WEEKLY ANALYSIS
Issue 194

February 22, 2007

ISSN: 1097-884
P.O. Box 1001
Concord, MA
01742
United States
1-508-981-6937
North-Africa.com

THE NORTH AFRICA JOURNAL

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::: RISK ANALYSIS FROM THE EDITOR

Should North Africa Brace for More Terror Attacks?

By Arezki Daoud
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From the Salafist Group of Preaching and Combat in Algeria, the Salafiya Jihadia in Morocco, the Islamic Combatant Group in Libya, to the Islamic Jihadist Group in Tunisia, one can see the beginning of the formation of a pan-Maghreb militancy organization network with possible devastating impact on local populations and governments. At the top of this network of bad characters and troublemakers is the Al-Qaeda's spiritual guidance which leads these organizations into a struggle to destabilize the region and move beyond.

A number of international and domestic press reported that an Al-Qaeda Maghreb unit was responsible for the seven bombs that exploded in and around Algiers last week. While the link to Al-Qaeda may not be of significance to the Algerian population that has endured such a long struggle with brutal militant groups like the GIA and the GSPC, it is a significant event in that it will likely influence how the local Al-Qaeda "subsidiaries" will adopt new tactics and strategies learned from the Al-Qaeda experience. It is also significant in that an Al-Qaeda link would be what is needed to create ties among the decentralized organizations operating in the region and which have been so far uncoordinated and without formal links.

Beside their common ideological trait, the physical link that is said to exist between the GSPC and Al-Qaeda is not fully documented apart from revelations coming from Ayman Al-Zawahiri in a video-released speech. Observers in Algiers believe the GSPC has become a fully-controlled agent of Al-Qaeda. While no one expected the GSPC to completely disappear with its usual roadblocks and targeted attackes in remote areas, the use of car and truck bombs was the most recent surprising turn of events, further highlighting its capabilities to harm and also acknowledging the use of new tactics inherited from Al-Qaeda's playbook.

With these latest developments, there is fear in Algiers that there is more to come. The ease in the way the terrorists planned and executed their plots, even in some of the most secured police zones took many by surprise. These events also show that Algeria's security posture has somewhat eased and it now needs fresh momentum.

For the terrorist organization, these latest bombings are a message sent to the authorities that the Charter for Peace and Reconciliation proposed by president Bouteflika and endorsed by a popular referendum may not have been so efficient after all, even though we think it was. The charter was aimed at establishing peace through a forgiveness process. Such process would be an incentive for many insurgents to give up their illegal activities, hence weakening the terror organizations and make them less and less relevant. In November 2006, Interior Minister Yazid Zerhouni stated that the number of insurgents fell by between 750 and 800 since September 2005, a degradation that occurred through surrenders, killings and arrests. Seeking to be reassuring after a series of GSPC-organized bombings in the suburbs of Algiers that year, Zerhouni stated that such figure represented a massive loss to insurgent organizations. For him, the 2006 attacks should not come as a surprise. They were the result of aggressive hard-core terrorists who will never give up their activities no matter what and will have to be handled in a manner that the outcome would be their destruction. But Zerhouni also speculated that the attacks and the methods used were signs of real weakness.

While there has been considerable erosion in the ranks of terrorist groups, their leaders are fully aware that acts such as car bombings and re-branding using the name Al-Qaeda could be two major factors that are guaranteed to attract the world's media attention. And so they did. That alone could help regain some momentum and win new sympathizers. But also seeking to survive, the GSPC has been more than willing to align itself to Al-Qaeda, pledging allegiance to one of its leaders, Ayman Al-Zawahiri.

Established in 1998, the GSPC was an extremist splinter organization derived from the equally gruesome GIA. The split in the GIA was led by Hassan Hattab, with its primary goal to terrorize the Algerian population and topple the government. But as Algeria launched a multi-faceted anti-terror campaign, combining a political settlement through reconciliation and a sustained armed offensive, the GIA and the GSPC suffered massive losses. Taking over the leadership of the GSPC in 2004, Abdelmalek Droukdal, known as Moussaab Abdel Ouadoud (with two smaller organizations loyal to him) was practically the only one to turn down the offer of reconciliation and refused to give up his activities. With losses in manpower, Droukdal aligned his organization with Al-Qaeda, seeking to expand operations outside of Algeria, where the security services and the military have been relentlessly attacking their positions. A search of operations elsewhere was Droukdal goal. The GSPC is said to be operating with between 700 and 800 men, hidden mainly in the rugged Kabylie mountains in the north-central region of the country and in the south Sahara region, along the borders of Algeria with Mali and Niger, where they operate contraband operations as ways to smuggle weapons. While active in remote areas, these latest attacks in Algiers show that urban warfare is not a thing of the past and is something they have not forgotten.

So the GSPC, despite being wounded and loosing men, is not dead yet and seems to solidify, contradicting remarks made in Tunis by the Algerian minister of local collectivities, that “the end of the GSPC is near and that it represented no threat to Algeria, the Maghreb or France.” But did the minister underestimate the capabilities of the GSPC? In some recent past, observers believed that an allegiance to Al-Qaeda would be more detrimental to its future. Could the opposite be true? What is certain is that in its home territory of Algeria, the GSPC is going on the offensive to demonstrate that it is a force to reckon with, still capable of hitting targets where it wants, when it wants, and in gruesome ways.

The Algerian minister’s remarks in Tunisia came ironically at a time when Tunisia has been facing its own share of troubles. Early this year, a group of 27 men, all Tunisian nationals has been dismantled. Said to be linked and trained by the GSPC, the group included Lassaad Sassi, who has been active in Italy in the 1990s. Sassi is credited for creating a special unit in Tunisia

Recent events in Tunisia could indicate that terror organizations are expanding their operations. This is because Tunisia has long been sheltered from terrorist acts given the dense presence of police everywhere. It is not a surprise that the deadly face off that occurred in December and January between the police and the terrorist group came as a shock to the Tunisians. The complete communications blackout from the government signaled a sense of unease and embarrassment among the authorities, in events that led to the death of more than 30 people, including 12 police officers. It took the government eight days to acknowledge the incident involved a Salafist group.

The latest events began in late December 2006 when a so-called Salafist group was identified in Hammam-Lif, Tunisia. Their presence became suspicious after a baker reported to the police that large amounts of bread were purchased daily, forcing the security forces to set up surveillance operations, then roadblocks and car searches before encircling a mountain near Grombalia, 20 miles from Tunis.

With the heavy exchange of fire that ensued, it became quickly evident that police were not dealing with drug smugglers or other usual criminals but rather with a heavily armed gang of terrorists with political motives. The terrorist group under attack had only five individuals, including a Mauritanian national, apparently well trained in combat operations and armed with RPGs and Kalashnikovs. The group was headed by the notorious Lassaad Sassi, a former para-military police officer from Bir El-Bey, who apparently has experience in places like Afghanistan and Algeria. His aid, Rabia Pacha was also killed during the confrontation.

While calm has returned to the region, there is a sense of frustration and fear as sources in Tunisian believe that the killing of the five men may not be the end of the story. Some in Tunis say the group comprises of as many as 300 militants and already skirmishes have occurred in Ghadames and a large quantity of arms was found in Amilcar, near Tunis.

Of important note is that this new breed of terrorists that are targeting Tunisia has nothing to do with the older militants that have been so repressed in the past, including their leader Rachid Ghanouchi, currently living in London.

Morocco too has long been part of the regional theater of operations with connections between its members and sister organizations elsewhere in North Africa. A half a dozen cells were dismantled in 2006. As recently as mid-February this year, Moroccan police arrested seven individuals in the region of Meknes, accusing them of belonging to an illegal militant organization called Salafiya Jihadia. Four of them have since been released, while the three others were transferred to a special police unit for further investigation. The arresting enforcement agency alleges that the 24 to 26 years-old men were preparing to stage terrorist attacks in several sites, from military sites to universities and hotels. This kind of news is something Moroccans are increasingly used to and many have doubts about the validity about these arrests.

Yet, Morocco too is on Al-Qaeda's radar and its affiliates there have been particularly active in the aftermath of the deadly attacks of May 2003. Events that put the Moroccans face to face with the Fundamentalists include on April 20, 2004 in Berrechid and the May 1st, 2004 events in Sid El Khadir, Casablanca, followed by a series of events in Mohammedia, Sale, Meknes, Fez, Essaouira, Youssoufia, and other areas, that resulted in severe and often questionable security crackdown. In November last year, the state-owned news agency MAP released a short wire announcing "the dismantling of a cell of 17-members affiliated to a radical organization with connections to other similar organizations active in Iraq. These Ira-based units are said to have links to Al-Qaeda." Later, the identities of four of the 17 members were released, with the ring leader being Mohamed R'ha, a Belgian of Moroccan decent, with no experience on the Afghan field. R'ha has spent some time in Syria, a country that is used as a transit and clandestine infiltration point of activists entering Iraq. R'ha's connections in Europe included Islamists activists of North Africa origin. R'ha is accused by the Moroccan intelligence services of conspiring with Khaled Azig to create a new terrorist organization to strike Moroccan targets. Azig was a theology student in Syria, who arrived in Morocco in June, after transiting via Turkey. The Moroccan authorities also accused two former Guantanamo Bay detainees for preparing to join the pair.

The former Guantanamo inmates, Brahim Benchekroun and Mohamed Mazouz have mysteriously disappeared since November 11. Media sources have reported that few members of the Moroccan army were also contributing to the formation of the terror cell. The dismantling of this cell led to the dismantling of similar cells in Spain, Belgium, Holland, Denmark and the United Kingdom.

But this type of information, including how the Moroccan authorities operate, remains so limited that it raises even more questions about the validity of the reality on the ground. Some in Morocco say the government likes to dramatize events for political purposes. They say a great number of "security operations" are announced but lack of corroboration and details make these operations suspicious. Is it possible that the post-September 11 era created opportunities for those in the regimes in the region and around the world to exaggerate the security risk to push for their own political agendas? Recently, hundreds of the thousands of alleged militant Islamists were freed by Royal Grace in Morocco. But if they were so dangerous, why such forgiveness? Among them is Abdellatif Amrine, who was sentenced for a 30-year jail term and later pardoned by the monarchy. Why would such a "dangerous criminal", who claims to have nothing to do with the May 16th, 2003 attacks, be released and allowed to move freely? Some argue that his release and that of other individuals were part of an unspoken agreement between the monarchy and the Salafist movement. But according to political observers in Morocco many pro-eradication figures in government are vehemently opposed to kind of deal with the Salafists, using the terrorist card as a pretest to wage an all-out war. ♦

ENERGY AND MINING

Conference in Algiers to Address Renewable Energy Issues

The Algerian government and experts will meet to discuss issues of renewable energy in a conference scheduled to be held in Algiers 13-15 May 2007. The conference, titled the International Conference and Exhibition on Renewable Energy (CEER 2007) will be organized by the British event organizer ITE Group. It will be the second one after the first edition was held in 2005.

CEER 2007 is supported by the Ministry of Energy and Mines of Algeria and will focus on development policies for renewable energy.

This three-day event will comprise of an exhibition, a conference and a series of technical workshops, which will demonstrate the technological development of renewable energy sources, highlight investment opportunities and introduce national and international industrial bodies and research centers. The event will also allow participants to exchange experiences and form strategies for the promotion and development of renewable energy in the region.

