Doing Business in **Kuwait**

January 2010

Foreword

As the world economy recovers in the aftermath of its most serious crisis since the 1930s, we find Kuwait and the Gulf region in a very interesting place indeed. Kuwait was relatively little affected by the world crisis, thanks to vast financial resources accumulated over the years, and thanks to prudent economic practices that left it largely free of major excesses.

Decision makers in both business and government, the world over, are today sizing up the new environment for future opportunities. The rising importance of emerging markets and economies (mostly nearby in the East), the newfound emphasis on "green" technologies, the need for a new financial architecture and for regional financial centers all come together to boost Kuwait's role, and the Gulf region's, as a center of heightened activity.

Kuwait is vying to become a regional financial and trade center and its government has embarked on an ambitious 5-year plan to reach this goal. And while some of the required infrastructure has been built, much remains to be done as the government strives to accelerate the execution of large projects alongside GCC-wide schemes such as the multi-billion dollar GCC railway network. The need to diversify the Kuwaiti and Gulf economies away from oil has become paramount and should give rise to additional investments, both public and private; especially in areas like technology, education, and health care and alongside the older and better established sectors.

National Bank of Kuwait (NBK) has traditionally been a pioneering bank with the drive and vision to match. NBK became the first indigenous bank when it was founded by leading Kuwaiti businessmen in 1952. Since its inception, NBK has been a leader in financial services in the region, offering a full range of banking facilities to its corporate customers. Our customers include the most prominent blue chip companies in the country, as well as nearly all major foreign corporations active in Kuwait. Over the years, NBK has developed an extensive international network in the world's major financial centers. All of this has given us invaluable and unmatched insight into the business environment in Kuwait and into the needs of our customers.

NBK's image as a trusted partner is further bolstered by consistently being the highest rated bank in the region, by various "best bank" awards, and by being recognized as one of the 50 safest banks in the world.

I personally hope that we at NBK can be your local partner in Kuwait and the region. I also trust that our depth and breadth of experience, along with our unequalled international network, can provide the edge that you require to outdo your competition and to deliver to your clients.

Ibrahim S. Dabdoub
Group Chief Executive Officer

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1. Basic Information

Location and Climate

The State of Kuwait covers an area of about 17,818 square kilometers of mostly flat desert in the northwestern corner of the Arabian Gulf (Persian Gulf). To the south and southwest, Kuwait is bordered by Saudi Arabia and to the north and northwest by Iraq. Iran lies to the east, across the Arabian Gulf.

Kuwait's coastal waters cover around 5,625 square kilometers and its coastline stretches across 290 kilometers. Kuwait has sovereignty over nine islands in the Gulf, of which the largest are Failaka, Boubyan, and Warba. Others, like Kubbar and Um Al-Maradim, are too small for habitation.

Kuwait City is the principal urban center and has grown to encompass several satellite communities or suburbs, such as Hawalli and Salmiya. The other urban areas of note are Ahmadi to the south and Jahra to the west. Ahmadi's industrial zone contains the Ahmadi refinery and oil export terminals. Ahmadi and Jahra are about 40 and 30 kilometers, respectively, from the center of Kuwait City.

Kuwait has a very hot and long summer, when maximum temperatures often reach 50°C (120°F) but can go higher. In winter, temperatures can fall below zero in the desert. During March and April, and from October to December, the weather is pleasant with temperatures averaging 21°C. From June to September average temperatures are around 40–45°C. September is typically cooler, but can be very humid. The hot season also brings sand storms which can last for several days, and which usually occur during June and up to mid-July. Average annual rainfall is around five inches. This usually occurs from November to December and from February to May.

Language and Religion

The official language in Kuwait is Arabic, though English is widely spoken and used in commercial circles. All official correspondence with government ministries and bodies must be in Arabic.

Kuwait recognizes Islam as its state religion. As a result, all Islamic holidays are officially observed, one of the most important of these is the holy month of Ramadan. During this month, Muslims fast from sunrise to sunset. Non-observers are required to refrain from consuming food or beverages in public. Official working hours are reduced, and consequently, business activity tends to slacken somewhat.

Political Structure

The constitution of Kuwait was adopted on November 11, 1962. It declares Kuwait to be a sovereign, Islamic, and democratic state. Kuwait is a constitutional monarchy with executive power residing in the Amir as head of state and commander in chief.

After leading the country for over 28 years, the former Amir His Highness the late Sheikh Jaber Al-Ahmad Al-Jaber Al-Sabah passed away on January 15, 2006. On January 29, 2006, HH Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah took the oath of office as Amir in a special session which was unanimously approved by the National Assembly. He thus became Kuwait's fifteenth Amir.

Kuwait has an elected National Assembly of 50 members supplemented by members of the Council of Ministers who attend ex-officio. The assembly sits for four years. In addition to the body's legislative responsibilities, the National Assembly also has oversight powers over the government. The first elections to the National Assembly were held in 1963 in which only men were allowed to vote. On May 16, 2005, the Assembly passed a law in support of women's suffrage, allowing women to vote and run for office.

Soon after, then Kuwait's Amir HH Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, dissolved parliament following widespread calls for electoral reform. As a result, women participated in elections for the first time on June 30, 2006. While 27 women ran for office out of a total of 250 candidates, none were successful. On March 18, 2009 Kuwait's Amir dissolved parliament for the third time since January 2006 and called for election on May16, 2009. Out of 211 candidates 16 were female; four of them were elected to become member's of the parliament, a Kuwaiti first. The next election is scheduled for 2013.

People

The first settlements in Kuwait date back to prehistoric times. A Bronze Age settlement has been discovered on Failaka Island, and evidence exists that at a later stage this settlement was visited by one of the admirals of Alexander the Great.

The origins of Kuwait's modern day indigenous population are thought to be tribes who moved from the southwest, the north, and northwest starting more than 200 years ago. A thriving trading community grew up around the fishing and pearling harbor, with Kuwait establishing itself as a main trading center in the region even before the advent of the oil age.

Data published by the Public Authority for Civil Information (PACI) shows that Kuwait's total population stood at 3.44 million at the end of June 2009. Since 1998, the population has grown by an annual average growth rate of 4.2%. Just under a third of the population is made up of Kuwaiti nationals. The remainder consists primarily of expatriates, most from south Asia, Iran, the Philippines, Egypt and other parts of the Arab world. There are also significant numbers of people from North America, Europe, and Japan currently living in Kuwait.

Ports and Transportation

Kuwait has two modern commercial ports at Shuwaikh and Shuaiba, which handle the bulk of its merchandise cargo traffic. Shuwaikh is the main commercial port with a total area of 3.2 million square meters and a basin of 1.2 million square meters. The port has 21 berths with depths of between 6.7 and 10 meters. Vessel traffic to and from the port goes through a dredged navigation channel.

The Shuwaikh container terminal is located in the northwestern part of the port and has an area of 260 thousand square meters. Berths 12 and 13 at the port are specialized for container operations and were equipped after 1991 with two container gantry cranes, each with a 40 ton capacity. The terminal is also equipped with two mobile harbor cranes with a 35 ton capacity, allowing it to handle heavy loads of 100 tons, if necessary.

Shuaiba port is located 45 kilometers to the south of Kuwait City, and is bordered by Ahmadi port to the north and Mina Abdullah to the south. The port of Shuaiba has commercial and container berths, and a crude oil export pier which is operated by Kuwait National Petroleum Company (KNPC). There are 20 commercial and container berths with depths of between 10 and 14 meters. Four of these berths are for container vessels. The port is equipped with a conveyor loading system to load bulk urea shipments by Petrochemical Industries Company (PIC). Two other conveyor systems at the port are used to load sulfur and petroleum coke exports.

The Shuaiba container terminal is considered one of the more modern container terminals in the Gulf. It has a total area of about 31 thousand square meters. There are four container berths with a total length of 880 meters and an average depth of 14 meters. The container customs inspection platform can handle up to 16 containers at one time.

Doha port is a small coastal port with 20 small berths that are used by dhows, barges, and coastal vessels operating between Gulf ports. There is another port for small ships nearby at Ras Isheirej. In addition, Kuwait has three industrial ports at Mina Ahmadi, Mina Abdullah, and Mina Al-Zour, which handle oil industry exports and are located near the refineries.

Since late 1999 the National Real Estate Company has operated the Kuwait Free Trade Zone (KFTZ) located at Shuwaikh port. KFTZ, under the supervision of the Ministry of Commerce and Industry, provides facilities for the storage and processing of goods, materials and other related activities, with companies operating there enjoying exemptions from all customs duties as well as streamlined visa procedures.

Kuwait boasts an advanced transportation infrastructure. The road system is well developed, with modern multilane expressways linking all areas of the country. Kuwait International Airport, located south of the city, is easily accessible by expressway, has a number of regular flights to many regional, European, and Asian destinations, and can handle the world's largest aircraft. Kuwait does not have a railway system, though one is being considered.

Water and Electricity

Kuwait has several power generation and water desalination plants, with a capacity to produce about 10.2 gigawatts (GW) of electric power and 369 million imperial gallons per day of desalinated potable water. Kuwait has five power stations located in Doha East, Doha West, Al-Subiya, Shuaiba South, and Al-Zour South, and six water desalination plants in Shuwaikh, Shuaiba North, Shuaiba South, Doha East, Doha West, and Al-Zour South.

Per capita water consumption in Kuwait is one of the highest in the world standing at over 118 liters per day in 2007. Kuwait's per capita electricity consumption is also among the highest in the world, as a result of a harsh climate and substantial price subsidies.

Rapid growth in demand for both water and electricity has resulted in seasonal shortages in recent years. There are a number of proposals at present to increase capacity, including building a new power generation and desalination plant in Al-Zour North. Other plans are in the pipeline to expand existing plants and facilities.

Industrial Areas

There are a number of industrial areas in Kuwait. The largest of these are located in Shuwaikh, Shuaiba, and Sabhan, with three other smaller areas in Sulaibikhat, Jahra, and Ahmadi. The areas come under the auspices and management of the Public Authority for Industry.

The Shuaiba Industrial Area is the most modern industrial zone, attracting most new plants. It lies 50 kilometers south of Kuwait City along the coast. The area comprises an eastern sector with an area of about 10.4 million square meters and a western sector of about 12.6 million square meters. According to the latest figures, Shuaiba accommodated 43 industrial plants belonging to 37 companies. Industrial plots are currently being leased to industries at an annual rate of 200 fils per square meter. Plots are prepared and leased for permanent or temporary projects. All the necessary industrial facilities such as roads, sewage, distilled and desalinated water, electricity, gas, and seawater for cooling, and fire fighting are provided.

Currency and Exchange Rate

The currency of Kuwait is the Kuwaiti dinar (KD), which is divided into 1000 fils (KD 1 = 1000 fils). Denominations of the currency notes are one-quarter, one-half, one, five, ten and twenty dinars, while the coins are in denominations of five, ten, twenty, fifty, and one hundred fils.

For nearly four and a half years from the start of 2003, the exchange value of the Kuwaiti dinar was officially pegged to the US dollar using a flexible peg. Under this regime, the central bank would set the KD/USD rate within a 7% band around the KD 0.29963 = USD initial parity rate set at the start of 2003. Though the CBK was free to set the rate on a daily basis within the band, the central bank generally maintained a fixed KD/USD rate for extended periods of time since late 2003. The 2003 change in policy came as a preparatory step towards the adoption of a single GCC currency by 2010, as Kuwait was the only country of the six member states not to have a formal peg to the US dollar.

However, in May 2007, the CBK decided to end its US dollar peg and move to peg the dinar to a basket of major currencies, a regime similar to that in place prior to 2003. Though the constituents of the basket under the new regime are not disclosed, the US dollar is thought to have the largest weight with the euro, yen, and British pound having significantly smaller weights. As of the end of November 2009, the rate stood at 0.285 KD/USD.

Commercial banks fix their rate for commercial and financial transactions by reference to the central bank rate. Although published retail rates show about a 1% buying and selling spread, it is normal to obtain more competitive quotes from the banks for large transactions.

The spot foreign exchange market in Kuwait is large, and it has always been possible to deal in substantial amounts on a regular two-day settlement basis. There are no exchange controls, and residents and non-residents may freely purchase and sell foreign currencies in Kuwait. There are also no restrictions on transfers to and from Kuwait by residents or non-residents in any currency.

2. Economy

Kuwait has the fourth largest proven reserves of crude oil in the world and is among the world's largest oil producers. As such, Kuwait's economy is heavily dependent on the oil sector, which accounts for over half of gross domestic output.

The heavy reliance on oil output has also meant that economic performance in Kuwait has depended on changes in oil prices which have often been quite volatile. However, government policy has ensured that this volatility does not result in large changes in activity in the non-oil sector and in household income.

Government policy effectively shields the domestic economy by maintaining steady growth in government expenditures. Even when revenues from oil have declined, government spending has continued to grow. This has been possible due to the vast foreign reserves accumulated by the government over the years which allow for the financing of substantial deficits without having to incur any debt.

Since the mid-1970s, the government has appropriated 10% of its budget revenues to be invested in the Reserve Fund for Future Generations (RFFG). The government has also accumulated foreign assets in a number of other entities, including the general reserve fund (GRF), Kuwait Petroleum Corporation (KPC), and the Kuwait Fund for Economic Development. Income from these investments are not included in budget revenues, but have been used to finance budget deficits in the past when they occur. These assets are estimated at close to KD 84 billion ($312 billion) today, though no official figures are available. The bulk of the assets are held entirely in foreign securities and overseas investments.

The government has sought to reduce the economy's dependence on oil revenues by promoting investment in other sectors. The greatest success has been the strategy to increase investment in downstream oil industries, including refining and petrochemical production. Indeed, Kuwait refines about 0.9 million barrels per day of the crude oil it produces in three domestic refineries. It also has a number of petrochemical plants, with most of the production going for export.

Another strategy to diversify the economy has been to promote the role of the private sector, especially through the privatization of public sector enterprises. During the last 17 years, the government has successfully sold off interests in many commercial companies, in sectors such as telecom, investment, business services, and banking. The government has also seen some success in involving the private sector in BOT projects, particularly in real estate development and commercial ventures.

In recent years, the government has been more serious in promoting the role of foreign investment in diversifying the economy. A foreign direct investment law was enacted in 2001, allowing for 100% ownership of businesses for the first time. Foreign investors were also allowed to own shares of domestic companies listed on the local stock exchange with a new portfolio investment law introduced in 2000. These measures are part of a broader economic reform program that the government is developing to stimulate growth and liberalize its economy in a way consistent with the objectives of the World Trade Organization (WTO), which Kuwait joined in 1995.

