
Ashur Bank*	66,700	26,630	6,670	-	100,000
Iraqi Middle East Bank	66,000	34,000	-	-	100,000
Commercial Bank of Iraq	60,000	33,000	7,000	-	100,000
Investment Bank of Iraq	50,400	28,506	21,095	-	100,000
National Bank of Iraq	50,000	50,000	-	-	100,000
Babylon Bank	50,000	42,279	7,722	-	100,000
Gulf Commercial Bank	56,990	-	3,510	-	100,000
Union Bank of Iraq*	50,000	-	9,800	39,500	59,800
Mosul Bank*	50,000	14,050	10,950	-	75,000
Iraqi Islamic Bank	51,193	-	-	-	51,193
Dijlah and Furat Bank	50,000	-	-	-	50,000

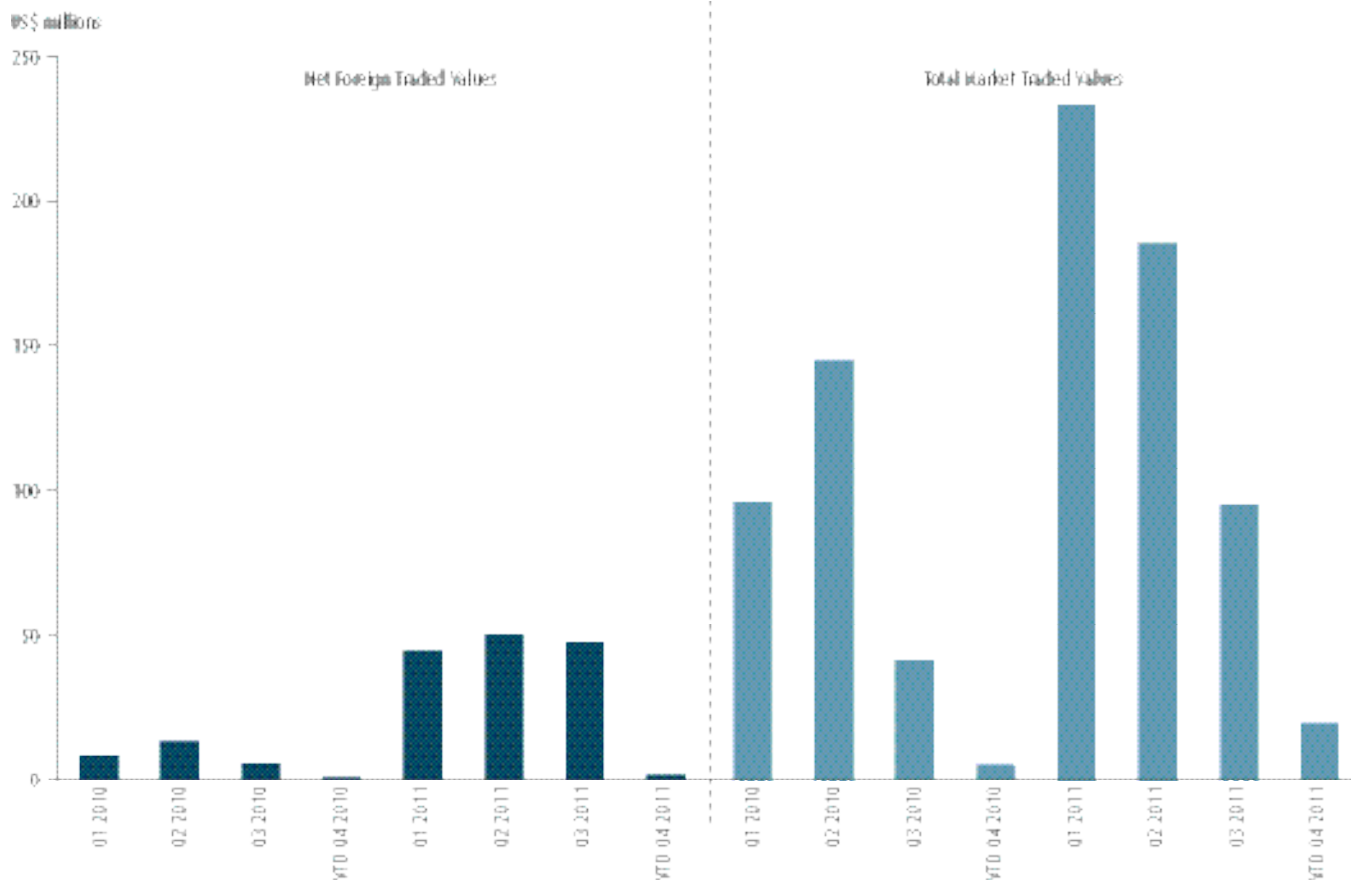
* These three banks have announced merger plans. If the procedure is approved, Ashur International Bank may cancel its capital increase.

Source: ISX, Individual Bank Financial Statements, MerchantBridge

Iraq Stock Exchange

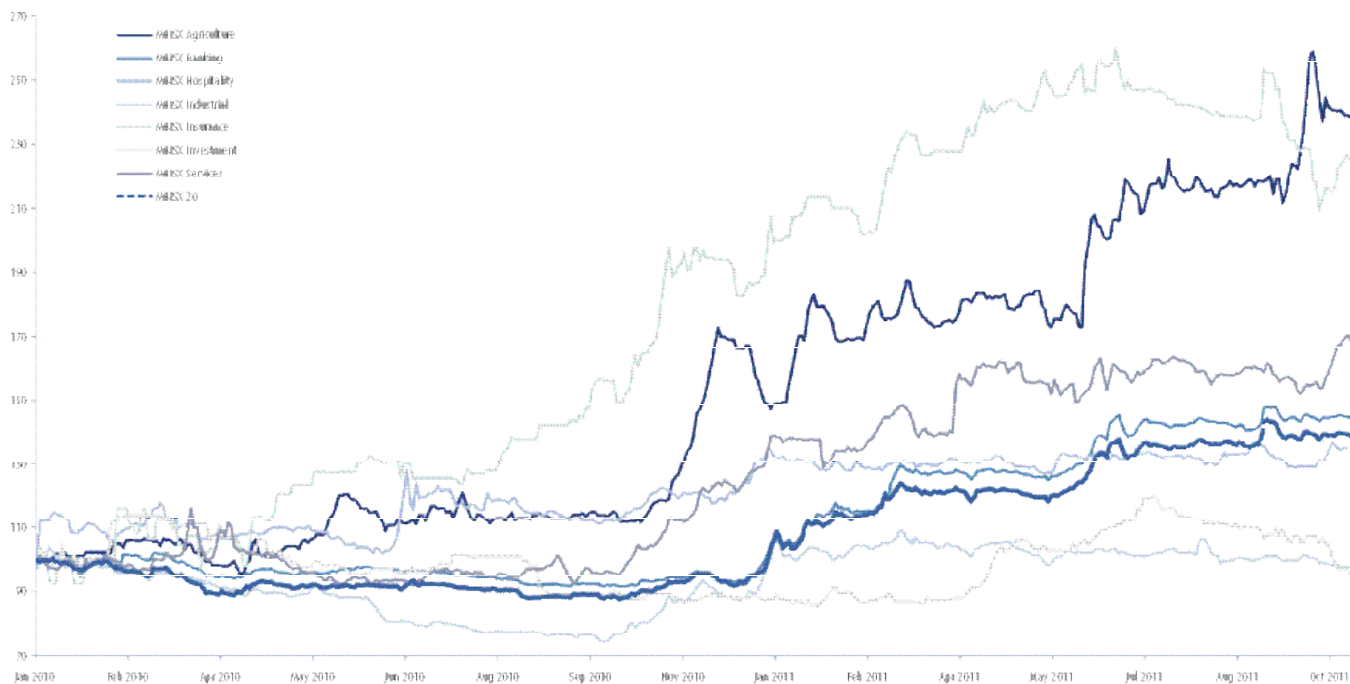
The improving economic outlook was reflected in the performance of the Iraq Stock Exchange which witnessed more than 43% growth and a 90% increase in liquidity in 2011. This is an immense success. International investors were active traders in the market with net foreign trading volumes up more than 300% year on year to US\$127.7 million in 2011, compared to US\$38.4 million for 2010.

In return, the ISX has made a few steps to further encourage investment, namely increasing trading hours by an additional half hour to allow block trades to take place at market prices. In addition, the Iraq Securities Commission amended the regulations to allow stocks to resume trading immediately after convening its general assembly in relation to bonus issues. This compensates for the six week suspension that took place previously.



Source: ISX, MerchantBridge

FINANCE



Source: ISX, MerchantBridge

2012 and Beyond

Iraq has planted the seeds for local overall growth and economic development spanning from its major construction targets, to banking sector improvements, port and oil transport infrastructure and the fourth oil licencing round that will offer 12 fields for investment. However, the bonanza of reconstruction is yet to commence and several hurdles, which hamper foreign investment opportunities are being addressed by the local authorities:

- **Top level bureaucracy:** the government's past regimented approach, left little room for flexibility. The visa situation, once managed solely by the Ministry of Interior, has become slightly more complicated due to the additional steps required by the National Security agencies.
- **Central and local government issues:** Considerable negotiation skills are needed at both central and local government levels. There

are signs of improvement but communications between decision makers are not always smooth nor aligned. Ensuring that you have the resources and capability to effectively 'read' the domestic situation is highly recommended.

- **Listed equity market:** while the ISX topped IQD5 trillion on 25 August 2011, the market is still in its infancy and is therefore lacking visible trends. Additionally investors have experienced some issues in unwinding positions in a timely manner, however the ISX is looking at improvements.

In summary, while the GDP growth and investment climate present exciting opportunities in the coming years, international investors would remain well advised to take a long term view, arm themselves with patience and work with a trustworthy and well connected local partner to navigate through the challenges that exist in this truly fertile frontier market.

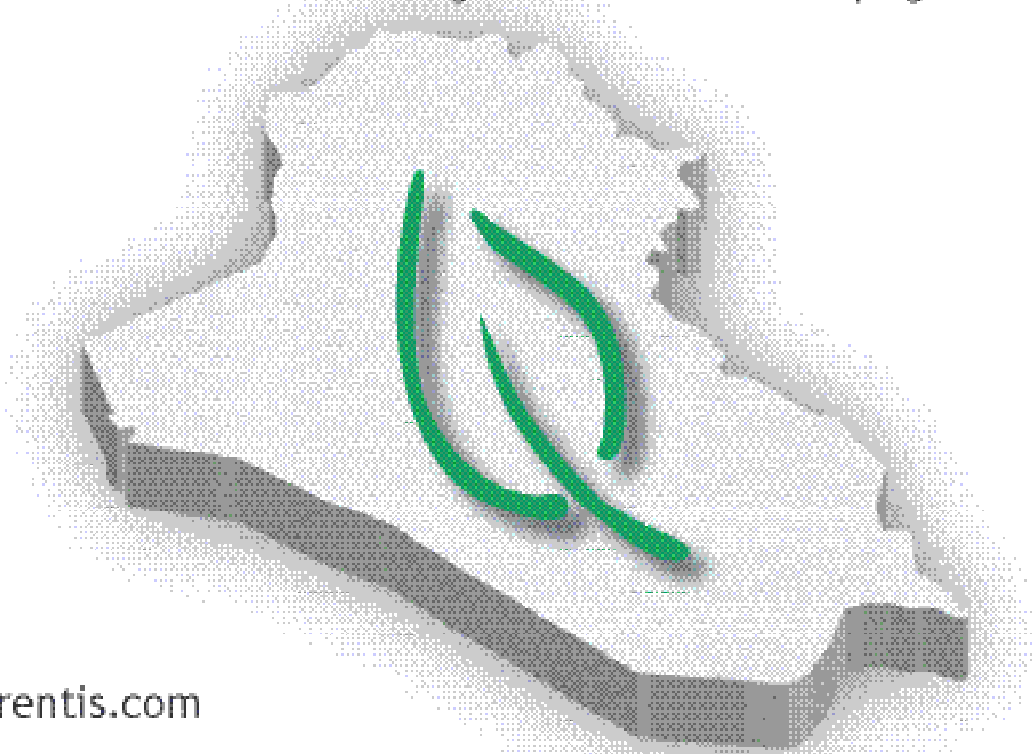


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Iraqi banking sector - huge opportunity for growth

James Barber – Chief Executive Officer, HSBC Iraq



Much as Iraq is a country with an extraordinarily rich and cultured past, similarly its financial services industry has a long and varied history. While there is no question that the banking sector has a bright future, charting a clear roadmap is not straightforward. Similarly, being able to take a long term perspective is essential.

The banking industry in Iraq is currently dominated by the Government sector. It is estimated that the two largest state owned banks, Rafidain and Rasheed, account for approximately 90% of all Iraqi banking assets and a similar proportion of deposits. The private sector is therefore currently small. It is very clear, however, that it will be the privately owned banks which will support growth in the wider economy in the years ahead.

For the Iraq economy to prosper once again, there is a clear dependency on sustained growth in the private sector. This will create a better standard of living for all Iraqis and create employment. In order to achieve this economic growth objective, the country needs a modern banking sector which will allow for Iraqi entrepreneurs and multinational investors to build profitable

businesses in Iraq. The privately owned banks therefore play a vital role in the future development of Iraq. As such, their progress can be seen as a proxy for the well being of the wider economy.



Milestones in the development of the privately owned banking sector are as follows:

1890/1	Entry of Ottoman Bank
1922-1964	Establishment of a series of privately and government owned banks*
1941	Rafidain Bank formed
1964	Nationalisation of banking system
1992	Re-establishment of private sector banks approved
1992-2002	Private sector banks established but prohibited from international transactions
2003	Private sector banks allowed to process international transactions, eg cross-border payments and letters of credit

*A number of the privately owned banks active in Iraq today previously operated in the country. For example, HSBC which, through Dar Es Salaam Investment Bank, is currently the largest private sector bank in Iraq by market capitalisation (see table), had branches in Baghdad and Basrah after World War I.

In its present form and in the context of international banking standards, the privately owned banking sector is less than ten years old. It is therefore understandable that the sector is still small and underdeveloped. Currently, there are 32 private sector banks of various shapes and sizes.

Including the state owned banks, Iraq has around 900 branches across the country. Its neighbour, Jordan, with a population of 6.1 million, has over 600 branches. By this same measure, Iraq requires a network of around 3,000 branches to support its population of 30.4 million.

Another relevant comparison is the volume of bank lending. The Central Bank of Iraq advises that total bank loans amounted to US\$5.8 billion as at June 2010. This compares to around US\$20 billion for Jordan and approximately US\$250 billion for Saudi Arabia.

In summary, despite the current size of the banking sector, the potential upside is clearly huge. It is also positive that the larger of the private sector banks have a reasonable product capability to benefit both corporate and consumer customers. It is likely this trend towards improving services and capabilities will accelerate as the sector consolidates in the short to medium term. The Central Bank of Iraq requires all private sector banks to have a minimum capital of IQD250 billion by 2014 (US\$214 million). This will require an increase of three to four times for even the larger private sector banks, as this table illustrates:

Leading private sector banks by market capitalisation

Private Sector Bank	Majority Shareholder	Date Established	Paid Up Capital 30 Sep 2011 US\$ Million	Market Capitalisation 30 Sep 2011 US\$ Million
Dar Es Salaam Investment Bank	HSBC (70.1%)	1998	91	447
Bank of Baghdad	KIPCO Group/Bergen Bank (55%)	1992	86	383
Credit Bank of Iraq	National Bank of Kuwait (75%)	1998	86	321
Middle East Investment Bank	Iraqi Shareholders (100%)	1993	86	175

It therefore follows that, in four or more years, the private sector bank industry will comprise a smaller number of banks than the current 32. It is inevitable we will see consolidation and some estimate that, by as early as 2015, Iraq will have around 10 to 15 well capitalised private sector banks.

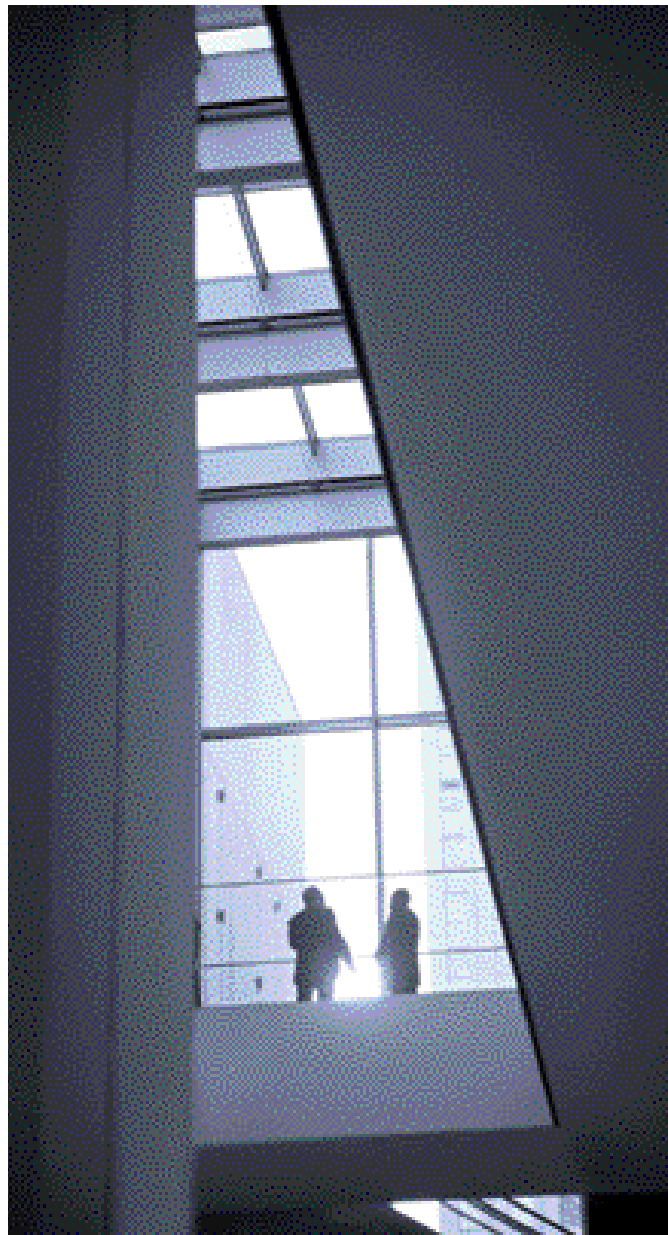
Other key changes that are likely to take place at an industry level over the coming years include:

Education – there is a considerable need for investment in training. Looking at employees of private sector banks, many either entered the industry before the early 1980s (when the period of war/embargo commenced) or have joined very recently. Either way, they have had no opportunity to learn modern banking techniques. A key role for foreign banks entering Iraq is the ability to provide access to training resources in such vital areas as Risk Management and Finance.

Greater Balance between Government and Privately Owned Banks – as mentioned earlier, the public sector currently accounts for around 90% of the total banking industry. It is expected the private sector will take a proportionally larger role in the future. Currently, the privately owned banks have little involvement in meeting the banking needs of government ministries and offices. This is likely to change which will lead to greater competition which, in turn, will lead to better banking services for both corporate and consumer customers.

Independent regulation – a strong and independent central bank is a prerequisite to growth of the banking sector. Currently, the Central Bank of Iraq has regulatory responsibility for private sector banks and the Ministry of Finance for government owned banks. At some point in the future, it is likely there will need to be a single regulator to ensure a consistent approach across the wider Iraqi banking industry.

External audit standards – currently, for banks wishing to lend, it is difficult to obtain accurate financial information from potential borrowers. The ability for borrowers to prepare basic financial statements (such as Profit & Loss Accounts or Balance Sheets) is



limited. Furthermore, there are only a very small number of suitably qualified external auditors who can provide third party verification of such financial statements (where they are prepared). It is likely Iraq will see the emergence of a strong accountancy and audit profession in parallel with the growth of the banking sector.

Credit infrastructure – to also facilitate greater bank lending at an acceptable level of risk, easy access to information about borrowers' past records is important. This applies both to retail and corporate borrowers. The establishment of a Credit Information Bureau or similar will be helpful for all banks as it will allow transparent access to historical borrowing records.

It is positive that all the above changes are already at various stages of progress. In addition, there is a whole host of other industry "reforms" under consideration and discussion. When implemented, they will further increase the ability of Iraqi consumers to have confidence in the banking sector.

To this end, as the quality of the banking infrastructure improves, so too does the range of available banking products. Already, many of the larger private sector banks provide the following products and services:

- Local and foreign currency accounts – Iraqi dinar, US dollar, Euro and a host of other currencies
- Transfer of funds within Iraq – paper based and electronic transfer
- Inward and outward cross-border payments – same day processing capability
- Trade finance – import and export financing through both Letter of Credit and Open Account
- Payroll – processing of salary payments for employees
- Treasury and foreign exchange – buying and selling of Iraqi dinar against other currencies
- Lending – short and longer term financing
- Leasing – cars and other consumer products
- Mortgage – property financing



- Insurance – distribution of life and non-life insurance products
- Stockbroking – purchase and sale of shares listed on the Iraq Stock Exchange

Some banks already support the above products through a variety of delivery channels such as telephone, ATM and internet.

In the not too distant future, as the industry matures, other retail and wholesale banking products will also become available. Corporate borrowers will also benefit from the establishment of a syndicated lending market (where banks jointly support a single borrower and effectively share the risk). Such initiatives require the close collaboration and cooperation of banks. But this trend is already starting to emerge to the benefit of the wider banking industry – another example of such collaboration will become evident through the development of interbank foreign exchange or lending markets (which do not currently exist).

To conclude, the industry holds considerable potential but is not for the faint hearted. Various challenges and risks remain. However, just as the private sector banks have evolved over the past one to two years, it is likely this speed of change will continue and allow the banking industry to play an ever increasing role in Iraqi economic development.

Financing the Iraqi private sector

Jorge R. Vila – General Manager, IMMDF

Small and medium size enterprises (SMEs) are traditionally engines of growth in emerging markets. Even though the Iraqi private sector is still relatively small, an increasing number of Iraqi SMEs are demanding greater and better access to credit to support their sustainable growth. From a national perspective, providing this credit is essential to generate employment and economic growth.

The Iraq Middle Market Development Foundation (IMMDF) has been providing loans to Iraqi SMEs since 2005. From our offices in Baghdad, Erbil and Sulaymaniyah, we have disbursed a total of about US\$100 million in loans to SMEs that do not generally have access to other commercial financing sources on affordable terms.



Poultry farm financed by IMMDF

Our presently outstanding loan portfolio of almost US\$50 million finances the acquisition of local or foreign equipment, factory expansions and working capital for manufacturing, industrial, services and agricultural projects. Specific examples include copper cables, cement batching, cold storage, plastics and tiles, food processing, water and juice bottling, aluminium frames, electrical panels, equipment for infrastructure and other construction, wooden doors, IT services, poultry farming and flour milling. Our present borrowers employ directly a total of 800 people.

Subject to terms, we offer loans of up to US\$2.5 million for up to five years. Consistently with our mandate to introduce better borrowing and lending practices in Iraq, we focus on lending against capacity to repay, not only collateral. To receive financing from IMMDF, project borrowers must present three year financial statements, evidence of profitability and sustainability as well as comply with substantial reporting requirements. We are a not for profit organisation and therefore our relatively lower interest rates and fees only cover our operating costs.

We are proud to be part of the process to support Iraqi SMEs financially in order to create employment and economic growth. We plan to increase our loan portfolio by about 50% by December 2012, as well as to expand our presence in Iraq in the near future.