Operations and Business Development Director for Africa, Florian Lasnes says, “We are very excited about the addition of the CEER to our Algerian portfolio of events. CEER is expected to be a stimulating and informative event which will give participants a view of the development of the industry and the technology that drives it”.

Details of the conference can be found at www.ceer-algeria.com

European and Japanese Contractors Win Trans-Mediterranean Gas Pipeline Contract

Medgaz S.A. the consortium of the energy companies Sonatrach (36%), Cepsa (20%), Iberdrola (20%), Endesa (12%) and Gaz De France (12%) said it has selected the engineering and construction firms that will build and install the Medgaz pipeline.

The EPC contracts for the construction of the ultradeepwater trans-Mediterranean gas pipeline were finalized 12 months following the initiation of the tendering process.

All of the successful contractors are globally-renowned companies that specialize in this type of infrastructures, using the most advanced technologies available on the market. The five companies were selected for each of the four categories of the project:

Linepipe supply

Mitsui (with Nippon Steel Corp.) and Sumitomo, Japan's two leading steel producers will manufacture a total of 226 kilometers of linepipe at their Japanese facilities, using high-strength carbon steel. Once the manufacturing is completed, the pipes will be coated with three layers of polypropylene and one layer of concrete to protect it from external environment. This process, due to begin shortly, will take approximately 12 months. Each pipe will be 12 meters long, with a 24-inch diameter (610 mm), and all of the pipes will be transported by ship to the port of Almeria (Spanish coast) for storage.

Compressors supply

Rolls Royce, one of the top industrial suppliers of turbo compressors for natural gas facilities, will be in charge of the manufacturing and installation of three compressors that are powered by aero-derivative gas turbines (using a design based on aviation turbines). These compressors are the key components of the Compressor Station in Algeria, which will raise gas pressure in order to enable its transportation to Spain across the Mediterranean. The compressors' high efficiency and reliability will help MEDGAZ meet its natural gas transmission objectives, complying with the most stringent safety, health and environmental protection standards.

Sub-sea pipeline

This turnkey contract - awarded to Saipem S.p.A., a world leader in building sub-sea infrastructures – includes the detailed engineering, delivery of construction equipment, pipeline laying and quality tests. The Italian company will use its two flagship vessels - Castoro Sei and Saipem 7000 – to lay the pipeline from Almeria up to the Algerian coast. The former ship, designed for shallow waters, will be used near the coastline while the latter will perform its pipelay activities at water depths of over 550 meters.

Compressor Station and Receiving Terminal

Both facilities were awarded to the Spanish-French consortium Técnicas Reunidas- Amec Spie under a turnkey contract. Técnicas Reunidas is a leading international contracting company that incorporates Design, Engineering and Construction facilities in the Oil & Gas, Power and Infrastructure sectors. Amec Spie is one of the world's premier companies in the field of oil & gas onshore pipelines and pumping and compressor stations.

With a surface area of 150,000 square meters, the Compressor Station, housing the compressors manufactured by Rolls Royce, will be located near the coastal town of Beni Saf (Algeria) and will raise natural gas pressure from the gigantic Hassi R'Mel fields so that the gas can then be transported to Spain. The Receiving Terminal, situated on the coast of Almeria, will receive, filter, regulate and measure the natural gas originating from Beni Saf, and will subsequently deliver it to the Spanish gas grid. The arrival of natural gas directly to Almeria will facilitate its marketing and transmission in the southeastern Spanish province.

The Project

With an initial capacity of 8 BCM/year, MEDGAZ will transport natural gas from Beni Saf on the Algerian coast up to landfall in Almeria. Construction work is due to begin in mid-2007 and start-up is scheduled for 2009. The total offshore distance of the pipeline is 210 km across the Mediterranean seabed, and the central section will reach a maximum water depth of 2,160 meters.

In Algeria, it will hook up to the Hassi R'Mel-Beni Saf gas pipeline operated by Sonatrach, while in Spain, it will link up with the Almería-Albacete gas pipeline belonging to ENAGAS, thereby facilitating its connection to the Spanish and European gas grid.

ExxonMobil to Explore for Oil in Libya

Texas-based Exxon Mobil Corporation confirmed that its subsidiary, ExxonMobil Libya Limited, has signed an Exploration and Production Sharing Agreement (EPSA) with Libya's National Oil Corporation (NOC) to initiate exploration activity offshore Libya in the Sirte Basin.

The agreement includes four blocks located in Contract Area 20, approximately 100 miles off the Libyan coast, which were awarded to ExxonMobil in the third round of EPSA IV licensing in December. The contract area comprises 2.5 million acres and is situated in water depths ranging from approximately 4,000 feet to more than 6,500 feet.

Elsewhere in Libya, ExxonMobil is in the very early stages of an exploration program in Contract Area 44 in the offshore Cyrenaica Basin, which was awarded to the company in the second round of EPSA IV licensing in 2005. To date, the company has completed an Environmental Impact Assessment (EIA), met with local stakeholders and is conducting a 2D seismic acquisition program.

Sonatrach Increases Gas Volume Supply to Italy's Enel, May Sell Medgaz Stake to Gas Natural of Spain

Italian energy firm Enel will purchase an additional 2 bilion cubic meters of gas from Algeria's Sonatrach. This additional supply, according to Enel, will begin shipping to Italy in 2008 following the enhancement of the Transmed pipeline, consolidating Enel's relationship with Sonatrach as the Algerian firm already supplies it with 6 billion cubic metres of gas.

Starting 2011 Enel will receive a further 2 billion cubic metres of gas from the Algerian company through the Algeria-Sardinia-Tuscany gas pipeline

The new supplies will begin as soon as the final stage of the upgrade of the Algeria – Tunisia – Italy pipeline (Transmed) is completed in October 2008.

Enel CEO Fulvio Conti commented: "The agreement is an important step in Enel's strategy to grow in the gas sector and consolidates our partnership with Sonatrach. Enel and Sonatrach are also working together to develop the GALSI gas pipeline, a strategic infrastructure for the country, which will link Italy directly with Algeria through Sardinia".

Recently, Enel signed an agreement with Sonatrach to import 2 billion cubic metres of gas a year through the GALSI pipeline, which is expected to enter service by the end of 2011.

Meanwhile, under political pressure from Europe, Sonatrach was reported by the Spanish media to be willing to sell to Spain's Gas Natural a 10% stake in the Medgaz project. The move comes Gas Natural's interest in obtaining veto right, and a 26% stake is needed for a shareholder to gain such rights. The news was reported by El Pais newspaper.

Verenex Strikes Oil in Libya

On February 6, the Canadian oil company Verenex Energy Inc confirmed an oil discovery following testing results at its first exploration well in Libya, A1-47/02 in Area 47 in the Ghadames Basin. Similarly, the Libyan National Oil Corporation has announced the well to be the first discovery on exploration blocks awarded at the first international bid round in January 2005.

Verenex has completed the testing of an 82-foot interval at the base of the Lower Acacus Formation, the primary exploration target in this well, at a depth of approximately 9,980 feet and has achieved significant oil rates. The well was initially flowed over a three hour period at rates up to 5,172 barrels of oil per day through a 3/4 inch choke at a wellhead pressure of 1,221 pounds per square inch. An associated gas rate of 6.7 million cubic feet per day was also achieved during this test. The oil discovered in this interval is light sweet crude with a measured API gravity of approximately 46.5 degrees. Testing is underway on up to three additional intervals in the Lower Acacus Formation. The Company anticipates that this testing program could extend into mid-March.

In Libya, Verenex operates and holds a 50% interest in the exploration and production sharing agreement for Area 47, and the Bay of Biscay offshore France.♦

AGRICULTURE: FISHERIES

Fish Catches in Morocco Down Substantially

2006 was not a good year for Morocco's fishermen. Catches fell by a massive 18% to 709,000 tons, according to the fisheries authorities Office National des Pêches (ONP). But while the volume of fish dropped, its value actually rose by 6% to MAD 3.6 billion or 330 million euros.

The news of dropping output came months after the Moroccan parliament ratified a fisheries agreement with the European Union, allowing 120 European fishing boats to operate in Moroccan territorial waters. In exchange, Morocco will receive an annual payment of 144 million euros over the next four years, and it is still unclear whether the EU deal will lead to overfishing and the depletion of stocks or whether fish reserves would improve, along with increased activity. Yet, the government believes new investments will likely lead to improvements across the board. Part of the first installment (40 million euros) is being spent on investments, starting with establishment of sales and distribution centers, including 10 large markets.

The authorities are currently negotiating with the American government agency the Millennium Challenge Corporation to provide assistance to traditional fisheries with funding of 70 million euros. This money will go toward the construction of 20 fishing villages and the modernization of 10,000 small boats/

Fish consumption in Morocco is about 10 kilos per capita per year, compared to a worldwide average of 16 kilos.♦

INDUSTRIES AND MARKETS

Tunisian Court Issues First Ever Anti-Competition Ruling and Fines Defendant

After suing Tunisia's largest importer and distributor of foreign publications, a small newspaper vendor in El Maner was granted by a Tunis court a judgment in his favor. The event is a novelty in Tunisia in that a court has sided for the first time with the plaintiff against a company that has the quasi monopoly over newspaper distribution.

In November 2005, the owner of a newspaper stand lodged a legal complaint against Sotupress, a company that controls, with very limited competition, the import and sale of foreign newspapers and magazines in Tunisia. The plaintiff alleged that Sotupress pushed him into a state of total dependency; forcing him to sign an exclusive contract, threatening him with reprisals should he decide to look for other suppliers. After being approached by a competitor of Sotupress, the plaintiff was ordered to increase his purchases after Sotupress halted its supply of newspapers for three consecutive days as a warning measure. Still, in an effort to punish the vendor for having communicated with a competitor, Sotupress refused to take back the unsold newspapers which is the usual practice.

The latest data on the foreign newspaper market in Tunisia is from 2004 when a total 1,091 foreign publications were available in Tunisian stands. The value of that market was estimated at TND 10.2 million, compared to TND 7.6 million in 2002. With a near total monopoly on this market, Sotupress has 500 distributors, as such controlling between 82% and 93% of the distributor network.

During the court proceedings, judges recognized that Sotupress used all of its resources to undermine competition using illegal tactics, including requiring exclusivity from vendors and threatening to shut down supply if they did not comply. Despite using some of the country's best lawyers, Sotupress lost its case and was forced to pay the vendor the sum of TND 15,000.

Passenger Traffic Up 14% in Moroccan Airports

Nearly 10.6 million passengers used Moroccan airports in 2006, a solid increase of 13.85% from 2005. The statistics released by the airport authority ONDA include a 6.18% rise in actual air traffic to 164,727 movements.

The top airport from a traffic perspective was Casablanca's Mohammed V international airport with more than 41 of air traffic, also up 9.94% from 2005. From a passenger standpoint, their numbers via Mohammed V jumped by 13.81% to 5.07 million. After Casablanca was the Marrakech airport with almost 29,000 rotations, a 6.37% rise from 2005. However, the rise in passenger traffic, driven by the tourism industry, grew at the faster rate of 20.57% to 2.669 million. The third busiest airport was Agadir's El Massira with 17,117 rotations in 2006, also up 6.37% and passenger traffic up 9.06% to 1.44 million.

The other top airports ranked in descending order are Ibn Battouta of Tangier, Rabat-Salé, Fes-Saïss, Oujda-Angad, and Laayoune, all of which registered positive growth.

Poor performers were Ouarzazate, Dakhla, and Errachidia.