Gross Domestic Product and Gross National Product

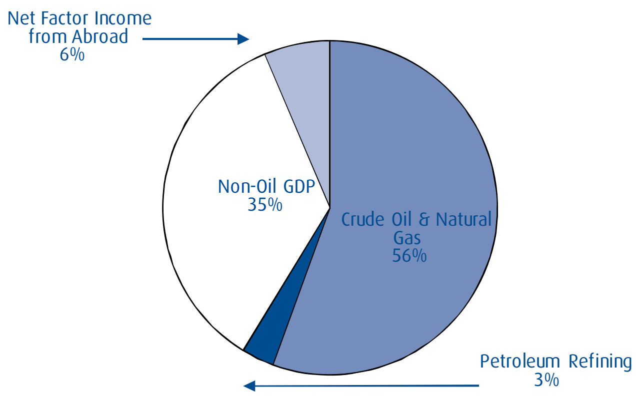
Kuwait's gross domestic product (GDP) stood at KD 39.79 billion (USD 148 billion) in 2008. Nominal GDP rose 22% in 2008, boosted largely by a rapid increase in the price of oil. GDP growth has averaged 22.8% over the last five years. Real growth in GDP during 2008 is estimated at 2.3%, compared to 4.4% in 2007 and to an average of 6.5% over the last five years.

Non-oil output rose to KD 14.8 billion (USD 55 billion), growing at a rate of 3.5% in 2008 and averaging 13.4% growth during the last five years. In recent years, activity has been boosted largely by increased government spending, public and private investments, and to a lesser extent, by a pickup in trade with Iraq following the ousting of the previous regime there in 2003.

The non-oil sector is dominated by services, which accounted for 32% of output in 2008. Finance, real estate and business services made up another 15.7% of GDP, and their average growth has topped 20.2% over the last five years. The fastest growing non-oil activities were transportation, storage, and communication, whose average growth has topped 22.2% over the last five years and contributed 5.5% of GDP. Manufacturing is another important part of this sector, contributing 5.6% of GDP in 2008, of which more than 60% was refined petroleum products.

Graph 1: Gross National Product

(2008)



Source: Ministry of Planning (www.mop.gov.kw).

Kuwait generates a substantial amount of income from investment abroad, the bulk of it held by the government. As a result, the country's gross national product (GNP) is notably higher than GDP. The difference, net factor income from abroad, has accounted for 6%-10% of GNP in the past five years. In 2008, net factor income from abroad dropped to KD 2.7 billion (USD 10.1 billion).

The public sector plays an important role in the Kuwaiti economy, despite attempts to reduce that influence. Government spending is an important driver of economic activity, with the public sector accounting for 31.2% of total consumption expenditures on GDP in 2008. In capital spending, the government dominates as well. The public sector is also the largest employer of Kuwaiti nationals, and the single largest employer in Kuwait, employing 17.9% of the total workforce as of end 2008.

Oil Sector

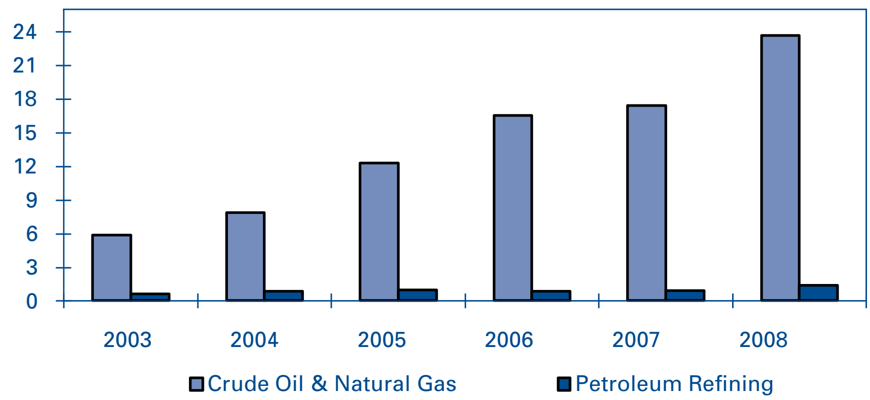
Kuwait's crude oil production averaged about 2.6 million barrels per day (mbd) in 2008, near the maximum production capacity. Though, as a member of OPEC, Kuwait must limit its output to the assigned ceiling, production tends to be slightly above the OPEC target especially when oil prices are high. Official production capacity is estimate to have risen to 3.1 mbd in 2009.

Oil production is poised for a substantial expansion in coming years with investment in the sector up substantially. The plan is to expand crude production capacity to 3.5 mbd by 2015 and to 4 mbd by 2030. In attaining this goal, authorities have been implementing an ambitious investment program in recent years.

A large part of Kuwait's crude output is refined domestically at one of Kuwait's three oil refineries at Shuaiba, Mina Ahmadi, and Mina Abdullah. Total production capacity at these refineries is 0.93 mbd. The government's plan to build a fourth refinery was shelved in 2009, though the plan will be revived. The proposed refinery, envisioned with a capacity of 0.45 mbd, would be used to meet the increasing domestic demand for fuel, particularly for the generation of electricity.

Graph 2: Oil Sector GDP

(billion KD)



Source: Ministry of Planning (www.mop.gov.kw).

The oil sector is run entirely by the state-owned Kuwait Petroleum Corporation (KPC) and its subsidiaries. Subsidiaries responsible for oil sector activity in Kuwait include Kuwait Oil Company (KOC), in charge of exploration and production, and Kuwait National Petroleum Company (KNPC), which runs the domestic refineries and domestic retail stations. Petrochemical Industries Company (PIC) is another subsidiary in charge of several petrochemical plants. Kuwait Petroleum International (KPI) runs the refineries outside Kuwait and is in charge of international marketing.

The private sector's role in the oil industry is currently limited to providing services and construction mainly on a contractual basis. A long-standing government plan to invite international oil companies (IOCs) to participate in the upstream development of a number of northern oil fields – known as 'Project Kuwait' - is thought to have been abandoned, largely due to parliamentary opposition. Work aimed at boosting crude production is now expected to be done by KOC.

An important part of the government's strategy is to develop the petrochemical sector. The sector has grown considerably in recent years and continues to attract interest and investment. One recent success in this sector was Equate Petrochemical Company, a joint venture between PIC, Dow Chemical Company, the local publicly traded Boubyan Petrochemicals Company, and a local private company, Qurain Petrochemical Industries. The Equate petrochemical complex, which was commissioned in late 1997, helped boost Kuwait's non-oil exports that have more than tripled since. Ethylene exports topped KD 474 million in 2008. Production at a new Olefins II ethylene plant began in November 2008, with further expansions due in 2009. However, plans for another joint venture between PIC and Dow Chemicals – involving the purchase by PIC of a US $7.5 billion stake in Dow chemical – were abandoned in December 2008.

Public Finance

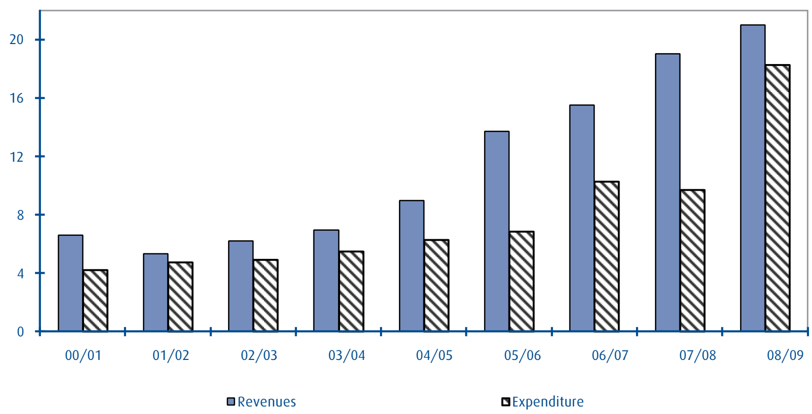
The government budget is dominated by oil receipts. Revenues from the sale of crude oil made up between 81% and 94% of total revenues between 1998 and 2009. Revenues from import duties, taxes on foreign firms and various service charges levied by government ministries and departments account for most of the rest. There are also other important off-budget sources of income that consist primarily of earnings from the State's substantial financial and commercial assets including the RFFG and GRF and income from independent public sector institutions, including KPC, the Central Bank of Kuwait (CBK) and others.

Revenues in fiscal year 2008/09, that ended in March 2009, amounted to KD 21 billion (USD 78 billion), up 10% from the previous year. Oil revenues accounted for 94% of the total. Government spending soared by 88% to KD 18.3 billion (USD 67.9 billion), thanks to a one time transfer to the Public Institute for Social Security (PIFSS) to cover past dues and the cost of fuel incurred for power generation. Growth excluding these transfers would have reached 7.1%. As a result of rapid growth in spending, the budget surplus shrank by 71% to KD 2.7 billion (USD 10.2 billion) before a mandatory allocation of 10% of revenues to RFFG.

In contrast, the 2009/10 fiscal year's draft budget shows a 10.2% decline in spending, excluding the KD 5.5 billion transfer to PIFSS in the previous fiscal year. Allocations to capital projects are projected to drop 24% to KD 1.3 billion (USD 4.4 billion), while spending on goods and services will be reduced by a similar proportion. Wages and salaries are expected to see growth of 8.3%. With revenues estimated at a conservative KD 8.1 billion ($27.9 billion), the budget is projected to see a deficit of KD 4.0 billion. However, NBK forecasts a new surplus in FY09/10.

Graph 3: Government Finances

(billion KD)



Source: Ministry of Finance (www.mof.gov.kw).

Money and Banking

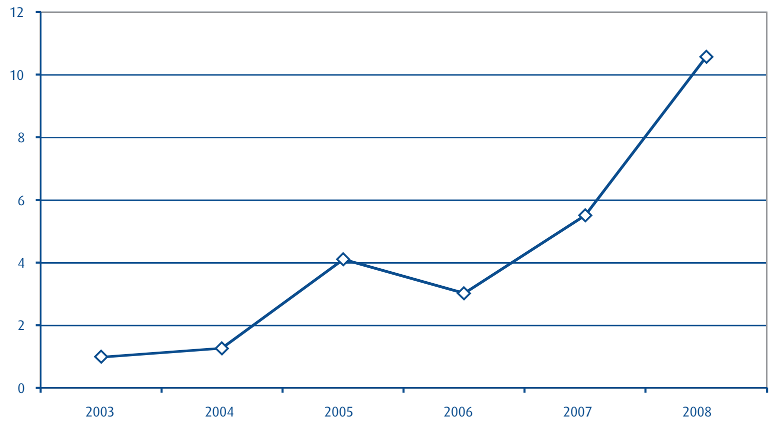
Kuwait has fourteen conventional banks, including eight branches of foreign banks. There are three Islamic banking institutions and one specialized bank. However, one of the six local conventional banks is in the process of converting to an Islamic bank. Another Islamic bank has been licensed and as of the date of this publication is in the process of raising capital. Accordingly, the number of Islamic Banks is expected to rise to five during 2010, while the number of conventional banks will fall to thirteen.

Total assets at local banks reached KD 39.2 billion (USD 142.2 billion) at the end of 2008, growing by 10.4% from the year before. Private deposits totaled KD 21.2 billion (USD 77 billion), up 16%.

During 2008, money supply (M2) rose 15.8% to KD 22 billion. Rapid growth in credit topping 17.5% was a key driver of money supply growth in 2008 as indeed it has been in recent years. Much of this growth has gone to the household sector and to trading on the Kuwait equities market, as well as to finance growth in the real estate sector.

Graph 4: Inflation

(percent year-on-year change in CPI)



Source: Ministry of Planning (www.mop.gov.kw).

Inflation as measured by the annual average change in the consumer price index (CPI) jumped 10.6% in 2008, following considerable heating up the prior year. In 2007, the rate stood at 5.5%. Inflation in domestic prices is highly sensitive to exchange rate changes in the currencies of Kuwait's imports. The surge in money supply and the weakened US dollar early in the year were partly to blame for the resurgence in inflation during 2008. Inflation has since fallen back to well under a 6% pace in early 2009.

Kuwait modified its exchange rate policy on May 20, 2007. The CBK abandoned its policy of pegging the Kuwaiti dinar to the US dollar in favor of a basket of currencies. The central bank stated that the currency weights of the new basket will closely mirror Kuwait's foreign trade patterns and financial relations. The new exchange rate policy is similar to that which was in place prior to the adoption of the peg to the US dollar in January 2003.

Central Bank of Kuwait has two primary policy rates through which it shapes monetary developments, the discount rate and the three Repo rates (O/N, 1-week, and 1-month). Policy rates, specifically the discount rate, tended to follow movements in international rates, especially US dollar interest rates. The correlation with the latter was particularly strong in the period after the dollar peg was adopted in 2003, with KD deposit rates maintaining a small positive spread over dollar rates. However, with the US Fed rates near zero, this spread had expanded and the new relationship is not expected to change much following the CBK's adoption of a more flexible exchange rate policy. The discount rate was 3% and the 1-week Repo rate was 1.75% as of December 2009.

Lending rates in local currency are tied to the discount rate. The CBK sets ceilings on bank lending rates which currently range from 1% above the official discount rate on loans for less than one year to 3% for loans that exceed one year. The exception is for consumer loans whose rate is set at parity with the CBK discount rate while prime borrowers are charged below the ceiling. Meanwhile, rates offered on local currency deposits tend to follow closely changes in Repo rates.

Kuwait Stock Exchange

There were 202 companies listed on the Kuwait Stock Exchange (KSE) as at the end of November 2009 up from 105 companies in 2003 and 86 in 2000. The market's capitalization totaled KD 29.11 billion (USD 101 billion), 27% lower than in November 2008. The sharp decline in equity prices started in September 2008, triggered by global financial crisis and plummeting oil prices. The KSE index has recovered some of the losses after bottoming out in March 2009, coinciding with rallies on global and regional bourses. The KSE is the second largest bourse in the Arab world in terms of market capitalization after Saudi Arabia's equity market. Average daily activity until end November of 2009 stood at KD 90 million, compared to KD 154 million in the prior more active year.

Since 2000, foreign nationals have been allowed to own and trade shares in locally listed companies, as well as investment funds. At the end of May 2009, there were 111 domestic funds that invest in locally listed companies, including 53 operating according to the Islamic sharia.

Privatization

Kuwait launched its privatization program in September 1994 when it began selling the government's shares in local companies to the public. Most of the companies divested were publicly listed on the KSE and were acquired by the government in the wake of the 1982 stock market crash. These companies engage in activities ranging from banking, to insurance, to fishing, and food retailing. Total proceeds from such sales reached KD 1.106 billion ($3.64 billion).

More recently, the government has been privatizing KNPC's domestic network of gasoline stations. In June 2005, 40 local stations were sold to the First Domestic Fuel Marketing Company. In March 2006, another 40 stations were handed over to Al-Sur Fuel Marketing Company. KPC retained a 23.7% share in each of the two new public shareholding companies.

In 2008, law 6/2008 paves the way for the privatizing of Kuwait Airways Corporation (KAC), by turning the company into a public shareholding company after selling a large portion, if not all of the government's shares to the private sector. The process of privatizing the KAC may expectedly take a little more than two years to be completed.