If you are an SME with a manufacturing, industrial, services or agricultural project that generates employment or economic growth, or a top tier company that outsources the supply of goods or services from SMEs, or a foreign company that wants to sell equipment to SMEs and you believe that you may qualify for an IMMDF loan, please contact us at any of our three offices in Iraq or at our office in Amman.



iraq middle market development foundation | www.immdf.org

Financing Iraq-based, private sector, small and medium size companies since 2005

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- Loans from US\$250,000 to US\$2,500,000, up to 5 years (terms apply)
- Offices in Iraq (Erbil, Sulaymaniyah and Baghdad) and Jordan (Amman)



For more information please contact:

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Iraq FDI Competitiveness Report 2011

Establishing the fundamentals for Foreign Direct Investment

Case study: Investment Consulting Associates

Trade and cross-border investments have always been instruments used by corporates for new business opportunities, to expand their market shares and to increase their profits. According to Investment Consulting Associates (ICA), corporate investors, regardless of sector or industry, continuously search for interesting investment locations that optimise the balance between risks and returns. Those companies that are able to manage these risks and enter new markets at the right moment, source in new places and enter into new trade deals enjoy a long term competitive advantage compared with their rivals.

More than ever, countries and regions throughout the world enjoy Foreign Direct Investments (FDI), yet in different quantities and sizes. While the world economy rebounded with solid gross domestic product (GDP) growth in 2010, investors remained cautious about their foreign expansion plans. The number of greenfield FDI projects declined fractionally by 0.38% in 2010, following a steep decline of 17.3% in 2009. Greenfield capital investment fell by 16% in 2010 on top of the 36% decline in 2009 because of major declines in the capital intensive natural resources and real estate sectors.'

Investment Consulting Associates (ICA) in Iraq

In 2009 and 2010, Investment Consulting Associates (ICA) worked closely together with the National Investment Commission (NIC), all of Iraq's Provincial Investment Commissions (PICs) and Kurdistan's Regional Government in order to train, develop and enhance the investor attraction skill set of more than 150 investment commissioners. Engaged by the US State Department, all essentials of investment attraction and promotion were discussed in various

workshops that were provided on-site in Iraq and Jordan. Important milestones were achieved in the following fields of expertise:

- Investment Law, mandate and organisational review
- identifying key priority sectors
- investment promotion techniques
- image building techniques
- handling investor inquiries
- negotiation techniques
- investor project proposals
- technical skills – audit, finance and inspections

The excitement and eagerness among the investment commissioners to rebuild Iraq made us all believe that the country is ready to enter a new era of economic growth, prosperity and ongoing development. Anyone arriving in Baghdad, Basrah, Erbil or Sulaymaniyah would personally experience the pace with which new investment projects are realised. Approving all investment licences and managing new investor project proposals are among the biggest challenges faced by the PICs and Kurdish Regions currently.

Fundamentals for attracting and promoting investment

Following ICA's recent benchmark analysis using its proprietary competitiveness tool LocationSelector.com, Iraq is enjoying relatively large inflows of FDI again, as a share of its Gross Domestic

Product (i.e. 4.43%). In this context, only Lebanon and Saudi Arabia show higher values relating to inward FDI flows as a percentage of GDP.

Table 1 Ranking based on Inward FDI flows (% of GDP) - 2010

Ranking	Locations	Values	Relative Score
1	Lebanon	12.8%	100.00
2	Saudi Arabia	6.46%	55.32
3	Iraq	4.43%	40.94
4	Qatar	4.27%	39.81
5	Oman	3.21%	32.31
6	Syrian Arab Republic	2.32%	26.00
7	United Arab Emirates	1.42%	19.63
8	Iran	0.91%	16.02
9	Bahrain	0.69%	14.46
10	Kuwait	0.060%	10.00

Source: LocationSelector.com

Contrary to the decline in FDI projects in many Middle Eastern countries, Iraq can still be regarded as a bright spot in the world. The ongoing improvement of the security situation and new investment opportunities, resulted in an impressive improvement in the investment projects presented to the National and Provincial Investment Commissions in Iraq:

- Investment projects into Iraq increased by 175%
- Iraq climbed from the tenth leading destination country in the Middle East to fourth position in 2010

- The country attracted 7% of FDI into the region in 2010, up from 2% in 2009²

Who is currently investing?

In 2010, 156 foreign firms from 34 different countries reported US\$42.7 billion in investments, service contracts and other commercial activities across Iraq.³ Turkish investors accounted for more than one third of all investments in Iraq, followed by Italian and French investors.

Table 2 Geographic Distribution and Value of Foreign Commercial Activity in Iraq in 2010

Country	US\$ (millions)	% Total
Turkey	14,883	34.9%
Italy	5,292	12.4%
France	4,243	9.9%
South Korea	3,269	7.7%
USA	1,997	4.7%
China	1,736	4.1%
UAE	1,318	3.1%
Canada	1,247	2.9%
UK	1,215	2.8%
Australia	883	2.1%
Russia	752	1.8%
Jordan	669	1.6%
Rest of the World	5196	12.2%
Total	42,700	100%

Source: Dunia Frontier Consultants – partner of Investment Consulting Associates



Asian investors also found their way to Iraq, with South Korean and Chinese investors dominating this new trend. Regionally, the United Arab Emirates (UAE) and Jordan are the first among the Gulf Cooperation Council (GCC) and Middle Eastern States to have important stakes in Iraq.

What are they investing in?

Residential real estate investments are still dominant and enjoy the largest share of foreign commercial activities. These real estate deals are mainly absorbed by Turkish companies. A new report from the United Nations shows that Iraq's total housing stock is around 2.8 million homes and another 1.5 million are needed, while more than half of the country's population are living in underprivileged conditions.

Now the government has set out its construction targets, which include building 2 million new homes. It wants to provide 200,000 units every year for the next decade. 'There are substantial opportunities for construction and development.' Iraqi's rebuilding programme is massive in terms of size and potential. As well as a need for housing, there is a persistent need for new schools, roads, bridges and other infrastructure.

Table 3 Sector breakdown of foreign commercial activities in Iraq in 2010

Sector	US\$ (millions)	% Total
Real estate (residential)	14,107	33%
Transportation	6,733	15.8%
Electricity	6,074	14.2%
Industry	6,040	14.1%
Oil & Gas	5,443	12.7%
Real estate (commercial)	1,829	4.3%
Water and Sanitation	1,317	3.1%
Health	757	1.8%
Agriculture	244	0.6%
Rest of the sectors	156	0.4%
Total	42,700	100%

Source: Dunia Frontier Consultants – partner of Investment Consulting Associates

New investments in transportation are also welcomed in Iraq. The Italian consortium of Technital S.p.A. signed the contract for the building of the multibillion dollar Grand Faw Port south of Basrah.⁴ This project will be completed in two stages and is expected to take about four years to finish. It will include 7,000 metres of dock to receive container ships. The dock for general cargo will be 3,500 metres. In current business plans it is foreseen that goods unloaded at the port will then be loaded onto a new railway system and reach Europe overland more quickly than ships might reach Egypt's Suez Canal, which connects the Mediterranean to the Red Sea.

Iraq's extensive rebuilding requirements could make it 'the next Saudi Arabia' for contractors and suppliers, according to an executive at MAN Trucks. The gradual increase in demand for machinery to help develop Iraq has already given the company four fold that which it had earned in income in the previous five or six years, with a lot more potentially to come.⁵

Observations and concluding remarks

All signs are positive and show that the economic growth potential in Iraq is huge and still relatively untapped. It is not only oil & gas which are fuelling the rest of the economy, yet its revenues are used to finance the ambitious recovery programmes. Infrastructure developments are planned or currently under development. The sheer number of projects underway should drive solid industry growth over the medium term, with growth in the real value of the construction industry set to average 9.7% between 2011 and 2015.

Iraq's attempts to seek new forms of partnership with the Gulf Cooperation Council (GCC – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE) must be encouraged, stimulating further economic growth. The GCC States represent one regional powerhouse whose expanding relationships with the BRIC countries (Brazil, Russia, India and China) as well as the 'Next 11' countries⁶ (Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, South Korea, Turkey and Vietnam) will further spur Foreign Direct Investments into Iraq.⁷

“All signs are positive and show that the economic growth potential in Iraq is huge and still relatively untapped”.

¹FDI Global Outlook Report 2011

²FDI Global Outlook Report 2011

³*Foreign Commercial Activity in Iraq – 2010 Year in Review*, a report published by Dunia Frontier Consultants

⁴*Iraq Business News*

⁵Interview with Dave van Graan in *Construction Weekly*

⁶ICA conducted a competitiveness benchmark study for the Next 11 countries

⁷*The New Web of World Trade in Strategy and Business*, published by Booz & Company

Dr. Douglas van den Berghe, Managing Director of Investment Consulting Associates (ICA), LocationSelector.com and ICAincentives.com
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The Iraqi insurance market continues to develop



William Wakeham – Chief Executive Officer, AAIB Insurance Brokers

The evolution of insurance in Iraq

Iraq's insurance market has shown great resilience and a tremendous ability to cope with unique pressures over the last three decades. However, as the country rebuilds itself, its insurance industry faces fundamental challenges and requirements in order for it to return to its pre-1980 glory days, when it was one of the strongest insurance markets in the Middle East.

Regulatory environment

To perform well and to grow, an insurance market requires investment in infrastructure, which includes regulatory and market institutions, technical resources and business capacity. It also needs suitable and supportive economic, legal and political environments. While these are still evolving in Iraq, a great deal of hard work has already been done and progress made on many fronts.

A major step forward was the introduction of the Insurance Business Regulation Act No. 10 of June 2005 and the various regulations which followed. The insurance regulator (the Iraqi Insurance Diwan) assisted in bringing in the Law that regulates insurers operating in

Iraq. The Law grants the Diwan various powers to govern areas of licensing, inspection, intervention, capitalisation, reserving, solvency, investments, sanctions, accounting and auditing. The Law meets international standards and brings about important changes, leading to greater transparency, financial security and consumer protection. It clarifies the process for setting up an insurance company, thus allowing for a greater degree of competition. Most of the objectives behind the Law have been achieved and the Regulator has worked conscientiously to implement the Law and its supporting regulations.

However, under the 2005 regulation there is no requirement for local placement of insured risks, meaning that Iraq has lost a great deal of insurance premium when the massive spending on the "Rebuild Iraq" effort is considered. It is hoped that local placement of insured risks will become mandatory in the near future.

As an Iraqi registered and licensed international broker, AAIB Insurance Brokers operates on the basis that the local market should be involved whenever possible. Ultimately, the decision to use a

local insurer often falls with the client. We advise our clients of the situation from a legal and business perspective and highlight considerations such as potential changes to future legislation and the importance of contributing to the redevelopment of Iraq. We find that most of the large multinationals opt for local placement and then act to reinsure 100% in the international markets. These companies operating in Iraq wish to be compliant in advance of any change in local legislation.

Wider issues in Iraq have also negatively impacted on market growth and insurer options. There is a perception of widespread corruption in the country, in addition to the ongoing security concerns. These factors act as brakes on investment and business development.

Measuring performance

There is little industry data available which describes how the industry has fared over the last few years, as it is not obligatory for all companies to make results publicly available. We believe that we can draw some conclusions, however, by identifying key trends in the industry:

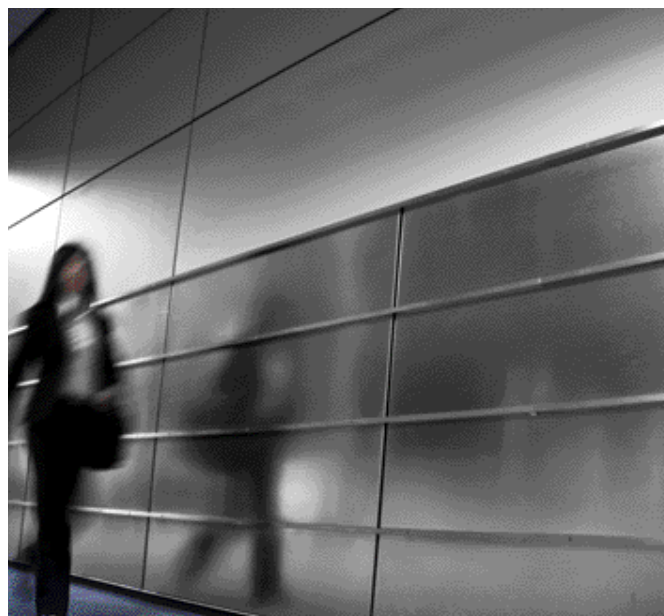
Competition

Locally, a growing number of companies have entered the market, as illustrated in the expanding list of registered insurance organisations on the Insurance Diwan website. However, these companies are small and have not really changed the market status quo. It is the state companies - Iraq Insurance, National Insurance and Iraq Reinsurance - that continue to play a central and hugely influential role in the market.

Competition has increased from outside Iraq. Regional insurers such as Chartis and IGI are increasingly looking to write risks in Iraq on the back of contracts signed by multinational companies with operations in Iraq or which supply equipment and goods to Iraq. Moreover, the London market is becoming more attracted and focused on Iraq.

There is clearly a growing interest in Iraq and its potential. At the General Arab Insurance Federation (GAIF) meeting held in Jordan in March 2010, AAIB Insurance Brokers held a number of meetings

“As an Iraqi registered and licensed international broker, AAIB Insurance Brokers operates on the basis that the local market should be involved whenever possible”.



with insurers who were looking to write business and who were seeking information on the practicalities of doing business in Iraq. It was clear from these meetings that areas such as conventional insurer business processes, approaches to underwriting, information requirements and product design will need a degree of modification. They will need to be flexible to meet the needs of clients and accommodate local players.

Capacity

Capital requirements for insurers are still modest by international standards. An argument exists for further regulation to raise these requirements, in order to strengthen the ability of insurers to withstand financial challenges and other events.

The legal minimum capital requirements are as follows:

IQD1 billion for companies transacting Reinsurance.

IQD750 million for companies transacting both Life and General.

IQD750 million for companies transacting Life insurance.

IQD500 million for companies transacting General insurance.

Note: US\$1.00 = IQD1,177.00, 20 September 2011.

Recently, market capacity has increased but not markedly. This hampers the ability of local insurers to absorb risk, as investors in large projects attempt to transfer risk, especially for sizeable infrastructure, construction and energy related projects. Insurance on these types of projects is invariably required contractually and by prudent managements. If local insurers are unable to cater for these requirements, the international and regional markets will naturally take a larger share of this business.

Limited capitalisation and limits on retention capacity prevent local insurers from taking lead positions on many key accounts and stops them from dictating the terms, conditions and rates and potentially generating larger profits.

Products

The products supplied by local insurers are largely based in traditional wordings. The lack of experience and exposure to the international market means that there has unfortunately been little innovation in domestic product design or service delivery over recent years.

Indeed, Iraq's insurance industry has never truly recovered from the loss of high calibre people over the last decade who left Iraq to work in insurance companies in the Gulf and Europe. A lack of experience is one of the biggest factors holding back the industry. In this regard, AAIB Insurance Brokers takes its role in helping to develop Iraq's insurance industry seriously. We organise an annual two day workshop and invite representatives of Iraqi insurance companies, plus other attendees such as Lloyd's underwriters, claims handlers and trainers from the Gulf region. Workshops are held and presentations given, best practice is shared and various issues and concerns are discussed. This level of interaction proves very beneficial for all involved.

Considering future prospects: supply and demand

Iraq's private sector will certainly not be the driver of Iraq's insurance growth. We feel that insurance is still not properly understood or appreciated by many and it appears that insurers do not enjoy a high degree of trust. Further, according to United Nations statistics, approximately 23% of Iraqis are living below the income poverty line threshold of US\$2.20 per day. This would indicate that demand for insurance is likely to remain a low priority for many. In response to this, we launched the first dedicated medical insurance policy for local employees in Iraq and the Kurdistan Region, providing cover for in-patient and day-patient hospital treatment, including injury and illness resulting from acts of war, terrorism and kidnap. In today's growing culture of enhanced corporate social responsibility, the Regional Health Plan offers companies, both local and international, the opportunity to provide their local employees with a range of important benefits.

Within the corporate sector, the non-oil & gas industries are being stimulated and insurance is sometimes purchased for areas such as marine cargo and construction. However, our experience suggests that many Iraqi companies prefer to self insure.

Iraq's oil industry is where the insurance market can contribute significantly.

The industry underpins the entire economy, with oil accounting for approximately 95% of exports and 98% of government revenue. The growth of this sector will help deliver improvements in the wider economy and the Government is forging ahead with challenging expansion targets for oil production. Awards of technical service contracts are driving investments by major oil companies, oilfield support and service companies. Huge sums are being spent establishing depots, drilling and storage facilities along with field operations, etc. to overhaul, refurbish and expand production, refining and distribution capabilities. These major initiatives offer many opportunities for Iraq's insurance industry.

The way forward

We are optimistic about the prospects for the Iraqi insurance market. In our minds, approach, vision and flexibility are the key elements to its continued success.

1. Approach

Establishing mutually beneficial relationships between local insurers and international brokers and insurers will play to the strengths of both parties. The importance Iraqis place on strong relationships cannot be underestimated. Certainly for AAIB Insurance Brokers, by working in Iraq since 2005 we have been able to forge important relationships and establish a unique position. Iraqi insurers have distribution channels, local market knowledge and valuable contacts

in various political and commercial networks. In turn, brokers have access to a range of markets and can play a key facilitation, placement and servicing role, whilst foreign insurers have the required capacity and extensive underwriting, pricing and risk management expertise. We have been supplying information on Iraq to those who are eager to know more for some time now. It has engendered a significant amount of goodwill, both in the Lloyds and other international markets. Working together is certainly a potent and powerful combination.

2. Vision

Companies currently operating in Iraq and those coming into the country must take a long term view. The Iraqi insurance market continues to rebuild its reputation; it has a proud history, has proved resilient in the face of considerable challenges and is positioned to grow larger and stronger if it can improve its integration and access to the international insurance market.

3. Flexibility

Based on the commendable tenacity and adaptability demonstrated by local insurers and their flexible approach to overcoming obstacles, we have no doubt that local insurers will continue to flourish. We also believe that Iraq's insurance industry will continue to gain more exposure to the international market. What's more, regional and international insurers will come to work in Iraq. The questions are how quickly this will happen and to what degree they are prepared to invest in the local market.

William Wakeham is the founder and Chief Executive Officer of AAIB Insurance Brokers, a company specialising in high risk and non standard insurance cover for emerging countries.

Exporting for growth

Robin Ord-Smith, MVO, Director of UK Trade & Investment Iraq

As my posting to Iraq draws to an end, I find myself increasingly considering the question I seem to have heard from each Iraqi I have met during my six months here: "Why are there not more UK companies doing business in Iraq?"

My initial response has always been to point out how active UK companies have been in the drive to get the Iraqi economy back on its feet after decades of conflict, neglect and mismanagement. I have explained about the billions of pounds that Shell and BP are investing in the redevelopment of key oilfields, about HSBC's leading role in developing the financial sector and about Parsons Brinkerhoff's 20 year masterplan for the energy sector. And I have reminded my interlocutors that the majority of pharmaceutical imports come from the UK, that it is UK expertise that is helping to build Basrah Sports City and that, in the more internationalised KRG, more than 50 British companies have registered and the UK delegation to the recent Erbil Trade Fair was nearly 100 strong.

In my time here, however, I have come to realise that the question is not in fact the criticism I had first taken it to be but rather a reflection of the very high regard that Iraqis have for the quality of goods and services that British companies can provide; and for those with longer

memories, a fond recollection of the more substantial role that UK companies played when Iraq was a major regional market. They know that UK companies are playing an important role here; they just want them to play as much of a role now as the UK did in paving the way for the new, democratic Iraq.

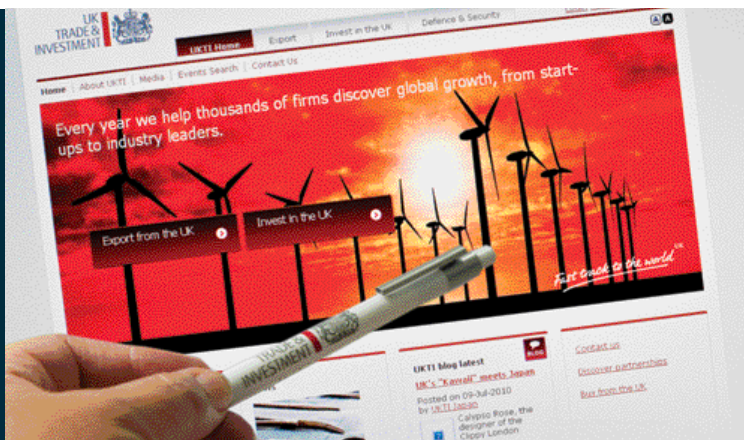
I have always believed that commerce is about more than pure potential and opportunity. Business flows where margins are greatest or business conditions easiest and individual companies overlay on this their own appetite for risk and reward in deciding which markets to target. And on this basis, for many UK companies that could do excellent business here, Iraq has simply not scored highly enough.

But I sense that things are beginning to change. In key areas, the environment has changed noticeably for the better. The security situation – long the most important factor for companies looking at Iraq – has improved markedly since 2006-7 and while visitors still need to take appropriate professional advice, few expect it to return to those bad old days.

As security has improved, it has allowed international companies to visit the market – and increasingly to establish a presence here.



“Increasingly, UK companies are prepared to take a closer look at the opportunities for them in Iraq”.



Care of UK Trade & Investment

Sectoral development is now progressing rapidly, led by the oil sector. Two years after the initial bidding round, the redevelopment undertaken by consortia is beginning to lead to increasing production and increasing revenue for the Iraqi Government. This in turn is providing the next valuable stimulus for international companies in the form of increasing opportunities in the oil & gas supply chain and giving the Iraqi Government the resources necessary to begin the realisation of its ambitious development programme to provide the essential services, living conditions and jobs that Iraqis rightly demand.

Of course, it is not just a question of improving security in Iraq. Some UK companies are still put off by the difficulties they both perceive and experience in operating here. And while encouraged by the progress in the political sphere, they want the certainty of long term political stability, greater transparency in the decision making processes, less red tape, full recourse to a properly functioning legal system and assurances of the sanctity of contract. But they remain hopeful, as I do, that the steps that the government is taking will continue and will make Iraq an increasingly easier and more appealing place in which to do business and to invest.

Increasingly, UK companies are prepared to take a closer look at the opportunities for them in Iraq. I have been surprised and

encouraged during my time here by the number of companies approaching my team for help in doing this. And I expect the recent relaxation of FCO travel advice for Iraq to encourage more to do so.

UKTI is helping to prepare British companies in looking towards Iraq, in terms of mapping out tenders, validating business opportunities and cascading to the UK business community, both through our UK network and from the market. And we are helping UK companies assess whether this is the right market for them by providing advice on entry strategies and introducing them to potential business partners, government ministries and agencies. Increasingly, new clients are asking us to use our in-country reach to assess the potential market for their products and services and to draw up suitable visit programmes. For UK companies already in the market, we also offer our expertise and that of our wider Embassy resources, to help further develop their business interests.

The trajectory of economic progress indicates to me that it is a question of “when” rather than “if” Iraq starts to fulfil the potential it has promised for so long. And as the government continues to create the right business environment and encourage private enterprise, my successor will, I am sure, find many more British companies anxious to enter the market.



Your brilliant ideas

Our insight

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Iraqi Group offers route to projects market

Case study: Al Burhan Group



Imad Burhan - First Deputy of General Director, Al Burhan Group

Since its early beginnings, the Al Burhan Group (ABG) - established as a Class A Contractor in 1948 - has been working hard to address the urgent needs of Iraq's economic development. The Group owned by an Iraqi family, have in-depth engineering and trading expertise, making it one of the leading organisations in the country, able to undertake large scale projects.