With Growing Arab Investments in Moroccan Property Development, Sotheby's Enters Luxury Real Estate Market in Morocco

To accompany the growth of luxury real estate in the Middle East-North Africa region, Sotheby's International Realty Affiliates signed master franchise rights that will expand the Sotheby's International Realty network into the countries of Qatar, Oman and in the North African countries of Morocco and Egypt. The selection of Morocco is indicative of the attractiveness of that destination in the minds of international and wealthy domestic real estate buyers.

The Sotheby's franchise rights have been acquired by Qatar Real Estate Partners, which is a joint venture partnership formed between Qatari Diar, a regional player in real estate development, and NorthCourse Leisure Real Estate Solutions, a global vacation and leisure real estate company.

Qatar Real Estate Partners will be headquartered in Doha, Qatar, and will initially open Sotheby's International Realty offices in the central region of this city as well as the Moroccan city of Casablanca. Future plans include expanding into the Egyptian capital of Cairo as well as Muscat, which serves as the capital of Oman.

Qatar Real Estate Partners will focus on the distribution of Qatari Diar's extensive portfolio of luxury real estate projects and will also offer their brokerage services to other developers and property owners across the region. NorthCourse will oversee the development and ongoing management of Qatar Real Estate Partners as well as provide leisure real estate consulting services to the partnership.

Once the firm opens its Sotheby's International Realty offices, all of its listings will be marketed on the Sotheby's global Web site, which currently posts luxury home listings from countries around the world. The firm will have access to unique networking and referral programs with Sotheby's International Realty brokers located in more than 350 worldwide offices, as well as other marketing products designed to help bring more value to current and prospective clientele.♦

BANKING AND FINANCE

Société Générale Enters Mortgage Lending Business in Algeria, Plans Sustained Expansion There

Société Générale Algérie (SGA), the Algerian subsidiary of the French bank Société Générale has entered the mortgage lending business, offering loans to its existing customers in the North African country. The loans made available to clients are meant to finance the purchase of housing units, old or new. Financing is also extended to renovation.

Applications are available at all SGA's branches, with applicants requesting at least DZD 500,000, with financing of up to 80% of the cost. The loans' terms include a length of 15 years, which can be elongated to 20 years on an interest rate of 6.5% for a 15 year loan or 7% for a 20 year loan. Applicants will receive a response seven days after applying.

With this new product, SGA seeks to establish itself on the Algerian market as a universal bank with services tailored to multinational clients, small and mid-sized business and individuals. According to its Chief Executive, Joel Jarry, the bank had 65,000 customers by the end of 2006. Jarry added that SGA's results in Algeria were ahead of forecasts, with 5,000 SMBs, some 100 global corporations and the remaining 60,000 being individual accounts.

The bank has also been financing auto loans over the past five years, helping between 12,000 and 15,000 individuals acquire a car or a taxi license. The bank began issuing consumer loans in January 2005. It added to its portfolio offering a special student loan package as well. These student loans can be repaid only once the student ends his/her education and starts their professional lives. Today, some 30,000 individual customers took advantage of one form of consumer loan or another.

SGA has become a sizeable and growing workforce with 750 employees spread over 24 branches. Eight more branches are expected to open in the near future with the ultimate target of having 55 branches by year end, expanding the workforce to more than 1,000. While remaining bullish on his bank's performance and outlook in Algeria, Jarry did not share details of the bank's financial performance.

While working to expand organically, SGA is also interested in expanding through acquisition by competing for the purchase of the state bank CPA. Societe Generale is among the six financial institutions that have applied for the privatization of CPA. A CPA acquisition would make SGA a formidable player in the Algerian banking system, with a dense branch network of 200.

New Arab and American Investment Funds Make their Debut in the North Africa's Maghreb Region

This week, two small investment funds were established aimed at funding growth in Libya and Algeria. These funds are originating from Bahrain, Libya, and Algeria with US investors' involvement. The first, Tuareg Capital will base its investment commitment on Islamic financial rules, while the Phoenicia Group will target specific industries in Libya.

The first firm, Tuareg Capital Ltd announces that it has reached its first close target of US$30 million in commitments to its inaugural US$100 million fund, the Libya Fund. Tuareg Capital is a private equity firm established in 2006 and focuses on investment opportunities in North Africa.

The Libya Fund offers investors the opportunity to participate in a professionally-managed private equity fund, taking advantage of Libya's attractive investment prospects. The Fund will seek to benefit from the emergence and development of one of the last frontier economies in the MENA region.

Tuareg Capital is also pleased to announce the signing of a strategic partnership with Capital Management House or CMH, Capital Management House (CMH), a new Islamic investment firm based in Bahrain. Under this alliance, Tuareg Capital will partner and co-operate with CMH on investment opportunities in North Africa, particularly with regards to Islamic debt financing and other structured financing opportunities. CMH will also be a cornerstone investor in the Fund.

Tuareg Capital is a private equity firm focused on investment opportunities in North Africa, with a primary focus on Libya and Algeria. The company is involved in funding and promoting investment opportunities through proprietary or third party funds, partnerships and special purpose vehicles.

With offices in Tripoli, Bahrain and London, the company's shareholders include some of the region's business groups and entrepreneurs, with founding shareholders being ASA Consultants ("ASA") and United Gulf Industries Corporation B.S.C (UGIC), both based in Bahrain.

ASA was founded in 1994 by Mr. Abdulla A. Saudi, the Founding President & Chief Executive of Arab Banking Corporation. It is an independent advisory firm licensed by the Central Bank of Bahrain, with offices in Bahrain & Libya. ASA advises clients on asset allocation and portfolio management, in addition to providing a range of corporate finance, institutional investment and M&A services to regional and international financial institutions, governments and corporations. Transactions that ASA has led or participated in include the privatization of Italian television network 'Mediaset', the re-capitalization of 'Banca di Roma' (now 'Capitalia') in Italy, the acquisition of Credit Libanais in Beirut, the capital restructuring of the Housing Bank for Trade & Finance in Jordan and the sale of ABN-Amro Bank's Bahrain banking operations to BankMuscat.

UGIC is a public Shareholding company listed on the Bahrain Stock Exchange. UGIC's principal objectives are to develop and promote industrial, chemical, and energy related projects, primarily in the Gulf region, identify and invest in direct investment opportunities (private equity) and invest in listed stocks and other financial instruments directly or through collective investment schemes such as funds and partnerships. UGIC identified, developed, financed and sponsored mid to large-size industrial projects in Saudi Arabia and Bahrain. UGIC's partners in such projects include Saudi Arabian Basic Industrial Company ("SABIC"), Gulf Investment Company, Kuwait ("GIC"), Qatar National Steel and others. UGIC's investments include Gulf Ferro Alloys Company, Dhahran Chemical Industries & Marketing Company, Arabian Industrial Fibers Company and Yanbu National Petrochemical Company. UGIC is also a founding shareholder in the Middle East's first stainless steel company, United Stainless Steel Company, located in Bahrain.

In response to signing the partnership agreement with CMH and to successfully reach the Fund's first close target, Mr. Adel Saudi, Chairman & CEO of Tuareg Capital, said "we are delighted to form such a strategic partnership with CMH. They are an extremely focused and well managed investment banking group who offer us an array of services and abilities. As well as making a significant commitment to the Libya Fund, they will be instrumental in helping us to structure innovative financing solutions in our target markets. We see the partnership as a true win-win situation. With regards to the Fund, we have been delighted by the response from investors in the region. Libya is one of the most challenging markets in the MENA region to break into and investors view the Fund as a strong and strategic opportunity to gain exposure to the Libyan economy and its promising future. We believe that we are proposing a timely and compelling opportunity to investors. We will seek to leverage our team's significant and diverse skill-sets to generate superior returns across a diverse range of investments for our investors."

Mr. Saad Al Shamlan, CEO of CMH, said "we are absolutely delighted to have Tuareg Capital as our strategic partner for North Africa and regard this as the first step towards laying a firm ground for successful penetration into North Africa; in particular, Libya and Algeria. Under this strategic partnership agreement, CMH committed to approximately 70% of the Libya Fund's first closing amount and will provide high quality services as well as structuring sharia'a compliant products for the Fund. The Fund will seek to capitalize on the recent market reforms and liberalizations that are ongoing in Libya, and it is already evaluating a number of investment targets in a range of sectors."

Meanwhile, Phoenicia Group a U.S.-Libyan diversified business and consultancy, said its Libu Capital S.A, its dedicated Libya-centered private equity firm offshoot, has secured $95,000,000 in commitments surpassing initial expectations and reaching its first close target for its $300,000,000 Tripoli-based Libya Fund.

The planned capital for the pioneering Fund, Libya's first, was initially set at $100,000,000, later being upped to triple that amount due to investor enthusiasm and preliminary commitments from institutional investors, with most LP's expected to come from Libya, the U.S., Europe, and the Middle East.

Phoenicia Group is committing $20,000,000 to the inaugural Fund, with the rest of the commitments coming from the Libyan Arab African Investment Group and a European investment bank.

According to Ryad Sunusi, Phoenicia Group President and CEO, "the Fund was strategically planned and will be managed by some of the best in the business; with hands on experience in diverse market sectors in Libya, with a focus on tourism, construction, oil services, and industry, sectors selected for the tremendous opportunities and liberal investment mechanisms in place."

But Sunusi warns investors to be wary of private equity funds and other investment vehicles based outside Libya that have no backing from the Libyan government and little or no practical experience in identifying investment opportunities in the country. "There will always be parties who pop out once in awhile with one aim in mind, fleecing investors and delivering little on promises."

"These guys, almost without exception, have a very limited understanding of the Libyan legal and business environment and no strategic game plan or long-term planning and relationships for managing a successful investment portfolio, and what's more are not even based in Libya but overseas." ♦

ECONOMY AND TRADE

Libya's Tough Balancing Acts: Opening to Market Economy or Supporting Consumption?

The Libyan government has to deal with a new set of realities that can confuse the best economists in the world. Coming out of nowhere, making peace with its enemies, benefiting from high oil prices for who knows how long, attempting to open its economy, but facing popular resistance about implementing reforms, are a few of the challenged the North African country is dealing with. Despite hiring highly-paid so-called gurus from some of the most prominent American universities and think tanks, Libya will have to find its own model and perhaps not pay so much attention to what some superstar academics say. Well, indeed it is trying its best to leverage its oil riches and find a way to create whatever structure it deems would work for it.

In the economic arena, Libya says business is as usual and some more. Just recently, the government said it will commit massive investments in basic infrastructure, channeling its petro-dollars into economic growth. In its first draft of its infrastructure buildup, Libya announced the planned construction of roads, new airports and will earmark some €8 billion in linking its eastern and western borders through a rail track. This would represent a 4,800 km track to link Tunisia to Egypt, and descending south reaching Niger.

Libya is also looking outside of its territory to grow its money, and with its latest initiatives, to take one example, trans-Maghreb trade and investment are slowly picking up. Leading the way is Libya, which has plans to up its investments for instance in neighboring Tunisia from $2.3 billion in 2006 to more than $3 billion this year. The most important source of Libyan investment this year is likely to be in its participation in the construction of an oil refinery in Skhira, and gas and oil pipelines, with the contribution of other foreign investors. In addition, Libya will contribute to the construction of a vacation resort in Essafi along the Tunisian-Libyan border.