Plans to privatize other important sectors of the economy such as telecommunications, land and air transport, and power generation are currently being considered, but so far little definitive action has been taken. A draft law providing the legal and regulatory framework for privatizing key economic activities has been submitted by the government to the National Assembly, but the law has yet to be approved.

Foreign Trade

Kuwait's imports in 2008 totaled KD 6.7 billion (USD 25 billion). The country depends heavily on imports to meet most of its needs of foodstuffs, consumer goods, capital goods, and intermediate products. According to 2007 data, 36% of Kuwait's imports are consumer goods, 26% are investment goods, while intermediate goods accounted for the remaining 38%.

According to 2007 CBK figures, the latest available, Germany is Kuwait's largest supplier of goods, followed by the United States and China. Imports from those three countries accounted for almost one third of total imports. Other major sources of imports include Japan, Italy, Saudi Arabia, India, United Kingdom, and United Arab Emirates. Imports from other GCC states have been rising since the introduction of the GCC customs union, growing by 34% in 2007 from the year before.

Kuwait's exports in 2008 reached KD 23.4 billion (USD 87 billion). Exports of crude oil and refined products accounted for 95% of total exports. Of Kuwait's non-oil exports of Kuwaiti origin, petrochemical products accounted for an overwhelming 75%. The remaining consisted of re-exports, mainly of machinery and transportation equipment.

Kuwait's merchandise trade surplus, which has been mushrooming in recent years due to the relatively higher prices of oil, stood at KD 16.7 billion (USD 62 billion) in 2008. The surplus was 39% higher than its level in 2007, due to mainly a combination of higher oil prices and production, and to a lesser extent, higher non-oil exports.

Balance of Payments

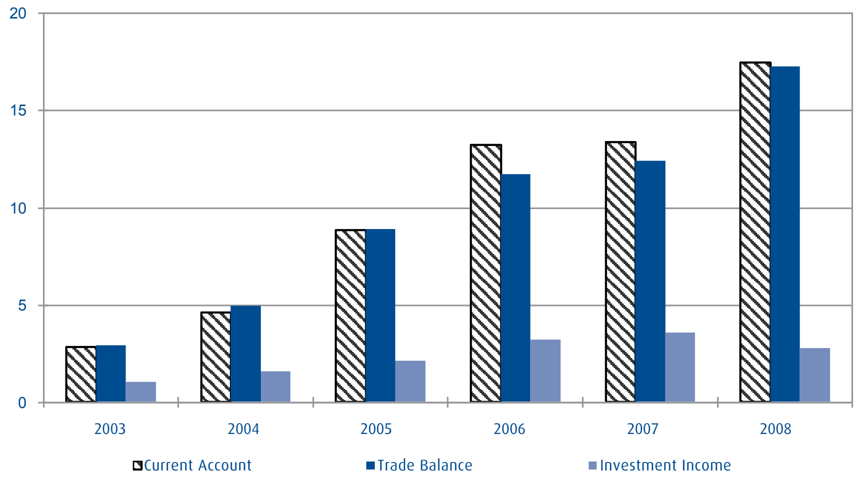
Since liberation from the 1990/91 Iraqi occupation, Kuwait has generally enjoyed a surplus in its current account. The surplus soared by 30.9% in 2008 to a record high of KD 17.4 billion (USD 64.7 billion), an estimated 43.7% of GDP. The average current account surplus to GDP during the last five years stood at a substantial 40%. Strong oil revenues, stemming from record-high oil prices and increased crude production, comfortably offset an increase in imports. The large trade surpluses from Kuwait's oil exports are the most important factor behind the current account surplus but are not the only one.

Indeed, although depressed by the deterioration in the global economy, substantial foreign investment income is the second contributor to the current account surplus, amounted to KD 2.7 billion, an equivalent of 6.8% of GDP in 2008. This is primarily due to income earned on government assets invested abroad, mainly in industrial countries. On the other hand, remittances of expatriate workers, which amounted to 3.8% of GDP in 2008, represent a notable though limited drain on the current account.

The current account surpluses Kuwait enjoys made the country a net creditor. Indeed, Kuwait continues to accumulate foreign assets by both the government and private sectors. According to a broad measure of the balance of payments that includes the net increase in foreign assets of some government institutions, namely Kuwait Investment Authority (KIA), Kuwait Petroleum Corporation, Kuwait Airways and the Central Bank of Kuwait, the country has enjoyed a continuous string of surpluses since 1995 allowing it to accumulate substantial foreign assets, estimated at close to KD 48 billion (USD 178 billion).

Graph 5: Balance of Payments Accounts

(billion KD)



Source: Central Bank of Kuwait (www.cbk.gov.kw).

3. Regulatory Framework

Kuwait's overall regulatory climate is largely defined by two key factors. The first is the government sector's dominance of the economy. Accounting for over three-quarters of gross domestic product (GDP), the government sector is the largest potential source of business in the country and influences economic activity profoundly. The second factor is that one of the essential aims of the government is to ensure the local population is involved in, and benefits from, commercial and economic developments in the country. As a result, many regulations require or encourage the involvement of Kuwaitis in any business venture.

While foreign investment has always been welcomed in Kuwait, the introduction of new laws in recent years has made it still more open to foreign capital and expertise. Until recently, Kuwaitis were expected to maintain control of companies involving foreigners, with non-Kuwaiti investors' stake restricted to a maximum of 49%. However, in late 2003 a new Foreign Direct Investment (FDI) law (number 8 of 2001) came into force, allowing for 100% foreign ownership in a number of sectors, though only as approved by the Council of Ministers. The FDI law also makes available a number of tax breaks and other benefits that authorities can offer in order to attract foreign investors, though investors must also satisfy a set of quotas regarding the employment of Kuwaiti nationals. Applications are submitted to the Ministry of Commerce and Industry.

The current policy to promote FDI focuses on a number of sectors which can benefit most from foreign investment and expertise. These include infrastructure investment such as water, wastewater treatment, power, and communications. Investment in banks and other financial services, including investment services, currency exchange, insurance, information technology, and software development are also promoted, as are investments in hospitals and pharmaceuticals. Authorities are also keen to attract foreign capital and expertise to other sectors such as land and sea freight, tourism, including hotels and entertainment, and housing projects and urban development.

Some specific sectors of the economy, including upstream oil ventures and real estate have traditionally been closed to foreign investment and will remain so under the new rules. There are some limited exceptions to this for citizens of other member states of the Gulf Cooperation Council (GCC), where reciprocal treatment is applied to nationals of other GCC countries.

Since 2000, foreign investors have also been able to trade on the Kuwait Stock Exchange (KSE). Previously, non-Kuwaiti investors (other than GCC nationals) had been limited to investing in mutual funds. Though foreign investors have all the rights enjoyed by Kuwaiti investors under law 20/2000, they cannot, as a group, own more than 49% of the shares of a listed company and must obtain – and Kuwaiti nationals as well - CBK approval if they intend to own more than 5% of a Kuwaiti bank. Foreign companies, but not individuals, wishing to own shares in Kuwaiti companies will have to pay the corporate income tax levied on foreign entities. Exemptions from various taxes and duties, including the income tax and import duties on equipment and raw materials, can be obtained for industrial enterprises by approval of the Council of Ministers. These exemptions, which are granted under law 6/1965, are valid for a period of up to ten years.

Kuwait's tax regulations affecting foreign companies doing business in Kuwait finally became law after it was published in the official Gazette on February 3, 2008. The most important feature of the amendment is the replacement of the old progressive tax rate structure – which saw companies charged between 5% and 55% on earnings above KD 5,250 – with a flat rate tax of 15%.

Major Codes

The three most important laws governing business activity in Kuwait are the Commercial Companies Law (15/1960) and its amendments, the Civil Code (67/1980), and the Commercial Code (68/1980), all strongly influenced by France's Napoleonic code. These three codes form the backbone of the law governing such areas as civil relations, general contract law, banking operations and commercial instruments (including bills of exchange, checks, promissory notes), commercial and other agencies, carriage and storage of goods, bankruptcy, construction and contracting. In addition, there are a number of laws dealing with specific topics such as banking sector, taxation, foreign direct investment, lease contracts, and civil and commercial procedures. There is also a maritime code, which covers such matters as maritime claims, ship registration, charter parties, marine insurance, and bills of lading.

Legal Structures for Doing Business

The Commercial Companies Law provides for the establishment of the following types of companies and ventures in Kuwait:

- Limited Liability Company WLL, (*sharika that mas'ouliyyah mahdoudah*)
- Closed Shareholding Company SAKC or KSCC (*sharikat musahamah moqfaleh*)
- Public Shareholding Company SAK or KSC (*sharikat musahamah aamah*)
- Joint Liability Company (*sharikat al tadhamun*)
- Limited Partnership (*LP, sharikat al tawsiyah*)
- Joint Venture (*JV, sharikat al-mahassah*)

All the above, with the exception of Joint Ventures, possess a separate legal identity.

In principle, GCC regulations provide for nationals of any Gulf State to be full owners of certain professional practices, including medical, legal, engineering, accounting, and consulting. Also, in the fields of industry, agriculture, contracting and maintenance, and tourism among others, GCC nationals are treated equally as Kuwaiti nationals in respect of the ownership of shares and the establishment of companies as per the decision of Ministry of Commerce and Industry (MCI) No. 552/2008 amending some provisions of the former Decision No. 235/1993.

A. Limited Liability Company

A limited liability company (WLL) is an entity where the liability of its members is limited to the extent of their share capital contribution. This is the most common corporate entity in Kuwait and the main route adopted by foreign companies or investors to enter the market. The capital of a limited liability company must not be less than KD 7,500, though in practice, the minimum capital currently required is higher than that.

The limited liability company is incorporated through an Articles of Association, which sets out its objectives, capital, members, management, and other details. No share certificates are issued to certify ownership. The required capital in a limited liability company may in fact vary from industry to industry, and the whole of a company's capital must be paid at the date of incorporation. Payment of capital shares may be in cash or in other assets valued at their fair market value.

Annual transfers of at least 10% of net profit must be made to a legal reserve until the reserve amounts to 50% of the capital of the company, at which time the partners' General Meeting is free to decide whether to increase the reserve. The legal reserve may be used to ensure payment of a cash dividend of up to 5% in years in which profits are insufficient to justify a dividend of this size.

A limited liability company requires at least two founding members. In this regard, a husband and wife are considered a single party. Originally, members were required to be natural persons with at least one member. However, Kuwaiti Law 15/1960 was amended by Law 28/1995, which allowed companies to be founding members of limited liability companies. Both foreign individuals and corporate bodies may use this type of entity.

The maximum number of members in a WLL is 30. The proportion of Kuwaiti capital must not be less than 51%, unless the company receives approval under the FDI Law allowing up to 100% foreign ownership. Members are not required to be residents of Kuwait. A foreign company may own a share in the capital through a resident individual acting as its nominee. The duration of a limited liability company is determined by its founders and is not restricted by law. However, according to Law 6/2001, which amended the Commercial Companies Law, an existing company may extend its duration by a decision of its members holding more than half of the capital.

If a limited liability company has more than seven members, a Supervisory Council, consisting of at least three members, must be set up. The original Supervisory Council is named in the Articles of Association for a fixed term. Appointments and re-appointments to the Council thereafter are made by the members in a general meeting. Employees have no statutory rights to take part in management, or to be represented on the Supervisory Council.

A limited liability company is normally managed by one or more managers with or without remuneration. The managers need not be Kuwaiti nationals or members of the company. If the managers are not named in the Articles of Association, they are appointed by the members in a general meeting.

The limited liability company can start to do business upon obtaining a trade license issued by the Ministry of Commerce and Industry. The WLL cannot engage in insurance, banking, or investment on behalf of others.

B. Shareholding Company

Shareholding companies may be either public or closed and must have at least five shareholders. The public shareholding company (SAK or KSC) is similar to a common law limited liability company, with a higher capital requirement. The founders of a public shareholding company are required to subscribe to at least 10% of the capital. A public shareholding company can engage in any type of business.

Despite the similarities, there are a number of differences between limited liability and shareholding companies. The latter issue shares that are easily transferable; investors need not pay the entire authorized capital immediately, some of which can be issued and called up later; they must have an elected Board of Directors and a Chairman; major decisions require approval by a general assembly of members in an ordinary or extraordinary meeting; and a SAK or KSC can be listed on the Kuwait Stock Exchange.

Foreigners are allowed to participate in the formation and ownership of public shareholding companies within a 49% maximum, except where 100% ownership is permitted in accordance with the FDI Law.

A closed shareholding company (SAKC or KSCC) is a joint stock company that does not offer its shares to the public. Regulations concerning foreign participation in such companies are broadly similar to those applicable to public shareholding companies.

A closed shareholding company may take the form of a holding company (sharika qabida) in accordance with the provision of the eight part of Commercial Companies Law (as amended by Law 117/1992 and Law 281/1995). A holding company may own shares in Kuwaiti and non-Kuwaiti companies, including limited liability companies, and may take part in the founding and financing of such companies, and can also provide them with guarantees against third parties in accordance with limits specified in the Law.

C. Partnership

The Commercial Companies Law also governs the formation of partnerships, both general and limited:

1- A General Partnership - (Joint Liability Company) - is an association of two or more persons formed under a specific name to carry on commercial business. The partnership has a separate legal personality, but its members are jointly and individually liable for its obligations to the extent of their entire personal property.

A joint liability company is managed by one or more managers, whether partners or not. Transactions concluded by managers in the company's name and within the limit of their authority are considered binding on the company, provided that the other party to the transaction deals in good faith. A creditor has the right of recourse to the company's property as well as to the private property of any person who was a member of the company when the debt was created.

2- Limited Liability Partnership: There are two types of limited partnership: the simple limited partnership and the partnership limited by shares.

a) A simple limited partnership consists of joint liability members (general partners), who are jointly and individually liable for the company's debts to the extent of all their assets; and sleeping members (limited partners), who are liable only to the extent of their respective contributions.

b) A partnership limited by shares is a limited partnership whose capital is divided into shares. Sleeping partners in partnership limited by shares are generally subject to the same rules as shareholders in a shareholding company.

D. Joint Venture

A joint venture is a commercial association formed by two or more parties. It is a purely contractual arrangement between the parties, has no separate legal personality distinct from its members, and is not registered in the commercial register. A joint venture is not considered binding on a third party, and each party in the venture is separately liable for its obligations. There are no limitations on foreign participation in joint ventures. It is common for foreign contractors involved jointly in a major project in Kuwait to form a joint venture or consortium.

The liability of the party in a joint venture transacting with third parties is unlimited. A non-Kuwaiti party in a joint venture transacting on its behalf must obtain a guarantee from a Kuwaiti party in the JV.