Al Burhan Group's activities are wide ranging. Employing more than 4,000 people, the Group is a well established supplier of specialist equipment and machinery and is involved in construction, railways, airports, agriculture, the power sector, consultancy and trading. While Iraq based, the Group has an international reach with offices in Amman, London and the UAE.

The Group is a leading supplier of tractors, water pumps and hatcheries to Iraq's agricultural sector. In collaboration with Sangati-Golffeto, of Italy, the Group has built and equipped flour mills in Missan, Kirkuk, Nasiriyah, Salah Al-Din and Diwaniya.

Contracting and construction is a key part of ABG's activity, with a diverse range of capabilities in planning and implementing building

projects. Successful and well organised, the company's driving philosophy is to successfully compete in the construction industry - an aim exemplified in the decision to amalgamate its diverse portfolio of companies to create the Al Burhan Group.

The Group has developed long standing working relationships with many advanced machinery manufacturers internationally, giving it unrivalled access to the world's most advanced equipment. Combined with its managerial and consultancy expertise, this means the Group can mobilise rapidly to meet contractual challenges.

Given the urgent requirement to address infrastructure renewal problems in Iraq, this is a valuable attribute. One of the most pressing tasks is improving transportation.

As ABG has a particular niche in railway consultancy, providing services for Iraq's railway renewal and network extension as well as the acquisition of locomotives and rolling stock; the Group has started a commercial cooperation with Pandrol UK, one of the world's largest producers of railway fasteners, to supply its Fastclips to the Iraqi Republic Railway. Fastclips are the Pandrol UK patented



tool deployed on all UK tracks and are used in the Al Burhan/Abu Ghraib Concrete Sleepers Factory.

The factory is another example of success and long term commitment for the Group. In 2004, ABG took over and started rehabilitation of a concrete sleeper factory. The factory, located in the Abu Ghraib area, just outside Baghdad is now at full capacity, producing 2,800 sleepers a day. Preparations are underway to double production at the facility.

The Group has been in cooperation with the US' Harsco Track Technology, a leading track technology company, since 2004, to support the Iraqi Republic Railways. Supplying Iraq with 26 engineering machines within the framework of the American donation Volpe Centre (US Department of Transportation), is just one step in this collaboration. The equipment is used for Iraq's railway maintenance and track laying.

In a gesture to improve the performance of the Iraqi railway industry, ABG cooperated with the US' Progress Rail Services (PRS), the railway division of Caterpillar Conglomerate, to supply Iraq with five high-tech machines. The sophisticated equipment helps the Iraqi railways to meet the growing needs of both the population and the national industrial sector.



Furthermore, ABG is providing feasibility studies for more than 800 kilometres of new track for Iraqi Republic Railways. This work involves field surveys, hydrological and geological studies, detailed design, preparation of tender documents, project management and training.

The Group is also part of a consortium which includes the UK's Balfour Beatty Rail, SPA Italy, Germany's Dorsch Consult and Thyssen Krupp, together with Egypt's Orascom Construction Industries and TSO of France, for the planned multibillion dollar Baghdad Loop railway line project.

The company believes it is well positioned with all the necessary experience to guide newcomers into other areas of Iraq's economy and infrastructure overhaul. A number of business support services are also on offer from the Group, which provides financial, legal and technical services, to travel arrangements. This service side is combined with engineering expertise and a trading division, able to provide machinery and source spare parts.

As one of the biggest and most diversified construction and trading companies in Iraq, ABG is capable of tackling most projects, whatever their size and complexity, for both public and private sector clients. This enables the Group to play a full part in the

rehabilitation and modernisation of Iraq's infrastructure, eg. power stations, the country's railways and airports.

This expertise has been reflected in awards for service, quality and reliability from Iraq's Ministry of Trade, as well as the doubling of contracts awarded in recent years.

In the power area, ABG offers technical and engineering services for construction and development of electricity generation networks.

ABG, also has long standing involvement in the power sector, supplying a range of aluminium wire conductors and towers for electricity transmission. Its role could become even more significant as a result of it now representing Russia's, Technopromexport, with whom it is currently working on proposals to rehabilitate gas turbine power stations at Al Hartha, north of Basrah City and at Al-Youssifiyah, south of Baghdad.

The Group has a growing role in aviation infrastructure and management services. In particular, ABG represents well known British company, G4S, which was awarded the contract from the Iraq Ministry of Transport, to provide the security of Baghdad International Airport in November 2009.

In another major venture, ABG has represented the UK's infrastructure services group Serco, which secured the contract of administering Iraq's air traffic control systems, following the handover of responsibility for control of the country's skies to the Iraqi Government, in 2010.

ABG's role in the Air Traffic Control (ATC) project, is primarily to provide local representation to Serco, by acting as a guide to them, using its local expertise and knowledge, to facilitate the contract's smooth operation. However, ABG also played a pivotal role lobbying government departments concerned with administering Iraq's airspace on behalf of Serco.

July 2011, saw the opening of the Al Burhan Centre, built to accommodate Serco personnel and its trainees. The purpose built facility has 92 ensuite rooms which all feature Wi-Fi internet access and satellite TV. The state of the art centre contains facilities including a gym, cinema, catering services, dining hall, conference room and administration offices.

“As one of the biggest and most diversified construction and trading companies in Iraq, ABG is capable of tackling most projects, whatever their size and complexity, for both public and private sector clients”.

Located within the Baghdad International Airport (BIAP) zone, the high security building is self sufficient in respect of power and water. It also has full CCTV cover, bio-metric access systems and protective concrete perimeter walls.

The design and construction of the centre is part of ABG's wider strategy, to provide local expertise and assistance to foreign companies and organisations wishing to do business in Iraq.

Business activity is expanding tremendously throughout Iraq and a huge demand for high quality accommodation is emerging from companies helping to rebuild Iraq's infrastructure and services. Lack of secure accommodation and high hotel prices have created a large market for quality and secure accommodation within Baghdad. The centre is expected to be the first of many. As business activity within Iraq gathers pace, ABG intends to build on this successful project to develop similar schemes. It believes that foreign companies faced with addressing safety and security issues when working in Iraq, need to find a trustworthy company locally - one it can be confident in partnering with and on which it can rely to deliver.

Group services already include, initial assistance for new arrivals to the country, with "meet and greet" and accommodation, as well as

a full range of business support services, financial guidance and legal assistance.

While ABG is a multi-faceted commercial group, its traditional engineering expertise has long been at the heart of the enterprise.

The Group's future plans involve major projects. It is planning to establish an airline to operate between Iraq and London. The Group is finalising the arrangements to obtain the Iraqi Operator Certificate from the Iraqi Civil Aviation Authority. The flights for this route will cover the needs of the Iraqi community and initiate a lifeline for Iraq's growing business.

ABG is finalising procedures for establishing a factory to produce strand wire. It will be one of only a few specialised plants which will meet international quality standards in the region. The products are expected to meet the increasing demand of the Group's needs and can also service the rising demand in Iraq and across the Middle East.

ABG's experience and involvement in these major projects across important and wide ranging sectors, clearly demonstrates it's ability, to cooperate in partnership with the world's largest companies in their endeavours to work within Iraq's booming economy.



Perspectives on the Iraqi market by the Director General of the Middle East Association



Charles Hollis

I have seen Iraq change radically since my first visit there in 1988. As a young diplomat I was in Baghdad for the end of the war with Iran and witnessed the Anfal campaign before being expelled from the country by the Ba'athist regime. Earlier this year I returned to the country to find a people full of enthusiasm, hungry for international contact and eager that Iraq should regain its rightful position as one of the great commercial and cultural hubs of the Middle East.

The Republic of Iraq is making great progress towards tackling the burdens of an over centralised economy, corruption and a complex security situation. I am confident that over the coming years Iraq will thrive and become an open society with truly open markets but there is still much work to be done if the fantastic potential is to be realised.

In recent years, the Middle East Association (MEA) has played a key role in the British drive for developing and improving British trade and relations with the new republic. We accompanied Lord Mandelson's visit in April 2009 to promote the role of British companies in assisting the development of the Iraqi economy. We

have worked closely with the National Investment Commission, first in 2009 and most recently in November 2011, hosting major conferences to inform British companies about the opportunities available to them in the Iraqi market and to give honest analysis of the business challenges on the ground.

The MEA has also been leading trade missions to the Kurdistan Region since 2006. These have been a consistent success and we now take two every year. In October 2011, in close cooperation with UK Trade & Investment and the Kurdistan Regional Government, we took the largest ever British Trade Delegation to the Erbil International Trade Fair, beating the record set the previous year. The full delegation exceeded 80 business delegates including over 20 exhibitors. It is my hope that over the next twelve months, the security situation in the south of the country will improve to a level that will allow the MEA to take its first major post-conflict trade mission to Baghdad and Basrah, something much sought after by our members.

The MEA's membership is a broad church; our members include international corporations but the majority of our members are

SMEs. If Iraqi-British trade relations are to reach their full potential, it is vital that the UK encourages and supports its SME exporters into the Iraqi markets and that, on the Iraqi side, the Government does everything they can to ensure they enjoy a safe, secure and transparent business environment. I hope that the highly popular fora that the MEA provides can aid such developments by keeping an open channel between UK businesses of all sizes and the Iraqi and British Governments.

In 2010, the UK exported nearly £200 million of visible goods to Iraq and it looks as though UK visible exports will be at a similar level this year, totalling £119 million for the seven months to July. Our aim is to push this total to new heights. There is so much opportunity in Iraq which, outside limited sectors, UK plc has yet to address. I believe that the figures will increase further, as exporter confidence in the viability of the Iraqi market grows. This confidence can only grow, if companies are honestly and reliably informed about the Iraqi market. Nervousness about the market is only natural given the expected difficulties and the manner in which Iraq has been represented in the media over recent years. This publication offers a realistic assessment of the new Iraqi marketplace, something I know our members will value.

Over the coming months and years, the MEA will continue to put forward a strong Iraq programme of missions, business briefings, VIP lunches and conferences. I hope to see you at one of our events soon.

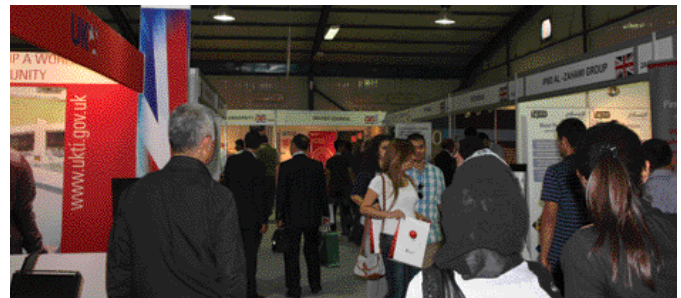
“In recent years, the Middle East Association (MEA) has played a key role in the British drive for developing and improving British trade and relations with the new republic”.



Middle East Association

The Middle East Association has been at the forefront of British commercial engagement with the Middle East and North Africa for over fifty years. In 2011, together with partners from UK Trade & Investment and the Kurdistan Regional Government and Invest Northern Ireland, we led our largest ever trade mission to Iraq's Kurdistan Region to coincide with the Erbil International Trade Fair.

In 2012 the MEA will continue to promote, support and facilitate British enterprise through its comprehensive programme of trade missions to the region, visiting markets such as Saudi Arabia, Qatar, Mauritania, Algeria and Iraq. Our missions provide delegate with unique access to senior businesspeople and decision makers and put them in touch with their counterparts in the region.



To learn more about the MEA and our activities, please visit our website: www.the-mea.co.uk or call us on 020 7839 2137

Exploring limitless possibilities



Dr. Majid Al Sadi

Eastern Investment Group Holding is a British registered holding company, established in 1993 by Dr. Majid Al Sadi (Chairman & CEO). The company was founded for the purpose of providing an investment vehicle, which would grant strategic and financial support and stability to the companies under its umbrella, particularly those

operating in volatile and unstable markets. Since its establishment, the Group has quickly gained a firm footing in the markets where its business entities operate. This has allowed Eastern Holding to become a substantial hub of progress and development in these markets.

The Group's interests are varied and consistently evolving. In 1994, Eastern Holding created the Arab Pump Manufacturing Company, a pioneering Jordanian company and the first Middle Eastern manufacturer of cast stainless steel, deep-well vertical turbine pumps for the Jordanian and Iraqi markets. These are designed for pumping water with a high concentration of salt, sulphur and other corrosive agents. The company has expanded its product range to cover all types of irrigation, sewage pumps and generation sets.

Since then, the Group's business entities have expanded to include seven additional companies operating in five different industries, including aviation and travel, water supply, security, education, hotels and services.

Included under this umbrella are:

JATS (Jordan Airline Training & Simulation)

Based at Queen Alia International Airport (QAIA), Jordan Airline Training & Simulation, is the pioneering and leading independent airline and customer service training centre in the Middle East. It provides the highest and finest quality pilot, cabin crew and maintenance training standards.

JATS is currently operating B767-300ER FFS, A310-300, A320-200, A320-200 FFS, B737-800ng and Embraer 170/190 full flight simulators. These provide complete training packages, which offer a wide range of simulator and ground school training for engineers, pilots and airline staff from the international airline community. The Cabin Crew Safety and Services training facility is capable of delivering high quality training courses for all aviation levels, ranging from basic training through to refresher and advanced courses.

Millennium Hotel

With Millennium and Copthorne Hotels Ltd, Eastern Investment Group Holding is currently finishing off its first five star hotel project. Serving business guests and leisure travellers alike, the Millennium Hotel Amman is set to open its doors in early 2012. Located in the heart of the capital's financial district, 200 modern and fully equipped rooms are set to cater for a guest's every need. Top notch hotel and catering services, complemented with state of the art, high tech features are sure to set this hotel apart.

Eastern Investment Group Holding continues to exercise an open expansion policy, exploring new grounds with limitless possibilities.

Iraqi Business Council



Council Formation

The Iraqi Business Council (IBC) is a non-profit making organisation founded in 2007. The idea of establishing IBC came from the desire by a number of Iraqi investors and businessmen living in Jordan to actively participate in the rebuilding of Iraq. They wished to significantly contribute in specific ways and assist in overcoming the challenges and problems facing the Iraqi people. The idea of setting up such a council met with the consent and endorsement of the Government of the Hashemite Kingdom of Jordan and the Jordanian authorities.

Since that time, IBC has been fundamental in the development of trade and investment between Iraq and Jordan and is competent in identifying investment opportunities between the two countries. By providing a forum for business executives to meet, exchange views and work together, IBC is playing a vital role in the development efforts to build a new Iraq business community.

In addition, however, IBC has also extended its skills to play a significant and influential role to support the Iraqi community development in Jordan. To facilitate this, a number of sub-committees have been set up.

Council Objectives

The objectives of the Iraqi Business Council are as follows:

- Endeavour to make IBC the foremost organisation to develop and promote trade and investment between Jordan and Iraq.

- Enhance the promotion of trade and industry between Jordan and Iraq.
- Contribute to the development of local civil society.
- Act as a connecting link between the Chamber of Commerce in Iraq, other trade organisations and the Jordanian Chamber of Commerce and Industry.
- Work to promote the trade interests of Jordanian and Iraqi civil societies.
- Collaborate with individuals and organisations regarding issues of common interest and benefit.
- Acquaint Jordanian and Iraqi investors with investment opportunities between the two countries.
- Extend assistance to IBC members to promote their status in Jordan in partnership with the Jordanian authorities.
- Promote and strengthen social bonds and relations between IBC members and the Iraqi and Jordanian communities by organising social and public events, trade exhibitions and various cultural and scientific activities.

Sub-Committees

The Committee of Social Activities was set up to improve ties between existing Iraqis in Jordan and the local Jordanian society. This is accomplished through meetings, concerts and social trips which, in



turn, help to provide the council with necessary resources to complete its work successfully.

The Humanitarian Affairs Committee supports programmes which aim to improve the conditions of Iraqis living in Jordan. These include health care, housing and educational programmes. The committee assists in raising funds through voluntary contributions to provide the support that is needed.

The Economical Committee is responsible for the collection of economic trade and investment data in Iraq and Jordan through specialist economic studies. This information is then spread via economic conferences, exhibitions, forums and seminars.

The Foreign Relations Committee specialises in public relations and connects senior officials, Dignitaries, Ambassadors and Commercial

Attaches in Jordan and Iraq with the rest of the world. This committee also liaises with the Chamber of Commerce and similar organisations for a cohesive and productive working relationship.

The Committee of Culture and Media works to promote the cultural development of Mesopotamia through conferences, seminars and cultural exhibitions. By doing this, it is providing support to Iraqi artists and academics living in Jordan. Strong links with the press and media mean that artists can promote their work and make clear their objectives.

The Committee of Scientific Merits aims to support Iraqi scientists living in Jordan. It provides much needed help in the form of job creation and housing for those in the scientific profession, such as doctors, engineers, teachers and professors. The committee can also provide support with the publishing of scientific studies and research.

Control Risks

WHAT'S ON THE ROAD AHEAD?

- Market-entry solutions
- Third party screening
- Stakeholder analysis
- Risk assessment
- Business support services



Managing Risk | Maximising Opportunity

Control Risks is an independent, global risk consultancy specialising in political, security and integrity risk. We help our clients to understand and manage the risks of operating in complex or hostile environments.

Operating in partnership

Introduction

Since the oil & gas licencing rounds of 2009, the Iraqi Government and International Oil Companies have proven that Iraq is indeed full of opportunity and open for business. The perceived dangers and challenges of the environment, however, have kept many other investors away. While it is true a number of risks remain, a comprehensive risk management strategy, along with intelligent engagement with local partners, can effectively mitigate these and allow for safe, compliant and profitable commercial operations.

Security – can it be managed?

While security risk remains prominent in the mind of many companies considering entry into Iraq, established investors quickly discover that these risks are manageable, through outsourcing. Indeed there is a large supplier base for the management of security risks already providing services in Iraq. In addition, the capacity of the Government's own security apparatus is becoming increasingly effective. As a result, most entrants into the Iraq market find security risks to be manageable.

However, one of the effects of security costs is the difficulty and expense of bringing qualified expatriate personnel into the country. This effect, combined with the restrictions of visa processing and

internal procedures, reinforces the imperative of finding local suppliers of services which fall outside an investor's core functions.

Outsourcing

A number of non-core business functions, unrelated to security, need considerable attention in Iraq. Examples include IT, compliance and logistics. Failure to resource these areas properly can pose disproportionate risks to the business. In other international markets, companies might bring in specialised expatriate staff to ensure that critical support functions are appropriately managed. This would normally continue until such time as local staff can be recruited, trained and tested. However, in Iraq, foreign companies' ability to bring in expatriate personnel is determined by a number of unique factors, including accommodation space, security costs, visa processing and internal procedures, such as HR requirements. These combine to limit the number of expatriate support, business operations and risk management staff available in-country.

An effective alternative for companies is, therefore, to shift to outsourcing and local partnerships more quickly than they would in other markets, as a means of ensuring that support functions are properly resourced and that timelines are met. Outsourcing the appropriate elements of an Iraq project can allow investors to focus



most of their expatriate resources on core business or technical functions and therefore significantly reduce costs.

Key outsourced functions

Since opening our first office in Iraq in 2003, Control Risks has supported a number of companies entering the Iraqi market, including assistance with the process of outsourcing. In our experience, investors have found success with outsourcing and local partnerships to fulfill key functions including but not limited to the following:

Security: As noted above, security services as well as security design and planning has been a primary example of outsourcing in Iraq. Security will continue to be a key factor in the market entry equation. To increase efficiency, security can be integrated with other functions (eg. medical support or logistics), to create a comprehensive and joined up risk mitigation and market entry programme.

Training: Outsourced training programmes for local staff can help to inculcate personnel into the company culture, reinforce company expectations and ethics and teach required technical skills. By way of example, demand for driver training is high across all sectors and

such training can be delivered in Iraq, resulting in a material improvement in health and safety compliance.

Business registration: While registration processes in Iraq are relatively straightforward with a defined set of requirements through the National Investment Commission, consistent in-country presence and follow up meetings help to ensure that deadlines are met. Monitoring and steering the administrative process can be a key outsourcing priority for companies in the early stages, before establishing a permanent presence.

Administration: Particularly as projects ramp up, companies typically require an outsourced solution for a number of critical business operations functions including, administrative staffing, visa guidance and support and badging facilitation. These areas require specialised focus in Iraq, given the challenges of new regulations and a complex, evolving bureaucracy.

IT support: IT and other communications requirements are critical, particularly in geographically dispersed areas such as the southern oilfields. Iraq has a surprisingly strong supply of IT skilled personnel and IT and communications support remains an attractive area for outsourcing in Iraq, as it is in the rest of the world.

Challenges to outsourcing

The critical challenge is in finding suppliers with the capacity to provide the services of the level and quality which is required. No easy and immediate solution is available, since many of the above mentioned sectors are under supplied. However, the successful partnerships which we have seen include a commitment by the Iraqi supplier to develop to build their capacity in accordance with a clear timetable to support the client's requirements and a willingness on the part of the investor to support the supplier as it develops its capacity. In contractual terms, this equates to a staged process with clear milestones for developing supplier capacity and financial rewards from the client to encourage such progress.

Globally and in Iraq, outsourcing and local partnerships have always brought the potential for reputational risk. With the introduction of the new UK Bribery Act, it has never been more important for investors to ensure that they are properly vetting, monitoring and training staff and partners. In a global regulatory environment dominated by UK and US legislation, selecting the proper individuals and organisations to act on behalf of the company is as critical as any aspect of the project. However, as in other emerging markets, these regulatory risks can be managed and should not be viewed as a show stopping impediment to entry.

Clients are able to adopt a comprehensive strategy to manage these risks. Such a strategy might include the following components:

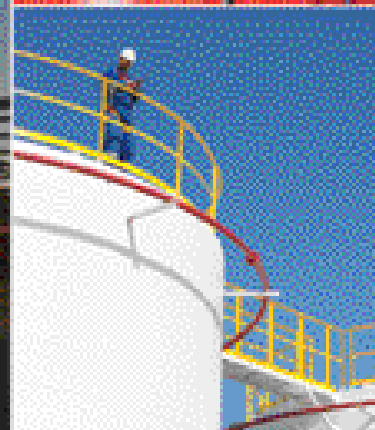
- Establishing a comprehensive due diligence policy and procedure for vetting partners and suppliers
- A training programme for senior managers to ensure that the potential implications of Iraqi, US, UK and other international regulations are completely understood
- A comprehensive business integrity risk assessment for all staff, partners, agents and suppliers
- Appointment of an overall project manager to coordinate compliance for local partners
- Anti-bribery training for all employees

“Outsourcing the appropriate elements of an Iraq project can allow investors to focus most of their expatriate resources on core business or technical functions and therefore significantly reduce costs”.

Conclusion

Operating in Iraq is not the impossibility it seemed to companies three years ago. As the opportunities grow, a solutions driven market has emerged in-country and most investors in Iraq will outsource a number of their functions. If handled correctly, outsourcing can be a capability multiplier but legal, regulatory and reputational challenges remain significant. With the appropriate focus on due diligence, training and regulatory roll out, companies entering the Iraqi market can both protect themselves and ensure the success of local partnerships.

Toby Chinn, Associate Director - Iraq, Control Risks



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Petrofac 

Fast track strategy for oil & gas

No other country in the world has as many oil development prospects as Iraq. Possessing the world's third largest proven oil reserves, it is the only country besides Saudi Arabia with the potential to massively increase conventional oil production. This stark fact is reflected in the number of international oil companies (IOCs) and major oilfield services firms prepared to make serious investments in a country still smarting from its troubled and violent past.

"Iraq is perhaps the last untapped source of high potential and low cost oil on earth. Its current reserve to production ratio is over 150 years and real exploration hasn't even commenced," according to Crescent Petroleum's CEO, Majid H. Jafer.