The Libyans are ranked fourth largest Arab investors in Tunisia, with commitments in 39 projects, with 31 in the production and manufacturing sector. Five other projects are in tourism and three in the service sector. On the other side, Tunisia has 27 companies operating within Libya, and considered to be the biggest foreign investor there.

But the Libyan regime learned that emphasizing too much on economics and business without giving away some of the proceeds to the people can be detrimental to the very survival of the Kaddafi dynasty and those around it who benefit.

In a balancing act aimed at opening up the economy, while easing the pain of the transition to the poorest households, the Libyan government has also begun to reach out to the poor by distributing money in form of cash and equity from a fund established in September 2006 and which has reached the value of 6.5 billion dinars.

More than 400 households have been selected thus far to benefit from these handouts, in a move that followed a speech given by Muamar Kaddafi last November before an audience composed of members of the revolutionary commissions. Kaddafi called for the reinforcement of the fund so that the estimated 600 million dinars in interests would be distributed to 200 households.

The value received by each household would average 30,000 dinars, of which 10,000 dinars will be reinvested in financial and banking institutions, another 10,000 dinars in the construction and tourism sectors, and the remaining third will be placed in bank accounts to earn interests.

Acknowledging the enormous role of oil companies, Kaddafi sought to alert oil giants that Libya may not be so willing to duplicate the Nigeria model, where entire populations in oil provinces have been rebelling against oil companies for their alleged lack of contribution to the local economies and populations' well being.

In yet another speech, Kaddafi urged oil companies to take "ownership" of Libya's poorest people to find ways to eliminate poverty. It is unclear on how such idea would translate in reality, unless Kaddafi speaks of a simple subsidy model based on taxation and redistribution.

But sources in Tripoli speak of the establishment of social and economic development funds instead, funds that would benefit the poorest households, but all the while preventing them from spending and instead forcing them to reinvest in the economy. This may be an economic novelty but at least ideas are being exchanged.

Moving from rhetoric to action, Kaddafi's son Seif El-Islam launched a national campaign on August 26, 2006 to establish an investment fund with the participation of 2 million Libyans, each contributing 30,000 dinars. Seif El-Islams' approach is a bit different in that he favors the establishment of small companies that would be owned and operated by young Libyan entrepreneurs. Taking examples from Algeria, Kuwait and Saudi Arabia, Seif El-Islam stated that Libya is far behind and needed to catch up with these countries that have established more comprehensive programs to aid and facilitate the creation of small and mid-sized businesses.

Libya has sure come a long way from the days of darkness and isolation to a time of opportunities and new challenges. But Libya should be aware that it needs to act quickly. While oil and gas will still remain critical factors of global economic growth in the foreseeable future, developed economies are becoming less and less tolerant to their dependency on fossil fuel. At some point, the wells will dry and perhaps by then, Libyan would have developed a somewhat balanced economy to soften the transition. But the clock is ticking and ideas need to translate into positive outcome. ♦

Algerian-German Trade Talks Lead to New Business Deals

Siemens of Germany will supply electrical equipment to the Algerian private real estate development company Dalhi. The equipment will be used to power Dalhi's mega project called Alger Madina. A second contract, also involving an Algerian private firm, AMS, concerned the establishment of a joint venture with Germany's Sloman Neptun in the area of maritime shipping.

These contracts and many more to come occurred through the participation of the busy Algerian-German Chamber of Commerce, and according to some senior officials of the Chamber some 1 billion euros worth of business are being negotiated.

The German business community has become more focused on creating opportunities in Algeria, obviously driven by the important oil reserves and the North African country's ambitious economic program. Today, some 140 German companies have a direct presence there, and have invested some 350 million euros over the past few years.

Leading companies active there include Henkel, Knauf, Linde, Messer, Siemens, ZF, BASF, DHL, and Dywidag. Knauf, for its part, acquired a 50% stake in the Algerian state-owned plaster maker Fleurus, and has reportedly applied for the purchase of the remaining 50%. Similarly, the privatization authority, Conseil National des Participations de l'État (CNPE) is expected at any time to announce that it will authorize Germany's Linde to take over the industrial gas maker ENGI.

From a trade perspective, commercial exchanges between the two countries rose to 2.7 billion euros in 2006, with Algeria exporting 1.6 billion euros to Germany, hence maintaining a slight trade surplus. These figures rank Algeria as Germany's fifth commercial partner in MENA (Middle East North Africa region) after the United Arab Emirates, Saudi Arabia, Egypt and Kuwait.

But a closer look at the pace of German investment into Algeria and one can pinpoint bottlenecks in the way the Algerian administration operates, creating slow response

IN THE NEWS:

Legislative Elections in Morocco to be Held Sept. 7, 2007

The Moroccan government decided that the legislative elections this year will be held on September 7, 2007. The decree making the date official has just been adopted by the government council, eliminating the initially proposed date of July 6th.

The selection of September as the election month was based on the need for political parties to have enough time to prepare their campaigns. Candidates will have to file their papers between August 17 and 24, and official campaigning begins August 25 and ends one month later.

The government also announced new redistricting within 22 provinces, bringing the number of districts from 91 to 95. Casablanca is where the change was more pronounced, growing from 6 to 10. In all, 295 seats in the upper chamber are up for grabs.

rates and massive procedures. A number of German companies that have attempted to set up operations in Algeria gave up after dealing with tough bureaucratic procedures.

POLITICS AND DIPLOMACY

IN THE NEWS:
Arms Smuggling Ring Dismantled in Algeria

A network of arms smugglers has been dismantled in Algeria, according to security sources. The network reportedly included French and Tunisian nationals who acted as suppliers. The arms were to be delivered to the terror organization GSPC.

The criminal organization involved 24 Algerians, who were arrested on Thursday, February 22, 2007 under an arrest warrant issued by a judge in Ziadia, Constantine, in the northeast of the country. Another group of 14 people is still at large, including the French national.

The first searches organized by the Algerian police found weapons of all sorts and 12 and 16 millimeter bullets, in addition to more than 30,000 euros in cash, believed to be the money used for the transaction payment.

The arms are said to be destined for the GSPC insurgent group that operates in the region stretching from Batna to Biskra and from Khenchela to Tebessa.

The investigation is underway and more arrests are expected but authorities say they cannot provide further details at this stage.

Muamar Kaddafi Sues Algerian Newspaper

The suit lodged by the Libya leader Muamar Kaddafi against the Algerian daily newspaper Echourouk El-Yaoumi will have its day in court on February 21. Initially scheduled for this week, the trial was postponed due the replacement of the defense lawyer.

The case stems from writings in the newspaper accusing the Libyan leader of working to foment and fund a rebellion of the Sahara's Touareg tribes, ultimately to form a sort of Touareg nation of the Greater Sahara. The defense in this case has requested Touareg leaders to testify, a request that was turned down, at least for now. It is unclear whether the Touaregs' unwillingness to testify is voluntary or is the result of pressure from government circles.

But despite the Algerian government's lukewarm support of Kaddafi, the Libyan leader continues to make decisions that have been a source of frustration not only in Algiers but elsewhere in the neighborhood. The latest such move was the announcement of new visa requirements for all Arab citizens seeking to enter Libya including Maghreb citizens. ♦

CORPORATE AFFAIRS

Maroc Telecom Records Strong Growth in 2006, Expands Through Acquisitions

Maroc Telecom, the Moroccan telecommunication firm that is 51% owned by France's Vivendi had a good year. In the fourth quarter of 2006, revenues of €499 million increased by 4.0% (+5.5% at constant currency). An evolution of €10 million is due to a one-off reassessment of the inactivated scratch prepaid cards at Maroc Telecom dealers. Excluding this non-recurring item, revenues actually increased by 7.6% at constant currency.

The company's revenues from its mobile phone activity rose by 8.8% to €322 million, a 10.4% year-on-year increase at constant currency due to the impact of the year end promotions and the €10 million reassessment of the inactivated prepaid cards at Maroc Telecom dealers. Excluding this last non-recurring item, revenues increased by 13.8% at constant currency. Fixed and internet revenues grew by 2.5% to €289 million (+3.7% at constant currency).

For full year of 2006 Maroc Telecom brought in a healthy €2.053 billion increased by 10.4% (+10.2% at constant currency) due to the good performance of all its business activities.

2006 mobile revenues grew by 15.3% to €1,333 million (+15.1% at constant currency). The strong growth of the customer base reaching 10.7 million customers (+30% and a net increase of 2.47 million customers over the year,) explains the mobile revenues growth.

The blended Average Revenue Per User (or ARPU) reached 10.1 euros (-9.3% compared to December 2005 at constant currency) due to the strong increase of the customer base and the decrease of the average price of communication. With the sharp increase of the customer base and the decrease of the access fees, the churn rate reached 20% (+8 points year on year).

2006 fixed and internet revenues grew by 5.8% to €1,145 million (+5.6% at constant currency). This good performance was achieved thanks to the dynamism of the public telephony segment (revenue grew by almost 15%), to the growth of the incoming international traffic (+11%), the continuing success of broadband activity and the development of data services to business and operators with revenue growing by 13%. In this context, the voice average monthly invoice increased by almost 3%.

The fixed customer base decreased to 1.266 million lines (-5.6% compared to December 2005). The ADSL customer base experienced a strong growth and almost reached 384,000 lines (+59% compared to December 2005).

To serve its existing customers and attract new ones, Maroc Telecom launched in September 2006, new unlimited offers on the fixed telephony segment, which allow customers to call all the local and national Maroc Telecom fixed numbers with no time limit. The success of these offers led to the stabilization of the customer base over the last quarter.

Meanwhile, Maroc Telecom has been aggressively seeking to expand elsewhere, in particular in Africa where it has recently acquired a 51% stake of Gabon Telecom. The transaction was valued at €61 million. Under the executive leadership of Moustapha Laarabi of Gabon Telecom and its chairmanship of Thomas Souah, Maroc Telecom plans to boost services by investing €150 million.

Gabon Telecom controls all the fixed line business in Gabon and owns 100% of Libertis, one of the three mobile phone operators in the country.

In addition to partial ownership of Mauritania Mauritel, Maroc Telecom also purchased on December 29, 2006 51% of Burkina Fasso ONATEL, confirming it was on the acquisition path as part of continent-wide extension.

IN THE NEWS:

Moroccan Telco Launches BlackBerry Service

The Moroccan telecom carrier Maroc Telecom (MT) announced the launched of a BlackBerry service to its corporate clients. MT will provide clients three options, a subscription to email service alone, or email and limited Internet access or email and unlimited access to the Internet.

The company has not disclosed its price points yet, but it is likely that professionals on the go, such as sales and executives will find the BlackBerry features attractive and productive in their mobile work lifestyle.

Jorf Lasfar: ABB and CMS Out, TAQA In

In early February 2007, Abu Dhabi National Energy Company (TAQA) announced the purchase of CMS Generation, a subsidiary of the US integrated energy firm CMS Energy (NYSE: CMS). CMS and ABB have been looking for a buyer for their Jorf Lasfar power plant in Morocco for months. They have been operating the power plant since 1995 under the name of Jorf Lasfar Energy Company (JLEC). When the concession was announced, CMS and ABB paid $283 million, for a 30 year concession period.

When finalized, the deal will provide TAQA with an additional 4,300 MW (gross) of generation capacity from several site also outside of Morocco in a transaction that would place TAQA in four new countries, Morocco, Saudi Arabia, Ghana and India. TAQA says it intends to further develop its asset base as an upstream, midstream, and downstream energy company.