E. Commercial Agency

The commercial agency provides a means for a foreign company to conduct organized marketing efforts without establishing a registered local presence of its own. Agency agreements and regulations are governed by Law No. 36/1964 of the Organization of Commercial Agencies and Law of Commerce No. 68/1980. Only Kuwaiti individuals or Kuwaiti companies may act as commercial agents, which must be registered with the Ministry of Commerce and Industry. The application for registration must be submitted within two months of the appointment of the agent along with the following documents:

- The Agency Agreement with Arabic translation
- Copies of the agent's commercial registration and license
- A copy of the Kuwaiti agent's nationality document
- A certificate of registration from the Kuwait Chamber of Commerce and Industry

The Ministry of Commerce and Industry shall issue a decision on the registration application within fifteen days of its submission.

F. Branch

A foreign company wishing to open an office in Kuwait to conduct business and commercial activities can do so through a branch. The branch must be sponsored by a Kuwaiti agent under whose name the operation is carried out. A foreign company or investor may be exempted from seeking a Kuwaiti agent if approval is obtained in accordance with the FDI Law.

Kuwait Chamber of Commerce and Industry

The Kuwait Chamber of Commerce and Industry (KCCI) is a non-profit, self-financed private institution, established by Amiri decree in 1959. Currently registered members number over 34,000 and are represented in a general assembly, which in turn elects 24 members to its board of directors for a period of four years. Half of the board is elected every two years.

Any Kuwaiti or non-Kuwaiti agent, firm or business must be registered with the KCCI in order to operate in Kuwait, apply for an import license, or bid for a government contract. The chamber maintains an official court of arbitration for resolving business disputes and is involved in setting standards and defining customary practices in commercial matters.

Licensing Regulations

A business license is necessary to conduct any business in Kuwait. Licenses are classified by business activity and include general trading, contracting, financing, construction, consultancy, importing, and industrial licenses, all issued by the Ministry of Commerce and Industry. It is necessary to have a valid license to carry on a particular activity.

Some licenses are graded, for example, there are four classifications in contracting based on the size and qualifications of the contractor. Some commercial activities require specific licenses typically issued by the relevant ministry. For example, publishing licenses are granted by the Ministry of Information.

Business licenses are issued only to Kuwaiti nationals or to Kuwaiti companies, though in some cases they can be issued to GCC nationals and companies.

Financial Reporting and Auditing

All business enterprises are required to keep adequate financial records. Ministerial Order No. 206/1985 specifies books and records be kept by a foreign body corporate subject to the provisions of the income tax decree as detailed below. The books of account of a taxpayer are invariably inspected by the Department of Income Tax at the Ministry of Finance before a tax assessment is finalized.

Compliance with accounting principles and standards promulgated by the International Accounting Standards Committee (IASC) is mandatory for shareholding and limited liability companies for accounting periods starting on or after January 1, 1991. Prior to that date, there was a broad compliance for this purpose with most international accounting standards.

For public shareholding companies, the audited balance sheet and income statement, the directors' report, and the auditors' report must be submitted in Arabic within three months of the end of the financial year to the Ministry of Commerce and Industry and to the general assembly of shareholders. If the company is listed on the Kuwait Stock Exchange (KSE), it must also submit audited reports to the KSE.

In addition, unaudited reports must be filed with the above named authorities on a quarterly basis. The names of public company directors and auditors must be published in the official gazette. This is not required for closed shareholding companies. Audited financial statements of limited liability companies must be submitted to the Ministry of Commerce and Industry within 10 days of the annual general meeting. Such companies are obliged to hold a general meeting at least once a year.

There are no statutory audit requirements on partnerships, joint ventures, or commercial agencies. In practice, however, an audit is usually necessary for income tax purposes in cases where there is foreign participation.

Taxes and Other Obligations

While Kuwait does not have a personal income tax, companies doing business in the country do have to pay certain taxes and obligations. Most notable in this regard is the tax levied on the profits of companies with foreign ownership. Local companies also need to consider other obligations including a mandatory contribution to the Kuwait Foundation for the Advancement of Sciences, social security obligations, and the National Labor Support tax.

The National Assembly approved the amendment on 26 December 2007, stipulating that the new tax rules shall go into effect at the start of the tax period to follow the law's publication in the official gazette. The law provides for a period of six months for the Ministry of Finance to issue the implementation regulations, and as such, any new regulations will become effective only once they are issued.

The tax is imposed on all foreign companies, that is, companies incorporated outside the State of Kuwait other than GCC companies that are wholly-owned by GCC nationals. (GCC companies with foreign ownership would be subject to taxation to the extent of the foreign ownership.) The tax does not apply to foreign individuals or to Kuwaiti companies with non-Kuwaiti partners or shareholders, unless those shareholders or partners are foreign companies, in which case the tax is imposed on the foreign company's share of the earnings.

Besides changing the tax rate structure, the new law adds some much needed clarity as to what income is to be taxed. Earnings from any of the following activities are subject to the tax:

1. Profits realized on any contract that is partially or fully executed in the State of Kuwait
2. Amounts received from the sale of, leasing, or from granting a franchise to use or utilize any trademark, patent or copyright
3. Commissions from commercial representation or intermediary agreements
4. Commercial or industrial activities
5. Profits realized from sale of assets
6. Trading in property or goods, or the rights to them, and the establishment of a permanent office in Kuwait to undertake such activities
7. Rental of property
8. Service provision

Expenses associated with the income to be taxed may be deducted as follows:

1. Wages, salaries and end of service indemnity
2. Other taxes and fees
3. Depreciation, subject to the specifications of the implementing regulations
4. Donations to Kuwaiti charities, subject to limitations specified in the implementing regulations
5. Head office expenses in accordance with the specifications of the implementing regulations

The law also imposes a limit on a company's ability to carry losses forward which are hereby limited to three years. Under the previous tax law, companies were able to carry losses forward for an unlimited period of time.

The law also clarifies that the profits of Kuwaiti commercial agents is not subject to taxation under the law and that only commissions paid to foreign companies as a result of an agency agreement are subject to tax. A Kuwaiti commercial agent's earnings are not taxed so long as the profits arise from the sale of goods for the agent's own account.

The foreign party's proportion of net profit subject to taxation includes any amounts receivable for royalties, management fees, technical services, or interest. The source of income is considered to be in Kuwait if the place of performance of the services is within Kuwait. Place of performance is interpreted to include work carried out outside Kuwait under a contract which also involves onshore activities.

In the case of contracts where part of the technical work, design, or research is performed outside Kuwait, income from the whole contract is subject to Kuwaiti income tax, with a deduction for the direct technical costs incurred outside Kuwait, provided they are fully supported by documentation. Gains or profits made on the sale or disposal of capital assets, such as machinery and equipment, within Kuwait are considered part of the income of the enterprise and are taxed accordingly.

Losses can be carried forward and deducted from subsequent profits without limitations as to period, but cannot be carried back. Companies may be exempted from the tax if they are constituted under the Foreign Direct Investment Law (8/2001), the Free Trade Zone Law (26/1995), or the Leasing and Investment Companies Law (12/1998).

All expenses incurred by a business, including expenses incurred outside Kuwait, are deductible, provided they are legitimate, necessary, and reasonable. Legitimate costs and expenses should be well supported and documented. The income tax law divides allowable deductions into four main groups:

- Cost of goods sold or services rendered by the taxpayer.
- Other expenses that relate to the trade or business in Kuwait such as administrative expenses, overhead, and establishment expenses.
- A reasonable amount in each taxable period for depreciation and obsolescence of property, machinery, and equipment.
- Losses sustained in the trade or business that are not covered by insurance payments or otherwise. These include, in particular, bad debts, claims for damages against the tax payer, and losses due to the damage, destruction or loss of inventory or other property used in the trade.

There is no provision in the Income Tax Law regarding any limitations on fees paid to local agents or sponsors, but the current practice of the tax department is to allow a maximum deduction of 3% of the gross annual reserve from the taxpayer's operations in Kuwait.

Table 1: Income Tax Rates

Tax bracket (KD)	Old tax rate (%)	New tax rate (%)	Tax bracket (KD)	Old tax rate (%)	New tax rate (%)
0–5,250	Nil	15	112,501–150,000	30	15
5,251–18,750	5	15	150,001–225,000	35	15
18,751–37,500	10	15	225,001–300,000	40	15
37,501–56,250	15	15	300,001–375,000	45	15
56,251–75,000	20	15	375,001 and above	55	15
75,001–112,500	25	15			

Note: The relevant tax rate applies to the entire taxable profit.

Source: Al-Kuwait Al-Youm.

The regular accounting and taxable period is the calendar year ending December 31. However, the taxpayer may choose any alternative fiscal year deemed appropriate, provided the tax department's approval is obtained in advance. The first and last accounting periods may be of any length up to eighteen months.

Every taxpayer deemed liable under the tax law having taxable income in excess of KD 5,250 in a tax period must file an income tax declaration. This is due on or before the fifteenth day of the fourth month following the tax period. The tax department requires the declaration to be accompanied by audited financial statements, certified by a locally licensed auditor, and a statement of fixed assets.

An extension of the filing deadline may be granted if it is shown to be necessary. All tax declarations and correspondence with the tax department must be in Arabic. Tax declarations must be filed with the Department of Income Taxes at its office in Kuwait City. Legally, the amount of income tax shown on the declaration is payable in four equal installments, due on the fifteenth day of the fourth, sixth, ninth and twelfth months following the end of the tax period. However, in practice, the tax department expects to receive the full amount of tax due when the declarations are filed.

A fine is charged, equal to 1% of the tax outstanding for every 30 days, or fraction thereof, for which a tax declaration or income tax payment is overdue, unless there is a reasonable cause for the delay. Any dispute between the Department of Income Taxes and the taxpayer regarding the administration of the income tax law, or the amount of income tax due may be referred by either party to the courts for adjudication, unless both parties agree to submit the dispute to arbitration.

A final tax clearance certificate is granted to the taxpayer after the examining tax officer has completed an examination or review, and the final tax liability has been settled. The tax clearance certificate is necessary to release the final payment under any contract with the government and semi-public bodies. Obtaining this clearance can take some time, often holding up the payment of large sums of money. For this reason, it is important that tax declarations be submitted promptly and without delay.

Besides the corporate income tax imposed on companies with foreign ownership, all local companies are required to pay the following additional taxes and obligations:

A. Contribution to KFAS

Kuwaiti shareholding companies are required to pay 1% of their net profits, after the 10% allocation to the statutory reserve and the offset of loss carry forwards, to the Kuwait Foundation for the Advancement of Sciences (KFAS), which supports scientific activity by providing sponsorship and grants to a variety of research initiatives in Kuwait.

B. National Labor Support Tax

In accordance with Law 19/2000, Kuwaiti shareholding companies listed on the Kuwait Stock Exchange are required to pay an employment tax equal to 2.5% of net profits for the year. In accordance with resolution number 24/2006 issued by the Ministry of Finance the following can be deducted: compensations received from the United Nations for losses on account of the invasion of Kuwait by Iraq; cash dividends obtained from listed companies which have settled the same tax; and dividends collected from listed subsidiaries and affiliates which have settled the same tax.

C. Social Security Obligations

Employers must make payments to the Public Institution for Social Security (PIFSS) on behalf of all of its Kuwaiti employees. Contributions are payable monthly. The employer's contribution is equal to 10% of the monthly salary of the employee. The employee makes an additional contribution of 5% of their monthly salary. Contributions are capped at a monthly salary of KD 2,250.

D. Expatriate Health Insurance

Employers must contribute towards a health insurance scheme for their expatriate staff residing in Kuwait and their dependents. The annual premium is payable at the time of initial application or renewal of the expatriate's residence permit. The premium is KD 50 for each expatriate employee and from KD 10 to KD 30 for dependents. Employers may also provide health coverage using a private provider, in which case they will not be obliged to make any additional payments.

E. Zakat Income Tax

The zakat income tax law 46/2006 was introduced in November 2006. This new law will impose a 1% zakat tax annually on the net income of all Kuwaiti public or closed shareholding companies. All government owned entities are exempted from this tax, as are all companies subject to the foreign income tax as per new law 2/2008. A company with a zakat tax obligation must specify the portion of the tax which represents its Islamic zakat obligation as defined by an appropriate Islamic sharia board. In addition, a company may request that part, or all, of the amounts due be directed to specific public services of its own choosing.

Tendering Regulations and Procedures

The Central Tenders Committee (CTC), an independent government agency attached to the Council of Ministers, is the government authority responsible for prequalifying firms, issuing government tenders and awarding contracts. Tendering procedures executed by this committee are regulated by laws 37/1964, 18/1970, and 81/1977. All activities related to public tenders such as tender announcements, invitations to pre-qualify, pre-tender meetings, amendments to conditions and specifications, are published in Arabic in the official gazette, Al-Kuwait Al-Youm.

Law 81/1977 allows government bodies to bypass the CTC if the value of the contract does not exceed KD 5,000, though any such contract must not be concluded for the same goods or services more than once in a calendar month.

The CTC is made up of six members appointed by the Council of Ministers for a two-year term, and one representative each from the Ministry of Finance, the Department of Legal Advice and Legislation, the Ministry of Planning, the government authority commissioning the tender, and the government authority supervising the execution of the tender. The CTC acts on behalf of nearly all government departments, but is independent from them, being directly responsible to the Council of Ministers.

A limited number of government bodies and enterprises (Kuwait University, Kuwait Ports Authority and the Public Authority for Housing Care) are exempt from CTC supervision and can issue tenders independently. The ministries of Defense and Interior (including the security forces) can also issue their own tenders independently of the CTC.

Consulting contracts do not fall under the purview of the CTC. Invitations to consultants are issued by the Consultants Selection Committee at the Ministry of Planning to the list of consultants registered with the ministry.

A foreign company bidding for a government contract must be registered to operate in Kuwait and have a Kuwaiti agent. For the company to prequalify, the Kuwaiti agent must submit a standard set of documents outlining the company's capabilities to the CTC. The committee will then send a list of approved companies to the ministry or ministries concerned. The latter will assess the technical qualifications of each company on the list, particularly its experience with similar projects, technical capabilities, and financial strength. A shortlist of prequalified companies is then presented to the CTC, which may add a company to the list if it feels it has been excluded without proper cause. Prequalification may be required of an international company each time it bids for a contract.

When ministries require goods or services similar to a previous contract, a list of companies that have performed the service or provided the product before are often asked to do so again. Occasionally, ministries prequalify companies automatically, asking only those companies to bid on a project. On rare occasions, when a particular company has a skill or product that is unusual or hard to obtain, it may be asked to bid for a contract.

Public works projects are classified as "projects which can be carried out by a local contractor" and those "that require the special expertise of an international contractor". The CTC further classifies local contractors into four categories according to past performance, technical and financial capabilities, and work expertise. This classification is not applied to foreign companies.

All forthcoming government tenders, whether administered by the CTC or by another body, are published in Al-Kuwait Al-Youm, the official gazette. To obtain the tender documents, a covering letter in Arabic plus a fee in the form of a certified check are required. The documents can only be collected at the place and time shown in the official gazette. The fee for tender documents varies depending on the expected value of the contract.