In spite of the difficult task of national recovery, the country is embarking on bold initiatives. In particular, its aim is to increase crude oil production capacity to 12 million barrels per day (bpd) by 2017, more than five times greater than existing production. There is a firm basis for optimism. In October 2010, the Iraq Oil Ministry announced an increase in the country's estimated crude reserves from 115 billion to 143 billion barrels.

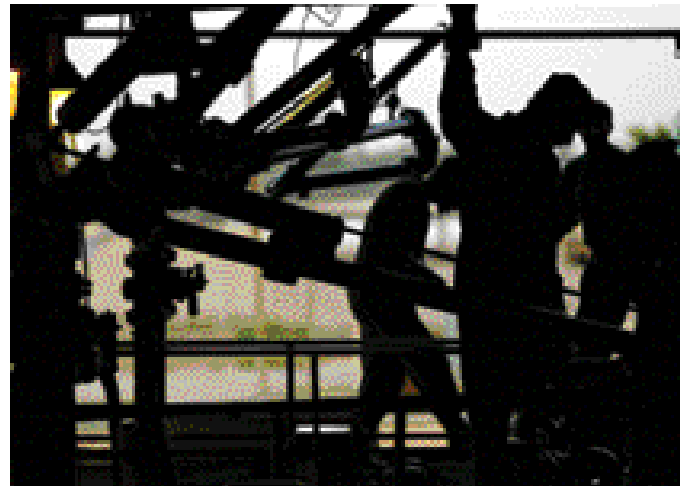
If Iraq meets the huge crude target it is aiming for it will change the dynamics of the world oil industry. Such a level of production would

rival that of Russia as well as neighbouring Saudi Arabia and Iran and mark the country out as a major influence on the supply and price of oil in world markets.

The task ahead for Iraq though is immense. Reaching just half the targeted capacity figure poses huge engineering challenges, not least in overcoming the country's infrastructure constraints. Not only does the country need to upgrade and triple its pipeline infrastructure and build more storage and oil terminal facilities, it also needs to increase power generation as well as desalination facilities to provide water for oilfield injection.

The cost is going to be prodigious. Standard Chartered Bank estimates that Iraq requires US\$150 billion of investment in its oil & gas industry to secure the production volume increases for which it is aiming. It is not just a question of project finance. Another question is whether Iraq can provide the administrative and technical capacity to achieve such an ambitious goal in such a relatively short time.

Majid Jafer says that the lack of a national oil law and disputes between the Federal Government and regional government or provincial councils and between the executive and legislative



branches of the Federal Government itself are negative factors. However, "this seemingly dysfunctional state of affairs needs to be seen in the context of Iraq's fledgling democratic system and also the legacy of oil nationalism and state control that became so central to the national identity of Iraq in past decades," he says.

On the plus side, the Federal Government has put Iraq firmly back on the international map as a high potential producer. Also, the need for private sector investment and management is now firmly established in the national psyche, Jafer observes.

Much depends on the ability and success of foreign oil companies to maximise the production potential of the oil & gas fields allocated to them since 2003. Thus far, the government has signed 14 technical service contracts with oil & gas companies following three licencing rounds. A fourth round is planned for early 2012.

The international oil companies' main investment push has yet to come, as only a few new wells have been drilled. The initial focus has been on laying the groundwork at fields, mapping reservoirs and collecting data on pressure and volume from each well before launching out on achieving bigger production levels. This task will necessitate major infrastructure investments.

By re-working existing wells BP, ExxonMobil, Eni, Shell and others have been able to boost capacity in their concession from 10 to 20%. At the end of 2010, Italy's Eni said it had raised production a little under 10% to 183,000 bpd from its concession. BP and China National Petroleum Corporation increased production in theirs by more than 20% to 1,275,000 bpd. Oil production has also been rising steadily in the Kurdish Region with the Regional Government aiming for one million bpd by 2018 or earlier.

As a result of increased production levels, IOCs including Occidental, ExxonMobil, Shell and Kogas, have been able to draw on cost recovery payments, in terms of crude oil, for their development expenditure.

Another 12 exploration blocks across Iraq are up for auction in the country's fourth licencing round. The main thrust is to boost production of gas. Developing gas resources has so far proved a slow process even though the country's gas reserves are estimated at 3.17 trillion cubic metres – the tenth largest in the world.

However, the country has so far been unable to monetise this resource due to a lack of infrastructure. More than US\$1 billion in revenue is lost each year because of wasteful gas flaring.

Actively Empowering Iraq's Economy



Khoram LPG Plant, Kurdistan, Region of Iraq

Crescent Petroleum has been operating as a regional upstream oil and gas company for over four decades in the Middle East and several other countries worldwide. It is the first regional, independent, privately-owned Middle Eastern petroleum company to engage in the acquisition, exploration and development of petroleum concessions, and the production and sale of crude oil, petroleum products and natural gas.

Crescent Petroleum has been present in Iraq for almost 20 years, with offices in Baghdad, Erbil and Basra, all staffed 100% by qualified and experienced Iraqis. The Company has been actively engaged with the Ministry of Oil since the late eighties, carried out studies and training for the Iraqi Ministry of Oil and completed a full field development plan for one of the major oil fields in Basra.

Crescent Petroleum has also implemented a major integrated natural gas project in the Kurdistan Region of Iraq, in partnership with its affiliate Dana Gas under a service agreement signed with the regional authorities, to produce, process and deliver in phase one 200 million cubic feet per day of gas supplies urgently needed for power generation. The combined project involved the construction of about 180km of pipelines and an LPG plant in a challenging terrain. The project is sustaining two power plants to generate 1250 MW providing cost effective electricity for 4 million Iraqis, freeing the extra 300 MW of electricity to other provinces, saving Iraq \$2.5bn a year in imported fuels, and creating thousands of new jobs.



شركة الهلال والنجمة

Crescent Petroleum

Shell, in a venture with the state owned South Gas Company and Japan's Mitsubishi, signed an agreement in 2008 to form the Basrah Gas Company. Shell's proposal is to build a network of gas capture and utilisation facilities across the southern fields, to provide fuel for the country's power stations and for export.

In its fourth energy licencing round, Iraq is looking for US\$1.5 billion of additional investment in the country's natural gas industry. It is estimated that new discoveries could add 0.85 trillion cubic metres to the total.

The poor state of Iraq's gas gathering and processing infrastructure has led to the flaring of almost 70% of its associated gas, more than 24.7 million cubic metres per day, mostly in the southern oilfields. There is every incentive to end this waste and a lot of international interest in possible ventures.

At a briefing held in Amman in September 2011, Ministry of Oil officials met with more than 100 oil company executives from 42 pre-qualified companies interested in bidding for contracts as part of Iraq's fourth oil & gas exploration round. As in previous rounds, technical service contracts are expected to be on offer with companies paid a flat fee rather than a share of any production. However, there may be modifications to the terms offered in previous rounds. Bids are due to be submitted by March 2012.

The companies, including international oil majors as well as medium sized firms from 22 countries, are being invited to bid for 12 exploration oil & gas blocks, several of which are in previously unexplored areas. The blocks range in size from 7,000 to 9,000 square kilometres. Gas is the focus in Nineveh, Anbar, Najaf, Qadissiya, Babel, Diyala and Wassit provinces. Oil exploration is invited in Qadissiya, Babil, Najaf, Muthanna and Thi Qar provinces.

The exploration round is designed to focus on previously untouched remote regions, including Iraq's western desert, covering an overall area of 80,700 square kilometres. Iraqi officials expect that a further ten billion barrels of oil will be added to national reserves in addition to 0.67 trillion cubic metres of gas.

Any oil that is discovered will not be immediately exploited but as proven reserves, will be used to compensate for depletion in other

fields. However, companies discovering gas will be permitted to extract the resource which is urgently required to fuel industry, petrochemical plants and electricity turbines.

According to government spokesman, Dr. Ali Al-Dabbagh, exports are also firmly in mind. "Iraq is keen and determined to play an important role in the international gas market and is working to develop this sector very seriously in order to reach the ultimate target of being a supplier of gas to the European Union," he told an Iraq Petroleum conference in London - September 2011.

Hydrocarbon industry expansion plans are being delayed though because supporting transport infrastructure developments have yet to be put in place. In order to rectify this, in 2011, Iraq announced a US\$50 billion oil & gas pipeline rehabilitation programme designed to reinvigorate a crumbling, under maintained transport and distribution network, as well as bottlenecks in the country's export infrastructure.

Iraq is largely a landlocked country with a narrow direct access from its ports to the international waters of the Arabian Gulf via the Shatt al-Arab waterway. Most of the country's oil exports are conducted from installations in the Al-Faw peninsula, close to Basrah.

This area, throughout most of the 1980s, was the scene of violent clashes and artillery bombardments during the Iran-Iraq war and has seen little investment for the last 30 years. The other conduit for Iraqi oil exports is a northern pipeline running through the Kurdish Region to Turkey.

The South accounts for almost 80% of Iraq's crude exports through oil terminals at Basrah and Khor Al Amaya. Another 460,000 bpd are transported through the northern pipeline from Kirkuk to the Turkish port of Ceyhan, on the Mediterranean.

Iraq wants to raise export capacity from Basrah port to 4.5 million bpd by 2013, from just over two million bpd in 2011. However, even this could be insufficient in less than ten years if international oil companies meet their production targets.

Iraq will need to diversify its export routes in all directions if it is to monetise its most valuable mineral wealth. Sending oil north from

Iraq's southern fields could provide a solution to the bottlenecks at the oil terminals on the Gulf. Essentially this requires rehabilitation of the country's North-South strategic pipeline. This runs from Basrah to Haditha in Central Iraq and subsequently to Kirkuk.

In September 2010, the Iraq Government reached an agreement with Turkey to develop the 960 kilometre twin pipelines that carry 450,000 bpd of oil from Kirkuk's oilfields to the Mediterranean coast.

In May 2011, the Iraq Oil Ministry awarded Canada's SNC Lavalin an engineering consultancy contract worth US\$13.5 million to oversee the first phase of the country's US\$50 billion planned oil & gas pipeline overhaul. The design firm's consultancy will take 18 months to complete, with the pipeline work itself expected to take four years. The intention is that a series of build-own-operate contracts will be awarded to implement the project. Tenders could be called in 2012.

A gas line from Basrah to Kirkuk running along Iraq's eastern provinces is also being considered along with a trans-Iraq liquefied petroleum gas pipeline. There are also plans to build an oil pipeline into Jordan which is heavily dependent on Iraq crude.

Other important infrastructure investment decisions lie ahead. Oilfields need power and a great deal of water to main reservoir pressures. Both are in short supply at present. While substantial government attention and investment is going into developing new power stations and electricity distribution networks, water issues are likely to prove more complicated to resolve.

As operations to raise production gather pace across Iraq, the water problem is expected to become more apparent. A giant common facility to provide up to 12 million bpd of desalinated water supplies to oil companies operating in southern Iraq has been proposed.

Reaching the country's projected level of oil production is also going to need drilling operations on an unprecedented scale, perhaps 800-1200 wells each year using up to 350 drilling rigs at any one time.

In spite of such unresolved difficulties, the IOCs are under pressure to increase production rapidly from their concessions. In order to accelerate the process, large amounts of work are being

sub-contracted to oilfield services companies, particularly the US' Halliburton, Weatherford, Schlumberger and Baker Hughes.

The International Energy Agency estimates that the country's crude production will struggle to reach 4.8 million bpd by 2020, due to the "sheer scale of the required construction of infrastructure, coupled with political uncertainties".

A Bank of America Merrill Lynch report says that internal infrastructure bottlenecks mean that oil export facilities will be able to handle only half of Iraq's intended production, even after a threefold increase of current export capacity. However, the report suggests that Iraq could reach a production level of 4.4 million bpd by 2015.

Even such a level would represent a doubling of current output and create the Middle East's largest producer after Saudi Arabia. If government targets are met, this is going to mean Iraq will become a global, as well as regional force, in oil & gas production.





Contributing to the development of the oil & gas industry in Iraq



Shell was one of the main contributors in Iraq in the discovery of the Kirkuk oilfield back in 1927. In 2003, Shell conducted detailed reservoir studies under the Memorandum of Understanding that had been signed on the Kirkuk and the Missan fields. In 2005, Shell, Mitsubishi and the Iraqi Ministry of Oil started to work on a joint Gas Masterplan for Iraq, in coordination with the Ministries of Industry and Electricity, to optimise gas production and utilisation.

In September 2008, the Ministry of Oil and Shell signed a Heads of Agreement (HoA) to establish a joint venture in Basrah, to undertake midstream activities (gathering, treating, processing natural gas and marketing the gas initially for domestic use). The project is awaiting final approval by the Cabinet – when this is obtained, the South Gas Company will have a 51% majority shareholding with Shell holding interests of 44% and Mitsubishi Corporation 5%.

In January 2010, the Iraqi Ministry of Oil awarded Shell 45% shareholding as operator, Petronas 30% and the remainder 25% for the Iraqi State Partner (Missan Oil Company), in a contract to provide technical assistance in the development of the Majnoon field. The field is one of the largest oilfields in the world, estimated by the Iraqi Government to hold about 38 billion barrels of oil in place. Majnoon is located in the southeast of Iraq, close to the Iraq-Iran border, with current daily production estimated at 65,000 bpd.

In January 2010, Exxon Mobil and Shell signed an agreement with the Ministry of Oil to redevelop and expand the West Qurna 1 field in southern Iraq – Exxon is the operator with a 60% shareholding, Shell has 15% and the Iraqi State Partner 25%.

In November 2010, Shell Global Solutions International B.V., (SGSI) signed three licence agreements with the state-owned North Refineries Company of Iraq in Kirkuk. The SGSI will provide a kerosene hydrotreater and a vacuum gasoil (VGO) hydrocracker unit as part of the agreement. Each agreement will include licence, engineering, catalysts and reactor internals as part of the deal – the licenced technologies will provide Kirkuk with an integrated solution that will help optimise operations at the new refinery. Shell lubricants and chemicals are available via distributors.

Tapping the energy potential of Iraq

Case study: Mott MacDonald

Awakening the giant

Latest surveys seem to agree that Iraq holds the world's third largest proven oil reserves, after Saudi Arabia and Venezuela. Following the progressive withdrawal of the coalition troops and the beginning of a first phase of political stabilisation, Iraq has set itself very ambitious production targets for the forthcoming years in the effort to become the second largest producer within OPEC, capable of rivalling Saudi Arabia in the next decade.

Although the Government is starting to get its footing and many improvements to the output and reliability of the oil supply chain have been achieved across Southern Iraq, there is still much to do (writes Charles Ellinas, Managing Director, Oil, Gas and Petrochemicals at Mott MacDonald).

The Iraqi oil industry has suffered during the last several decades and its infrastructure is in need of modernisation and investment. The results of over a decade of trade embargoes meant that maintenance of existing facilities was occasional and extremely poor, while expansion or creation of new ones was simply not feasible. Indeed, while work has started up on many of the international oil company-led projects and some early results have been accomplished with great success, Iraq has increasingly been showing all the limits deriving from delays, structural problems and bottlenecks, built up over many years of negligence in the oil & gas as well as the power, water and transportation sectors.

The country currently produces on average 2.4 million barrels of oil per day (bpd) and the Government is aiming to increase production

to at least 12 million bpd in the next seven to ten years. The potential of Iraq is immense - the country has some nine super giant oilfields (fields with more than five billion barrels of recoverable oil) and 22 giant oil fields (fields holding between 500 million up to five billion barrels of recoverable oil). The paradox is that Iraq currently imports more than a quarter of the petroleum products needed for internal consumption. Given the current scenario, the target seems to be even more ambitious since, at present, the main obstacles to field development are difficulties in logistics, a lack of reliable power supply, shortage of water and more obviously, concerns over security.

There is no doubt that in the next few years, Iraq will face a massive task of financing and project managing the repairs, upgrades and expansions of its oil and ancillary infrastructure in order to meet the production targets. However, on a positive note, major international oil companies believe that the plan to undertake pipeline, storage and export terminal enlargements and upgrades is feasible, despite the challenges laying ahead. In addition to the contractors required to construct oil & gas facilities, there will be opportunities for companies that can design and build power stations, water facilities, buildings, highways and ports and also provide social development including, education and health.

Another big challenge the companies have identified on the path of Iraq's oil industry reconstruction and development is staffing. This issue encompasses every aspect of recruitment, ranging from difficulties in reference checking and a lack of skilled personnel and



project management resources, to training and safety. Whilst these issues, together with its logistical challenges may greatly impact on project cost inflation, at the same time they represent a great opportunity for global companies looking to establish a long term presence in Iraq, by nurturing local talent and creating a new skilled class of professionals.

Mott MacDonald is one of the leading oil & gas companies working from within Iraq with the major international oil companies (IOC), to help Iraq bridge the technology gap in the energy industry and reach its ambitious production targets. The global consultancy firm has been working there since the late 1950s, helping deliver projects in the power, water, sanitation, health, education, buildings and transport sectors. After a break between 1980 and 2003, the company has returned to the country and since then it has delivered over 1,000 projects, mainly to restore basic services in the aftermath of the second Iraq war. More recently, Mott MacDonald has moved its office with staff training facilities to Iraq Energy City, a brand new development located near Basrah in Southern Iraq. The strategic move is poised to set Mott MacDonald closer to its business partners in the region, whilst improving operational efficiency and security.

Strengthening water supply

Water is crucial to the oil extraction process and shortages can seriously compromise initial production increases, as pressure in older reservoirs fall. One of the first projects Mott MacDonald was involved with, was for the implementation of a common seawater supply facility for the West Qurna, Rumaila and Zubair fields. The

feasibility study was to identify and evaluate the alternatives for the delivery of up to 10-12 million barrels per day (MBPD) of seawater to the oilfields.

The project involved gathering of data, assessment of seawater requirements, route surveys and conceptual development of alternative schemes. This also included environmental management, sustainability, regulatory and community affairs plans, identification of pipeline corridors and pumping stations and risk assessment.

Boosting production

Due to the poor level of maintenance, resulting from the restrictions imposed by the international oil embargo, a number of fields in Iraq have been under producing for many years. The first efforts IOC's have focused on, were ramping up production, evaluation of current output limits and identification of operational improvements. The project to increase output capacity at the super giant Rumaila oilfield, was a test for those involved in coping with infrastructural deficiencies, as well as logistical issues. The objective of the ambitious increased production target (IPT) project, was to raise production by 100,000 bpd above the 1.066 million bpd initial output rate. Mott MacDonald's scope of work included, provision of engineering, procurement and project management services, executed by a joint team with China Petroleum Engineering Company, the design arm of China National Petroleum Corporation.

For Mott MacDonald this was the first large scale project in Iraq, where a number of competencies and skills were brought together to meet the tight timescale set by the field operator. A central task



force was established in Abu Dhabi coordinating with the Basrah and Beijing offices. One of the biggest challenges was to ensure reliable power supply to the field operations. As the national power grid could not offer guarantees of reliability, the solution was to install generator sets at each of the 80 wells in the field, to ensure continuity in the field operations. The tremendous effort resulted in the increased production target being met just ahead of schedule. There were many lessons learnt which will benefit future operations.

Flaring reduction

It is estimated that some 20 million cubic metres of natural gas, which is produced by upstream suppliers in association with oil, is currently being flared in Southern Iraq. In 2008, Shell and the Iraq Ministry of Oil, signed an agreement to tap into this immense resource, which is currently wasted and has a negative impact on the environment. By capturing and processing this associated gas, the plan is to create an important and reliable supply of domestic energy, reduce greenhouse gas emissions and create significant value for Iraq. Initially the project will focus on creating reliable sources of domestic energy, including liquefied petroleum gas, natural gas liquids, natural gas supply for power generators and deliveries to local distribution networks. In the future, Iraq could develop a liquefied natural gas facility to export natural gas surplus not needed for domestic use.

Mott MacDonald was appointed by Shell to carry out surveys, assess the current condition of facilities and recommend the best plan for

refurbishing and upgrading existing plants and to design new ones as needed.

The first phase of the task was to gather reliable data related to existing infrastructure for the purpose of determining their condition, identify the work required and preparing the scope of work with the aim of reducing flaring by capturing the gas. Following the completion of the project execution plan, Mott MacDonald continued its work to determine the as-laid routes of all the linking pipelines and the transfer pipeline to the Rumaila plant. Obtaining gas pipeline properties and visual inspection of pipeline conditions was a challenging task, which involved information gathering and data acquisition directly from various field operators. Ultimately, an assessment of the current status, scope of future work and time schedules was carried out to ensure the best possible coordination of work and optimise delivery timings.

Upcoming priorities:

Among the top priorities in Iraq, is the need to create a stable and reliable power and water supply to enhance production and exploration. In addition, an efficient infrastructure for transport, storage and export of oil is needed to guarantee fast economic returns.

About Mott MacDonald

Mott MacDonald is a US\$1.7 billion management, engineering and development consultancy, serving the public and private sector around the world. Benefiting from unrivalled diversity, it provides leading edge solutions across 12 core business sectors, through over



14,000 staff working in 140 countries. Mott MacDonald has worked in Iraq since the late 1950s, helping deliver projects in the power, water, sanitation, telecommunications, buildings, transport, bridges, airports and oil & gas sectors. Since 2003, Mott MacDonald's experience and network of contacts have been of major advantage, helping the company to deliver more than 1,000 emergency relief and reconstruction projects and to build up a team of over 150 staff in the country. Mott MacDonald is a registered company with the Iraqi Ministry of Commerce and its offices are staffed principally by Iraqi professionals.

Mott MacDonald's Oil, Gas and Petrochemicals team is playing a key role across Southern Iraq in identifying, prioritising and delivering projects to improve oil supply, transport and distribution. This involves working closely with regulators, government bodies and

utility companies on forecasting demand and assessing their existing infrastructure to identify specific needs. The company also provides world class design, management and construction supervision services. Clients include the international funding agencies in Iraq as well as Iraqi Government and major IOC's. The recent office move to Iraq Energy City is a tangible sign of the strong commitment by Mott MacDonald to the energy future of the country.



Dr. Charles Ellinas is Mott MacDonald's Oil, Gas and Petrochemicals Unit Managing Director.

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Mott MacDonald

Core infrastructure needs to be in place

Prior to the 1990s, Iraq's infrastructure was amongst the best in the Middle East. However, years of conflict; misdirected resources and the affects of Iraq's centralised command economy stifled economic growth and development, curtailing Iraq's ability to invest in new infrastructure and to maintain existing facilities. Conflicts, looting and sabotage have also resulted in damage to buildings, pipelines, communication equipment and transportation links. Billing systems and the associated revenue that maintain operations have collapsed.

However, the current reconstruction taking place in Iraq provides a considerable number of contract opportunities and substantial added value for the construction sector, with opportunities to bring in new technology and new skills to the country. Infrastructure continues to be a priority investment area for the Government. With social and economic infrastructure forming a significant portion of the Government's priority investments, strong growth is expected to continue over the medium term. In 2011, growth of 15% is expected, as a result of contracts awarded. Owing to the substantial project stream, real growth is forecast to average 9% between 2012 and 2015.

Key concerns include electricity shortages, scarcity of housing and insufficient transport links. In order for the economy to return to some semblance of normality, core infrastructure needs to be in place. A lack of capacity, inconsistent standards and expertise among local construction companies, has led the Government to call for international participation in rebuilding Iraq's infrastructure.

Today, most Iraqis have limited access to essential basic services, including electricity, water supply, sanitation and refuse collection.