The sale is subject to the usual government and third party consents. "We are hoping the existing lenders to the Moroccan power plant – Jorf – remain as lenders to the project and also provide speedy consent so the parties can conclude the transaction quickly. TAQA plans to participate in the growing power needs of Morocco and the region," said Peter Barker-Homek.

TAQA will also acquire the interests of CMS Generation's JV partner ABB in Morocco and India.

This transaction is part of TAQA's stated strategy to acquire power and water facilities in the Middle East, North Africa, Europe, India, and Pakistan, in order to expand its international presence significantly.

"This stock purchase agreement facilitates TAQA's acquisition of significant energy infrastructure and supports our drive for international growth and continued overseas development through direct investment," said Barker-Homek.

"The transaction will allow TAQA to continue to develop internationally and to build the management infrastructure necessary to support our continued evolution," he added. "It complements the recently announced joint venture in India with a prominent Indian partner, ILFS, to develop 10,000 MW of power generation throughout India."

Goldman Sachs acted as exclusive financial advisor to TAQA.

Air Algerie Wants to Open Beijing Route, Will Begin Service to Montreal in June 2007

The Algerian national carrier Air Algerie has filed the necessary paper to link Algiers to Beijing. The papers were reportedly submitted to the Chinese civil aviation and transport authorities, according to its CEO Tayeb Benouis.

The move is part of Air Algerie's strategy to open new long haul flights, including the debut of the Algiers-Montreal service scheduled to begin on June 15, 2007.

The opening of an Algiers-Beijing route is considered a natural progression in the massive growth of trade and commercial activity between the two countries. The number of Chinese companies active in Algeria has been steadily rising since 1990, growing at an accelerated pace over the past couple of years.

Today some 8,000 Chinese live in Algeria, working in sectors such as construction. China is Algeria's third largest supplier behind France and Italy, with sales to the North African country worth $1.7 billion in 2006.

Danish Milk Company Arla Expands Into Algeria, Focuses Marketing Campaign on Quality and Safety

Following its entry into the Chinese market, Denmark's Arla's next strategic commitment within the milk powder area is in Algeria. A few days ago, the Dano brand arrived in stores in this North African country, one of the world's largest milk powder markets.

"Like the rest of North Africa, Algeria is a growth market which has been overshadowed by developments in Asia," Frede Juulsen, Executive Director, BU Milk Powder, says. "The country has a large milk consumption and domestic production cannot cope with demand. We, therefore, see great opportunities to develop an interesting business here."

The push into Algeria is part of the strategy of channeling milk powder into profitable brands rather than selling it as a commodity product. Dano arrived in stores in Algiers a few days ago and will shortly be available in the cities of Oran and Setif. In early March, the launch will be followed by an advertising campaign on TV, radio, newspapers and on posters on buses. Focused on health values, the campaign also includes the distribution of 90,000 samples.

"Regardless of whether you're a parent in Sweden, Denmark or anywhere else, your ambitions are the same. You want to feel secure and you'll do everything you can for your child's development," says Frede Juulsen. "On the basis of our focus on food safety, and the high quality of our products, we can contribute to just that. I'm confident that our expertise will help us develop the entire market."

Algeria's milk consumption is rising to the tune of 8 per cent per annum and totals approx. 3.5 billion kg. Retail packed branded powder products account for approx. 0.6 billion kg, which ranks Algeria among the world's five largest markets for milk powder. Local production, however, only meets approx. 10 per cent of demand. As the Algerian market has, in recent years, become more accessible, several new international players have established themselves here. Both international and African suppliers usually buy their milk powder from foreign producers and market them under their own brand names.

"Arla is unique in the market in that the company is owned by milk producers," says Anwar Mahfoudhi, head of Arla's operations in Algeria. "The fact that our milk powder comes from our own cows and is always processed at the same dairies means that we can guarantee consistently high quality. Arla's more than 100-year history, coupled with an innovative approach, are other important factors behind our confidence in Arla's future in the Algerian market."

Arla Foods Ingredients has five employees in Algiers, Algeria and works with its local partner DIMO, which is responsible for sales and distribution. Dano is marketed in 500g bag-in-boxes and 125g bags. The products are produced at Akafa in Denmark.

Dano is Arla's regional brand for milk powder in the Middle East and Africa. Milex is the global brand for the rest of the world. The only difference between the products is the name. The Asian markets, however, have a greater variety because demand for added value and specific properties are greater there than in the Middle East and Africa.♦

HUMAN, SOCIAL AND LABOR AFFAIRS

Algerian Oil Hub of Hassi Messaoud Seeks to Eliminate its Shantytown

The Algerian southern town region of Hassi Messaoud, the country's major oil producing region is preparing to remove its shantytowns and relocate its residence. The relocation plan was announced two years ago and could not be launched due to funding limitations.

The 306 families living in the substandard housing units will be removed to the outskirts of Hassi Messaoud. The individuals living in the shantytown were counted during a special population census. The census included teams of the provincial and local authorities, the fire department and the Red Crescent. After the census an estimated 200 families settled in the Hassi Messaoud shantytown apparently in an effort to benefit from new housing, bringing the number of families to be relocated to more than 500.

A Third of Algerians Suffer from High-Blood Pressure, Obesity on the Rise

High blood pressure is a widespread phenomenon in Algeria where an estimated 35% of the population is concerned. This figure comes from a nationwide study conducted in 2004 by the Société Algérienne d'Hypertension Artérielle (or Saha) and the results have just been released during a scientific conference held in the city of Oran this week.

The survey found that among the high blood pressure sufferers, 25% also suffer from diabetes, raising the risk of cardiovascular diseases further higher. Further alarming, these problems are growing among the younger populations, including among those barely reaching 20 years of age.

Algerians are also facing other types of problems, in addition to the more than 2 million diabetics. They include nearly 1 million people suffering from kidney deficiencies, high cholesterol and growing trend of obesity, to further complicate this difficult public health picture.

According to researchers, women appear to be more prone to many of these illnesses. For example obesity is much more prevalent among women, with an estimated of 41.5% concerned by this problem. Nearly 40% of women of more than 18 year of age suffer from high blood pressure. The frequency of high blood pressure among women compared to men is even more pronounced in the more than 59 year old group.

To explain the reasons of such figures, the researchers indicated that genetic factors are responsible for in between 40% and 50% of the cases and women in the northwest tend to be more relatively affected at 46%, versus 42% in Algiers, 33% in the northeast and 39% in the southwest. ♦

PROFILE

Maurice Papon Dies without Responding to His Killings of Algerian Civilians

Considered the typically proud high-ranking bureaucrat serving his country France, Maurice Papon was always thought of by the Algerian as a war criminal. Sadly for the Algerians, Papon died this month without responding to his crimes particularly committed on October 17, 1962 when he was head of security in Paris as Algeria sought to liberate itself from France. Papon was also known for aiding Nazi Germany and was convicted in the late 1990s for his contribution to the Nazi war machine. He died at 96, but served only 3 years of the 10 year jail sentence he received for his role in the disappearance of French Jews.

After symbolizing the pro-Nazi Vichy regime during which he took part to the deportation from France of 1,500 Jews to be killed in German concentration camps, Papon managed to serve subsequent French governments from General De Gaulle and George Pompidou to Giscard D'Estaing. He alternated jobs from head of the French police to provincial governor to budget minister and in between, before his anti-Semitic actions caught up with him.

When in 1981 Francois Mitterrand was elected president, the French satirical newspaper published documents from the Second World War involving the works of Maurice Papon. As a result, he was handed over in 1998 a 10 year prison term for complicity in crimes against humanity. Jailed in Switzerland at the end of 1999, Papon was released in 2002, a term considered by the French government as enough to put its questionable past behind.

When Germany was defeated and left France, Papon took over law and order in Paris with a special eye on the Algerian population, as Algeria began to seek a path to independence, threatening the very presence of France there. De Gaulle hired Papon, who used his brutal strategies and tactics as the ultimate security chief to crackdown on any Algerian in France who may sympathize with the independence movement in North Africa. His actions culminated in October 1961, less than one year before Algeria gained its independence, when he ordered the repression of a demonstration that was meant to protest against a curfew imposed by Papon himself only on the Algerian immigrants living in France. The result of Papon's intervention was the death of 200 men and women, many of whom had their bodies dumped in the Seine River.

His crimes against the Algerians were raised during his court appearances when facing his past during the Vichy regime. But the presiding French judges dismissed Papon's anti-Algerian actions, a sign that indicated that France was not, and is still not ready to face its past with Algeria and come clean.

IN THE NEWS:

Dutch of Moroccan Origin Appointed in Netherlands Government

Queen Beatrix of the Netherlands swore in the fourth Balkenende government on Thursday, February 22, 2007, in a cabinet that includes Ahmed Aboutaleb as State Secretary of Social Affairs and Employment. The Hague-based government will comprise of members of three parties CDA, PvdA and ChristenUnie, which took 91 days to form. The three parties have reached agreement on the main points of government policy for the next four years. The cabinet included also a justice minister of Turkish origin, Ms. Nebahat Albayrak.

Queen Beatrix decision marks a critical step in reconciling differences between the Europeans and their Muslim populations, and as such, the Netherlands is showing serious maturity and willingness to create social harmony in a continent that has often struggled to deal with diversity.

The appointment of both Aboutaled and Albayrak raised the usual extremist rhetoric from the right wing movements opposed to any form of appeasement with the Muslim world. Many argued that the new ministers' dual-citizenship status represented a problem in terms of loyalty to the Netherlands.

A member of the labor party PvdA, Ahmed Aboutaleb was born in 1961 in the rural municipality of Beni Sidel in Nador, Morocco and immigrated to the Netherlands in the mid-1970s. He studied engineering and telecommunications and worked for the city of Amsterdam, including deputy mayor in charge of labor, education, youth and urban policy. Aboutaleb also worked in the media for several television channels and as communications officer in many ministry departments.

New Maghreb Employer Organization Headed by Hedi Djilani

Hedi Djilani, the president of the Tunisian employer organization Utica, was appointed by a majority vote as head of the new Maghreb employer organization. The vote occurred on February 17 during a constitutional meeting during which the organization’s charters were also established.

The organization will be based in Algiers and will represent the region’s employers unions and organization. Its goal would be to establish common strategies to help unify businesses on strategic issues related to growth, globalization, competition and other issues relevant to their business.

SPECIAL REPORT

The Casablanca Stock Exchange: The Year in Review 2006 and 2007 Outlook

By Sophia Hakam and Hanane Rahali, CFG Group

Introduction:

The Moroccan stock exchange (Casablanca-CSE) has had its own bull market of sorts. If you have invested money in there in 2006, you may have noticed unusually high returns. This is because 2006 was a year of all records. While experts predict the bull market to go on this year, they warn not to expect a repeat of the 2006 performance. Still, with a relatively good economic growth of 3.5% expected for the Moroccan economy, driven by a more predictable agricultural output, massive infrastructure and industrial projects, the continued contribution to economic growth of the expatriates, and new flotations in the bourse this year, investing in the CSE could yield yet another good year of return.

If you have invested in 2006 and want to check how the market performed or if you are interested in taking advantage to its ongoing positive performance, this report is recommended reading and authored by some of Morocco's top market analysts.

Summary:

- Exceptionally rapid market growth sustained throughout 2006. CFG25 index was up 57.4% in 2006, compared with a 18.5% advance in 2005, and the CFG25f ahead 73.8%.

