مكتب الإستثمار والتطوير
حكومة رأس الخيمة
Investment & Development Office
Government of Ras Al Khaimah

Government of Ras Al Khaimah

¥5,000,000,000 3.58 per cent. Bonds due 2030

Issue Price: 100 per cent.

The ¥5,000,000,000 3.58 per cent. Bonds due 2030 (the "**Bonds**") are issued by the Government of Ras Al Khaimah (the "**Issuer**"). The Bonds will bear interest from and including 8 November 2010 (the "**Issue Date**") to but excluding 8 November 2030 (the "**Maturity Date**") at the rate of 3.58 per cent. per annum, payable semi-annually in arrear on 8 May and 8 November in each year. The first such payment will be made on 8 May 2011.

The Bonds will mature on the Maturity Date and are subject to redemption at the option of the Issuer on 8 November 2020, as further described under "Terms and Conditions of the Bonds - Redemption and Purchase - Redemption at the option of the Issuer". The Bonds are also subject to redemption at the option of any holder of the Bonds if a Put Event occurs, as further described under "Terms and Conditions of the Bonds - Redemption and Purchase - Redemption at the option of a Bondholder".

Except as set forth herein, payments in respect of the Bonds will be made without any deduction or withholding for or on account of taxes of the United Arab Emirates or the Emirate of Ras Al Khaimah or any political subdivision thereof or any authority therein or thereof having power to tax.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") for the Bonds to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Bonds to be admitted to trading on the London Stock Exchange's Regulated Market (the "**Market**"). References in this Prospectus to the Bonds being "**listed**" (and all related references) shall mean that such Bonds have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC (the "**Markets in Financial Instruments Directive**").

An investment in the Bonds involves certain risks. Prospective investors should review the factors described under the section headed "Risk Factors" in this Prospectus.

It is expected that the Bonds will be rated A by Fitch Ratings Ltd. ("**Fitch**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

The Bonds will be offered and sold in the denomination of ¥500,000,000. The Bonds will initially be represented by interests in a global bond certificate in registered form (the "**Global Certificate**"), without interest coupons, and will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") on the Issue Date. Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg. See "Clearing and Settlement". Individual Bond certificates in registered form evidencing holdings of the Bonds ("**Definitive Certificates**") will only be available in certain limited circumstances as described in "Summary of Provisions relating to the Bonds while represented in Global Form".

Manager

The Royal Bank of Scotland

4 November 2010

*This Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**") and for the purpose of giving information with regard to the Issuer and the Bonds.*

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

To the best knowledge and belief of the Issuer, the information contained in this Prospectus is true and accurate in every material respect and is not misleading in any material respect and this Prospectus, insofar as it concerns such matters, does not omit to state any material fact necessary to make such information not misleading. The opinions, assumptions, intentions, projections and forecasts expressed in this Prospectus with regard to the Issuer are honestly held by the Issuer, have been reached after considering all relevant circumstances and are based on reasonable assumptions.

Neither this Prospectus nor any other information supplied in connection with the offering of the Bonds constitutes an offer of, or an invitation by or on behalf of the Issuer or the Manager (as defined in "Subscription and Sale") to, subscribe for or purchase any Bonds. The distribution of this Prospectus and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Manager to inform themselves about, and to observe, any such restrictions. For a description of certain further restrictions on offers and sales of Bonds and distribution of this Prospectus, see "Subscription and Sale".

No person is authorised to provide any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer or the Manager. The delivery of this Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to its date.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Bond shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the financial, economic or political condition of the Issuer since the date of this Prospectus.

Neither the Issuer nor the Manager makes any representation to any offeree or purchaser of the Bonds offered hereby regarding the legality of an investment by such offeree or purchaser under applicable investment or similar laws. Each investor should consult with its own advisers as to the legal, tax, business, financial and related aspects of the purchase of the Bonds.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Bonds or possess this Prospectus. Any consents or approvals that are needed in order to purchase any Bonds must be obtained. The Issuer and the Manager are not responsible for compliance with these legal requirements. The appropriate characterisation of the Bonds under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase the Bonds, is subject to significant interpretative uncertainties.