Serious environmental and health risks associated with contaminated water supplies, inappropriate handling of solid waste and disposal of sewage threaten to further burden the already stressed health system. The concentration of economic and social activities in the main urban centres of Iraq has also led to a proliferation of under serviced neighbourhoods in smaller but important Iraqi cities. Iraqi officials are looking for means to quickly restore basic infrastructure services and to improve living conditions. The lack of basic infrastructure services, particularly electricity, has contributed to the general lack of security in various parts of the



country. The plans to integrate "rings of steel" around the key Iraqi cities have to be factored in with all urban planning, as security is likely to be an issue for some years to come.

In an attempt to address the immediate and pressing needs of the Iraqi people and to improve their quality of life, the World Bank is financing two key projects: the first is the Emergency Water, Sanitation and Urban Reconstruction project (US\$110 million), which is being implemented by the Ministry of Municipalities and Public Works (MMPW) and the Baghdad Water Supply and Sanitation (US\$65 million), which is being implemented by the Mayorality of Baghdad (MOB). Projects are being implemented to facilitate the restoration of basic water supply and sanitation services in the poorest areas of Baghdad and nine Governorates throughout Iraq through: (a) reconstruction, rehabilitation and expansion and upgrading of existing facilities; and (b) providing capacity building support through training and technical assistance. These projects will also create vitally needed short term employment and will develop in-country capacity to manage large scale reconstruction. There are approximately five sub-projects in Baghdad Mayorality district and 12



sub-projects outside, spread throughout the country, thus ensuring geographical coverage and social equitability.

At long last, construction in Iraq is beginning to fuel significant contract awards. The sheer number of projects underway should drive solid industry growth over the medium term. News that the US\$37 billion development plan for social and economic infrastructure is progressing, provides a further upside to our optimism and the forecasts of many others in the industry.

Strong growth is predicted, based on the following factors:-

The shortage of electricity continues to be a major cause of unrest and a substantial barrier to growth. The ambitious new target of generating 27,000MW of electricity by 2013 appears unlikely to be met; however, investment is filtering through to the sector, with projects tendered and contracts awarded for the installation of turbines. Delays in completing deals to secure gas supplies to power the plants are necessitating a change in tack, which has seen contracts for diesel fired generators awarded, with STX Heavy Industries winning a US\$2.77 billion contract to build 25 diesel power plants in May 2011.

“The growing focus on infrastructure in Iraq will continue to present substantial opportunities for those construction companies willing to price in the sizeable risks and enter the market”.

Transport is slowly emerging as the sector which is receiving significant attention, even though electricity has taken priority in recent years. Rail is a major element of plans and in May 2011, Jordan and Iraq signed an agreement to build a rail line connecting the port of Aqaba with Baghdad as part of a huge new regional rail link. In January 2011, Alstom signed an outline agreement for the construction of a 25 kilometre elevated metro line in Baghdad. Ports and airports are also being built. In February 2011, it was announced that the contract for construction of the Al-Faw Port would be released by the end of 2011. It is hoped the US\$6.3 billion project will be completed by 2013. At the same time, a tender for a new international airport to serve the provinces of Karbala, Najaf and Al Hillah is due to be released towards the end of 2011.

Huge housing projects have been announced over recent months. A scarcity of housing is another major issue which has provoked popular unrest. In response, around two million housing units are to be built in the country over the next four years, with the Government committing large funds to achieving this. The sector has seen a number of regional construction companies - especially those from the Gulf Cooperation Council (GCC) - enter the country. Multibillion dollar projects have been announced in both the Kurdistan Region and the rest of Iraq. Turkey's Ayyildizlar Construction announced it would build 62,000 houses in Erbil, the capital of the Kurdistan Region.

Most recently, in May 2011, Hanwha Engineering and Construction was awarded a US\$7.25 billion contract to build a new town outside

Baghdad and in June 2011, US company, Hill International, was subcontracted to provide US\$1.5 billion worth of building materials for a housing project, as well as US\$200 million for project management.

The growing focus on infrastructure in Iraq will continue to present substantial opportunities for those construction companies willing to price in the sizeable risks and enter the market. A lack of capacity and expertise among local construction companies has led the Government to call for international participation in rebuilding Iraq's infrastructure; they bring in international standards needed in terms of working to HSE requirements and also in standards of building. Turkish and South Korean companies have done very well in recent months, as well as a number of international companies from France's Alstom to Canada's SNC Lavalin.

The Iraqi Cabinet has recently approved an ambitious US\$37 billion programme to upgrade Iraq's collapsing infrastructure. The development plan for social and economic infrastructure will, at the time of writing, now go to a vote in parliament. Once approved it will see significant allocations for transport infrastructure (US\$10 billion) including an extra US\$1.5 billion for highways alone. These represent the latest in efforts by the Government to placate protesters who have rallied against poor public services and a lack of improvement in their daily lives. The allocated funds will be spread over several years. The draft law to authorise the investment has been pending for more than a year, with Prime Minister, Nouri Al-Maliki having initially proposed it before the March 2010 election.



Other areas to receive investment include:

- US\$5 billion for education
- US\$5 billion for water and sewerage
- US\$5 billion for agriculture
- US\$3 billion for health infrastructure
- US\$2 billion for higher education

No article on business in Iraq would be complete without a nod to the oil & gas industry, which is already generating multibillion dollar contracts for projects right across the country. The North has seen incredible development resulting from its reinvestment of oil revenues and the new roads, universities and infrastructure in cities such as Erbil are an impressive demonstration of what can and will, be achieved across the country. The South is seeing change already, thanks to the commitment of the oil companies to Iraq and everyone predicts that construction, particularly in this region, resulting from oil companies' requirements for their labour force, will be significant in the coming years. The impact on the local economy will be phenomenal if urban planning and management is well

implemented - there is a desperate need for consultancy in these areas, if the regional administrations will be prepared to listen to consultants, they will only benefit.

One major issue for all the construction industry in Iraq is the lack of formally qualified labour; workers have experience but it does not often meet the HSE and up to date standards required by the IOCs. A number of very significant training programmes are being developed to address this shortfall but it will be a few years before the supply of local labour is able to satisfy the IOCs' requirements.

It finally looks as if the various factors that needed slotting into place to improve the life of the average Iraqi citizen are there. Whilst it has taken some time to set in motion, the construction market in Iraq is set to experience real and steady growth for some years to come.

Sarah Hildersley, VP International Business Division, ICCB and former Director UKTI Jordan and Iraq

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Water - nothing functions without it

Water is a major issue for Iraq, where supplies for households, agriculture and industrial use has fallen dramatically. It is estimated that the amount of water available per person each year fell from 5,900 cubic metres to 2,400 cubic metres between 1977 and 2009.

Two thirds of Iraqis remain without safe drinking water and four fifths without adequate sewerage, according to the Ministry of Water Resources. In spite of such grim statistics, a substantial amount of interim progress has been made since 2003.

Programmes initiated by the International Development Association have provided 700,000 cubic metres per day of potable water in 11 cities including Mosul, Diwaniya, Al Hillah, Karbala, Basrah and Baghdad. Bechtel alone carried out US\$500 million of water projects after 2003.

Across Basrah, 160 kilometres of new water trunk main pipeline has been laid and 40 kilometres of network reinforcement has been carried out. At Al Hayaniah in Basrah, three new water towers and service reservoirs were commissioned in 2009, making them the largest in southern Iraq. A new US\$25 million water treatment plant in Samawah has been inaugurated, providing clean potable water for more than 250,000 people.

However, an immense amount of work is still needed. Most of the provinces suffer from insufficient and damaged storm water drainage and other dilapidated infrastructure due to years of neglect and lack of maintenance at treatment works, pumping stations and pipe networks.

Leaking and often illegally tapped pipelines have resulted in massive potable water losses. International sanctions during the 1990s also meant that essential parts and equipment were unattainable.

Shortages are all too apparent. Outside of Baghdad, drinking water is available to less than 70% of the population in towns and is as low as 48% in rural areas. In Baghdad, 25% of residents remain disconnected from water mains and have to rely on trucked water.

Wastewater treatment indicators are worse. Only 28% of the population is covered by sewage networks, falling to 2% in rural areas. More than 80% of Iraq's wastewater is left untreated, contributing to the pollution of Iraq's waterways and general environment. It is a problem requiring priority attention and will be a focus of development spending for years to come.

Another huge problem is sourcing water supplies. Iraq is mostly desert with inhabited areas by rivers such as the Tigris. This flows from southeast Anatolia in Turkey to Syria and enters Iraq in the town of Fesh Khabor, in the Kurdistan province of Dohuk.

The Euphrates River also begins in Turkey and passes through Syria. There is a complicated trans-border water system, which is also seen in a network of smaller rivers from Iran, some of which feed into the Tigris.

However, Iraq has little control over the water that flows through the two main rivers, 70% of which comes from Turkey: its neighbours are increasingly utilising the rivers for their own economic ends.

In the last 15 years, new hydroelectric dams, especially in Turkey, have cut the flow of water through the main rivers and there is concern at proposals for yet another new Turkish dam to be built on the Tigris.

As a result, Iraq faces a big challenge in managing its diminishing water resources. It has even been suggested that the Tigris and Euphrates could dry up in Iraq by 2040 if current conditions persist.



Certainly a reduced flow from the rivers is already affecting the Shatt al-Arab.

The Shatt al-Arab waterway is formed by the convergence of the Tigris and Euphrates rivers at Qurna, before flowing into the Gulf. However, salinity levels are rapidly rising from seawater that is no longer pushed back. There has also been a decline in the flow of the Karun River, which rises in Iran and which meets the Shatt al-Arab.

Saltwater now reaches up the Al-Faw peninsula well beyond Basrah with freshwater fisheries, farmland and date groves now lost. As a result of the worsening situation, there are proposals for a dam to be built on the Shatt to keep the seawater at bay.

Southern Iraq also has a huge need of water for its oilfields and awaits agreement on a proposed multibillion dollar water injection project, designed to help boost crude production rates from the region's oilfields.

These include some of the largest and most important in Iraq such as West Qurna, Majnoon, Zubair and Rumaila. International oil

companies including BP, Shell, Lukoil, China National Petroleum Corporation and ENI are seeking to raise output in line with the government's strategy to raise crude production from 2.7 million bpd to up to 12 million bpd.

Water injection will be a key enabler for oil companies seeking to help reach this ambitious target. The cost of developing the first phase of the desalination project is estimated at US\$4.5 billion, with a total projected cost for the entire project put at US\$15 billion.

Desalination may have to be used for other water requirements if the current depletion levels and growing demand are not addressed by conventional means.

The works list is long and there is a significant requirement for new dams and dykes, construction and maintenance of irrigation channels, water purification and other forms of water management. Those who can provide innovative solutions and apply the latest technology to Iraq's mounting water supply problems, have a great deal of business awaiting them.

Electricity sector steps up power surge

Inadequate electricity supply is a major concern for Iraq's government. Periods of blackout in most of the country outside the Kurdistan Region, still average more than nine hours a day. This impacts on daily life and constrains economic growth, especially in key areas such as oilfield and industrial development.

The US company Parsons Brinckerhoff, the author of a 20 year masterplan for the country's electricity development estimates that the cost of unmet demand is US\$40 billion a year.

A huge effort is being made to improve the supply but a deteriorating network that had insufficient investment for many years exacerbates the current situation. This neglect has left all three components of the system – generation, transmission and distribution – significantly downgraded.

As a result, multibillion dollar spending on improvements is not an option but an economic and political necessity, particularly since demand has been growing six times faster than capacity is being installed.

The Ministry of Electricity is stepping up efforts to implement the development of 15,000MW of new generation capacity by the end of 2014. In November 2011, Alstom was awarded a US\$550 million

contract to build a power station in Mansuriyah in Diyala province. This follows an earlier US\$110 million contract awarded to the French company, to supply sub-stations and power transformers for a power station in Nineveh, for completion and commissioning by the end of 2012.

Three Turkish companies are also working on a series of contracts to install 20 gas turbines, designed to increase Iraq's generating capacity by 2,500MW. Calik Enerji is constructing a 1,250MW plant in Karbala at a cost of US\$445 million. In addition, the company has been contracted to build a US\$388 million plant, designed to produce 750MW, south of Mosul. Enka Insaat also has a US\$205 million contract to build a power plant and install six turbines in Nineveh. Another Turkish company, Eastern Lights Energy, is installing four turbines at an existing plant in Baghdad.

In the summer of 2011, Alstom was awarded a US\$94 million contract to build a power station in Nineveh province for completion and commissioning by the end of 2012.

In addition, priority rehabilitation projects are planned for existing assets and the strengthening of transmission and distribution networks.

The electricity masterplan, calls for the short term expansion of about 10,000MW of generation capability, including fuel and transmission connection issues. The plan also includes a roadmap for future development leading up to 2030.

The main push is to activate turbines bought from the General Electric and Germany's Siemens in December 2009. The deals were valued at US\$3 billion and US\$2.1 billion respectively and were designed to provide the targeted 10,000MW of power capacity.

The generating capacity is due to be installed at a number of existing or new power stations at various locations including Bayji, Taza, Rumaila, Dibis, Nineveh, Al Khayrat, Najaf, Al Hillah, Akkas and Najibiya.

The Electricity Ministry of the Kurdistan Regional Government, has also invited expressions of interest from developers for a series of independent power projects (IPPs) to be built across the KRG's provinces.

Jordan based Mass Global Investment Company has two projects in Kurdistan with a third to be commissioned by the end of 2011. These comprise a 500MW power plant at Dohuk, a 750MW plant in Sulaymaniyah and a 650MW plant at Erbil. Expansion of the latter project is expected to bring its generating capacity to 1,000MW by the end of 2011.

The KRG is seeking further development of IPPs to provide an additional 6,000MW of power. In general, though, the independent element in Iraq's future nationwide electricity development has still to be resolved.

Iraq's cabinet decided at the end of May 2011 to cancel plans to develop four power plants as independent power projects. The number of IPPs had already been reduced from eight.

The Ministry of Electricity has decided instead to tender its initially planned IPPs as engineering, procurement and construction contracts. It is estimated that US\$925 million will be spent on the planned power plants at Diwaniya, Samawah, Amarah and Shatt Al Basrah.

The idea now is to examine the creation of special purpose companies as joint ventures between the Electricity Ministry and the

Trade Bank of Iraq with investors invited to build, commission and operate the projects.

Resolving the issue is important. The electricity masterplan envisages private investment accounting for US\$23 billion and much more if investment in transmission and distribution systems is taken into account.

One task for the government is going to be establishing bankable off-take agreements. It also needs to provide assurances over gas feedstock in order to attract the foreign investment it requires. Electricity tariffs also remain nominal and far below the level of cost



recovery. Collection rates are low with the result that the electricity sector remains highly subsidised.

In spite of the challenges, Iraq finally has a blueprint which could bring an end to decades of power shortages that have held back the country's economic growth.

It is recognised that the power and hydrocarbon sectors need to improve coordination in areas such as investment planning and policy making, in order to optimise long term development of all these sectors.

The agreement by the Ministry of Oil to provide feedstock to new capacity coming online after 2015 will help in this task. A shortage



of feedstock guarantee in the past has been given as a reason for a lack of investment in generating capacity.

The Prime Minister's advisory commission has been requested to develop an integrated national energy strategy; a contract will be issued soon. The strategy aims to improve efficiency and effectiveness in the energy sector through optimisation of synergies and greater integration.

32.7% of Iraq's total energy feedstock mix comes from heavy fuel oil, 27.8 % from crude oil and 13.3% from gas oil. Natural gas fires only 26.6% of the country's power stations.

Parsons Brinckerhoff's study expects around 67% of Iraq's total power generation capacity to be gas fired by 2020, with heavy fuel oil plants phased out. By 2030, the figure is expected to stand at nearer 90%. Dependency on crude and heavy fuel oil for power generation in gas turbine power stations decreases efficiency and increases maintenance requirements and production costs.

Much depends on increasing natural gas supplies. The government has stipulated that new oilfield projects should not flare gas and is considering project proposals for dry gas pipelines and liquefied natural gas bottling facilities.

Iraq is expected to produce around 28,317 cubic metres per day (cmd) of non-associated gas in 2011. This is due to rise to a planned 169,901 cmd by 2019. By then, the power sector is predicted to take around 40% of the available supply.

There is also considerable potential for development of renewable energy projects. In the long term there is good potential for hydro generation, including a 27MW hydropower project planned at Adhaim on the Al Uzaym river, 133 kilometres northeast of Baghdad. Solar power projects are also on the agenda.

The national electricity plan is necessarily ambitious, with demand expected to increase to at least 32,000MW by 2030. Projects already planned or underway should ensure that electricity supply across Iraq will be more or less balanced by demand for 2014. For those trying to cope with current shortages, particularly in the peak summer months, it is an improvement that cannot come too soon.



Parsons Brinckerhoff is a leader in the development and operation of infrastructure to meet the needs of communities around the world. The firm provides strategic consulting, planning, engineering, and program and construction management services across a full range of market sectors - power and water, transportation, buildings and facilities, urban/community development and the environment.



Parsons Brinckerhoff creating lasting partnerships in Iraq

Case study: Parsons Brinckerhoff

Parsons Brinckerhoff (PB) began working in Iraq in the 1950s on oil, electricity, water and transportation projects – and remained in the country through the 1980s. In 2004, PB re-established itself in Iraq with a strong in-country presence. Over the years, this presence made us fully aware of the risks and threats presented by the security situation and of the realities and practicalities of working in Iraq.

PB's historic presence in the Middle East, has enabled us to form long lasting and positive relationships with our clients, particularly in Iraq. Over the course of the past few years, PB has proudly provided our clients with consultancy services on several major projects, each resulting in significant improvements to the functionality of Iraq's power capabilities.

In March 2004, PB mobilised in Iraq to support the reconstruction effort and the development of the Iraq power system, where it found itself in the middle of political, economic and social tension. PB was supporting the US Government's Projects and Contracting Office (PCO) - an independent body established by the US Government, to provide management and oversight of the US\$18.6 billion Iraq Relief and Reconstruction Fund (IRRF). The reconstruction programme was not just about building and handing over projects, it also aimed to employ thousands of local workers, stimulate the economic recovery of Iraq and if possible, provide 24 hours of power each day.

Delivering projects as one team

PB recognises that the sharing of knowledge and the transferring of skills are essential aspects of the client/consultant partnership. In

2010, PB and the Iraq Ministry of Electricity (MoE) jointly prepared an Electricity Masterplan, which addressed the short term expansion of approximately 10,000MW of generation capability, including fuel and transmission connection issues. The plan also included a roadmap for future development leading up to 2030. A large component of the project involved training and capacity development with the MoE, in order to enable the MoE staff to update and develop the masterplan in the future.

PB also worked with the MoE to present the aforementioned masterplan at a well received two day conference in February 2011. This significant event succeeded in highlighting the MoE's keen commitment to the continual improvement of its functionality as a power provider, together with demonstrating PB's ability to aid in the development of Iraq's power capabilities.

On the recent Operation, Maintenance and Sustainability (OMS) Programme, PB spent approximately 25,000 man hours delivering modular training. The work included support and assistance to the MoE, which enhanced the skills needed to achieve increased reliability and production of electrical generation output in Iraq. The programme was very much one of mentoring and support to the MoE Plant Managers and power plant staff, with regard to specific O&M duties. The OMS site based teams worked with the MoE plant staff on a daily basis to investigate problems and failures, develop solutions and review operational data and procedures.

In addition, PB is managing the Kurdistan Region's Electricity Network Rehabilitation Programme, developing an electricity



Ministry of Electricity Master Plan Conference in Istanbul - February 2011

“PB recognises that the sharing of knowledge and the transferring of skills are essential aspects of the client/consultant partnership”.

masterplan and providing project management services for project implementation. PB prepared the 2009 masterplan, in parallel with helping the MoE implement priority infrastructure schemes, aimed at improving the electricity supply.

Serving multiple sectors

PB's long and rich history in the region has allowed for a greater appreciation of local cultures and economies, thus enabling PB to successfully expand into market sectors other than power. PB's global expertise and in-depth understanding of consultancy services in sectors including infrastructure, power, water and transportation, have proven to be an asset to the Iraqi market. The continued growth of PB in Iraq has directly contributed to several positive steps forward in the efforts to rebuild Iraq's infrastructure, power and water potential.

Looking to the future

Iraq is widely recognised as a country well underway to recovery. Although it has undoubtedly faced a multitude of difficulties over the past decade and continues to do so, the inevitability of Iraq's renaissance is clear. It is also clear that people cannot excel and reach their full potential without the proper infrastructure in place to support them. The determination of the Ministries of Electricity of Iraq and Kurdistan is evident. PB is equally determined in its desire to aid in the successful rebuilding of a successful Iraq. With approximately 14,000 employees in 150 offices globally, PB is well equipped to offer clients in Iraq local capabilities, which also draw on the best PB has to offer from around the world.



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A construction boom that will last decades

There will be no shortage of construction work for the foreseeable future in Iraq, as the country copes with the formidable task of rebuilding industrial and social infrastructure. Nine new dams are planned as well as new railway track, stations, airports and a US\$6 billion new port at Al-Faw, designed to be one of the region's principal deep water harbours and Iraq's export and import maritime hub.

The contractual cost is measured in hundreds of billions of dollars over the next 20 years. Major spending on developing Iraq's aviation sector alone is put at US\$60 billion. This includes improvements to existing airports serving Baghdad, Basrah, Erbil and Sulaymaniyah and the building of new airports such as the planned international airport in Middle-Euphrates region, designed to serve Karbala.

Some 2,157 kilometres of railway track is to be laid as well as new stations and a circular line around Baghdad, in addition to an overhead monorail system for the capital.

The national reconstruction is already being witnessed in UAE-based developer Range Hospitality's contract, valued at more than US\$100 million, for a 12-storey residential development and 624 room hotel in Karbala in the northeast of Iraq. The new Al-Rawdatain Gardens Hotel has been designed by another UAE company, Dewan Architects & Engineers.

In Summer 2011, UK engineering group Harlow International completed the renovation of Baghdad's prestigious Al-Rasheed Hotel, bringing the property up to international five star standard.

The government is spending a further US\$300 million on renovating more of the capital's main hotels, including the Mansour, Palestine, Ishtar (Sheraton), the Baghdad Hotel and the Babil. This is to accommodate increasing numbers of international visitors and prepare for future major events including a regional Heads of State meeting.

New hotels are under development in Erbil, with the Divan Erbil Park and Le Royal among those due to open in the near future.

Construction of the Basrah City Sports Stadium is underway, with the first phase of the development reportedly almost half completed. The US\$450 million project is being implemented by a joint venture between Iraq's Abdullah al-Jabouri Construction Company and the US firms 360 Architecture and Newport Global.

The complex is being built to host the football Gulf Cup tournament. Centrepiece of the prestige development is a 65,000 seater stadium. A smaller subsidiary stadium, training pitches, swimming pool and velodrome are also to be built, together with facilities for gymnastics, fencing and other indoor sports.



However, away from the more eye-catching projects, Iraq has a much more immediate need for housing. More than 70% of Iraqis live in cities and towns and more than half their accommodation is estimated to be sub-standard, with three or four people in each room. About one third of the population lives near the poverty line according to a 2009 UN assessment.

Current estimates suggest that two million new homes will be needed in urban Iraq by 2016. This represents 200,000 new units a year for the next decade. Some estimates suggest that the housing need could be closer to 3.5 million units in the next five years. However, bridging the deficit is not going to be easy, especially since there is a particularly acute shortage of building land in urban areas.

Land ownership is a difficult area and disputes over title deeds, if they exist are common. Urban land markets have also stagnated, as a result of state control over land. The land management system does not systematically convert land to residential use or make land parcels available to potential builders and developers.

The requirement though is pressing to prevent social unrest. There is also a need to attract back the estimated one million Iraqis who fled

the country following the aftermath of unrest post-2003, as well as to house the 1.5 million people who were displaced from their communities and homes.