- Market volatility was high in 2006. Annual performance reached 52.2%, and then dropped to 17.1% before ending the year at 57.4%.

- Trading volumes hit a new record high. Six stocks accounted for 70% of total trading volumes. Record year for new issues: ten IPOs in the year, including four in December alone.

- 2007 earnings growth estimated at 14.0%, with total earnings expected to reach DH22.4bn
- Valuation ratios still attractive at end-2006:
    - Market P/E 2007E (excluding loss-making companies) at 17.6
    - Average market dividend yield at 3.15%
    - Average return on equity in 2007 estimated at 16.9% excluding Maroc Telecom
- We expect the bull run to continue in 2007, albeit with growth less rapid than in 2006. We see market upside of 15%-20%.

KEY FACTORS

"Price rally intensifies in 2006. Equity and diversified funds increase in value"

The uptrend begun in July 2002 accelerated in 2006. The CFG25 ended the year ahead 57.4%, after an 18.5% advance in 2005. Most of this gain was achieved in the second half of the year following an unprecedented glut of new paper was placed on the market, in particular newly floated stocks. The exceptional advance of Addoha shares (387% in 2006) had a significant impact on the entire market.

Excluding Addoha, the CFG25 index gained 47.3%. Net assets managed by mutual funds increased by 44%, taking total assets up from DH86.5bn in 2005 to DH124.3bn at end-2006. Equity and diversified funds were especially popular last year, registering an 81.7% gain and accounting for 12.4% of total net assets managed by mutual funds at the year-end. Bond funds gained 40.2% in 2006, with their weighting in total net assets remaining more of less stable.

"Almost all sectors end the year in the black"

Almost all sectors gained ground in the year. The best performing sector was tourism, up 79.2%, and the worst performer consumer staples, which lost 8.6%. The best performing individual stocks were to be found amongst the newly floated companies and the banks, which were particularly popular this year. The garlands went to Addoha, which hit a high of DH3,200, fives times its price on flotation.

“Record trading volumes, Considerable improvement in market liquidity in 2006”

Total volume turnover on the Casablanca securities exchange was DH68.1bn in 2006, against DH49.2bn in 2005. The most heavily traded shares were Addoha (28.4%), IAM (14.2%) and BMCE (9.2%), between them accounting for more than 50% of 2006 trading volumes.

On a like-for-like basis, the market liquidity ratio (excluding strategic trades) rose sharply in 2006, moving into double digits for the first time (16.8% compared with 8.8% in 2005).

“Earnings growth estimated at 16.7% for 2006 and 14.0% for 2007”

We expect the earnings of listed companies to rise at an average annual rate of 15.7% between 2005 and 2007. With earnings growth outstripping the market average, financials and conglomerates remain powerful engines of growth.

“Exceptional increase in funds raised on the market, excluding privatizations”

Total shareholders’ equity is estimated at DH99.3bn in 2006, representing average annual growth of 5% over the last five years. A raft of ten IPOs and two public share offerings (CIH and Rebab) in the course of 2006 substantially increased the volume of funds raised on the market. The total value of capital increases concluded in 2006 was almost double the 2005 Chart (DH2.345bn vs. DH1.517bn) while sales of existing capital amounted to DH3.123bn. Note that there have been no privatizations in the past two years, the last being Maroc Telecom’s privatization in 2004.

“Continued expansion of valuation ratios in 2006”

The exceptional performances registered on the equity markets last year ensured a continued expansion of valuation ratios. Excluding loss-making companies, the market P/E rose from 14.8 in 2005 to 20.3 in 2006. The P/E 2007e, excluding loss-making companies, is 17.6.

Outlook 2007 We expect the market to remain on an uptrend in 2007, albeit with a slower rate of growth. We think share prices have upside potential of between 15% and 20% in 2007. We also foresee renewed interest in small caps, stocks with attractive dividend yields and relatively illiquid stocks, all of which were out of favor in 2006.

THE EQUITIES MARKET IN 2006

"2006: A record year of exceptional performances, +57.4% in DH and +72.2% in USD. H1-06 market Performance excluding Addoha: 47.3%"

The market uptrend accelerated in 2006 and the second half of the year heralded some quite exceptional performances, fuelled by a combination of fundamentals — benign macroeconomic backdrop (2006e GBP: 7%) and 2005 earnings announcements ahead of analyst expectations — and short-term factors, in particular, the record number of IPOs (ten new companies listed). The CFG25 ended 2006 ahead 57.4%, after an 18.5% advance in 2005. In US dollars, the index gained 72.2%.

The CFG25f index (based on the free float of the stocks in the sample) rose 73.8% in the course of the year and 90.1% in US dollar terms. In terms of overall trend, the market went through three distinct phases in the course of the year:

- Buoyed by au upturn in investor sentiment vis-à-vis the equity markets and expectations of good annual earnings Charts, the CFG25 began the year on an uptrend. In the first four months, the index rose 52.2% to 19,679 points.

- After this initial bull run, the market entered a second phase. Running from 9 May to 13 June 2006, this phase was marked by a sharp correction following a spate of profit taking on the majority of stocks. The CFG25 shed 23% of its initial gains and dipped to a low of 15,144 points.

- This month-long hiatus was followed by a spell of market euphoria and the flotation of the Addoha group was a decisive turning point for equity market performances.

Rocketing ahead 387% and with average daily turnover reaching DH169m, this stock alone accounted for more than 10% of the market's growth. Excluding Addoha, the CFG25 index gained 47.3%.

At the year-end, the CFG25 index had put on 197% since 22 July 2002, the date marking the start of the market's third bullish phase, equivalent to a 44% average annual gain. The equity market's strong performance this year took total market capitalization to DH415.2bn, equivalent to 82% of GDP, compared with 27% three years ago.

"Increased demand for equity and diversified funds"

Net assets managed by mutual funds rose by 44% in 2006, from DH86.5bn at end-2005 to DH124.3bn at end-2006. Equity and diversified funds performed exceptionally well, gaining 81.7% to end the year at DH15.7bn. As a result, the share of these funds in total net assets managed by mutual funds rose from 10% at end-2005 to 12.4% at end-2006, to the detriment of money market funds, which saw their share in total net assets fall from 20% at end-2005 to 18% at end-2006.

This decline reflects the high levels of market liquidity, which resulted in a decline in money market rates. Note however that the share of total net assets held by equity and diversified funds is still well below the levels of 37% and 20% seen in 1998 and 1999 respectively, highlighting the cautious profile of mutual fund investors. Bond funds, meanwhile, remain a focus of investor attention. These funds gained 40.2% relative to 2005, with their share in total net assets remaining more or less stable. Over the past 13 years, the equity and bond markets have achieved cumulative returns of 321.6% and 228.1% respectively.

Sector performances:

"Almost all sectors ended 2006 in the black. Tourism leads the way in its first year of listing. Financials perform well All banks outperform the market."

The dynamism of the equity market last year brought strong performances from almost all sectors, with ten out of 13 ending the year in positive territory and four outperforming the index. In its first year of listing, the tourism sector, represented by Risma, was the star performer with an absolute performance of 79.2%. The good results published by Risma (32.7% advance in EBITDA to end-September 2006) points to a continuation of this surge.

Financials secured second place with an absolute performance of 78.4%, compared with 31.1% in 2005. The banking sector stood out from its peers with an impressive 80.7% advance, powered by a surge in market enthusiasm at the start of the year (see chart page 8) that resulted in all banks outperforming the index.

For the second year running, insurance companies outperformed the market (57.4%) driven mainly by Wafa Assurance (up 91.9%).

"Consumer cyclicals outperform as do capital goods. Basic industries slightly underperform"

Consumer cyclicals outstripped last year's performance three times over (up 72.9% in 2006 compared with 27.8% in 2005), powered mainly by Afriquia Gaz (up 79.7%), Auto Nejma (up 66.5%) and Chérifienne d'Engrais (up 55.5%). Capital goods also contributed to the market's bull run (up 70.3%) driven principally by a three-digit advance from Auto Hall (up 106.8%). Basic industries improved on last year's performance, thanks mainly to the good performance of cement producers, which achieved growth rates in excess of 40%. A dynamic property market, in particular in the social housing segment, and the diverse range of development projects underway in Morocco gave a significant boost to the market for cement, which enjoyed growth of 10.4% on the back of sales of more than 11.3 million tons in 2006.

"Just three sectors in the red"

However, Mining companies, represented by SMI and Managem, were a drag on the performance of basic industries. These companies failed to reap the full benefit of the market rally and closed the year with modest gains of 13.2% and 24.6% respectively. After selling its interest in Semafo, Managem has entered the international market by concluding two partnerships in cobalt, gold and copper manufacturing. In the second half of 2006, however, the sector was boosted by the IPO of Addoha (up 393.3%), which was a major contributor to sector growth.

2006 was not, in contrast, a good year for consumer staples, which ended the year off 8.6%. The agro-food sector was mainly to blame for this negative performance, due to two stocks in particular — Cosumar (down 17.6%) and Lesieur (down 18.5%). These stocks began the year on a downtrend as the market punished them for sharp declines in 2005 net earnings (down 9% in the case of Lesieur and 73% at Cosumar). Also losing ground in the year, albeit less severely, were Centrale laitière and Brasserie du Maroc, which ended the year off 4.1% and 4.3% respectively.

Note, however, that the underperformance of basic industries can also be attributed to the thin liquidity of agro-foods stocks (see page 13). Investors generally prefer to invest in more liquid stocks. The transport sector, represented by CTM, and pharmaceuticals also closed the year in negative territory, with losses of 4.1% and 3.4% respectively.

Performances of individual stocks:

"Share performances varied between +387.2% and -26.6%"

A total of 43 out of the 59 companies in our universe ended 2006 in positive territory. Share performance ranged from +387.2% to -26.6%. IPOs were a major contributor to the bull run, with certain new listings achieving three-digit advances. The enthusiasm for newly listed stocks coupled with high levels of unsatisfied demand (just 4.3% satisfied on average in 2006 compared with 17% previously) gave unprecedented dynamism to the secondary market, which closed the year with some exceptional performances.

"The year's best performers: Addoha, incontestably the flagship stock of the year and CIH, gaining ground"

Since its flotation, Addoha has clocked up an impressive run of positive days' trading. In the 120 days since its listing, the stock has ended 78 trading sessions in the black, including 21 daily gains in excess of 4%. Capitalizing on the announcement of its investment plans, Addoha's success had considerable knock-on effects across the entire market. The share beat its previous record high on several occasions, reaching a high for the year of DH 3,200 before closing 2006 at DH 2,805, a remarkable 387.2% ahead of the IPO price.

CIH continued the ascent begun in 2005, gaining 168.4% as its performance was boosted by strong demand on the part of investors. The decision of Caisse Nationale des Caisses d'Epargnes (CNCE) to acquire a 35% stake in Massira Capital Management (the company that owns 67% of CIH capital) alongside CDG (owner of 65% of MCM), was a major factor in the bank's success with investors, CNCE having committed to use its industrial and managerial expertise to the benefit of CIH, which is now in the midst of restructuring. CIH also benefited from the continuing boom in the property sector.

Demand for housing intensified last year thanks to the Fogarim assisted loan scheme introduced by the government and CIH controls 44% of this market.

"BCP: Star of the banking sector. The year's worst performers: Lesieur, Cosumar,. Diac Salaf, Marocaine Vie and Papelera de Tetuan. The Casablanca securities exchange: moving towards a more accurate sector representation."