Bids must be submitted to the CTC by the stated deadline, and in the place and manner prescribed. Usually, bids are to be submitted on the forms provided, and must conform exactly to the conditions, as stated in the tender documents. All required supporting documentation and the original receipts for the purchase of the tender documents should accompany the bid. Minor discrepancies may result in disqualification.

A bid bond issued by a Kuwaiti bank of 2.5% to 5% of the value of the bid must be submitted with the bid. A successful bidder who chooses not to sign the contract will forfeit this bid bond. Unsuccessful bidders will have their bank guarantees released. Upon signing the contract, the successful bidder replaces the bid bond with a performance guarantee issued by a Kuwaiti bank, typically 10% of the contract value.

Submitted tenders will be evaluated on the basis of price and conformity to the technical specifications issued. Though the CTC and other tender committees are obliged to award contracts to the lowest bidder, some exceptions are permitted. Where a company has submitted an artificially low bid and it appears that the company will be unable to finish the work to the required standard, the government body may recommend a company which did not submit the lowest bid.

With regard to tenders for supply contracts, locally produced goods enjoy a 10% price margin over comparable imported items. No price preference is given to local contractors or service companies.

On contracts for the performance of works, the contractor may receive an advance payment of up to 10% of the total contract value. This advance is deducted from subsequent payments on account of work in progress. Some contracts allow the ministries to retain 10% out of each work in progress payment in the early stages. Retention during the maintenance period is also usual.

All contracts contain penalty clauses to cover delays in completion, substandard quality and other faults. A completion certificate is often given to a contractor when project work is completed. A maintenance period, normally one year, is usually included in contracts for the supply of equipment. A final acceptance certificate, enabling the contractor to receive final payment and representing final release from liability, is given at the end of the maintenance period.

Pursuant to law number 19/2000, a party awarded any direct contract by a public sector entity, including the military and oil sector bodies, must be in compliance with the minimum ratios for employment of Kuwaiti nationals as designated by the Council of Ministers.

Courts and Arbitration

The court system in Kuwait is divided into several branches: personal, criminal, commercial, administrative, leases, and civil courts. There are three levels in the Kuwaiti legal system, namely the Court of First Instance, the Court of Appeal, and the Court of Cassation. The personal courts have jurisdiction over matters relating to the personal status of Muslims, in particular family and inheritance law. The civil courts has jurisdiction over all non-criminal cases not dealt with by other branches.

Parties can choose to resolve disputes through arbitration. Arbitration in Kuwait is governed by law 11/1995 which provides for the establishment of one or more arbitration authorities at the Court of Appeal, consisting of three judges and two arbitrators to be chosen by the parties requesting arbitration. Generally, courts will not exercise jurisdiction in cases where there is an express written agreement between the parties to refer a dispute to arbitration.

Kuwaiti law does not distinguish between local or foreign arbitration. The matter of where arbitration will take place is left to the parties to negotiate and to specify in their agreement. It is common in contracts involving foreign investors to include clauses specifying arbitration be conducted in accordance with the rules of the International Chamber of Commerce or any other international arbitral forum.

The arbitration authority is empowered to rule on and conciliate disputes between government ministries or other government bodies and companies that are fully owned by the government, or between these companies, or between individuals or private legal entities and government ministries and other public bodies, and generally between any parties that agree to its arbitration.

In addition, the Kuwaiti Chamber of Commerce and Industry (KCCI) administers arbitration and conciliation procedures according to its internal regulations. The Kuwait Society of Engineers also administers arbitration proceedings concerning disputes in the construction industry. Much arbitration in Kuwait has also taken place under the Rules of Conciliation and Arbitration of the International Chamber of Commerce. Kuwait is a member of the GCC Commercial Arbitration Centre.

4. Trading Environment

Because of its limited domestic resources outside the oil sector, Kuwait provides a substantial market for a wide variety and range of imports in an intensely competitive environment. Few restrictions on imports exist, provided that imported goods conform to quality control standards set by the government.

There are also no controls on the movement of foreign exchange, nor restrictions on trade with other countries, with the exception of Israel. While the bulk of demand in the market is for necessities and low to medium priced consumer goods and durables, the very high per capita income of a certain segment of the market also creates significant demand for high quality goods.

In a bid to achieve greater integration with the global economy, Kuwait became a member of the World Trade Organization (WTO) in 1995. Kuwait has also made efforts to strengthen trade relations with partners in the region. In January 2005, Kuwait began enforcing a zero-tariff regime on exports originating from members of the Greater Arab Free Trade Area (GAFTA). Kuwait is also part of a GCC customs union which has eliminated all tariffs and trade barriers between GCC member states.

Kuwait has been eager to establish strong trade ties with the US. In February 2004, Kuwait signed a Trade and Investment Framework Agreement (TIFA) with the United States. The agreement is considered the first step in developing economic reform and trade liberalization criteria to strengthen economic relations with the US and to work toward an eventual Free Trade Agreement (FTA).

Custom Duties and Tariffs

Import tariffs in Kuwait are relatively low. A flat rate of 5% is applied to the cost, including insurance and freight (CIF), of imported goods. Staple foods, including rice, wheat, and tea are exempt from import duties. Import duties on tobacco products are 100% and could be increased again in the near future.

Kuwait is committed to closer trade ties with its GCC neighbors. Starting January 2003, Kuwait unified its customs fees with those of other GCC countries, following the establishment of a customs union between the six Gulf States.

Since 1985, Kuwait has had a system of tariff protections, allowing industries which meet at least 40% of local market demand to apply for tariff protection. Tariff rates differ depending on the domestic value-added content of the products in question. If the domestically produced goods contain at least 20%, 30% or 40% of domestic value added, protective duties of 15%, 20%, or 25%, respectively, may be applied.

The degree of protection given by the formula is reduced by 5% in the case of consumer goods. In total, some 58 items receive tariff protection from the government. The maximum duty that may be imposed on products that compete with locally manufactured goods is 100%.

Exporting to Kuwait

Only Kuwaiti registered members of the Chamber of Commerce having import license issued by the ministry of Commerce and Industry may import goods. An exporter to Kuwait must deal with a Kuwaiti agent. Foreign commercial companies have the choice of exporting their goods to Kuwait through any of the following ways:

- A Kuwaiti agent who imports goods directly from the company in accordance with a pre-agreement.
- A Kuwaiti middle man, whether an importer or a commission agent.
- A Kuwaiti merchant who imports directly from the manufacturer /exporter.

The agent could be either a commission agent or a distributing agent. The commission agent acts purely as an intermediary, selling on behalf of his principal, for which he may receive a commission. The importing and distributing agent acts as a distributor or wholesaler. Both forms of agency may be on an exclusive basis. It is possible to give exclusivity to only one product line and to use different agents for other lines. However, the highly competitive nature of the Kuwaiti market reduces the possibility of importing goods through third parties and commission agents. The retail price of a product is vital to its marketability and any arrangement that unnecessarily increases the cost incurred by the importer will only lead to a loss of competitiveness. As a result, Kuwaiti merchants prefer to deal directly with the manufacturer or with its sole exporting agent.

To require Kuwaiti importers to purchase a foreign company's product from an area agent, rather than directly from the producing company, can also lead to a higher retail price and thus is usually a less competitive alternative. Appointing a sub-agent in Kuwait tied to a general agent in a neighboring country is not typically preferred.

The law clearly states that the right of representation and of agency can only be awarded to Kuwaiti nationals. Nevertheless, the law does allow the appointment of a sub-agent in Kuwait by the supplier’s regional general agent on condition that the sub-agent does not conduct distribution business in Kuwait. In such a case, the sub-agent may be other than a Kuwaiti national.

A foreign exporter can sell directly to a Kuwaiti importing retailer. Direct sales are convenient where only a few Kuwaiti clients are involved, such as supermarkets and showrooms, and where the goods are either luxury items or standard bulk items like sanitary ware or foodstuffs such as rice and sugar.

Exporters to Kuwait may receive payments against the value of their goods by means of any of the following:

- Letter of credit according to which payment is made after completion of shipping formalities.
- On CAD (Cash Against Documents) basis.
- Open Account basis.
- Direct Advance Payment.
- Part payments, provided previous other payments were effected within specified dates.
- Credit sales, according to which the value of each consignment sold shall be transferred to exporters.
- Sales based on commission, according to which the merchant sells the commodity at prevailing prices on behalf of the exporter and receives an agreed commission thereof.
- Sales against sight drafts or promissory notes for an agreed upon period of time. Customarily this period ranges between 30 to 180 days.

Import Regulations

Law 43/1964 and its amendments stipulate regulations concerning imports to Kuwait. Import licenses are required for all commercial imports, and commercial imports are limited to registered importers. Importers do not need an import license for each product or shipment to be imported.

An importer, who must be a registered member of Kuwait Chamber of Commerce, does, however, need to obtain an annual import license from the Ministry of Commerce and Industry. To be registered in the Commercial Register at the Ministry of Commerce, an importer must be either a Kuwaiti citizen, or a firm in which all partners are Kuwaiti nationals, or a limited liability Kuwaiti company.

Registered importers handling a variety of commodities may obtain a general license valid for one year, which authorizes imports on a multiple entry basis of any amount of goods from any country during its one year term. Other importers must obtain specific licenses for individual commodities which are also valid for one year. Imports of certain industrial equipment, machinery and their spare parts require industrial licenses valid for one-time use.

Medicines and X-Ray equipment, wireless telecommunication equipment are also required special permission from the appropriate ministry as well.

Such licenses are issued to registered and licensed industrial establishments after the approval of the Industrial Affair Commission at the Ministry of Commerce. Private imports of personal objects may be permitted under individual or special license.

The Ministry of Commerce and Industry may refuse or restrict the number of licenses for any good or product except foodstuffs, or waive the requirement for import licenses in particular cases. Special import licenses are required for regulated goods such as arms, ammunition and explosives, radioactive materials, ethylene alcohol, drugs, medicines, x-ray equipments, pesticides and insecticides, some exotic birds and vintage cars, wireless telecommunication equipments.

Some drugs and medicine require a special import license from the Ministry of Public Health. Imports of firearms and explosives require a special import license from the Ministry of Interior. Also, the importation of the following items is prohibited: narcotics, alcoholic beverages and the materials used for making them, air guns, pork or foodstuffs containing pork, pornographic and subversive materials and second hand vehicles which are more than five years old. To protect local industries, asbestos pipes, wheat flour, industrial and medical oxygen gas, some cast iron products and welded steel pipes, and other items which are manufactured locally, are also not allowed at present.

Shipments of live animals, animal products, plants or plant products require sanitary and health certification and inspection in the country of origin. All imported beef and poultry products require a health certificate from the country of origin and a certificate issued by an approved Islamic center in the country of origin, which verifies that the meat contents and preparation comply with Islamic custom (halal).

All foodstuffs are subject to strict regulations covering packaging, labeling, description of contents, and date of manufacture and expiry. There are restrictions on the use of certain additives and other chemical products. All food products, including samples, are subject to examination by public health laboratories at the Kuwait Municipality. Pharmaceutical preparations must be registered with the Ministry of Public Health and are subject to laboratory tests by the ministry.

In February 1986, the Kuwait Municipality decided to reject all imports of food items which have an expiry period of more than one year, if more than six months have elapsed since the original date of production. Food products whose production is governed by seasonal factors are exempted from this general regulation, and their import is allowed, if not more than 8 months have elapsed since the date of production.

In case the expiry date of the food item falls within a period of one year or less of the date of production, the import of such an item is not allowed if either more than half the lifetime of the item has elapsed or three months, whichever is shorter.

Documents required for Imports to Kuwait

Imports to Kuwait require three certified and legal copies of the commercial invoice, negotiable copies of the transport documents and two copies of the certificate of origin. In some cases, a packing list in three will be required.

The certificate of origin must describe the place of origin of the goods, the full name of the manufacturing plant or producer and the full name of the freight forwarder. It must also show gross and net weight, the trademark shown in the manifest, value, type of packaging and means of transport. In addition, the certificate should be certified by a chamber of commerce or industrial association in the exporting country. The Kuwaiti embassy or consulate in the exporting country must usually authenticate the certificate of origin and invoice. In the absence of a Kuwaiti mission, a mission of any one of the GCC states can do the authentication. In some cases, the certificates of origin are required to be attested / issued by joint Arab Chamber of Commerce in the exporting country.

All the above documents should be available to the importer before the arrival of goods in Kuwait, as goods cannot be cleared through customs without these documents. The following tips for exporters to Kuwait are provided by the Kuwait Chamber of Commerce and Industry:

1. All commercial invoices of goods should include the following:

- Detailed description of goods
- Total value and unit prices
- Net and gross weight
- Type of packaging used
- Full name and address of the manufacturer and exporter
- Trademarks and numbers of the goods as shown in the manifest
- Means of transportation including the port and country of origin
- Invoices to be legalized by the Kuwaiti Embassy or Consulate.

2. Packing lists, if necessary, should contain the information as above and also show the following:

- The contents of each parcel
- The total and net weight of each parcel

3. Each unit of the exported product should clearly indicate the country of origin, which should also be identical with that shown on the letter of credit and all other documents concerned.

4. Food and pharmaceutical products should bear the following: batch or lot number, manufacturing date, expiry date or validity, description of contents, storage conditions, and the name of the pharmaceutical product.

5. All electrical tools, motors and appliances should conform to the technical specifications and standards in Kuwait. All letters of credit established in favor of electrical goods suppliers should contain the above mentioned specifications as per voltage and cycle, etc.

6. Letters of credit established for merchandise should contain a reasonable amount of detail and specifications, including size, number, color, packaging and shipping method.

7. All items and inner packages of foodstuffs should carry an Arabic label stating the name of the foodstuff, its ingredients, net and gross weights, country of origin and its production and expiry dates. Containers of foodstuffs of a liquid nature should carry a label stating net volume in liters.

8. Certificates of origin should be certified by a chamber of commerce in the exporting country, contain the full name of the manufacturer or producer, country of origin, and indicate the means of transportation.

9. Trademarks and/or product names, and shipping numbers should be clearly printed on all parcels and should correspond to those on the pertinent manifest.

10. Kuwait customs and ports authorities should be notified prior to the arrival of any flammable or explosive materials in order to make the necessary arrangements in accordance with the customs law pertaining to the means of loading, transportation and storage.

11. Importers in Kuwait and exporters to Kuwait should always be aware of new rules and regulations as issued from time to time by the Kuwait Customs and Ports Department and other authorities in respect of certain goods and published in the weekly official gazette Al-Kuwait Al-Youm.

Exports from Kuwait

There are generally no restrictions on exports from Kuwait, with the exception of a few items requiring export licenses. No duties are levied on goods exported from Kuwait. Foreign contractors, however, need a letter of clearance from the Director of Income Taxes, Ministry of Finance, to be able to export equipment from Kuwait for use in a project outside Kuwait.