Neither this Prospectus nor any other information supplied in connection with the offering of the Bonds should be considered as a recommendation by the Issuer or the Manager that any recipient of this Prospectus or any other information supplied in connection with the offering of the Bonds should purchase the Bonds. Each investor contemplating purchasing any Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer.

*The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and are subject to US tax law requirements. Subject to certain exceptions, the Bonds may not be offered, sold or delivered within the US or to US persons (as defined in Regulation S under the Securities Act). For a description of certain restrictions on offers and sales of the Bonds and on distribution of this Prospectus, see "Subscription and Sale".*

In this Prospectus, unless otherwise specified or the context otherwise requires, references to "**yen**" and "**¥**" are to Japanese yen, to "**$**", "**US$**" and "**dollars**" are to US dollars and to "**dirham**" and "**AED**" are to UAE dirham.

This Prospectus has been prepared on the basis that any offer of Bonds in any Member State of the European Economic Area which has implemented the Prospectus Directive (each a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive as implemented in that Relevant Member State from the requirement to publish a prospectus for offers of Bonds. Accordingly, any person making or intending to make an offer in that Relevant Member State of Bonds which are the subject of the offering contemplated in this Prospectus may only do so in circumstances in which no obligation arises for the Issuer or the Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor the Manager has authorised, nor do any of them authorise, the making of any offer of Bonds in circumstances in which an obligation arises for the Issuer or the Manager to publish or supplement a prospectus for such offer.

This Prospectus contains a conversion of certain AED amounts into dollars at specified rates solely for the convenience of the reader. These conversions should not be construed as representations that the AED amounts actually represent such dollar amounts or could actually be converted into dollars at the rate indicated. The UAE dirham has been pegged to the US dollar at a fixed exchange rate of AED 3.67 = US$1.00 since 22 November 1980 and, unless otherwise indicated, dollar amounts in this Prospectus have been converted from AED at this exchange rate.

THE MANAGER HAS NOT INDEPENDENTLY VERIFIED THE INFORMATION CONTAINED IN THIS PROSPECTUS. ACCORDINGLY, NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY, AND NO LIABILITY OR RESPONSIBILITY IS ACCEPTED BY, THE MANAGER OR ANY OF ITS AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS PROSPECTUS, AND NOTHING CONTAINED IN THIS PROSPECTUS IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION, WHETHER AS TO THE PAST OR THE FUTURE. NONE OF THE MANAGER OR ANY OF ITS AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS PROSPECTUS. EACH PERSON RECEIVING THIS PROSPECTUS ACKNOWLEDGES THAT SUCH PERSON HAS NOT RELIED ON THE MANAGER OR ANY OF ITS AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF IN CONNECTION WITH ITS INVESTIGATION OF THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION OR ITS INVESTMENT DECISION. EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN THE BONDS MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF THE ISSUER AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE AND ANY OTHER FACTORS WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.

FORWARD-LOOKING INFORMATION

This Prospectus contains "forward-looking statements" – that is, statements related to future, not past, events. In this context, forward-looking statements often address the Issuer's expected future economic and financial position, economic strategy, budgets and the plans and objectives of the Issuer, and often contain words such as "expects", "anticipates", "intends", "plans", "believes", "seeks" and "will". Forward-looking statements by their nature address matters that are, to different degrees, uncertain. These uncertainties may cause the Issuer's actual future results to be materially different from those expressed in the Issuer's forward-looking statements. The Issuer does not undertake to update its forward-looking statements.

SERVICE OF PROCESS AND ENFORCEMENT OF LIABILITIES

The Issuer is an emirate forming part of a foreign sovereign state outside the United Kingdom, and a substantial portion of the assets of the Issuer are located outside the United Kingdom. As a result, it may not be possible for investors to effect service of process within the United Kingdom upon the Issuer or to enforce against it in courts located in the United Kingdom judgments obtained in courts located in the United Kingdom.