BCP was the top performing bank last year with a gain of 147.4%. The bank posted remarkable results in the first half of 2006, thanks in particular to an active portfolio management policy and a successful expansion into the large corporate segment. The market was quick to discount these successes, driving the share price up to

DH 1,870 by end-2006. BCP also pressed ahead with its growth plans, extending its network to 600 agencies and thereby achieving greater proximity to the 2.3 clients of the 11 regional banks belonging to its Group.

Agro-food stocks were excluded from the market euphoria. Lesieur closed the year in negative territory for the third year running, shedding 18.6% to DH700. The stock was damaged by a downward revision of the Company's earnings expectations, mainly reflecting deterioration in the competitive backdrop.

Similarly, Cosumar was punished at the start of the year for a marked deterioration in its earnings (down 735) and has since struggled to make up the lost ground. After securing second place in the performance rankings of individual stocks last year (up 420.9%), Diac Salaf lost 17.3% in 2006. Also in retreat were Papelera de Tetuan and Marocaine-Vie, which closed the year with losses of 26.6% and 22.3% respectively. Small caps and relatively illiquid stocks struggled last year due to a lack of interest on the part of investors, who tended to favor large caps with more attractive upside potential.

In conclusion, reflecting the real economy, the Casablanca securities exchange was powered mainly by the strong performance of companies active in the sectors that are driving the country's economic growth — specifically, tourism, property, services and, first and foremost, banks and telecommunications. In fact, as the Casablanca exchange becomes more mature, it provides an ever more accurate reflection of the real Moroccan economy.

The numerous IPOs concluded in the past four years have created new sectors of the securities market — telecommunications, tourism and pharmaceuticals — which have in turned resulted in a more accurate sector representation. Even so, the sector representation remains incomplete as agriculture and textiles — both strategic sectors that contribute to the country's economic growth — are as yet unrepresented on the exchange.

Trading volumes and liquidity:

- Volumes soar in 2006

Total volume turnover in 2006 was DH69.5bn against DH49.6bn in 2005, a rise of 41.0%. The dynamism of the stock market last year was clearly manifest in daily trading volumes, which neared DH1bn. The total volume of equities traded increased by 38%, rising from DH49.2bn in 2005 to DH68.1bn in 2006. The six most traded stocks of 2006 — Addoha (28.4%), IAM (14.2%), BMCE (9.2%), CIH (6.3%), Attijariwafa bank and ONA (5.7%) — accounted for approximately 70% of total volume turnover. Average monthly turnover on the equity market, excluding strategic and round-trip trades, doubled in 2006, rising to DH6011.8m from DH3 538.7m in 2005.

- Ten IPOs in 2006

The improved market outlook deriving from the more benign economic outlook helped revive the interest of companies in general, and SMEs in particular, resulting in a number of new listings last year. IPOs came thick and fast in the second half, with a particular concentration in December (four flotations). With the associated tax advantages initially scheduled to end in 2006, many companies took the decision to bring forward their IPOs.

Thus, the Casablanca securities exchange saw a record ten IPOs, which together increased its total market capitalization by 11% (new capital of DH44.9bn) and accounted for 32% of the total volume of equities traded. The ten companies listed in 2006 are the following:

- Hotel group **Risma** was floated on 15 May at DH 240 per share in a capital increase that raised DH250m, thereby becoming the first company in its sector to be listed on the Casablanca securities exchange.

- **Médiaco**, a company specializing in lifting and handling equipmen**t,** was floated on 12 June at DH495 per share in a capital increase that raised DH17.3m.

- Agro-foods company **Cartier Saada** was floated on 21 June at DH185 per share in an operation that raised DH22.2m.

- Property developer **Addoha** was listed on the Casablanca exchange on 6 July when 35% of its capital (DH2.7bn) was sold at a price of DH585 per share.

Contrary to the figures published by the Casablanca securities exchange, which treat each buy and sell as two transactions, the volume figures given in this section count each such transaction as a single trade. Specifically, the reduction in company income tax introduced in the 2001 budget for companies whose shares are listed on the securities exchange. The measure has now been extended to 31/12/09 instead of 31/12/06, as initially scheduled.

- **Colorado** floated 30% of its capital (DH138.8m) at a price of DH513 per share on 27 October.

- **Fenié Brossette,** the SOMED subsidiary that distributes building materials, was floated on December at DH295 per share in a capital increase that raised DH 100.0m.

- **SRM**, a building materials distributor and handler, was listed on the Casablanca securities exchange on 21 December at DH390 per share in a capital increase that raised DH27.3m.

- IT equipment distributor **Distrisoft** was listed on 26 September when 76,387 existing shares were placed on the market and 33,613 new shares issued at a price of DH595 in an operation that increased its capital by DH65.4m.

- Integrated applications designer **Involys** was listed on 14 December when 28,314 existing shares were placed on the market and 137,686 new shares issued at a price of DH316 in an operation that raised a total of DH52.4m.

- Lastly, **HPS,** a company that specializes in electronic payment systems, was floated on 27 December when 30% of its capital (165.7m) was sold on the market at a price of DH850 per share.

"Liquidity ratio rises in 2006 Ex. Addoha, the market liquidity ratio is 12.8%"

Besides increasing volume turnover, the succession of IPOs extending over the past two years (13 companies) has also helped boost market liquidity. In like-for-like terms, the liquidity ratio (excluding strategic trades) has risen significantly, for the first time moving into double digits (16.8% vs. 8.8% in 2005). This increase was, however, to a great extent attributable to Addoha. With a total trading volume of DH17.5bn and market capitalization of DH38.2 bn, Addoha's liquidity ratio is an exceptional 38.2% and has significantly enhanced overall market liquidity.

Excluding Addoha, the liquidity ratio is 12.8%. Excluding strategic trades, 32.7% of the companies in our universe had liquidity ratios of above 15%, nine companies had ratios of more than 10% and just 6.1% of the universe had liquidity ratios below 3%.

The most liquid stocks on the exchange were Addoha (38.2%), Managem (34.3%) and BMCE (33.8%). Acred (1.7%), Fertima (2.3%) and Auto Nejma (2.5%) were the least liquid with liquidity ratios well below the market average.

Earnings growth:

Our universe comprises 54 non-loss-making companies including the newly floated.

"Average earnings growth of 15.3% between 2005 and 2007."

The interim results published by listed companies heralded good performances for the year as a whole. We estimate the average annual earnings growth of listed companies at 15.3% for the 2005-2007 period. Almost all sectors look set to register rapid growth in their activities, with eight of the 13 sectors posting earnings growth in excess of the market average and five of these achieving growth in excess of 20%.

Maroc Telecom is set to report 14.6% earnings growth for 2006, versus 12.4% in 2005. Morocco's national telecoms operator will have benefited from strong growth in mobile subscriber numbers and the expansion of its internet business.

The finance sector is expected to report average annual earnings growth of 22.0% between 2005 and 2007, mainly on the back of the banking sector's performance (average annual growth of 22.8%). Although competition has become fiercer over the last year and margins have come under pressure as a result, the banking sector continues to clock up remarkable profits.

BCP in particular stands out, having performed exceptionally well after its decision to take a more aggressive approach to the quest for profitability and performance. The bank expects to report average growth in attributable net earnings of around 15.4% between 2006 and 2010.

Sector earnings should also be boosted by the recovery of CIH, which is expected to begin reaping the rewards of the restructuring drive concluded in recent years. Attijariwafa bank likewise continues to enjoy the fruit of merger-related synergies and ongoing national and regional expansion (Maghreb and Sub-Saharan Africa).

The consumer credit segment meanwhile should lift its annual earnings by an average of 17.3% between 2005 and 2007, thanks to efforts made by sector companies to clean up their loan books and optimize funding costs. The first increase in the maximum permitted consumer credit interest rate (TMIC) since its introduction in 1997 should also contribute to this rise.

The basic industries sector is expected to make further gains in 2007, driven mainly by SRM and Maghreb Oxygène, two stocks expected to post average earnings growth of 94.3% and 50.4% respectively.

After remarkable performances in 2005 (up 130.6%), conglomerates look set for average earnings growth of 16.4% between 2005 and 2007. This slowdown is largely a reflection of the one-off impact of non-recurring capital gains realized by SNI on the sale of its interest in Sonasid in 2006. ONA, meanwhile, should be able to offset losses incurred on the acquisition of holdings in Maroc Connect against capital gains realized on the sale of shares in Axa.

The consumer staples sector is set to post average annual earnings growth of 22.1% between 2005 and 2007. This strong growth is expected to be driven mainly by Lesieur. Having been hurt by fierce price competition, this ONA subsidiary is expected to enjoy an expansion in its margins from 1 January 2007.

After being punished for poor results in 2006, Cosumar is expected to turn in good performances in 2007. This company has of course won the government tender for the privatization of four state-owned sugar refineries (Surac, Sunabel, Suta and Sucrafor) for a total amount of DH1367bn. The company has committed to invest a total of DH1.6bn in the privatization operation.

The capital goods sector is expected to post annual average earnings growth of 34.2% between 2005 and 2007, driven mainly by Berliet (up 49%) and Auto Hall (up 19%). The sector should benefit from the introduction of government incentives for the replacement of capital equipment. The automotive sector ranks first in the list of promising industrial sectors used by consultancy firm McKinsey in Morocco's new industrial strategy.

The new technology sector is expected to report average annual earnings growth of 40.4% between 2005 and 2007. Listed companies in this sector are ideally positioned to reap the rewards of Morocco's booming IT and communications sector (2005-2012 estimated CAGR of 18%), which is at the heart of the government's 2006-2012 Program Agreement. The new technologies sector was represented on the Casablanca securities exchange for the first time in 2006, when three tech stocks were floated in the last quarter — Distrisoft, Involys and HPS.

Dividends:

"Total dividend pay-out rises in 2006"

For reasons of consistency, we have not taken account of any extraordinary dividends paid out in 2006, in particular those paid by Eqdom (DH30), IAM (DH40), and Centrale Laitière (DH190). Total dividends (excluding extraordinary dividends) paid by listed companies rose by a massive 29.1% in 2006, to DH12465.5m, compared with DH9652.1m in 2005.

Stripping out the dividend paid by Maroc Telecom, 2006 dividend growth would have been 20.1%. The total dividend pay-out was almost three times the 2002 level and average annual growth from 2002 to 2006 has been 28.9%, or 11.9% excluding Maroc Telecom.

"Maroc Telecom alone accounted for 50% of the total dividend pay-out"

The telecoms sector, represented by Maroc Telecom, retains the top position in terms of dividend distribution, accounting for almost 50% of the total dividend pay-out. In 2006, the national operator distributed a dividend of DH7 per share, compared with DH5 in 2005, an increase reflecting the company's comfortable net cash position.

In addition, there was a pronounced increase (29%) in the market dividend pay-out between 2005 and 2006, reflecting an increase in dividends distributed in almost all sectors.

"Slight decline in dividend pay-out in 2006"

The market dividend pay-out dipped from 75.6% in 2005 to 73.4% in 2006. Excluding Maroc Telecom, the 2006 dividend pay-out would be around 55.4% compared with 69.4% in 2005.

"IAM makes highest dividend pay-out"

The highest dividend pay-out was made by IAM in the telecoms sector. Thanks to a comfortable net cash position, the operator was able to increase its dividend by DH2 in 2006. Consumer staples ranked second with a pay-out of 84.9%. This pronounced rise is explained by the drop in sector earnings recorded in 2005, which was greater than the decline in dividends distributed.