5. Offset Program

Kuwait's Offset program has been in operation for more than 15 years and has 3 main objectives: to promote the transfer of technology and expertise to Kuwait, create job opportunities for Kuwaitis and to enhance their professional capabilities through education and training. The Offset program requires foreign companies with government contracts to re-invest a share of the value of the awarded contract in a suitable venture or investment inside Kuwait, whose outcome would help achieve the objectives of the program.

Establishment and Organization

The Offset program was initiated on July 26,1992, when the Council of Ministers issued decision number 694 requiring all foreign contractors who meet certain criteria to participate in the program. Article four in the program guidelines (No. (9) – 2007) issued by National Offset Company (NOC) defines both foreign contractors and their Offset obligations. The Offset obligation is effective as of the signature date of the supply contract and is equal to 35% of the monetary value of the contract. Offset obligors are granted a grace period of one year from the offset start date, during which they are supposed to finalize all preparations and the licensing of their projects, such that they are ready to start implementing them by the end of the grace period.

Changes to the Offset Program

Although it has been in operation for many years, there have been a number of important recent changes to the structure and workings of the Offset program in an attempt to improve its effectiveness. In August 2004, the government suspended the program pending a comprehensive study of the causes of non-fulfillment of the program's objectives. The program was reactivated in August 2005. On March 28,2006, the NOC was established as a closed shareholding, government-owned company, with the primary objective of managing the Offset scheme on behalf of the government. The NOC is now responsible for all day-to-day interaction with foreign contractors and aims to provide them with assistance and support when necessary.

The ninth revision of the Offset program guidelines was activated in September 2007, as per ministerial decision number 38/2007, and form the basis for the latest definitions and objectives.

Program Objectives

The new offset guidelines No. (9) – 2007 specify the official objectives of the Offset program as follows:

- Promoting projects that lead to the transfer of appropriate advanced technologies to Kuwait, and facilitate their integration and adaptation into the local economy.
- Promoting projects that contribute to the advancement of professional education and job training.
- Encouraging and supporting projects that contribute to the creation and development of high skill professional jobs for Kuwaiti nationals.

Definition of Foreign Contractors

A foreign contractor (FC), for the purpose of the Offset program, is by definition any government or private (commercial) entity satisfying either of the following conditions:

a. Any foreign legal entity or entities, not registered or incorporated in Kuwait, under direct contractual commitment to supply goods and/or services ("Supply Contract") to the Government of Kuwait,

b. Any foreign legal entity or entities party to a Supply Contract represented by a local legal entity acting as its agent or legal representative, and under which the foreign legal entity or entities will remain completely and entirely responsible for the implementation of the Supply Contract;

c. Any joint venture formed between a foreign legal entity or entities and a Kuwaiti legal entity or entities for the purpose of jointly signing and executing a Supply Contract with the Kuwaiti Government;

d. Any legal entity not satisfying one of the above conditions and classified as a foreign contractor by NOC.

Offset Obligation

Unlike offset programs in Saudi Arabia and the United Arab Emirates - which are restricted to defense related contracts - the Kuwaiti program applies to defense as well as civilian contracts signed with Kuwaiti government entities. Based upon ministerial orders number 13/2005 and 20/2005 issued on August 31, an Offset obligation is imposed on foreign companies that are awarded a defense contract worth KD 3 million or more. Non-defense contracts with the Kuwaiti government worth KD 10 million or more also incur an Offset obligation, with the exception of contracts relating to the oil and gas sector.

The value of the obligation is equal to 35% of the monetary value of the supply contract. The amount invested in a suitable project should be equivalent to the Offset obligation divided by the 'multiplier' applicable to the specified economic activity of the Offset project. Part of an organization's offset obligation can be fulfilled through the purchasing of goods and services of Kuwaiti national origin. However, these purchases of goods and services should not be related to the supply contract that is initially subject to offset. The value of these local purchases will be deducted from obligors' Offset obligation.

An organization has the following options to satisfy its obligation:

- NOC pre-approved direct or indirect offset projects.
- Contractor-proposed direct or indirect offset projects that receive NOC approval.
- Participation in Offset Funds developed or approved by NOC.

While the Offset program gives priority to investment projects implemented inside Kuwait, foreign contractors are sometimes allowed to fulfill their Offset obligations through ventures whose capital base and principal business activities are outside the country. For such projects to be approved they should demonstrate a direct benefit to Kuwait such as providing conduits to technology, developing Kuwaiti human capital, and encouraging business cooperation between international companies and the Kuwaiti private sector.

Definition of Direct and Indirect Offset Projects

Direct Offset projects are projects in which foreign contractors help the Kuwaiti government entity with which the Supply Contract is signed in acquiring new technologies, or through supply arrangements, or by co-production of the underlying product in Kuwait for the purpose of reducing the cost of production and maintenance.

Direct Offset Projects could include:

- Grant label projects
- Privatization projects
- Defense related projects (Including training, maintenance and establishment of test labs).
- Projects for both defense and civil uses.

On the other hand, indirect Offset projects are projects in which the foreign contractors help the Kuwaiti government in developing the private sector by participating with it in implementing projects to produce products either for export, or for import substitution. Indirect Offset projects can take the form of grants, the establishment of entities in Kuwait to produce goods and services, investments in energy-related industries and the establishment of Public-Private Partnership projects with local participation.

Offset Funds

Offset funds could be approved by NOC to help obligors fulfill relatively small Offset obligations. Offset funds are subject to the approval of the Central Bank of Kuwait as well as the rules and regulations that are applied on investment funds in Kuwait. These funds should achieve at least two of the program's objectives to be granted a multiplier of 3.5. This multiplier value could be increased to 5.5 after NOC reviews and evaluates the yearly achievements of the funds, and confirms that they coincide with the three objectives of the Offset program. The fund manager should invest no less than 60% of the fund's capital inside the State of Kuwait.

Offset Fulfillment Process

The Offset process consists of a number of stages leading to the implementation and satisfaction of the Offset obligation. These are as follows:

A. Concept Paper Stage

While a foreign contractor does not incur an Offset obligation until it signs a supply contract with the government, it needs to initiate the process as soon as it becomes short-listed in the tender process. A short-listed contractor will be required to submit a concept paper for a proposed Offset project to the NOC if the contractor chooses to initiate an independent business venture. It could alternatively choose to participate in one of the Offset projects proposed by the NOC or in an Offset fund.

The contractor is expected to commit to an investment before the supply contract can be signed. If the contractor chooses to implement a new project, the concept paper must provide a brief description of the proposed venture. The NOC will decide on whether the proposed project meets the objectives of the program or not. If the proposed project is rejected, an alternative must be presented.

B. Memorandum of Agreement Stage

Once the foreign contractor reaches an agreement with NOC on implementing an Offset project and it is granted a supply contract, a memorandum of agreement (MOA) is signed between the two parties. The MOA will specify the value of the Offset obligation and the investment project to be implemented. The MOA should be signed before or at the same time of the supply contract signing.

Upon signing the supply contact, the Offset obligor must provide an unconditional and irrevocable bank guarantee which should be issued from an approved Kuwaiti bank in favor of the National Offset Company. The value of the bank guarantee should be equivalent to six percent of the supply contract, and will be reduced gradually in line with the actual implementation of the obligation by the foreign company.

C. Business Plan Preparation and Evaluation Stages

Within four months of the date of signing of the supply contract, the Offset obligor should submit to NOC a detailed business plan for the approved project. In accordance with its internal procedures, NOC will evaluate the project's business plan within two months and will notify the foreign contractor of its approval. If the business plan is not approved, the contractor is required to submit a new business plan, including required amendments.

D. Grace Period Stage

A grace period of not more than six months from the date of approving the business plan is granted to Offset obligors to finalize all studies and paperwork for the project's implementation, including securing licenses and permits. By the end of the period, the project should be ready for implementation. Delays in implementing the venture due to an inadequate business plan will be deducted from the grace period.

E. Offset Fulfillment

Once the offset obligor effectively invests in the approved offset project and after the project's first year, financial statements are submitted to NOC, and after all set requirements for the issue of an "Offset fulfillment certificate" are met, such certificate will be is issued by NOC. Following that, the bank guarantee will then be released.

Offset Multipliers

The Offset Project Multiplier system is devised to encourage Offset obligors, (or their representatives) to initiate and establish projects that, when implemented, will be especially helpful in achieving the objectives of the Offset program. Higher priority and higher multiplier values are therefore granted to projects which focus on the areas of technology transfer, job creation and the training of Kuwaitis. The allocation of Offset Project Multipliers also varies according to the Offset Project type - that is, whether the project is classified as a Direct or Indirect Offset Project, or is fulfilled through an Offset Approved Fund. The maximum multiplier would be granted to projects achieving all of the Offset program's objectives, while lower multipliers shall be granted for projects deemed less helpful to the program's developmental objectives. Table 2 displays the multiplier structure.

Table 2: Offset Project Multipliers

Offset Project Category	Offset Program Objectives			Minimum Multiplier	Maximum Multiplier
	Technology Transfer	Job Creation	Education and Training		
Direct Offset	2.0	1.75	1.75	1.75	5.50
Indirect Offset	1.50 to 1.80	1.0 to 1.60	1.0 to 1.60	1.00	5.00
Offset Funds				3.50	5.50

Source: National Offset Company (www. kuwaitnoc.com).

The multipliers for Indirect Offset projects vary according to the sectors under which the projects are categorized. Projects in some economic sectors, namely health, education, environment, social programs, manufacturing and services receive relatively high multiplier values. However, NOC may decide to raise the multiplier above the levels shown in the table, or to reduce them. Such a decision is taken after carefully considering the extent to which the proposed project is expected to contribute towards achieving the objectives of the Offset program. The final multiplier applied to a project can range between 1 and 5.5.

In calculating the Offset credits for the project, the Offset management will take into account the final multiplier value that is specified by NOC and the capital participation of the Offset obligor. Both tangible and intangible capital contribution (such as patents, expertise, etc.) will be taken into consideration. The value of Offset credits obtained by the obligor will be equivalent to the value of its capital participation in the project multiplied by the assigned multiplier. A contractor must accumulate a number of credits equivalent to the Offset obligation in order to fulfill that obligation.

Since its inception in 1992, the Offset Program has covered 112 government contracts of which 60% have been defense contracts and 40% have been non-defense contracts. In 2008 alone, 37 government procurement contracts were signed with foreign contractors. These contracts were internally reviewed and analyzed by the NOC. Of these contracts, 15 were subject to the requirements of the Offset Program. Eight offset projects were implemented in coordination with the local private sector, of which three were indirect offset projects, one was a direct offset project, and four investments were made in offset funds. The NOC during this period evaluated 34 concept papers of investment proposals and three proposals for offset funds. Initial approval was granted to 17 of the proposed investment opportunities. These are now on the list of NOC approved projects.

6. Banking & Financial Environment

The Kuwaiti banking system is supervised by the Central Bank of Kuwait (CBK), which was established in 1969. Its supervisory authority covers six commercial banks operating in Kuwait, one specialized bank, three Islamic banks, six branches of foreign banks, as well as a number of investment and exchange companies.

In addition to its supervisory responsibilities and its role as the monetary authority, the CBK's functions include acting as lender of last resort to the banking sector and banker to the government. The latter includes issuing treasury bills and bonds on behalf of the government. The CBK also issues currency and directs relations with international financial institutions. The central bank is governed by law 32/1968, concerning the currency and the banking sector. Though the CBK is independent of the government, the Minister of Finance retains the authority to veto decisions of the CBK board of directors.

Kuwait has strict anti-money laundering and terrorist financing laws and regulations. Local banks must report cash transactions in excess of KD 3,000 and suspicious or unusually large transactions, as well as maintain strict procedures regarding the opening of accounts for customers. Kuwaiti banks are not allowed to open anonymous or numbered accounts and are required to adhere to strict CBK guidelines.

Originally, bank ownership was restricted to Kuwaiti nationals. In 1988, citizens of the Gulf Cooperation Council (GCC) were permitted to own bank shares. In 1994, nationals from outside the GCC were allowed to own bank shares up to a maximum limit of 40%, which was later raised to 49%. This limit remains in place today. In addition, a foreign shareholder must obtain CBK approval before acquiring a share of 5% or more of a single bank.

Until recently, foreign banks were barred from establishing branches in Kuwait, with the exception of the Manama-based Bank of Bahrain and Kuwait, which has a substantial Kuwaiti investor base. In 2004, law 28/2004 changed this, allowing foreign banks to establish a presence in Kuwait. The law permits the opening of one branch with minimum capital of KD 15 million. Foreign bank branches are allowed to conduct all types of banking business, including accepting deposits, lending and offering other banking services as approved by the central bank. Four foreign banks have since opened branches in Kuwait, including HSBC Bank Middle East, BNP Paribas, National Bank of Abu Dhabi, and Citibank. The CBK has also issued a license to Qatar National Bank (QNB).

Industrial Bank of Kuwait (IBK), a locally incorporated "specialized" bank, has a restricted banking license with a mandate to provide medium term lending to the industrial and agricultural sectors. The bank, with both public and private shareholders, benefits from extensive direct or indirect government support.

Kuwait is also home to Gulf Investment Corporation (GIC), a financial institution set up by the six GCC states, specializing in investment banking and asset management and servicing clients throughout the region.

Until recently, Islamic banking was dominated by Kuwait Finance House (KFH) and was regulated jointly by the CBK and the Ministry of Commerce, though without specific guidelines pertaining to Islamic Banking Practices. To bridge this gap, law 30/2003 on regulating Islamic banks was issued, placing the sector fully under CBK supervision. Subsequently, the central bank has issued three Islamic banking licenses under the new law. One of them went to KFH, while another to the newly established Boubyan Bank which started operations in 2004. The third license went to Kuwait Real Estate Bank (KREB), which was at the time a specialized conventional bank providing financial services to the real estate sector. KREB completed its conversion to Islamic banking in July 1, 2007 and changed its name to International Bank of Kuwait.

As of May 2009, there were 101 investment and finance companies in Kuwait, of which a few operate internationally and are involved in such activities as loan syndication, bond issues and property development. Of these, 51 operate according to Islamic principles of finance or sharia. Generally, investment companies are mainly active in long term investments, project management, financial portfolio management, equity participations, and the provision of financial and economic advisory services. Many Islamic finance companies are involved in lending to retail customers and financing consumer purchases, including real estate. There are also about 39 money exchange companies registered with the CBK.

Bank Services

Foreign companies doing business in Kuwait can easily obtain banking services from locally established banks. Documents required to open a company account at a Kuwaiti bank typically include:

- The memorandum and articles of association.
- Registration certificate in the company's country of incorporation.
- A board resolution stating the persons authorized to open and operate the bank accounts on behalf of the company and, if applicable, obtain credit facilities.
- An account opening form and specimen signature cards duly signed by authorized officials of the company.
- All of the above documents should be notarized by a notary public or chamber of commerce in the concerned country and attested by the embassy of Kuwait in that country.