While an efficient and low cost mortgage lending can only thrive where the value of the underlying asset can be converted to money, there is an incomplete legal and regulatory system for private sector investment in housing. Another problem is that there is almost no formal housing finance or capital readily available for either home improvement loans or long term mortgage financing.

The government recognises that bridging the deficit will need new approaches and immense investment. This approach is seeing a shift in emphasis from the state being a supplier of housing to creating an enabling environment, where the private sector can have a much more substantial role in supplying the country's accommodation needs.

In June 2011, the Minister for Reconstruction and Housing, Mohammed Al Daraji, stated that the government had allocated US\$2 billion for the building of two million low cost homes. The overall approach is to increase housing production by enabling

private sector builders and developers to enter the market. In 2011, the government decided to reduce taxes on housing investment projects from 20% to a maximum of 5%.

It is recognised that the potential to make profits drives private investment in housing, which in a well functioning market increases housing supply efficiently. The public sector will regulate the industry, creating the incentives and removing obstacles to increased private sector activity. At the same time public housing construction companies are to be refocused to serve vulnerable or under served population groups.

Innovation will be key to improving conditions in the housing sector. Just as innovative designs and building materials will improve the quality of housing units, new housing production methods will enable supply to approach demand.

The approach is starting to take shape with numerous residential projects up and running or about to commence. Development sites have been planned in Souk al-Shiyouk and Shatra in Thi Qar, according to Housing Minister, Mohammed Al-Daraji.

Iraq's Ministry of Municipalities and Public Works has awarded Dewan Architects contracts to design and provide a masterplan for urban regeneration projects in the heavily war damaged cities of Karbala and Najaf.

Work is also planned on the Sadr City reconstruction project in Baghdad, which calls for 75,000 new homes and associated infrastructure to be built in the next three years.

Karbala Investment Commission has announced plans for four new housing developments involving investment of US\$850 million for

almost 12,000 homes, as well as associated infrastructure including sewerage, water and electricity supplies and roads.

Basrah Investment Commission has an offer from the Al-Saqr al-Jareh company to build 5,280 housing units in a new area of the city, at a cost of US\$939 million.

However Basrah, Iraq's second largest city, also needs the participation of large foreign companies to relieve its pressing housing shortage, with at least 80,000 new homes required according to the Provincial Governor, Khalaf Abdul-Samad.

The US' Hill International, has been awarded a US\$200 million contract by South Korea's Trac Development Group, to provide project management services for the construction of 100,000 houses and related infrastructure in Basrah. The project is part of a potential US\$35 billion to build 500,000 new homes.

Hill's subsidiary HillStone International, has also been awarded a US\$1.3 billion contract for supplying building structural systems to Trac for the new housing development's initial phase. According to Hill International's Chairman and Chief Executive, Irvin Richter, the goal is to complete 3,000 homes each month in order to do the job in three years.

The contracts are contingent on Trac successfully obtaining financing and final approvals. Other companies expected to be involved include South Korea's Hyundai Development Company as general contractor, as well as Texas based Nucor Steel and Illinois based Louvres LED International, as suppliers.

Another of South Korea's largest engineering and construction companies Hanwha Engineering & Construction also recently signed



a US\$7.25 billion memorandum with the National Investment Commission, to build 100,000 homes as part of a completely new neighbourhood east of Baghdad.

There are plans for other new large scale residential areas near Baghdad. UAE based developer, Al-Maabar plans to build 100,000 homes on the site of the former Al-Rashid airbase. The first phase alone is expected to cost US\$10 billion. The development of the five square kilometre site will also include commercial property, a hotel, healthcare and recreational facilities. Construction tenders are expected to be issued in 2012.

The government's determination to make housing development a priority is going to require substantial foreign participation if suggested timelines are to be met. The prospects lie in joint ventures in project management of residential developments, consultancy and in manufacturing building materials in Iraq.

The country has the capacity to produce domestically all basic building materials, including cement, bricks, glass, tiles, pvc pipes, gypsum and concrete blocks. Clearly the opportunity to become involved in Iraq's lucrative construction sector is almost limitless.



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Harlow International lay lasting foundations in Iraq

Case study: Harlow International

In little more than eight years, Harlow International has acquired a growing reputation as a can-do engineering and construction partner for international companies seeking to participate in Iraq's huge multi-sector economic revival.

While it has been a steep learning curve, the UK registered engineering, procurement and contracting (EPC) company has gone from strength to strength after being set up in 2004 by its Chairman and CEO, Iraqi born process control engineer, Mazin Wajih.

After a career in the UK working with blue-chip companies such as ICI, Astra Zeneca, Proctor & Gamble and other major chemical, petrochemical and pharmaceutical firms, Wajih recognised that

companies large and small needed a pathfinder to help them become involved in the rebuilding of his country.

The company has since worked closely with foreign investors to deliver investment projects across all commercial sectors in Iraq. Essentially, Harlow enjoys close in-country relationships with organisations responsible for administering Iraq's future growth through investment projects. These include the key Ministries of Industries, Oil, Foreign Affairs, Construction and Housing, in addition to Iraq's National Investment Commission.

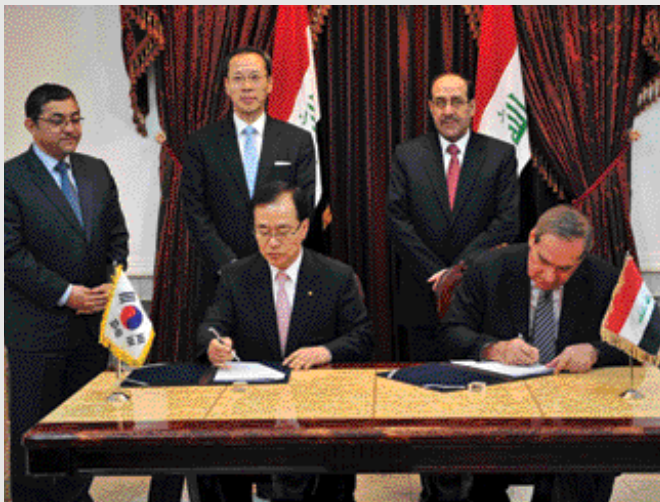
Specialising in the demanding field of development and construction of complex building projects, Harlow provides a comprehensive turnkey development service in Iraq.

With its associated subsidiary and partnership companies, the general contracting and security specialist, linked to its engineering, procurement and logistical specialisations, the company has a wide ranging base in Iraq. This gives it an edge in its capacity to mobilise resources rapidly for urgent and major projects.

This can involve site selection and the securing of the necessary authorisations and licences. Building and infrastructure design also form an integral part of the service, together with the organisation and management of all contracting and construction during the contract period.

Through the group companies, Harlow provides life support services including logistical services, equipping camps with electrical and mechanical requirements throughout Iraq, ensuring water and fuel supplies and the maintenance of equipment.

Harlow International prides itself on its ability to provide a one-stop-shop for the supply of essential life support and logistical



The signing ceremony of the 100,000 residential units for Bismayah, in the presence of the Iraqi Prime Minister, Korean Ambassador, CEO of Harlow Int., the CEO of Hanwha Engineering & Construction and the Chairman of the National Investment Commission

services: clients have included the US and UK armed forces, diplomatic missions and international support organisations.

"We provide in-house support and life support for companies and feel capable of executing projects in any particular sector with a proven track record in the provision of security and logistics services, as well as engineering expertise," Mazin Wajih says.

Harlow has its own staff protection division, employing former British Armed Forces and locally vetted professional personnel, providing safe movement for employees throughout Iraq. Visitors are offered experienced protection immediately on arrival at Baghdad Airport. Mazin Wajih commented "For foreign companies seeking to become involved, we can set them up in Iraq, supply facilities and life support and help them out as the company's eyes and ears in Iraq."

Another vital service involves logistics. Movement of goods, materials and people into Iraq has never proved to be problematical for Harlow International. The company has an established network for delivering supplies into and within the country.

"We understand the constraints imposed on organisations by the current security conditions within Iraq and factor these into our programme schedules when sourcing and transporting to the country. Our 'on-the-ground' experience and knowledge of supply routes are invaluable for successful day to day operations in the country," the CEO says.

The company guarantees to provide an efficient, fully transparent and accountable procurement and advisory process both inside and outside Iraq's borders. "We act as independent procurement agents for and on behalf of third parties acquiring goods and services, at the best possible cost of ownership in terms of quality, quantity, time and location." Mazin Wajih continues.

Harlow International has an impressive track record of successfully accomplished projects. The company has overseen construction of the new British Embassy in Baghdad and Consulate in Basrah, as

well as the renovated Al-Rasheed Hotel in the capital's International Zone (IZ). It is currently working on new offices for Iraq's Prime Minister.

The work schedule for the Al-Rasheed was one of Harlow's most demanding EPC contracts. This involved coordinating the work of multiple subcontractors and managing 1,200 personnel working around the clock.

Reopened on 15 July 2011, work on the 16 storey, 480 room hotel, originally built in 1981, has cost US\$65 million, making it the capital's most luxurious five star property. "Everything had to be brought in from the UK, from carpets to chandeliers. It was a round-the-clock operation," says Wajih.

Harlow International's programme managers coordinated all project planning, design and construction phases, as well as equipment installation and start-up. The programme managers worked closely with design teams and subcontractors to implement effective project controls, to ensure project objectives were met within a tight eight month deadline.

Detailed engineering tasks included the supply of electrical and mechanical works involving air conditioning and boiler installation, as well as 60 kilometres of data & fibre optic cabling to provide an IT backbone system for the new hotel. Located in the IZ of the capital, it is favoured by business visitors to Baghdad because of its high security features, including reinforced concrete walls and bulletproof bedroom windows.

The UK educated entrepreneur says that work is steadily increasing, with a vast number of fast developing project opportunities now coming to the fore. Harlow has been at the centre of negotiations for Iraq's biggest ever single-site residential development.

One of the largest engineering and construction companies in South Korea, Hanwha Engineering & Construction, has signed a multibillion deal with the National Investment Commission (NIC), to build



Mazin Wajih with his international team

100,000 homes as a complete neighbourhood on an 18.3 square kilometre site, ten kilometres east of Baghdad.

Harlow International worked closely with Hanwha and the Iraqi Government to expedite the signing in Summer 2011 of the memorandum for the project, which is part of Iraq's drive to build one million new homes. The project developers are on the verge of completing contractual details and homes are already on sale.

"We are extremely grateful to Prime Minister Maliki and the NIC's Dr. Sami Al-Araji and the Hanwha team for their perseverance and determination to see this deal through and we are honoured to be the local partners of Hanwha in this historic project," says the CEO.

As well as real estate, Harlow International is engaged in Iraq's huge electricity programme. The company is partnering with South Korea's STX Heavy Industries to supply and install diesel generators at four locations across the country. Power, construction and the oil & gas sector comprise Harlow International's main focus in Iraq, according to Mazin Wajih.

Harlow International is qualified to carry out EPC work in all sectors. The management team's experience in the provision of engineering

services, procurement and consultancy services to the power sector is diverse and the company says it is fully resourced to meet the requirements of any strategic alliance that may arise with foreign partners.

The partnership with STX and association with principal original equipment manufacturers in the power sector, brings specific engineering and supply expertise to Harlow International. Such close collaboration enables Harlow to provide a comprehensive portfolio of services, from consultancy, design and build, to the full integration of power plants.

This comprehensive range of skills extends to the oil & gas industry. Specific areas of oil & gas capability include a full engineering, procurement and construction ability for oil & gas projects, in addition to expertise in integration engineering of control systems and the supply of commissioning and maintenance services.

"We possess the core skills required to provide consultancy, design, build and integration of systems for power and oil & gas plants. Our track record of recent projects in this area is positive proof of our professional capabilities," concludes Mazin Wajih.

The Al-Rasheed Hotel, 2011



Manufacturing industry revitalised

The shocking cost of decades of conflict and sanctions has been revealed in the decline of a once promising manufacturing economy. Around 70% of Iraq's factories have ceased operations, with many other industrial undertakings working well below capacity.

The tide is about to turn, however, with the rehabilitation of enterprises underway throughout the country. One of the most urgent needs is to drastically increase local production of cement and steel in order to meet the growing requirements of the nation's construction industry.

At present, Iraq has a shortfall of some six million tonnes of cement per year, making it reliant on imported material, mainly from Turkey and Iran. These imports supply sufficient quantities to meet everyday building needs but often fail to meet the specialist requirements for the kind of projects involved in oil & gas fields and other industrial sectors.

Iraq has adequate raw materials to provide for a range of construction materials and has the ability to produce high quality cement. Around eight cement plants are in the process of being rebuilt and equipped.

China National Material Group has started work on a US\$270 million cement plant in Muthanna. Another Chinese enterprise, Sinoma International Engineering, also has a US\$112.5 million contract to

build a 1.9 million tonnes per year cement plant in Sulaymaniyah, due for completion in 2013.

Istanbul based Partner Teknik, is working on a US\$110 million contract to rebuild a cement plant at Samawah. The plant has only been working at 20% capacity since 2003. The government has also authorised a US\$692 million investment for a new cement plant in Diwaniya.

France's Lafarge acquired Egyptian owned Orascom Cement at the beginning of 2008 and as a result, became the main shareholder in the latter's Iraq operations. These ventures comprise a plant at Bazian, producing 2.7 million tonnes of cement per year and another at Tasluja, producing 2.3 million tonnes per year.

In 2010, Lafarge also teamed up with the private equity group, MerchantBridge, to take over management of the Karbala Cement Plant from the government under a 15 year concession.

An investment of US\$220 million is being made to modernise the 27 year old facility. Production has already been doubled to 600,000 tonnes a year and the target is to raise this to two million tonnes by 2013.

Lafarge and MerchantBridge are also planning to extend their cement interests in Iraq with a new plant in Karbala as soon as their rehabilitation project reaches its target.



Progress cannot be made quickly enough for a country impatient to see projects move forward but it is taking time with so much infrastructure requiring attention. “Iraq needs to industrialise itself from scratch,” explains Ameen Killidar, Managing Director of MerchantBridge.

In order to do this the country needs reliable power supplies. A big push is being made to provide more generating capacity and end power cuts but this is likely to take some time to achieve. Nonetheless, current difficulties are not putting off investors.

South Korea’s STX Heavy Industries, has signed a memorandum with the State Company for Iron and Steel, to act as lead contractor for a planned US\$3 billion steel mill rehabilitation project in Basrah, which is expected to feature its own 500MW captive power supply for an electric arc furnace and casting plant.

Annual projected output from the Basrah steel mill is 1.2 million tonnes of iron bars, 600,000 tonnes of steel sections and 1.2 million tonnes of hot-rolled products.

In Kurdistan, ArcelorMittal is involved in a venture to construct a US\$130 million steel mill in Sulaymaniyah.

The plant is expected to use the scrap metal that is widely available locally to produce 250,000 tonnes per year of steel rebar, a product used in the construction industry for reinforcing concrete.

A later phase could see the planned production rate double in size.

According to ArcelorMittal board member, Christophe Cornier, “there are many opportunities for the company to assist in the development of Iraq.”

Iraq is also seeking approximately US\$30 billion of investments to build five oil refineries. The projects would raise refining capacity to 900,000 bpd. At present the country imports some ten million litres of petrol per day. The government also wants to add 70,000 bpd of capacity at an existing refinery in Basrah, early in 2012.

Four refineries to be built in Kirkuk, Missan, Nasiriyah and Karbala are in the design and planning phases. These together would add

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750,000 bpd of capacity. In addition, a proposed 150,000 bpd facility at Nineveh is at a provisional phase and is expected to refine heavy crude oil once production commences at nearby fields, according to Deputy Oil Minister, Ahmed Shamma.

Longer term, it also seems likely that Iraq will want to move upstream in its oil & gas sector as crude output soars in the next decade, by establishing petrochemical industries in joint ventures with major global producers.

Manufacturing is also beginning to open up to foreign investment. GlaxoSmithKline (GSK) signed a memorandum to commence manufacturing drugs in Iraq for the first time. The company has been the biggest supplier of medicines and vaccines to Iraq's Ministry of Health for more than 20 years. The British company says it has been trying to establish roots in Iraq for the last four years but it is only in the last 18 months that it has been able to make sufficient progress to go ahead with its project.

The initial agreement with local company Modern Drug Industries, is still in the early stages but will mean pharmaceuticals are produced and packaged in factories in Baghdad.

GSK intends to hire locally for the project but it says it will have to move in stages to ensure the venture meets good manufacturing practice as well as company standards.

The organisation has said it also has plans to establish a private business in Iraq to market its most advanced drugs to private health providers.

According to GSK's Vice President for the Gulf and Near East, Mohammed Zafrullah, all products have previously been sourced through the Health Ministry. However, the latter has recently taken steps to open up the private sector.

"With the improving security situation in Iraq, we have an opportunity to make our high quality medicines and vaccines available for more Iraqis, while building a sustainable business for GSK through increased market share and volume in the longer term." Mohammed Zafrullah commented.

By establishing a production unit in Iraq, the company is also likely to put itself at an advantage in future tenders; a point to be taken by all potential investors in Iraq's industrial and manufacturing future.



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Agriculture is essential part of Iraq's economy

Agriculture is an essential part of Iraq's economy with one third of Iraqis dependent on farming for their livelihood. After public services, the agriculture sector, while often overlooked, is the second largest employer in Iraq and the second largest contributor to GDP after the oil sector.

Iraq produces almost all its fruit and vegetables. Other major crops include wheat, barley, rice, dates, tomatoes and potatoes. Cotton and tobacco is also cultivated and livestock raising, often nomadic, include sheep, goats and cattle.

Before 2003, the country was producing almost 70% of its basic food needs. This figure has declined to 10%, resulting in the import bill soaring. Iraq is typically dependent, for example, on wheat imports to meet 60-70% of demand and relies on imported rice for 90% of its needs. With US\$12 billion a year now spent on importing food commodities, there is a pressing need to reverse the sector's decline.

The challenge is huge, with more than 40% of previously productive land lost to encroaching desert since the 1970s.

Traditional subsistence farming methods and outmoded irrigation methods increasingly are no longer viable. About 70% of cultivable land is leased or distributed by the state with few legal protections.

It is a system of land tenure, combined with inefficient government implementation of land reform, that has contributed towards low farming productivity and slow growth within the sector.

The sector has suffered from poor management, inadequate planning and insufficiently trained people, land degradation and increasing levels of soil salinity and declining crop yields due to outdated technology and methods.

Production and marketing are constrained by a general lack of modern plant and animal genetics, quality fertilisers and mechanised equipment, as well as up to date production and post harvest handling techniques. Agricultural education and research institutions have also deteriorated.

However, a big effort is now being made to arrest the sector's decline. The Ministry of Agriculture has recently embarked on a series of pilot projects to combat desertification in various parts of the country, with the planting of date palm groves and irrigating areas of land varying from 0.5 to 2 square kilometres. These oases are being created in Anbar, Nineveh and Basrah provinces.

In a bigger project, the government is spending US\$500 million to create new farming communities in Najaf, Anbar, Nineveh, Babil, Salah Al-Din and Baghdad. The package includes provision of

housing and irrigation systems, with farmers having access to a loan system. Two villages in Diwaniya and Karbala have already been completed, ministry officials say.

The Kurdistan Regional Government announced a plan in 2009 to achieve agricultural self sufficiency within five years, in production of crops, edible oil and livestock feeds.

This is likely to lead to a greater use of greenhouses, chemical fertilisers, pesticides and foreign hybrid seeds. It also means upgrading machinery for bigger farms and more mechanised and intense farming methods.

A more ambitious Government proposal is to make 25,000 square kilometres of land available for private investment and provide loans for agricultural development. The land to be made available comprises 5.7% of the country's entire area. "We are offering incentives for farmers to speed up the process and we welcome foreign investors", says Agriculture Minister, Ezzeddin Al-Dawla.

Agricultural development in Iraq is reaching out for new thinking and advanced methods, especially in managing scarce water resources. One third of Iraq's cereals are grown in rain fed areas and two thirds under irrigated conditions.

There is a land divide between the rain fed provinces in the north and the southern and central areas that are reliant on irrigation and

water from the Euphrates and Tigris rivers. Water levels can vary in both these rivers and there is increasing salinity in the surrounding irrigated alluvial soil.

A breakdown of long standing irrigation water management systems, as well as poor adoption of water efficient technologies, is exacerbating the serious shortfall in water supply.

Ezzeddin Al-Dawla says, that Iraq is trying to introduce modern farming and irrigation methods to ration water and overcome shortages. The scale of the problem is, however, becoming more acute since the country will need 70 billion cubic metres of water a year by 2015. However, present estimates forecast only 44 billion metres being available.

Advancing desertification is another problem area which needs tackling. However, Iraq has the resources to succeed in restoring the country's agricultural sector. There are sound reasons to make the effort in order to feed a growing population, likely to reach 50 million people by 2040. The country was once almost self sufficient in many agricultural commodities and can be again.

The sector has additional importance in establishing a balance between rural and urban populations and maintaining social stability. Prime Minister, Nouri Al-Maliki has said that agricultural development has the potential to provide jobs for half the country's unemployed.



Mining offers hidden opportunities

While much of Iraq's development is focused on its oil & gas sector, the country also has very substantial and valuable, solid mineral resources, lying beneath the extensive deserts and mountainous Northern Region.

"Iraq is rich in various types of mineral resources and has many shows of lead, zinc, copper and chromium in the Kurdistan Region," Dr. Sami Al-Araji, Chairman of the Iraq National Investment Commission (NIC), told a major conference on Iraqi mining potential in London - September 2011.

There are intriguing prospects throughout Iraq. Some of the country's natural resources rank among the largest in the world. These include huge exploitable phosphate deposits, sulphur, salt, copious amounts of limestone, gypsum, dolomite, marble, quartz, silica sand and many other elements well positioned to feed Iraq's expanding construction materials industry.

Mining and the exploitation of mineral resources is not a new element in Iraq's economy. Mining and processing of building aggregates, including industrial sands, gravel and stone, nitrogen, phosphate rock and sulphur, as well as clay, gypsum and limestone have been undertaken for many years. However, years of war, isolation and sanctions have seen some of these activities halted in the last decade.

There is now a rapidly growing demand in Iraq for construction materials including cement and steel, while world demand for phosphates for use in agricultural fertilisers is growing. However, mining projects have a very long gestation period given the substantial capital costs involved and finely balanced market and profit projections. This is acknowledged in the Ministry of Industry and Minerals 30 year plan for development of the country's mining sector.

In the near term this is focused on institutional building, in particular establishing liaison between central and provincial authorities and not least on the introduction of legislation to make Iraq's mining sector more attractive to investors. Following this, the expansion and exploitation of the country's mineral resources is scheduled to begin in earnest, with an emphasis on sustainable and responsible growth, fully taking into account long term environmental concerns.

While it will take time to fully appraise and exploit Iraq's glittering mineral wealth, several substantial investment opportunities are coming to the fore.

The Mishraq sulphur area on the Tigris River, south of Mosul in northern Iraq is the largest known occurrence of elemental sulphur and estimated to contain at least 100 million tonnes of the mineral.

Wadi Swab in Anbar contains an estimated 4.2 billion tonnes of limestone that could be exploited for the manufacture of cement.

New processing plants are being sought for these minerals as well as for bentonite clay, a resource used widely in oil drilling. Kaolin as well as quartz and feldspar sands, used in the manufacture of glass, ceramics and refractory products, feature in Anbar and Najaf. Salt deposits, used in chemical, petrochemical and food processing industries, are located in Samawah in Muthanna and also in the Jazira area.

Apart from these valuable industrial minerals there are also thought to be gold, copper, zinc and platinum deposits in Anbar and in the Kurdistan Region.