Shareholders' equity:

"Shareholders' equity: up 5% a year on average"

On a like-for-like basis, total shareholders' equity (before payment of dividends) rose to an estimated DH99.3bn in 2006 compared with DH81.2bn in 2001, an average annual rise of 5% over the five years in question.

Shareholders' equity is expected to have expanded by 2.8% in 2006 (compared with 5% in 2005 and 6.3% in 2004).

"Rise in funds raised on the market in 2006"

The total value of capital increases concluded in 2006 was almost double the 2005 figure (DH2.345bn vs. DH1.517bn) while sales amounted to DH3.12bn. In addition to the ten flotations concluded in the year, two listed companies carried out public share offerings:

- CIH increased its capital by DH1.85bn as part of its restructuring plan.

- Rebab also turned to the stock market for funds, increasing its capital by DH4.25m.

No further companies were privatized via stock market sales in 2006. The most recent privatization is still that of Maroc Telecom in 2004.

Valuations:

"Rising valuation Ratios"

Valuation ratios carried on expanding in 2006, in line with the equity market's continued rally. Excluding loss-making companies, the market P/E 2006E was 37% higher than the P/E 2005. The P/E 2007E, excluding loss-making companies, stands at 17.6.

"Moroccan equities market characterized by three distinct phases"

The Moroccan stock market has undergone three distinct phases.

- The first phase, from 1994 to 1998, saw prices rise slightly faster than earnings. In this phase, the index rose by an annual average of 25% compared with average annual earnings growth of 22%.

- The second phase (1998-2002) was marked by a correction of the excessive rises witnessed in the first phase. The CFG25 index fell by an annual average of 11% over this period compared to a

10% average annual increase in listed companies' earnings.

- The third phase, in place since 2002, has been characterized by price growth outstripping earnings growth. Between 2002 and 2006, the index rose by an annual average of 29% compared with average annual earnings growth of 25%.

"Market P/E continues to expand in 2006"

The Moroccan equities market's P/E rose from 14.3 to 19.2 between 1993 and 1998, largely due to the sharp rally in share prices over the period (+27% per year on average). Between 1998 and 2002, the market P/E fell sharply due to the share price correction, hitting a low of 8.8 at end-2002. Since then, the market has been heading back upwards, triggering a gradual renewed expansion of valuation ratios, which reached 20.3 at end-2006. Note that the average P/E since the 1993 stock market reforms is 14.9.

" Growth in dividend yield"

The market dividend yield fell by 18.1% from its 2005 level, closing 2006 at 3.15%. This fall is a reflection of the rise in market prices. The current market dividend yield is still very attractive compared with those offered between 1996 and 1999.

Risk premium:

"Risk premium rises in 2006, but is expected to fall in 2007"

Despite rising equity prices, the market risk premium rose from 3.62% at end-2005 to 4.72% at end-2006, mainly due to the fall in the ten-year risk-free rate, which dipped from 4.70% in 2005 to 3.37% in 2006, a decline of 109bp. Note that in September 2005 we changed our risk premium calculation parameters, replacing the five-year risk-free rate with the ten-year rate. We think the current valuation gap between the equities and bond markets is appropriate given that the average historical risk premium is 4.1%, with a low of 1.0% hit on 29/1/99 and a high of 7.16% reached on 5/7/02.

In view of companies' currently comfortable cash position, our bond research team expects rates to stabilize by the end of 2007 assuming no deterioration in the macro-economic backdrop. Accordingly, and given the price rises expected in 2007, we think the risk premium should fall.

Forecasts:

"We think the bull market will continue in 2007 because of a benign global macroeconomic backdrop and attractive market Indicators"

Market outlook:

2006 is sure to remain a record year in the history of the Casablanca securities exchange. A similar performance in 2007 therefore looks unlikely. The fundamentals of the equities market remain attractive, which we think suggests the bull move will continue, with stocks that failed to respond to the dynamism of 2006 catching up in 2007, in particular the small caps, safe-haven stocks with attractive dividend yields and relatively illiquid stocks that have been shunned in favor of large caps but on fundamentals offer real upside potential.

The outlook for growth looks less promising in 2007, given the low rainfall levels at the start of the year. The budget assumes GDP growth of 3.5%, compared with sustained growth in excess of 7.5% in 2006. Yet the macroeconomic scenario in Morocco remains favorable to a continuation of the equity market bull move:

- There is abundant structural liquidity in the financial system, thanks mainly to inward transfers from Moroccans living overseas, while tourism receipts have allowed interest rates to be lowered to record levels. This increases the appeal of the stock market in that investors will increasingly focus their arbitrage trades on the equity market, where returns are more attractive.

- The launch of massive-scale growth-enhancing projects, specifically, the plan to attract 10 million tourists by 2010, the Tangiers-Med port project, the new industrial strategy, the development of the

Bouregreg valley, the motorways program and the INDH (National Initiative for Human Development).

- Many companies have voiced plans for flotation in 2007 now that the tax incentives have been extended until 2009, including Chaâbi Liliskane and SNEP, which are subsidiaries of the Chaâbi group, Meditel, Atlanta-Sanad and IMTC. This should help sustain investor interest in the equity market and keep trading volumes high.

- The gradual return of national and foreign institutional investors. The Investment Commission recently reported more than 22 investment agreements and contracts, four of which were initiated by Moroccan promoters. Numerous economic sectors are covered by these agreements and contracts, including the cement industry, chemicals, metallurgy, agro-foods, electricity and telecoms. Examples of specific projects include the Ynna Holding II (DH1.6bn) and Ynna steel (DH600m) projects initiated by the Chaâbi group and Meditel II (DH865m).

In addition, the Moroccan securities market enjoys a number of advantages that should allow the uptrend to continue in 2007:

- The market is trading at 17/6x estimated 2007 earnings, which is still low relative to levels on comparable markets.

- The improved fundamentals and earnings capacity of the main listed companies. Market earnings growth is estimated at 16.4% in 2006 and 14.9% in 2007.

- The average market dividend yield of 3.15% remains well above the low levels registered between 1996 and 1999 and is slightly higher than the five-year treasury yield (3.11%).

- In light of the substantial drop in bond yields since 1998, the risk premium on the equities market remains attractive, which should pave the way for valuation levels above the historical average.

- The average return on equity (ROE) in 2006 is expected to be 16.9% excluding Maroc Telecom.

"Strong growth outlook for cement companies. Mining companies set to catch up in 2007. Banking should continue to outperform."

Outlook for individual sectors:

= Basic industries

- Cement producers and the construction and building materials industries are set to be buoyed by Morocco's dynamic construction and civil engineering sector. In addition to the numerous infrastructure projects, various city construction programs have been launched to combat the rising urban planning problem and housing shortage (estimated at 670,000 homes). The minister for housing and urban planning, for example, has spoken of around 112 development projects in a total of almost 170 new areas earmarked for urban development in 2007.

To prepare for this boom in activity, the three cement companies Holcim Maroc, Ciments du Maroc and Lafarge Ciments have all established new production facilities. The aim is to increase total production capacity to 3.8 million tons by the end of 2007.

Despite operating in a scenario adversely affected by the abolition of trade barriers and spiraling commodity prices, Sonasid should enjoy continued growth in 2007. In particular, the company is expected to benefit from the construction boom and synergies in the procurement of raw materials (billets, scrap metal, electrodes, coal) with the Arcelor/Mittal group, which now owns 50% of NSI (the holding company that controls 69% of Sonasid's capital). The steel company also has plans to roll out new distribution platforms in Agadir and Tanger as well as production facilities in Nador and Jorf Lasfar.

However, the basic industries sector could be vulnerable to increased competition after the entry into force of the Agadir agreement, in particular from Egyptian producers, who enjoy a real competitive advantage in this sector.

- In the mining sector, improvements in contents and reserves are the main challenges SMI and Managem must overcome if they are to increase their earnings capacity. With this in mind, at the end of 2006 Managem concluded a restructuring program designed to ensure cover appropriate to its level of reserves. The sale of its stake in Semafo enabled the ONA group subsidiary to reduce its debt and gain the financial leverage needed to reposition itself on the most promising markets. To this end, the group has concluded two partnerships for the production of cobalt, gold and copper.

= Finance

- The rise in banking share prices in 2006 provided an accurate reflection of the strength of the sector. The banks reported remarkable earnings even though competition has intensified in recent years and margins have come under pressure as a result. Morocco's banks are set to enjoy the full benefits of a benign global economic backdrop characterized by sustained demand for mortgages and consumer credit and historically low interest rates, which considerably enhance the appeal of banking products and services.

Thus the banks currently have robust solvency ratios that are allowing them to step up their local expansion plans and extend their agency networks as well as position themselves on regional markets (Maghreb and Sub-Saharan Africa). The resultant synergies afford real growth opportunities.

"Raising of the TMIC should boost the consumer credit sector. New measures for the insurance sector. Good growth prospects for ONA. Maroc Telecom continues to expand. Food: stocks offer generous upside."

The banks are also continuing their drive to move in line with Basel II prudential rules, particularly those relating to reporting, accounting systems and internal controls.

In our opinion, the main challenge facing consumer credit companies in the year to come is the need to achieve high growth rates in a scenario of margin contraction due to increased market competition. Note, however, that the decision to raise the TMICEC (the maximum interest rate credit institutions are permitted to charge) to 14% in October 2006 should have a beneficial impact on sector growth. This move could pave the way for the introduction of different ceiling rates for the different types of credit.

After building up considerable losses since 2001, the health insurance branch has just been reinvigorated by the introduction of a new reimbursement system in January 2007. The change consists of a reduction in the reimbursement rate that will allow insurance companies to rationalize the cost of benefits provided and could unlimitedly constitute a move towards the provision of supplementary cover.

Insurance companies will henceforth have greater flexibility in the allocation of their underwriting reserves and may invest up to 15% of these provisions in tourism-related mutual funds. Both the aforesaid measures should contribute to the restructure and growth of the insurance sector.

= *Conglomerates*

This sector is dominated by the ONA group, which is expected to post average annual growth of 27.9% between 2005 and 2007. This growth will be driven by the Group's financial activities — more specifically, those of Attijariwafa bank — and, via Managem, the mining industry. The healthy results that both industries are expected to post in the coming year heralds good performances for the holding company.

= *Telecommunications*

Although the arrival of new operator Wana (formerly Maroc Connect) and the introduction of interconnect tariff regulations at the start of 2007 have increased competition in the sector, Maroc Telecom should perform well in 2007. The telco is expected to capitalize on its strong presence on the local market and its expansion on regional markets. In acquiring 51% of Onatel, the Burkina Faso-based telecoms company, and rolling out its Mobisud platform in France (a virtual telco targeted at users of Northwest African origin), the Vivendi subsidiary has issued a clear signal of its ambitions with regards to regional markets offering significant growth opportunities.

= *Capital goods*

The capital goods sector is set to benefit from the introduction of government incentives for the replacement of capital equipment. The automotive sector ranks first in the list of promising industrial sectors used by consultancy firm McKinsey in Morocco's new industrial strategy.

= *Consumer staples*

Agro-food stocks failed to share in last year's market euphoria but should catch up in 2007 and thereby close the performance lag with the market. Agro-food stocks therefore offer substantial upside potential in 2007.

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THE NORTH AFRICA JOURNAL