Products and services available through Kuwaiti banks include:

- Various types of guarantees, i.e. bid bonds, performance bonds, advance payment guarantees, retention bonds, etc.
- Sight and issuance letters of credit in any major currency.
- Cash facilities (overdraft, loans) in Kuwaiti dinars or in any major currency.
- Foreign exchange hedging lines.
- Day-to-day banking transactions for the company and its employees.

Companies typically have access to credit from Kuwait-based banks. Local institutions will provide facilities directly to a foreign company based on its financial soundness or supported by a counter-guarantee from a reputable bank in the foreign company's country of origin. Facilities are available in Kuwaiti dinars or any other major currency.

Subject to the nature of the consignment, trade financing by Kuwaiti banks can be offered on a variety of terms, including direct payment, documentary collection, cash in advance and letters of credit. The Kuwaiti banking system is professional and fully capable of handling short and medium-term financing for all types of transactions in all major currencies.

7. How National Bank of Kuwait Can Serve You

For sound financial solutions, NBK is the most suited bank in Kuwait to serve your company's needs due to:

- ***Proven track record*** - NBK has a legacy of successfully serving its corporate clients with the highest level of professionalism as demonstrated by its market dominance.
- ***Comprehensive services*** - NBK offers you comprehensive intellectual and financial services for your evolving needs through its wide service spectrum and industry expertise.
- ***Team work*** - NBK works as your partner, acting as your financial advisor, supporting your expansion strategies, and ensuring the highest level of satisfaction and a lasting relationship.
- ***Customized solutions*** - NBK relationship-based approach guarantees you timely customized and tailor-made solutions to meet your specific needs.
- ***Knowledge of the local market*** - NBK has in-depth knowledge of the Kuwaiti market, a result of 57 years of experience.
- ***Strong public sector relationships*** - NBK maintains strong ties with all government ministries and oil sector institutions in Kuwait.
- ***Long-standing experience in trade finance services*** - NBK wide expertise in international trade will help you enhance your global competitiveness, maximize your trading partner relationship, and reduce risks.
- ***Global international reach*** - NBK is well-positioned to serve your international needs through its strategic international presence in major financial markets. Its wide overseas presence encompasses in total 16 countries spread over 4 continents: New York, London, Paris, Geneva, Lebanon, Bahrain, Jordan, Saudi Arabia, Iraq, Singapore, Vietnam, Shanghai, Qatar, Egypt, Turkey, and UAE.
- ***Leadership in project and structured finance*** - NBK is the only local bank with the necessary proven expertise to structure, manage, syndicate and advise on complex transactions due to its knowledge of the market, strong relationships, leadership and global reach.
- ***Corporate treasury services*** - The NBK Treasury team boasts a unique set of skills with experience in traditional asset classes as well as alternative and innovative financial instruments in domestic, regional and international markets.
- ***State-of-the-art online banking services*** - NBK's Watani Online Corporate (WOLC) provides you with an advanced internet based banking tool allowing you to conveniently and safely enquire and complete your transactions online.

We welcome the opportunity to discuss your banking requirements and look forward to provide you with the proper financial and advisory solutions.

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Highest Rated Bank in the Middle East
Leader in Introducing Innovative Solutions & Technologies
Pioneer in Value-Added Corporate & Project Finance
Dominant in Retail Banking

National Bank of Kuwait (NBK) was founded by leading local businessmen in 1952 as the first indigenous bank and the first joint stock company in Kuwait and the Gulf. Today, it is the largest Kuwaiti bank and among the top banks in the region. It is also one of the most profitable companies in the Arab world. NBK's net profits in 2008 reached USD 925 million. Return on equity (ROE), of 17% and Return on Assets (ROA) of 2.2% mark very strong performance by regional and international standards. NBK's market capitalization reached USD 13.0 billion as of end of September 2009.

Financial Strength

NBK has consistently received the highest all-round credit ratings of any bank in the Middle East from the major rating agencies Moody's, Standard & Poor's, and FitchRatings.

Rating agencies recognize NBK's strengths in its solid financial position, prudent culture of balancing risks and rewards, and its well-diversified and high-quality asset base and income sources. They also acknowledge NBK's well-recognized and strong franchise, dominant market share, active pursuit of expansion opportunities, technological sophistication, and stable and capable management team.

NBK's strong financial position and its ability to continue delivering outstanding performance through the current financial crisis has earned the bank a position in Global finance's list of the world's safest 50 banks for two consecutive years. Moreover, NBK has moved six ranks on the list settling in the 38th position from 44th previously demonstrating not only the robust positioning among international banks but also the progression of NBK's position among the most reputable financial institutions in the world.

Dominant & Growing

NBK is the largest bank in Kuwait and one of the country's largest private institutions. It enjoys a dominant market share in virtually every business segment, and has between 30% and 40% of local commercial bank loans and deposits.

The Bank's share of foreign corporates doing business in Kuwait has consistently been more than 70% over the last ten years. NBK also has a large share of assets under management, supported by NBK Capital, the investment arm of NBK, offering asset management solutions to NBK's high net worth clients. NBK's dominance reflects its corporate image as Kuwait's most trusted bank. In 2009, Euromoney has named NBK "Best Private Bank in Kuwait" endorsing the Bank's distinctive wealth management offerings.

NBK also stands out among Arab banks in terms of size, performance and services offered. NBK is among the top Arab banks in terms of profitability, assets and equity. It is among the most profitable both in absolute and relative terms. It offers the widest selection of products and services that meet the needs of various customer segments.

In a League of its Own

NBK pursues a differentiation strategy that is most visible in its strategic initiatives, comprehensive product offering, state-of-the-art delivery, service quality, and its regional and international presence.

NBK has consistently been a leader among Arab banks in introducing innovative banking solutions. It was the first GCC bank to offer online retail and corporate banking, telebanking, online share trading, an online shopping card and online shopping mall, and insurance wrapped deposits.

NBK's international network spans 17 countries including Kuwait, 10 of which are in the Middle East. The network includes branches, subsidiaries and representative offices in London, New York, Paris, Bahrain, Lebanon, Jordan, Saudi Arabia, Singapore, Vietnam, and China (Shanghai). As part of a regional expansion strategy, NBK acquired a 30% stake in International Bank of Qatar (IBQ) with management control, 75% at Credit Bank of Iraq, and nearly full ownership of Al Watany Bank of Egypt. The last acquisition in Egypt was completed in October 2007. NBK has also received a license to open a branch in the UAE and accordingly started, in 2008, operating out of Dubai.

NBK, as part of its long term commitment to fully service the Kuwaiti market, has recently acquired 40% of Boubyan bank. Boubyan bank is one of the three sharia compliant banks in Kuwait offering a wide range of Islamic products in the Kuwaiti market. NBK's acquisition of a stake in Boubyan bank represents an important strategic move into establishing a strong franchise in the Islamic banking segment.

Strong Franchise & Brand Recognition

NBK has a well-established franchise and the highest brand recognition in Kuwait according to independent research. The Bank's customer-centric strategy emphasizes quality, convenience, rich product array, and utilization of innovative technology. We strive to remain open and agile in anticipating and meeting the evolving needs of customers.

NBK is virtually a "one-stop shop" focused on meeting customers' needs and wants. Its personalized services are offered through a spectrum of delivery channels that are fully integrated with the latest CRM tools. These include the largest local branch, ATM and POS network, the region's first and most advanced online service, the region's largest call centre, a rapidly growing direct sales team, an online trading portal, and mobile banking facilities.

Banking on technology

NBK offers a wide range of services and delivers them across multiple channels with the convenience of 24/7 banking. NBK is a pioneer in the development and integration of remote channels, including internet and mobile technology, the Call Centre and Cash Deposit Machines. Reflecting the convenience of NBK's delivery channels, the 95% of all transactions are completed outside the branches with a level of flexibility that is unmatched in Kuwait.

The cornerstone of NBK's success is service quality that continues to position NBK ahead of its competitors. Focused service quality measurement and training programs, coupled with the recent adoption of a balanced scorecard to track key performance indicators, allow NBK to maintain its lead in service standards. These are endorsed by internal and external audits.

Trusted Local Partner

The undisputed leader in Kuwait, NBK offers a full range of banking facilities to its corporate customers, including many of the country's blue chip companies. Debt and project financing are core services and the Bank's strong capital base provides an unrivalled underwriting ability.

NBK's advanced relationship model is continuously enhanced to be most responsive to the changing and sophisticated needs of corporate customers and to ensure the highest level of satisfaction. An advanced internet-based banking package gives access to a wide array of secure online transactions. These include 24-hour transfers and salary processing, an e-payment gateway that supports efficient corporate cash management, a trade finance advisory service, efficient execution of LCs (normally issued and transmitted within 30 minutes) and various other cash management services such as treasury, money market, foreign exchange, hedging and managing currency exposure. These services are all coordinated with the Bank's international network.

NBK's portfolio of corporate deals includes financing and advising major business groups on their foreign business activities and investments across the GCC region, as well as in Egypt, Lebanon, Jordan, Syria, Africa, the US, Europe and China.

Valued Advice & Placement Power

Due to the long-standing presence and in-depth knowledge of the market, strong relationships with public and private sector, global international reach, and synergies with NBK Capital, NBK offers unrivalled investment banking services covering project and structured finance, mergers and acquisitions, private placements, initial public offerings, rights issues and other financial advisory services.

Among the first pioneering deals in Kuwait and the region, NBK's lead role in designing, arranging and underwriting a USD 1.2 billion financing for EQUATE Petrochemical Company, a joint venture between Union Carbide (now part of Dow Chemicals) and Petroleum Industries Company (PIC) of Kuwait. NBK subsequently assumed the lead role in two refinancing deals for EQUATE, arranging a USD 600 million bridge facility, and most recently arranging a USD 2.5 billion financing for a second complex.

NBK's unique and proven expertise in structuring complex transactions won it the reputation as the only local bank capable of structuring, managing, syndicating and advising on complex transactions. One of the most recent achievements was NBK's arrangement of a USD 1.2 billion financing package endorsing the sale of Orascom subsidiary in Iraq to Zain, for which NBK won the Banker's Middle East deal of the year in 2009.

Other recent mandates include NBK arranging a USD 2.5 billion Murabaha Islamic facility and a USD 4.9 billion guarantee facility for Zain-KSA in 2007 and acting as a senior lead arranger for the same client for a syndicated facility of USD 2.5 billion subsequently in 2009. NBK was also the lead arranger for a syndicated facility of USD 320 million for KUFPEC in 2008. It also played a catalytic role in arranging a syndicated facility for Subiya USD 2.65 billion power plant in 2009, by providing the required project related guarantees to the consortium of winning bidders - GE from USA & Hyundai Heavy Industries from Korea.

NBK's support of its client expansions and acquisition programs is demonstrated by its lead role in arranging a USD 2.4 billion bridge facility for MTC in 2005 to fund its acquisition of Celtel, a leading operator in sub-Saharan Africa. NBK was also the sole financial adviser to MTC in a number of cross-border deals. These included the acquisition of Fastlink in Jordan for USD 424 million, and two successful bids for mobile licenses in Bahrain and Iraq.

NBK's successful legacy of managing IPO's, rights issues, public offerings, and private placements won it the exclusive management of Zain's Capital Increase, the largest in the history of Kuwait Stock Exchange, for a total value of USD 4.5 billion in September 2008. Earlier landmarks were NBK's lead-manager role of Kuwait's largest ever IPO, raising USD 325 million for Al-Qurain Petrochemicals Company and the pan-Arab equity offering for Bahrain-based Arab Insurance Group (ARIG). NBK simultaneously listed ARIG's shares on four regional stock exchanges and arranged a GDR listing in London.

Customized Wealth Management

NBK's broad offering of wealth management services cater to the needs of high net-worth, institutional, and affluent customers throughout the Bank's international network and NBK Capital, the investment arm of NBK. NBK Capital's asset management capabilities and wealth management solutions cover all asset classes in both the conventional and Islamic space. NBK also offers an open architecture platform, FUNDSELECT, that provides access to top-performing investment managers and state-of-the-art investment expertise. NBK is the only institution in the Middle East offering this service.

Robust Investment Banking Capabilities

Through its wholly owned subsidiary, NBK Capital, NBK offers a full suite of investment banking products and services including Asset Management, Alternative Investments, Brokerage & Research and Investment Banking. Products include regional public equity funds, private equity funds and mezzanine funds focusing on investment opportunities in MENA. Additionally, the offerings include a brokerage platform with full execution capabilities on key regional and international markets supported by the highest quality independent research for NBK's private and institutional clients.

A strong track record and focus on quality service have contributed to growing assets under management to more than USD 10 billion.

Select Tombtones

Selected NBK Credentials

Aug 09
Zain KSA
US$ 2,500 Million
The Undersigned acted as senior mandated lead arranger and book runner

Sep 09
KD 1,200 Million Rights Issue
The Undersigned acted as sole manager and collection agent

Jun 08
Syndicated loan for US$1,200 Million
The Undersigned acted as sole arranger, Book runner, & Lead manager

May 08
Senior Syndicated Term Loan Facility US$320 Million
The Undersigned acted as Mandated Lead Arranger in the above transaction

Jul 07
Zain KSA
US$ 4.9Bln Guarantee faclility & US$2.5Bln Murabaha Islamic facility
The Undersigned acted as senior mandated lead arranger and book runner

Apr 07
KD 75 Million Rights Issue
The Undersigned acted as sole sales agent

Feb 07
US$104,781,600 Rights Issue
The Undersigned acted as financial advisor

Feb 07
US$62 Million Syndicated Loan for Aircraft Financing
The Undersigned acted as arranger, underwritter and senior lender

Nov 06
KD 40 Million Initial Public Offering
The Undersigned acted as financial advisor lead manager and underwritter

Apr 07
US$2,400 million Term Facility for the Acquisition of Celtel International B.V
The Undersigned acted as arranger, bookrunner, underwritter and sole facility agent

Dec 07
Al-Qurain Petrochemical Industries Co.
KD 99,000,000 Initial Public Offering
The Undersigned acted as lead manager in relation to the above transaction

ov 04
US$600,000,000 Conventional & Islamic Facilities
The Undersigned acted as lead arranger, agent and Intercreditor agent in the above transaction

Jan 04
Commerical Bank of Kuwait
KD 60,000,000 Bond Issue
The Undersigned acted as Co-leader underwritter and manager in the above transaction

Apr 03
The second Mobile License in the Kingdom of Bahrain
The Undersigned acted as sole financial Advisor to MTC

Jan 03
US$ 423, 900, 000 Acquisition of Fastlink by MTC
The Undersigned acted as sole financial Advisor to MTC

24 Jun 02
KD 114, 250,000 25 year non recourse BOT Project Financing
The Undersigned acted as arranger, underwritter, Facility Agent, Security Agent and Account Bank in the above transaction

Nov 04
US$900 Loan Refinancing
The Undersigned acted as lead arranger, underwriter, agent and intercreditor agnet in the above transaction

Jan 01
KD 30 million 5 years 6.75% Bond Issue
The Undersigned acted as lead manager and underwriter in the above transaction

Sep 2000
Trade sale US$ 183,000,000
The Undersigned acted as Financial advisor to KPC on the sales of Gulf Industrial Investment Co. E.C

Mar 98
US$ 440 million 12 years, LIBOR based Loan Syndication (Lease Structure)
The Undersigned acted as lead manager and underwriter in hte above transaction

Dec 97
US$ 290, 880,000 Initial Public Offering
The Undersigned acted as financial advisor, global coordinator and lead manager in the above transaction

Nov 96
KD 44 million Merger
The Undersigned acted as exclusive financial advisor in the above transaction

lov 96
KD 47.654 million Secondary Public Offering
The Undersigned acted as lead underwriter and manager in the above transaction

Sep 96
US$ 1.2 billion 10 years, LIBOR + 1.625% Loan Syndication
The Undersigned acted as lead arranger, underwriter, agent, and intercreditor agent in the above transaction

Mar 98
US$ 283 million 12 years, LIBOR+ 0.46% and Loan Syndication (Lease structure)
The Undersigned acted as lead manager and underwriter in the above transaction

Select Transactions

Debt Capital Markets

August 2007
USD 1,500,000,000 Sukuk al Mudaraba (Tranche 1: USD 475,000,000)
Joint Lead Manager and Book Runner to National Industries Group Petrochemical

July 2007
USD 1,000,000,000 Sukuk al Ijara
Senior Co-Lead Manager to Dar Al Arkan

July 2007
USD 60,000,000 Sukuk al Ijara
Mandated Lead Manager to Injazzat Real Estate Company

July 2007
USD 100,000,000 Sukuk Musharaka
Joint Lead Manager to United Real Estate Company S.A.K.