A substantial part of the Issuer's assets are located in the United Arab Emirates (the "**UAE**"). The courts of the Emirate of Ras Al Khaimah and/or the UAE are unlikely to enforce an English law judgment without re-examining the merits of the claim and may not observe the choice by the parties of English law as the governing law of the transaction. In addition, even if English law is accepted as the governing law, this will only be applied to the extent that it is compatible with the laws and public policy of the Emirate of Ras Al Khaimah and/or the UAE. Moreover, judicial precedent in the UAE has no binding effect on subsequent decisions and there is no formal system of reporting court decisions in the UAE. These factors create greater judicial uncertainty than would be expected in certain other jurisdictions.

STATISTICAL INFORMATION

The statistical information in this Prospectus has been derived from a number of different identified sources which are identified in the sections "Description of the Emirate of Ras Al Khaimah", "The Economy of Ras Al Khaimah", "Balance of Payments and Foreign Trade", "Monetary and Financial System", "Public Finance" and "Indebtedness". Certain information (for example information relating to the balance of payments and information on the banking sector) is only available on a federal basis relating to the entire UAE. This and other statistical information provided in this Prospectus may differ from that produced by other sources for a variety of reasons, including the use of different definitions and cut-off times. In its 2006 Consultation, the International Monetary Fund ("**IMF**") identified a number of weaknesses in the statistical information prepared in relation to the UAE, including with respect to data quality, coverage, periodicity, timeliness and inter-sectoral consistency which will have impacted the statistical data included in this Prospectus.

The GDP numbers for individual emirates within the UAE cannot be prepared until the GDP numbers for the UAE as a whole are finalised and, accordingly, the GDP numbers for the Issuer set out in this Prospectus may not be as recent as GDP numbers produced by other sovereign issuers as at the date of this Prospectus.

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OVERVIEW

This overview highlights information contained elsewhere in this Prospectus. It does not contain all the information investors may consider important in making their investment decision. Therefore, investors should read this entire Prospectus carefully, including, in particular, "Risk Factors".

Issuer:	Government of Ras Al Khaimah
Issue:	¥5,000,000,000 3.58 per cent. Bonds due 2030 (the "**Bonds**").
Issue Price:	100 per cent. of the principal amount of the Bonds.
Issue Date:	8 November 2010
Maturity Date:	8 November 2030
Fiscal Agent and Principal Paying and Transfer Agent:	The Bank of New York Mellon
Registrar and Paying and Transfer Agent:	The Bank of New York Mellon (Luxembourg) S.A.
Interest:	The Bonds will bear interest from and including 8 November 2010. Interest on the Bonds will be payable semi-annually in arrear on 8 May and 8 November in each year, commencing 8 May 2011, at the rate of 3.58 per cent. per annum.
Form and Denomination:	The Bonds will be issued in registered form in the denomination of ¥500,000,000 each. The Bonds will be represented by the Global Certificate without coupons. The Global Certificate will be exchangeable for Definitive Certificates in the limited circumstances specified in the Global Certificate.
Initial Delivery of Bonds:	On or before the Issue Date, the Global Certificate will be deposited with The Bank of New York Mellon as common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream, Luxembourg.
Investment Considerations:	**An investment in the Bonds involves certain risks. See "Risk Factors".**
Status of the Bonds:	The Bonds are (subject to Condition 3 of the Terms and Conditions of the Bonds) direct, unconditional and unsecured obligations of the Issuer which rank *pari passu* without any preference among themselves and, subject as aforesaid, with all other outstanding present and future unsecured and unsubordinated obligations of the Issuer (save for such exceptions as may be provided by applicable legislation and subject to Condition 3 of the Terms and Conditions of the Bonds).
Negative pledge	So long as any Bond remains outstanding (as defined in the Agency Agreement), the Issuer will not create, or have outstanding, any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues to secure any Relevant Indebtedness or Relevant Sukuk Obligation, or any guarantee or indemnity in respect of any Relevant Indebtedness or Relevant Sukuk Obligation, without at the same time or prior thereto according to the Bonds the same security as is created or subsisting to secure any such Relevant Indebtedness or Relevant Sukuk Obligation, guarantee or indemnity or such other security as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Bondholders.