Investments are sought for a range of mineral development projects, including the beneficiation of phosphate ore and the processing of feldspar sand. Other projects being lined up include a 150,000 tonnes per year processing plant to exploit silica sand deposits. The silica sand would supply domestic ceramic and glass industries and also cement plants. The materials needed for this including alumina oxide, limestone, sodium carbonate, sodium sulphate in addition to silica sand are available at several sites in western Iraq.

The re-commissioning of a sulphur plant at Mishraq is also proposed. The cost of carrying this out has been put at US\$110 million to bring it up to a projected sulphur production capacity of 820,000 tonnes

per year. Most of the output from this would go to Akashat to provide sulphuric acid needed for the planned phosphate rock beneficiation project there. Phosphate deposits in Akashat were first mined in 1983 to supply a fertiliser plant at Al-Qa'im.

Within a decade, Iraq is likely to become one of the world's leading raw phosphate producers and also has the potential to become a significant downstream producer. The country is probably the only one with significant reserves of all the main elements required for agricultural fertiliser – phosphates, sulphur, potash, ammonia and potentially urea as a result of natural gas exploitation.

Greg Fernet of the United States Geological Survey (USGS) describes Iraq's phosphate reserves as "world-class." The USGS has been working over the last seven years with its counterpart Geosurv-Iraq, to map out the country's mineral reserves.

They estimate that Iraq's phosphate rock deposits at four sites in the western desert – Akashat, Ethna, Wadi Swab and H3 located near a former air base, to be up to 5.75 billion tonnes. The largest sites at Akashat and Wadi Swab in Anbar contain 1.7 billion tonnes and 3.5 billion tonnes of ore respectively. This huge resource ranks Iraq's overall deposits as the second largest in the world after those of Morocco and 9% of proven global reserves.





The Ministry has invited companies to invest in the extraction of phosphate deposits in partnership with the General Company for Phosphates and also to build a phosphate rock processing plant at Akashat. The plant would have the capacity to produce one million tonnes per year of phosphate fertiliser and phosphoric acid.

According to Dr. Khaldoun al-Bassam, Director General of Geosurv-Iraq, the rehabilitation of the phosphoric acid plant at Akashat is a top priority for the Ministry of Industry and Minerals. The government intends to make the town of Akashat a phosphates production centre, with Asian countries the intended export target markets. The cost for the phosphoric acid plant is estimated at US\$130 million, while rehabilitating the facilities at Akashat's open cast mine is put at US\$280 million.

Revitalising Iraq's neglected mining sector is going to be a long term endeavour but the potential rewards are immense. However, the country has to resolve a number of issues including the introduction of a mining law before it can start to attract large scale foreign

investment. This legislation is not likely to be long in coming and the time to investigate opportunities is now. The NIC is identified as the one-stop-shop to assist foreign companies invest in mines and minerals and are there to help obtain licences, finding land and with tax exemptions.

In addition, Iraq is offering companies a ten year exemption from taxes, extended to 15 years if a project is developed with a local partner. A three year exemption from import fees for required equipment and materials and a deal on repatriation of profits from investments are also on offer.

Awaiting international investors are a huge range of opportunities that are already attracting the attention of companies from Brazil, Egypt, India, the UAE as well as the US, UK, Germany and Italy. The phosphate potential looks eminently bankable. USGS's Greg Fernet points out that all modern agriculture depends on phosphate fertiliser and advises anyone who wants to invest in minerals and to address global markets to visit Anbar.

Welcome to Erbil International Airport

Case study: Erbil International Airport

Erbil International Airport (EIA) is a surprise to many. Its bright, modern, gleaming structure and clean lines will challenge the pre-conceptions of first time visitors to Erbil, who no doubt will be full of trepidation about arriving in Iraq.

That the state of the art airport is up, running and proving to be one of the fastest growing airports in the Middle East, is no surprise to those who know a little of its history. Commissioned in 2004 by the then Prime Minister, Nichevan Barzani, the US\$365 million airport, designed by UK firm Scott Wilson and built by Turkish company, Makyol, is a very real symbol of the Kurdistan Regional Government's (KRG) strategic intent to modernise the region's infrastructure, create new links with the wider world and end the years of international isolation.

For many passengers an airport remains a simple means of transferring from one form of transport to another. But of course, it is much more than that, bringing, as it does, the international hubs of Dubai, Abu Dhabi, Frankfurt, Istanbul and Vienna within easy reach. It links this part of Federal Iraq to the outside world and makes it easy to do business in the region. Ease of access is a vital component in the plans of the KRG to help the region develop a modern, diverse economy, where oil & gas exploration and construction are currently booming.

Building on the safe and secure environment created by the KRG and its security forces, the airport has seen a dramatic 39% increase in passengers in the 12 months to the end of August, 2011. New routes to Cyprus and Cairo, daily flights to Istanbul and increased frequency from other carriers have meant an influx of new

passengers - business people, tourists and friends and family traffic. With more than 550,000 passengers set to use the airport in 2011, it is likely Erbil will become Iraq's busiest airport in the short term at least.

EIA has six fixed bridge gates, 16 stands, a capacity for three million passengers a year, a complement of 12 scheduled airlines and four charter services, serving 25 domestic and international destinations. The runway at 4,800 metres is one of the longest in the world.

Cargo handling at the EIA is up nearly 50% on 2010, with established carriers such as Emirates and Etihad deploying their modern, fuel efficient dedicated cargo fleet to service the growing demand for imports to the region.

Erbil itself has seen the opening of the five star Rotana with other international four and five star hotels set to open in the coming months.

So when you visit Erbil, be prepared to be surprised and to cast aside previous misconceptions of a region where GDP is growing, where it is safe to visit, do business and appreciate all that a growing, vibrant 21st century Kurdistan has to offer.

A brief history of Erbil International Airport

In many ways the development of civilian aviation in Kurdistan and the dramatic progress that has been made mirrors the great strides that have been made across the region. Schools, hospitals, road infrastructure, the development of Universities in Erbil and Sulaymaniyah have all seen significant investment and improvement.



In 2003, the Coalition forces handed over to the KRG what had been a former military airport under the Ba'athist dictatorship. That base had been abandoned in 1991 when Kurdistan was effectively sealed off from the rest of Iraq. The demise of the old regime with the arrival of coalition forces signaled the start of a new era for the Kurds of Northern Iraq. What was once a tool of subjugation represented now for the Kurdish people, a means of economic liberation. In late 2005, work was completed on an interim civil aviation facility at Erbil and the first civilian carrier landed in December 2006. That year the interim facility saw 163,619 passengers arrive, or depart.

The US\$365 million project included the construction of the world's fifth longest runway at 4,800 metres and 90 metres wide, enabling it to host even the heaviest of planes and cargo loads, in the height of the summer months. The airfield is one of only four in the Middle East that is Cat II certified and includes a 40 metre high tower, a dedicated VIP terminal and separate CIP (Corporate Important Person) lounges and welcoming service.



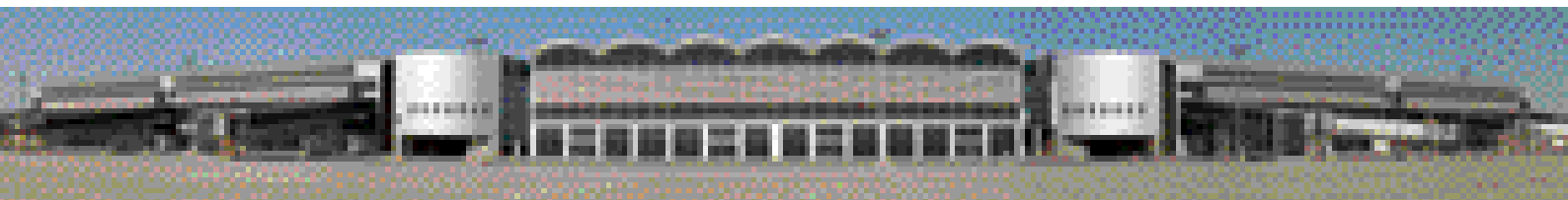
The cargo facilities include the capacity to handle six fully laden aircraft at any one time.

The future:

Erbil stands at the centre of a fast growing economy. Official figures from the KRG's Board of Investment, puts the total invested in 2010 at around US\$4.6 billion. Of this the housing sector and the huge construction boom took the lion's share with US\$2.14 billion, the industrial sector a further US\$1.35 billion and the trade sector US\$948 million. Currently the region produces more than 100,000 barrels of oil per day - that number is expected to increase to one million barrels a day by 2014.

The airport masterplan published in 2010 looks ahead over a 30 year time line and allows for significant growth across aeronautical and non aeronautical business opportunities. Cargo and logistics, the availability, in the coming years of aviation fuel, at very competitive prices and a safe and secure environment are all part of a mix that will see both local and international business prosper at Erbil International Airport.

Be prepared for a surprise...



www.erbilairport.net

Erbil International Airport the gateway to Kurdistan and Iraq

Erbil International Airport is one of the fastest growing airports in the Middle East, linking Kurdistan and Iraq to the world and serving as a gateway for the world to Iraq.

Major carriers such as Turkish Airways, Etihad, Lufthansa, Royal Jordanian, Austrian Airlines and Fly Dubai, all operate at this new, state of the art airport that has seen passenger traffic leap by 39% in the last 12 months and cargo volumes double.

Kurdistan is a safe and secure region in which to do business or discover the warmth of its people and its rich culture and heritage.

With modern, five and four star hotels open, or coming online in Erbil and across the region, EIA is well placed to meet the needs of travellers, for business or pleasure, coming to Iraq.



Erbil International Airport

EIA looks forward to welcoming you in 2012

Jordanian aviation is vital for business

Royal Jordanian (RJ) has been serving Iraq since 1975 and was the first airline to relaunch services there in 2003. The airline currently offers daily flights to Baghdad and Erbil and also operates flights to Basrah and Sulaymaniyah.

Royal Jordanian is the flag carrier of Jordan and one of the leading carriers in the Middle East, with a vision to be the airline of choice connecting Jordan and the Levant to the world. The airline currently flies to 59 destinations on four continents, from Chicago and New York in the West to Bangkok and Hong Kong in the East and will enhance its route network with the addition of several new destinations in Africa soon. The airline has the largest network in the Middle East and North Africa with service to over 29 of the region's leading destinations.

Operating one of the youngest fleets in the world comprising 32 modern Airbus and Embraer aircraft, RJ combines excellent on board service with optimal comfort to its passengers in terms of seat pitch

and legroom, as well as state of the art individual audio/video on demand. As part of its strategy to continuously update its fleet, RJ has 11 B787 Dreamliners on order and scheduled to join the fleet from 2014.

Royal Jordanian is a member of the oneworld airline alliance that combines 12 of the world's leading airlines and includes among its members such carriers as American Airlines, British Airways, Cathay Pacific and Qantas. Royal Jordanian and its oneworld partner airlines offer service to 750 worldwide destinations. The airline's Frequent Flyer Programme "Royal Plus" offers members and the member of other oneworld carrier programme's the ability to earn miles that may be redeemed for a range of benefits and services.

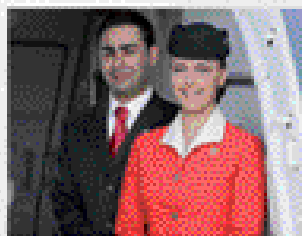
Royal Jordanian offers its passengers transiting through Jordan and with a little extra time on their hands, the opportunity to visit some of Jordan's renowned wonders such as Petra and the Dead Sea, through its "Zuwar" stopover programme.





23 Amman, Jordan weekly flights

Royal Jordanian operates from 4 Iraqi cities to Amman, including daily flights from Baghdad, 8 weekly flights from Erbil, 4 weekly flights from Sulaymaniyah and 4 weekly flights from Basra. Enjoy our renowned onboard services and facilities to Amman and visit the rose city of Petra, the Dead Sea or the Roman city of Jerash. You can also connect to more than 700 worldwide destinations through our oneworld alliance.



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www.rj.com

A transport strategy geared for the 21st century

Iraq has suffered from a quarter century of neglect and under investment in every mode of transportation, including road, rail, air and maritime. Extensive investment is now underway to expand and modernise the country's transport services.

Ports, a vital lifeline for economic renewal, are in a particularly poor state and in need of urgent attention. All of the country's ports, Umm Qasr, Khor al-Zubair, Basrah, Abu Flus, Abu al-Khasib and Al-Faw, are located along or inland from the stretch of coastline between the borders of Iran and Kuwait.

Significant assets are in an abandoned state and the efforts to address chronic silting and remove wrecked vessels in approach channels that pose hazards to shipping are ongoing tasks.

Basrah was the main port of Iraq but now, like Abu Flus and Abu al-Khasib, it is unusable because of the many such sunken vessels that block its waterway access.

At present the ports of Umm Qasr and Khor al-Zubair handle roughly 25% of Iraq's total imports, however with new investment they have the potential to become major cargo and container handling facilities.

In particular Umm Qasr, with a rated capacity to handle ten million tonnes of cargo a year and working inter-modal road and rail connections, is a vital corridor for Iraq's international trade. As such, it has been able to attract foreign investment from leading maritime companies such as GulfTainer.

GulfTainer, the Sharjah based port operator, is to start operations at Umm Qasr by the end of 2011 following the award of its concession to build and operate two more berths in 2010. The company has also been awarded a 750,000 square metre area at the port to develop storage and distribution facilities.

Iraq is also planning a dry port at nearby Basrah to support operations at the planned Great Faw Port. Italy's Impregilo is leading a consortium of nine other Italian engineering companies to prepare the designs for the US\$6 billion port. The completed design for the hub, to rival the largest ports in the region, is scheduled for the middle of 2012.

A hugely expanded railway system connecting all parts of the country with services to other locations in the region is also another element of the bold transport strategy. This will enable a revitalised network to provide nationwide passenger services and capture a substantial share of the market for freight and logistics, in competition with the extensive highway system and the subsidised trucking industry.

Plans call for construction and rehabilitation of six major rail lines that will form the core of a national railway system when completed in the next three years. A substantial increase in cross-border links is also part of the plan. A service was inaugurated in 2010 between Turkey and Iraq.

Iraq's Transport Ministry recently signed a memorandum with the Jordan Government that is expected to lead to construction of a rail link connecting with Jordans Aqaba Port, due to be completed in 2013.

The German consultancy Deutsche Bahn is assisting Iraq's Public Railway Company with the project. Some 40% of the planned 1,150 kilometre track will be laid in Iraq, which will be used to carry an estimated six million tonnes of freight a year between the two countries.

The overall policy is ambitious and challenging. A memorandum to explore the possibility of building a US\$10 billion high speed link

between Baghdad and Basrah was signed by the French company, Alstom at the Paris Air Show in 2011. The proposed line would also connect to the cities of Najaf and Karbala.

Basrah is 450 kilometres southeast of the capital and with the addition of spurs, the line would involve a 650 kilometre network, able to handle trains travelling up to 250 kilometres per hour.

Implementation of such schemes is long term work and for the present, most freight and people still travel by road. The highway network in common with other forms of transport is in need of major investment.

Most of the network was developed in the 1970s and 1980s and little new construction has taken place since, causing a substantial backlog of maintenance. As a result, a large portion of Iraq's 42,000 kilometre road network is in need of repair.

Beirut based consultant, Dar al-Handasah is drawing up the plans for the Kurdistan Regional Government's US\$10 billion roads and highways masterplan. This plan involves the renovation of all existing roads in the Kurdistan Region and building new highways to facilitate access across the region and the rest of Iraq. The development is anticipated to be partially funded by private financing and road tolls.

As well as trunk routes, vital minor roads outside main cities have been neglected. The deterioration of village roads has diminished access to markets and social services in many rural areas. In addition, many bridges have been damaged or lost. The reconstruction of much of the rural road network needs to be addressed.

It is acknowledged that reliance on outdated procedures and equipment that were adequate in the past is no longer sufficient. The focus in the main cities is on implementing mass transit systems.



“Total annual passenger traffic at Iraqi airports is predicted to reach 22.5 million by 2016, rising to more than 25 million passengers by 2022”.

Baghdad Municipality has appointed France's Systra to design a US\$3 billion metro project and two lines are planned. Line One would stretch 18 kilometres running from Sadr City to the city centre and on to the city's Al Adhamiyah district. Line Two slightly longer at 22 kilometres with 21 planned stations, would run from the southeast with an interchange to Line One, before it branches west and southwest.

Systra expects to complete its contract, which also calls for the preparation of tender documents and help in appointing a contractor, by the end of 2012. It is expected that the Municipality will fund the engineering, procurement and construction contract.

Alstom has a memorandum for a proposed surface metro project in Baghdad that would have 22 kilometres of track and 14 stations. The estimated US\$1.5 billion project would reportedly be financed by France, with loans to be repaid after the metro has started operations.

TransGlobim International, a privately owned Canadian based consortium, has proposed another monorail project for Najaf. This involves construction of 37 kilometres of track linking the three major Shiite mosques in the city, the Imam Ali, Kufa and Sahia shrines and also linking two main bus depots. A second phase is projected to connect the system to the city's airport.

Links to the outside world have been limited for many years and Iraq does not want to live in isolation anymore. As a consequence the

government is putting a big emphasis on expanding its aviation sector, with US\$60 billion of investment outlined in the Iraq National Aviation Plan.

Development of airports and aviation services is seen as one of the main instruments in the expansion of trade and the country's economic rehabilitation. The plan involves investing billions of dollars in building new airports and upgrading existing ones, together with building cargo and warehousing facilities in the next ten years.

There are six airports accommodating international services at present. The airports at Baghdad, Basrah, Erbil, Sulaymaniyah, Mosul and Najaf were built to serve some 16 million passengers a year. Nothing like this total number actually fly to or from Iraq at present, as air services are still in the course of being re-established. However, the situation is due to change dramatically.

Total annual passenger traffic at Iraqi airports is predicted to reach 22.5 million by 2016, rising to more than 25 million passengers by 2022. Freight traffic is expected to develop steadily with some 900,000 tonnes of air cargo handled annually within the next 20 years. This means a big overhaul and expansion of airports and related services.

So far most progress has been seen in the Kurdish Region. The revamped Erbil International Airport opened in 2010 and expects to handle up to 600,000 passengers in 2011. It has cost US\$365 million

to rebuild and expand the airport that now features 16 gates and one of the world's longest runways, making it capable of accepting large aircraft, such as the Airbus A380.

The Erbil airport area is preparing to embark on a new phase of development. This will see construction of a cargo handling complex, aircraft repair and overhaul facilities as well as a logistics centre, convention centre, offices, retail area, hotel and hospital.

Sulaymaniyah International Airport, is planning significant expansion to accommodate an anticipated growth in both air freight and passenger numbers - passengers numbers are predicted to rise tenfold by 2020 from the current 350,000 passengers a year.

Meanwhile a new international airport with a capacity for up to one million passengers a year is planned for Dohuk. Lebanon's Dar al-Handasah has the design contract for the project.

Elsewhere in Iraq expansion is planned for Basrah and Kirkuk airports. France's Aeroports de Paris Ingénierie is also working on a contract to select a site and prepare a masterplan for the projected Middle-Euphrates International Airport project.

This airport, southwest of Baghdad, is planned to serve the millions of Shia pilgrims who visit revered sites in Karbala and Najaf. Tenders for the project will be issued in 2012.

This three phase development will see steadily increased passenger numbers from six million a year to 12 million a year with an ultimate capacity of up to 20 million passengers.

The main portion of the Iraq National Aviation budget is targeted at developing Baghdad International Airport. A first phase involves modernising the airport's two operating terminals and rebuilding the third, which was destroyed in 2003. Additional phases will see construction of a logistics complex, cargo terminals, offices and hotels to serve the airport.

The government is likely to provide around 30% of the overall US\$60 billion projected costs, ultimately the private sector is expected to be the main driver and investor in the country's aviation expansion.



British automotive icon continues to grow from strength to strength in Erbil

Less than two years since its introduction to the Kurdish market, iconic British brand Land Rover has established a firm following in Northern Iraq. 2012 promises an even brighter outlook for the brand's prospects in Kurdistan with a major fleet contract being awarded by the Ministry of Interior.

Sardar Trading Agencies, Jaguar Land Rover's exclusive partners in Northern Iraq, recently signed a contract with the Ministry of Interior for the Kurdistan Regional Government (KRG) in Erbil to supply 400 Land Rover LR2 police vehicles, which are to be delivered in early 2012.

"Fleet customers are no longer satisfied with sacrificing style and luxury for practicality. The LR2 provides superior off-road capability and durability in a stylish package. As with all Land Rover vehicles, the Land Rover LR2 comes with Land Rover's signature terrain response™, making it the perfect all purpose corporate and government vehicle for entities such as the Kurdistan Police," commented Shamal H. Aziz, Sardar Trading Agencies.

It is hoped that this major deal will be the first of many for Sardar Trading Agencies, opening the Land Rover brand up to further government and public sector contracts.



Following the success of the Land Rover dealership, Sardar Trading Agencies also signed an exclusive sales agreement with Jaguar Cars in March 2011. The legendary luxury brand is expected to delight car enthusiasts in Kurdistan with its 2012 line up, which includes the award winning Jaguar XF, the Jaguar XK and the flagship Jaguar XJ. In addition to these, Jaguar is bringing its fastest production vehicle to date to Iraq. The XKR-S, which will arrive in December 2011, is the most extreme expression yet of Jaguar's passion for building beautiful, fast cars.

With the XKR-S, Jaguar gains entry to the exclusive '300kph club' thanks to the effortless performance of the supercharged 5.0 litre

AJ-V8 engine. A revised fuelling map means the direct injection powerhouse now produces 550PS and 680Nm of torque. Extensive recalibration has ensured seamless power delivery and performance, contributing to a 0-100kph time of 4.4 seconds. The performance active exhaust encourages and rewards enthusiastic drivers with dramatic, motorsport inspired aural feedback.

"We're very excited to present the 2012 Jaguar Land Rover vehicles to Northern Iraq," concluded Shamal H. Aziz, "We are sure that Kurdish consumers will fall in love with these two iconic brands as quickly as we have."





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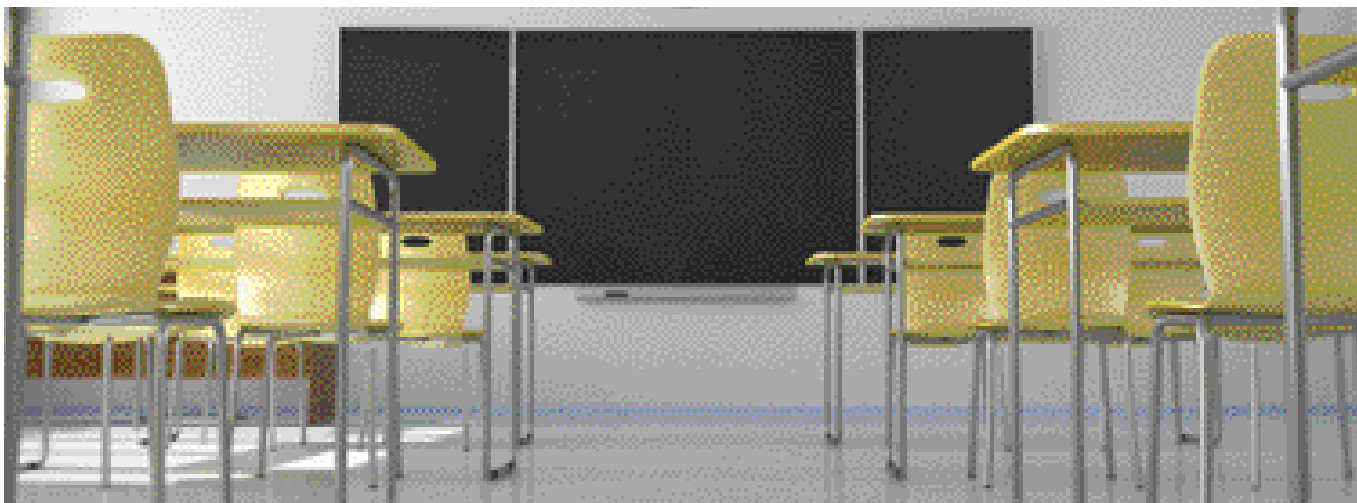


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Sardar Group Branch





Social investment vital for economic growth

One of a country's most important assets is human resources. Good health provision and education are two of the most important nurturing agents. Iraq has vast, largely untapped, natural resources and industrial potential waiting to be developed but the country lacks a skills base to advance the development of its economy and society.