July 2007
USD 100,000,000 Bond Issue
Joint Lead Manager and Bookrunner to Markaz

July 2007
USD 60,000,000 Sukuk Al Ijara
Lead Manager to Tijara and Real Estate Investment Company

Equity Capital Markets

July 2009
USD 20,000,000 Equity Offering
Financial Advisor to RYMCO

March 2008
c.USD 18 billion global IPO
Underwriter and Co-Manager for Visa Inc

January 2008
Jazeera Airways stock listing on the Kuwait Stock Exchange
Financial Advisor and Lead Manager to Jazeera Airways

May 2006 & April 2008
KD 44,000,000 Private Placement & Listing on KSE
Financial Advisor and Lead Manager to Ikarus Petroleum Industries

May 2006
KD 14,400,000 Private Placement
Financial Advisor and Lead Manager to Kout Food Group

June 2005
KD 15,000,000 Private Placement
Financial Advisor and Lead Manager to Future Communications Company

M&A

July 2009
c. USD 900,000,000 Acquisition of 40% stake in Boubyan Bank
Financial Advisor to National Bank of Kuwait

July 2008
Undisclosed Amount Sell-side advisor in exiting KIB's 2.69% stake in IBK
Financial Advisor to Kuwait International Bank

December 2006
Undisclosed Amount Acquisition of a stake in Swiss-based Farnair Holding SA
Financial Advisor to Falcon Aviation Group Limited

June 2008
Undisclosed Amount 40% Acquisition of Hanco by NBK Capital Equity Partners Fund
Financial Advisor to NBK Capital Equity Partners Fund

August 2007
USD 1,013,000,000 Acquisition of Al-Watany Bank of Egypt
Financial Advisor to National Bank of Kuwait

July 2007
USD 1,080,000,000 60% Acquisition of Turkiye Finans
Co-financial Advisor to National Commercial Bank (NCB)

July 2007
USD 160,000,000 40% Acquisition of Turkish Bank
Financial Advisor to National Bank of Kuwait

May 2007
100% Acquisition of Yudum Gida by NBK Capital Equity Partners Fund
Financial Advisor to NBK Capital Equity Partners Fundz

November 2007
100% sale of Yudum Gida by NBK Capital Equity Partners Fund
Financial Advisor to NBK Capital Equity Partners Fund

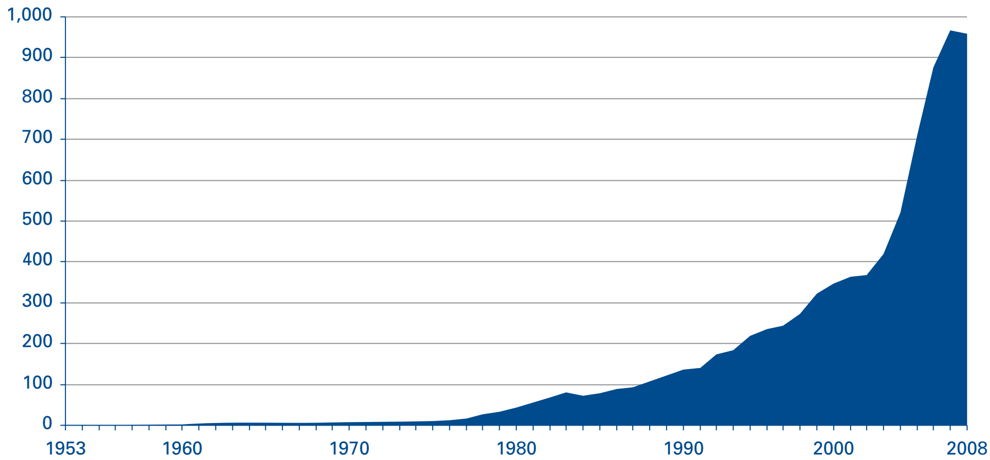
July 2007
USD 1,080,000,000 60% Acquisition of Turkie Finans
Co-Financial Advisor to the National Commercial Bank

NBK Facts and Figures

Million USD unless otherwise noted	2005	2006	2007	2008
Net profit	**745.1**	**917.6**	**991.4**	**925.3**
Net interest income	796.2	948.0	1,027.6	1,329.1
Non-interest income	332.3	483.8	510.2	513.5
Operating expenses	264.5	358.4	409.9	575.8
Total assets	**22,468**	**28,621**	**41,817**	**43,390**
Assets under management	6,798	8,154	9,897	10,270
Shareholders' equity	2,381	3,316	54,414	5,219
Market capitalization	12,970	15,271	18,344	11,154
Return on opening equity (%)	**36.6**	**38.6**	**29.9**	**17.0**

Per share data in USD	2005	2006	2007	2008
Year-end share price	8.04	7.9	7.47	4.28
Basic earnings per share	31	38	41	35
Proposed dividends	25	27	27	16

Net Profits 1953 - 2008, *Million USD*



Excellent Fundamentals

NBK has obtained the highest ratings among Arab banks from all leading international rating agencies. Among the strengths that rating agencies recognize are NBK's dominant business franchise in Kuwait, strong and stable management, clear strategy, advanced technology, strong capital base, high asset quality, stringent risk management policies, as well as a consistent, diverse and strong earning power.

International Recognition

NBK has consistently received the award for Best Bank in Kuwait and the Middle East from renowned publications such as Euromoney, The Banker, Global Finance and Emerging Markets. In 2009, Global Finance also ranked NBK 38th on its list of the 50 safest banks in the world and for the second consecutive year as NBK ranked 44th on the list in 2008. NBK also received EuroMoney's "Best Bank in the Middle East" awards in 2007 and 2008 as well as "Best Investment Bank in Kuwait" award in 2009. The Banker recognized NBK for "Best Deal of the Year" in 2009. and "Best Bank in the Middle East" in 2007 and 2008. Additionally, in 2009, NBK Capital was named "Best Investment Bank in Kuwait" by both EuroMoney and Global Finance.

Long Term Foreign Currency Ratings

Moody's	Standard and Poor's	FitchRatings
Aa2	A+	AA-

Kuwait - Key Economic and Financial Indicators

Million KD unless otherwise noted	2004	2005	2006	2007	2008
Population ('000)	**2,754**	**2,991**	**3,183**	**3,399**	**3,441**
year-on-year growth	*8.1%*	*8.6%*	*6.4%*	*6.8%*	*1.2%*
Kuwaiti	956	992	958	1,055	1,087
Non-Kuwaiti	1,797	1,999	2,160	2,345	2,354
Oil price (Kuwait Crude$/barrel)	**32.68**	**49.72**	**58.24**	**66.24**	**91.33**
Crude Oil Production (mbd)	2.37	2.46	2.50	2.45	2.56
GDP	r **17,517**	r **23,593**	r **29,469**	r **32,586**	**39,787**
annual growth rate	*22.8%*	*34.7%*	*24.9%*	*10.6%*	*22.1%*
Crude Oil & Natural Gas	r 7,822	r 12,233	r 16,478	r 17,348	**23,608**
Petroleum Refining	r 796	r 970	r 829	r 907	**1,345**
GNP	r **19,046**	r **25,690**	r **32,652**	r **36,109**	r **42,507**
annual growth rate	*24.7%*	*34.9%*	*27.1%*	*10.6%*	*17.7%*
Per Capita GNP (KD)	r 6,917	r 8,589	r 10,258	r 10,620	r **12,350**
CPI (2000=100)	**104.5**	**108.8**	**112.1**	**118.3**	**130.8**
year-on-year inflation	*1.3%*	*4.1%*	*3.0%*	*5.5%*	*10.6%*
Exchange Rate (KD per $)	**0.295**	**0.292**	**0.290**	**0.283**	**0.268**
Money Supply (M2)	**11,655**	**13,086**	**15,921**	**18,959**	**21,950**
Quasi-Money	8,481	9,259	12,370	14,813	17,580
Net Foreign Assets	3,534	3,904	5,546	5,737	7,607
CBK Foreign Assets	2,196	2,478	3,551	4,475	4,613
Local Bank Assets	**19,144**	**21,612**	**26,990**	**35,555**	**39,242**
Claims on Private Sector	10,886	12,937	16,148	21,822	25,456
Private Deposits	11,124	12,508	15,264	18,138	21,242
KSE Stock Market Index	**6410**	**11445**	**9957**	**12559**	**7783**
year-on-year growth	*34%*	*79%*	*-13%*	*26%*	*-38%*
Balance of Payments	r **197**	r **165**	r **1,039**	r **917**	r **172**
Current Account	r 4,596	r 8,806	r 13,181	r 13,309	r 17,404
Trade Balance	r 4,825	r 8,614	r 11,380	r 11,709	r 16,685
Exports (fob)	r 8,547	r 13,228	r 16,381	r 17,771	r 23,373
Oil Exports	r 7,861	r 12,393	r 15,429	r 16,780	r 22,200
Imports (cif)	r -3,722	r -4,614	r -5,001	r 6,062	r -6,688
Capital & Financial Account	r -4,838	r -9,359	r -14,167	r -10,457	r -15,346
Other (net)	r 438	r 719	r 2,024	r -1,936	r -1,887
	a 04/05	a 05/06	a 06/07	a 07/08	a 08/09 a
Budget Revenues	**8,962**	**13,728**	**15,509**	**19,023**	**21,006**
Oil Revenues	8,170	12,955	14,511	17,719	19,711
Expenditures	**6,315**	**6,862**	**10,306**	**9,698**	**18,262**
Surplus (Deficit)	2,647	6,866	5,203	9,325	2,744

Notes: a: actual, p: provisional, r: revised.

Sources: Ministry of Planning (www.mop.gov.kw), Ministry of Finance (www.mof.gov.kw), Central Bank of Kuwait (www.cbk.gov.kw).

Useful Contacts

Central Tenders Committee	2240-1200	
Central Bank of Kuwait	2244-9200	www.cbk.gov.kw
Offset Program Department	2245-0503	www.kuwaitoffset.com
Kuwait Chamber of Commerce and Industry	2243-3854	www.kcci.org.kw
Kuwait Foundation for the Adv. of Sciences	2242-5898	www.kfas.org
Kuwait Institute for Scientific Research	2483-0125	www.kisr.edu.kw
Kuwait Investment Authority	2243-9595	www.kia.gov.kw
Kuwait Municipality	2244-9001	www.municipality.gov.kw
Kuwait Ports Authority	2481-2622	
Ministry of Communications	2481-9033	www.moc.kw
Ministry of Commerce and Industry	2248-0000	www.moci.gov.kw
Ministry of Electricity and Water	2537-1000	www.mew.gov.kw
Ministry of Finance	2248-0000	www.mof.gov.kw
Ministry of Oil	2241-5201	www.moo.gov.kw
Ministry of Planning	2242-8200	www.mop.gov.kw
Ministry of Public Works	2538-5520	
Ministry of Social Affairs and Labor	2248-0000	
Kuwait Stock Exchange	2242-3135	www.q8stocks.com.kw
Kuwait Petroleum Corporation	2245-5455	www.kpc.com.kw
Kuwait Oil Company	2398-9111	www.koc.com.kw
Kuwait National Petroleum Company	2242-0121	www.knpc.com.kw
Petrochemical Industries Company	2321-1000	www.pic.com.kw
Public Authority for Civil Information	2539-5377	www.paci.gov.kw
Public Institution for Social Security	2241-0170	www.pifss.gov.kw
Public Authority for Housing Care	2530-1000	www.housing.gov.kw
Kuwait Audit Bureau	2242-1036	www.sabq8.org
American Business Council of Kuwait	2240-8890	www.abcgc.org
British Business Forum	6684-1114	www.bbf.org.kw

Embassies:

Bahrain	2531-8530	Lebanon	2256-2103
Canada	2256-3025	Netherlands	2531-2650
China	2533-3340	Oman	2256-1956
Cyprus	2243-3075	Qatar	2251-3606
Egypt	2251-9956	Saudi Arabia	2240-0250
France	2257-1061	Spain	2532-5829
Germany	2252-0827	Switzerland	2534-0172
Hungary	2532-3901	Syria	2539-6560
India	2253-0600	Turkey	2253-1785
Italy	2481-7400	United Arab Emirates	2252-8544
Japan	2531-2870	United Kingdom	2240-3336
Korea	2533-9601	United States of America	2539-5307

Select Hotels:

Continental	2252-7300	www.kcontl.net
Courtyard Marriott	2299-7000	www.marriotthotels.com
Crown Plaza	2474-2000	www.kuwait.crowneplaza.com
Hilton	2372-5500	www.hilton.com/worldwideresorts
JW Marriott	2245-5550	www.marriotthotels.com
Marina Hotel	2223-0030	www.marinahotel.com
Movenpick	2461-0033	www.moevenpick-kuwait.com
Radisson SAS	2575-6000	www.radissonsas.com
Safir International	2253-3000	www.safirhotels.com
Sheraton	1835555	www.luxurycollection.com/kuwait
Swiss Inn Plaza	2243-6686	www.swissinnkuwait.com

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