For many years the country's educational institutions have suffered from a lack of funding that has resulted in poor quality teaching, minimal research activity and no competition to raise standards. Infrastructure has also deteriorated and most schools, particularly at secondary level, are overcrowded.

The government has allocated 5% of its US\$186 billion five year National Development Plan budget, to develop and improve the educational sector.

This national plan projects a 6.9% increase in secondary school enrolment. In order to provide for this increase, 5,000 new primary

and secondary schools are due to be built by 2016. In turn the building of these schools is expected to drive demand for more higher education facilities.

However, it is not just about building new classrooms - standards must also improve. A university admissions policy that has traditionally admitted all applicants has led to very high numbers of students compared to staff and some unsatisfactory levels of teaching standards.

Historically, the higher education sector in Iraq has been fully state funded. A lack of competition for these funds provides no incentive for innovation or improvement. Modernising the system, in particular curriculum development and the training of academic staff is a big challenge.

There are 20 private universities in Iraq including 12 in the Kurdish Region that have set in place a teacher quality assurance programme



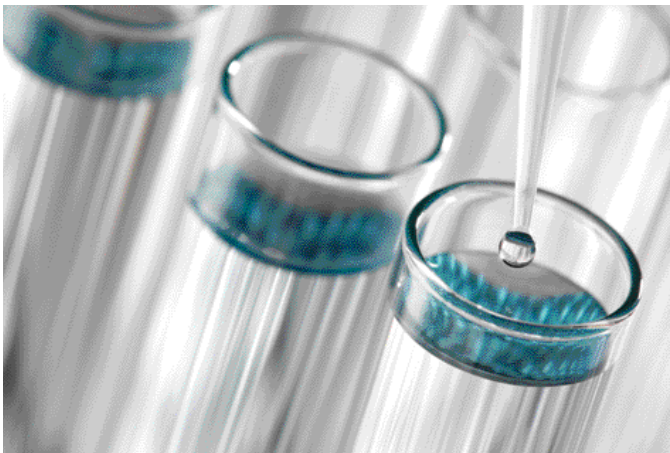
to improve standards. This includes staff taking part in regular training and development programmes and being encouraged to maintain contact with international academic institutions and methods of teaching.

Funding for state universities has become performance led in Kurdistan and institutions are encouraged to generate income. Observers believe it is an initiative that may be rolled out across the country.

Applying these principles of development to the country's health system is anticipated. Previously, healthcare in Iraq has been based on a command, hospital oriented and capital intensive model that, with limited efficiency and capacity, is unable to ensure equitable and appropriate access to healthcare and other health related services.

Lack of investment has led to deterioration in the quality of services and a corresponding shortage of essential supplies.

Much more time and effort is needed to improve Iraq's health system and institutions, which have been battered by decades of conflict and neglect. The country's health system has not seen any significant developments for 35 years.



Damage to the infrastructure serving the health sector has had an enormous effect on the provision of health services, as has the departure of health professionals. It is estimated that 8,000 Iraqi doctors have left the country. This represents over a third of the total clinicians in the country and includes the majority of the country's specialist consultants.

Iraq has no functioning health management information system to control, track and monitor different key areas such as procurement, logistics, maintenance provision, patient records and staffing.

The centralisation of healthcare delivery and a lack of accountability for middle level managers, combined with corruption, a lack of transparency, complex bureaucratic procedures and obstacles to decision making, has led to low morale amongst staff, ultimately hindering the effectiveness of service delivery.

Since 2003, a significant number of initiatives, aided by international agencies including the World Health Organisation, have led to some improvements. Infant mortality rates have been falling and routine vaccination services have been revived. However, the provision of safe water, sewage disposal and electricity remain unresolved issues and the slow progress of improvements has inevitably impacted on the country's health.

Iraq has been left with many health problems, not least in the population's psychological wellbeing. Many of the population's medical conditions require long term care and monitoring. For example more than 10% of the population is estimated to suffer from diabetes (2010 figure).

The Ministry of Health has identified several priority areas for attention. These include strengthening the management of the health system, developing and implementing a masterplan for the reconstruction of the healthcare delivery system, training and capacity building in public health programmes and management of health services.

Reforms to the pharmaceutical sector are also called for, in addition to the development of public-private partnerships in the provision of health services. The Kurdistan Regional Government is also considering introducing private health insurance.

Healthcare expenditure is rising steadily from US\$3.85 billion in 2010, a 2.5% increase on 2009, to an estimated US\$4.12 billion in 2011. Estimates stand at US\$1.5 billion of medicines and medical equipment being imported in 2011.

The construction of hospitals is dominating the Health Ministry's investment budget, with the last health facility built in the provinces in the 1970s and in Baghdad 26 years ago.

Tenders have been issued for the building of ten teaching hospitals, ten maternity hospitals, ten paediatric hospitals and five general hospitals.

A 400 bed hospital is planned for Qadissiya province as well as a new 400 bed hospital in Nasiriyah. The latter is to be built by Universal Acarsan; the Turkish company has already completed the first stage of a new US\$152 million teaching hospital in Karbala.

Acarsan signed a memorandum with the Ministry of Health in 2008, to build general hospitals in five provinces at a cost of US\$750

million. The hospitals are due to be constructed in Basrah, Al Hillah, Missan, Nasiriyah and Karbala. Kurdistan is also planning eight additional public hospitals. Meanwhile, Wassit Investment Commission has given a licence for a 100 bed private hospital development in the province.

Aside from building hospitals or fixing damaged ones, the country needs pharmaceutical and medical equipment supplies as well as consultancy and administrative expertise. Even second hand medical equipment is highly sought after.

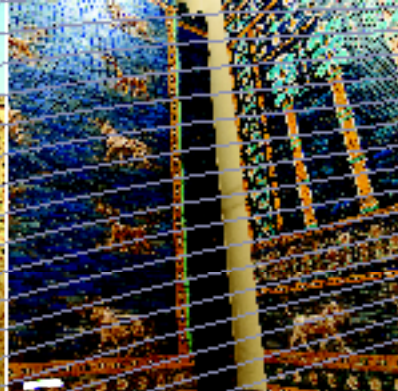
Thirty years ago, Iraq had one of the best medical systems in the Middle East. Most of its doctors completed their training abroad and many health centres in Baghdad were able to offer specialist clinical services for patients from neighbouring countries.

It is going to take time to re-establish this position of excellence. Decades of under funding led to the sector becoming severely under equipped, under staffed and out of date. The overall health of the population has suffered as a result, with a fifth of Iraqi families bereft of any kind of healthcare and rural areas being particularly affected.

Inadequate healthcare provision is a major cause of discontent amongst the population and an overhaul of the sector is crucial for the physical wellbeing and morale of the Iraqi people. The poor health of the local population also impacts negatively on the productivity of the country's labour force.

Rebuilding Iraq's social infrastructure is as important and urgent as developing its oil led economy. Hundreds of thousands of skilled and qualified workers are needed to attract foreign investment.

A generation brought up in isolation from modern teaching and exposure to the outside world is unlikely to be useful without substantial long term investment in the country's academic and vocational training sectors, as well as in its healthcare needs.



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British Iraqi Friendship Society



The British Iraqi Friendship Society's objective is to inform the British public about all aspects of Iraqi life and culture, including its history, heritage, art, performing arts, language and traditions.

Membership of the Society is open to anyone interested in learning about Iraq and its association with Britain or with specific commercial, cultural or other interests. Commercial and other organisations may become Corporate Members.

The Society arranges a programme of events, including a variety of cultural presentations and talks by well-known and experienced speakers, who specialise in their fields.

Membership gives inclusive access to a programme of regular events throughout the year and advance notice of any special events which may be of interest to members.

The annual subscriptions are as follows:

Individual Membership £20.00
Joint Membership £30.00
Corporate Members £150.00*

*Corporate members may nominate up to four employees as Society members.

For all enquiries please contact

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London KT17 9GQ

Email: info@britishiraqi.co.uk

Dramatic expansion continues in telecoms

For several years Iraq's telecommunications market has been one of the economy's fastest expanding areas. Development of the sector still holds considerable growth potential for fixed line and mobile telephony. A host of specialist areas are also coming to the fore including the oil industry with its increasing requirement for secure broadband services in remote areas.

The biggest need throughout the country is internet access. According to the International Telecommunication Union, Iraq has just 325,000 internet users, equivalent to just 1.1% of the population, the lowest level in the Middle East.

Efficient telecoms links, particularly to the outside world, provide the backbone of a country's commercial and social development and for Iraq rebuilding and modernising the sector is a priority concern.

This is not just for national economic development but also because the country seeks to become a pivotal geographic link for telecoms within the region and between the Middle East, Europe and Asia. "We have a big vision to turn Iraq into a telecoms hub," says Kassim al-Hassani, Director General of Iraqi Telecommunications and Post Company (ITPC).

The main post-war stimulus to national telecoms growth has come from development of mobile phone services. Cellular phone take up has been phenomenal since 2003 and Iraq is one of the few regional markets that have experienced sustained double digit growth.

The Iraqi Communications and Media Commission (CMC), the country's telecommunications regulator, says there are now some 23 million mobile phone subscribers in the country. Industry analyst, Business Monitor International, predicts that by 2015 mobile penetration in the population of 31 million will reach 95.5%, up from 75% in 2011.

Zain Iraq, affiliated to Kuwait's Mobile Telecommunications Company (MTC), is currently the country's largest cellular operator with more than ten million customers, followed by Asiacell with some eight million and Korek Telecom with 2.5 million.

Zain Iraq has invested US\$4.5 billion into developing its service and intends to spend a further US\$500 million expanding into the Kurdistan Region. The operator recently appointed Ericsson with a US\$900 million contract, to manage and operate its services. The Swedish company will develop the network for third and fourth

generation cellular operations. This will involve installing and integrating new radio based stations across Iraq to provide greater performance and a higher quality of service.

Iraq still has room for considerable telecoms development and there are opportunities for operators and service providers able to offer global experience to what is still a young market. France Telecom acquired a 44% stake in Korek Telecom in 2011. The giant French company sees the opportunity to extend Korek's present network out of its Kurdistan base into the whole of Iraq.

Meanwhile an auction for a fourth mobile licence is imminent. The winner will partner state owned operator ITPC, which falls under the control of the Ministry of Communications. The latter has stated that an operator is likely to be awarded a 40% share with the Communications Ministry holding 25% and the balance sold to the public.

One reason for the widening interest in cellular services is their future role in the provision of broadband services for an ever expanding range of applications, whether for business or personal entertainment, where revenue streams are so much greater than for

voice traffic. Iraqi operators are already beginning to roll out enhanced services, with Asiacell launching Facebook in 2011.

The spread of 3G services will also put mobile operators in a prime position to make inroads into the still largely untapped broadband market. Operators are already permitted to launch 3G or 4G services but first have to be allocated frequencies from the CMC.

The insatiable appetite of young people across the Middle East for online content has left telecoms operators struggling to cope even with 3G networks. This has led to suggestions that Iraq should move straight towards implementing fourth generation services also known as Long Term Evolution (LTE) fast speed mobile broadband technology. The LTE technology has the potential to offer up to ten times the download speed of 3G networks. However, investment has to be recouped and there would have to be evidence that the market for applications and content was sufficient to justify the expenditure.

Iraq's three main current mobile operators also have other challenges. According to the terms of their licences all three existing mobile operators were required to float 25% of their shares on the Iraq Stock Exchange (ISX), four years after receiving their 15 year



“Iraq’s telecoms revolution though extends well beyond mobile services”.

licences in 2007. The deadline passed at the end of August without the mobile operators taking the necessary steps to change their status from limited liability companies through Initial Public Offerings (IPOs). The operators say that Iraq’s fledgling stock exchange is not ready to handle the listings. Current value of the ISX is just US\$1.5 billion compared to the combined US\$15 billion market capitalisation of Zain Iraq, Korek Telecom and Asiacell.

ISX Chief Executive, Taha Abdulsalam Al-Rubaye argues that there is sufficient liquidity in Iraq and a good enough interest by international funds to make a listing of any size a success. Asiacell has though appointed HSBC and Morgan Stanley to act as joint global coordinators and lead managers of its listing. All of the overdue listings are expected to take place by the middle of 2012.

Iraq’s telecoms revolution though extends well beyond mobile services. According to Minister of Communications, Mohammed Tawfiq Allawi, the aim is to boost fixed line phone penetration and internet reach to 25% of the population within five years, through a US\$3 billion development project. Already in 2011 around US\$500 million has been allocated for telecoms development.

This is reflected in the repair of switches and lines and installation of fibre optic links throughout the country. New technologies such as wireless local loop are also helping Iraq fast track the rehabilitation and renewal of its war damaged and dilapidated fixed line network.

About 8,000 kilometres of fibre optic cable have been laid in Iraq since 2003, mainly by China’s Huawei Technologies. In addition copper cables, ordered before Saddam Hussein’s overthrow and held up through sanctions, have started to be delivered. Their installation will serve to improve previously neglected landline networks.

ITPC awarded a further contract to China’s Huawei in 2011, to bring broadband and voice connectivity to 50,000 homes, with a fibre-to-the-home (FTTH) service in Basrah, Mosul, Najaf and Karbala.

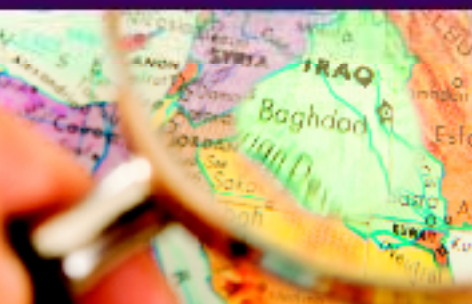
Iraq’s first commercial data centre, connected to networks in Saudi Arabia and Turkey, has also recently been opened at Baghdad airport by internet service provider Scopesky Communications in tandem with US provider Sniperrhill.

While rapid progress is being accomplished it is not all plain sailing. Frequency jamming is still a problem for mobile operators, though not as difficult a one as in the recent past. The regulatory situation also has still to be resolved, with ongoing disputes between operators and the Ministry of Communications with fines and disputes over the fulfilment of service obligations, not least the delayed implementation of initial public offerings.

However, the government is anxious to ensure that development of the entire telecoms sector is accelerated. “We are moving at a fast pace but it is not fast enough,” says Kassim al-Hassani.

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Destination Iraq

Optimism, potential and hope. The optimism of Iraqis, the potential opportunity of tourism and the hope is that it is indeed God's will... Insha'Allah.

The optimism of Iraqi delegates was overwhelming when attending their first London World Travel Market in 2009. Facilitated by Dunira Strategy, the Tourism Board of Iraq (TBI) gained global media coverage. Dunira's Managing Director, Benjamin Carey, recalls that the delegation on its first ever visit to an international tourism fair "was hugely ambitious and immediately recognised that their country's 10,000 years of history could easily compete with every other destination in the world. They were determined that their beautiful country would once again become a premier tourism destination, to be celebrated by high rewards for investors and visitors". An urgently needed national tourism plan, commissioned by UNESCO, is targeting the development of cultural sites as one approach to tourism promotion.

Kurdistan is the region currently leading the way in growing its visitor economy. The semi-autonomous region, often referred to as 'The Other Iraq' or 'Gateway to Iraq', is the beacon for Iraqi tourism. Demonstrating the region's potential, 2010 saw Kurdistan host more than one million tourists. 2011 is expected to achieve two million with a target of five million by 2015. Although there is still a dearth of reliable and credible data to ensure improved planning and development, there is no questioning the successes and improvements made in areas, such as security, improved and increased educational facilities and ease of travel. All of these factors are imperative to successful tourism.

Tourism profits are subsequently reinvested towards maintaining and developing the region. For example, US\$100 million has been pledged by the Kurdistan Regional Government to support Kurdish and other Iraqi PhD students studying at UK universities, such as the

University of Nottingham. Conservation of heritage sites in post-conflict areas, cultural diversity and social conflicts in contemporary cities, tourism management and policy strategies in post-conflict countries are just examples of the tourism related studies on offer.

As a culturally colourful mosaic of a region, Kurdistan attracts many religious tourists visiting Islamic, Christian, Yazidi and Kakayee sites. Visitors come from near and far: other Iraqi provinces, as well as Europe (especially the UK, Germany and Netherlands), the Middle East and Asia and some from North America. The 350 hotels, 112 motels and 41 resort villages are often unable to deal with the influx of tourists on religious occasions such as Eid. There is much delight surrounding the number of leading hotels investing to ensure the expanding tourist numbers can be hosted and make provision for those affiliated with the vision of the sustainable development of all sectors.

The KRG Ministry of Tourism and Municipalities stated that "while the number of tourists to most Middle Eastern countries is dropping because of the security and political situations, in the Kurdistan Region they have been increasing beyond imagination". Stability is ensuring that they impress a steady flow of visitors who enjoy the magnificent region, sharing its rich culture and traditions with them.

Other regions of Iraq perhaps offer even greater potential and in many cases are more impressive than in Kurdistan. Besides the adventurous visitor community however, few individuals feel secure enough to explore these uncharted territories. Iraq is healing from the wounds of the after effects of war which were exacerbated by 13 years of economic sanctions. Investment in travel and tourism is helping to rebuild this great and diverse nation and rewards are high for adventurous visitors and investors who are ready to explore this captivating land. The close proximity of major gas and oilfields to world heritage sites presents many opportunities for IOCs to become



involved in the visitor economy through Corporate Social Responsibility (CSR) activities. Tourism is not only about hotels.

Many commentators insist that the departure of US combat troops will open the gateway to the cradle of civilisation. Numerous tour operators and international hotel groups have already committed to their optimistic belief: Iraq is soon to prosper greatly.

Taking the lead and ensuring that travel is no longer an obstacle, airline operators have gradually expanded their route networks over the past year. Now visitors can fly into six international airports - Basrah, Baghdad, Erbil and Sulaymaniyah, Mosul and Najaf on more than 30 airlines, including Air Berlin, Austrian Airlines, Emirates, Etihad Airways, Middle East Airlines, Royal Jordanian and Turkish Airlines.

Emerging through the tight security, visitors are exposed to a land of niche tourism sectors that have emerged from the post-conflict rubble. From adventurous biking to trekking through heritage sites that have been almost unseen by outsiders for a generation, there is opportunity to embrace the 'cradle of civilisation'.

Steve Askin is a British army soldier; captivated by Iraq, he now offers a thrilling and special tourist voyage. He founded dirt bike

riding company, Trail Riding UK (TRUK), which guides tourists on a unique ride across Iraq's impressive terrain. Inspirational Steve stated that "The fighting is finished. The troops have gone. Now is the time for the Iraqi people to show us their beautiful country. TRUK is forging the way ahead with an exciting dirt bike ride starting in the north and finishing in Basrah. Our inaugural ride next June will show that Iraq is no longer a no go area and open to the rest of the world".

The key, adds Steve, is to work with local partners and to encourage entrepreneurs. Local populations need training and guidance on the potential of their country, whose destiny will soon be entirely in their hands. And as Dunira knows from its work elsewhere, this is essential for establishing a visitor economy in a destination emerging from conflict.

Slightly less daunting, includes visiting the remains of ancient Babylon, current day Al Hillah in Babil province, Saddam's Palaces and shrine cities such as Karbala, Najaf and Kufa, as offered by Hinterland Travel for daring culture vultures. Over the past few years, the vast majority (93%) of Iraq's visitors have come from Iran, predominantly religious tourists visiting Shia shrines. This trend however is changing with the success of international tour

operators, such as UK based Hinterland Travel. They guide international visitors to the breathtaking wonders, covering both modern and ancient historical sites across Mesopotamia. Booming business has forced them to increase the number of tours offered in 2011/2012. The mood of European operators is upbeat, especially with the security situation constantly improving.

The beauty of the sector is that, unlike many of the surrounding countries, Iraq is yet to be overwhelmed with package tours and the direction of the development of tourism is open to expand in any imaginative fashion. Considering that the TBI has focused on the development of sustainable tourism options such as nature reserves, ecological and archaeological sites, tourist centres and restoration of the Southern Marshlands, travel operators are presented with opportunities to diversify the dominance of religious tourism.

Iraq is also gearing up for more and more investors. With a mere 813 hotels nationwide and only a handful in Baghdad in the five star category, there are obvious gaps in the sector. Leading the way is Millennium & Copthorne Hotels and Resorts, through the combination of new and refurbished hotels opening in the coming two years. Destinations include Baghdad, Basrah, Dohuk, Mosul and

Sulaymaniyah, where Iraq's tallest building is in the final stages of becoming a Millennium & Copthorne hotel and expected to open in the second half of 2012.

Manfred Simons, Vice President of Development Middle East and North Africa said that "Iraq represents a great opportunity for Millennium & Copthorne. The country is rich in culture, history and natural resources, with so much untapped potential as a destination for business and tourism. We have very high expectations and we are confident that our range of brands which offer consistent international quality standards, will flourish in the Iraq market. We have more hotels in the pipeline in Iraq than any other hotel group and we look forward to our first grand opening in the near future."

Additionally, Marriott Hotels is constructing two luxury hotels and Range Hospitality in conjunction with Shaza Hotels is developing the first five star hotel in Karbala. In the Kurdistan Region, the newest addition to their luxury hotel market is the Park Hotel, which joins the likes of the Erbil Rotana and the Erbil International Hotel.

Combining all the promising direction in which tourism can be steered, the TBI has reported major advances in the size of Iraq's



“As a culturally colourful mosaic of a region, Kurdistan attracts many religious tourists visiting Islamic, Christian, Yazidi and Kakayee sites”.



visitor economy, achieving triple digit growth in each of the past three years. However, in addition to all the new international hotels and other major investments, there is a need for assistance with hospitality training and other technical assistance and it is continuing to work with its British friends and other experts. It is looking forward to the future with confidence.

Security risks do remain a concern, although they are sometimes overstated. There are many Western business people very happily operating in Iraq, who simply do not recognise the travel advisories regularly issued by their governments. Caution is always needed when working or travelling in a new country. The adventurous and thrill seeker tourists will not be deterred and will always travel to the best destination in the world but common sense and personal responsibility are essential.

The great optimism of all those that stand to benefit from the budding travel and tourism sector is contagious but a large effort is required to successfully alter the popular perceptions of Iraq. For many, the thought of travelling to a previously war torn region is

daunting and security remains an obviously justified consideration. As UKTI Director Robin Ord Smith rightfully asserts, only once the stability of the nation is found will it really flourish: "Iraq has outstanding potential as a heritage destination, that it will be able to fulfil as the security situation improves and travel around the country becomes feasible. The challenge is to help build capability now, both in terms of tourism infrastructure and local government capacity, to ensure that the country's visitor economy can efficiently monetise its very rich heritage".

British-Iraqi relations can benefit substantially through cultural exchange and tourism. Tourism is not merely the development of hotels and museums but the construction of trust and partnerships. As 2012 dawns, so does a new day for Iraq's travel and tourism industry. The sun is shining on this great destination once again.

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