Redemption at the option of the Issuer:………………………………...	The Issuer may, subject to and in accordance with Condition 5(b), on giving notice to the Bondholders, redeem all (but not some only) of the Bonds for the time being outstanding on 8 November 2020 at their principal amount, together with interest accrued to (but excluding) the date of redemption.
Redemption at the option of the Bondholders:……………………………..	The Bondholders may, subject to and in accordance with Condition 5(c), on the occurrence of a Put Event, exercise an option to require the Issuer to redeem the Bonds on the Put Date at their principal amount, together with interest accrued to (but excluding) the Put Date.
Listing:...	Application has been made to the UK Listing Authority for the Bonds to be admitted to the Official List and to the London Stock Exchange for the Bonds to be admitted to trading on the Market.
Selling Restrictions:..................................	United States, United Kingdom, UAE and Japan. See “Subscription and Sale”.
Governing Law:..	The Bonds are governed by, and construed in accordance with, English law.
Use of Proceeds:..	The Issuer intends to use the net proceeds of the issue of the Bonds for its general budgetary purposes. See “Use of Proceeds”.
Ratings:..	It is expected that the Bonds will be rated A by Fitch.
	A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.
Security Codes:..	The Common Code, ISIN and CINS for the Bonds are as follows:
	Common Code: 055388270
	ISIN: XS0553882704
	CINS: M82109 AA3
Clearing:..	Euroclear and Clearstream, Luxembourg.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Bonds. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with Bonds are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Bonds, but the inability of the Issuer to pay principal, interest or other amounts on or in connection with any Bonds may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Bonds are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Factors that may Affect the Issuer's Ability to Fulfil its Obligations under the Bonds

Political and Economic Issues

Although the Emirate of Ras Al Khaimah ("**Ras Al Khaimah**" or the "**Emirate**") and the UAE enjoy domestic political stability and generally healthy international relations, there is a risk that regional geopolitical instability could impact the country. Potential sources of instability in the region include a worsening of the situation in Iraq, a further impairment in the current poor relations between the United States and either or both of Syria and Iran and an escalation in the Israeli-Palestinian conflict. In addition, there is a risk that regional militant groups could begin to target foreign nationals or businesses, or government ministers, in the UAE and Ras Al Khaimah in particular, following similar attacks in Saudi Arabia.

In its UAE 2006 Article IV Consultation (the "**2006 Consultation**"), the IMF flagged that the regulatory structure of the capital markets and intermediary activities are potential sources of fragility in the financial sector and made a number of suggestions for reform of the UAE's capital markets including amendments to the company law, clearer delineation of responsibility among regulators, better collection of statistical information, a need to increase the public float of securities and to introduce modern techniques such as stabilisation and hedging. In addition, the IMF suggested that employment opportunities for nationals should be created through long-term structural policies in the areas of education, training, wage policy and labour legislation.

Ras Al Khaimah enjoys a relatively diverse economy and has made significant efforts in recent years to attract foreign businesses and tourists to the Emirate. Its economy is, however, dependent on expatriate labour. These factors make it potentially more vulnerable should regional instability increase or foreign militants commence operations in the Emirate or the UAE. Although Ras Al Khaimah itself is not a large oil producer, the UAE's economy would be adversely impacted by a sustained decline in world oil prices which in turn would adversely impact the economy of Ras Al Khaimah. Ras Al Khaimah may also be adversely affected by a continued downturn in the property market in the UAE. Similarly, since early 2008, global credit markets, particularly in the United States and Europe, have experienced difficult conditions. These challenging market conditions have resulted in reduced liquidity, heightened volatility, widening of credit spreads and lack of price transparency in credit markets. The difficult market conditions have also impacted investment markets both globally and in the UAE, including adverse changes and increased volatility in interest rates and exchange rates and decreased return from equity, property and other investments. Such conditions, particularly if they persist for prolonged periods, will likely exacerbate the adverse effects that have already been manifested in the UAE real estate sector.

In its UAE 2007 Article IV Consultation (the "**2007 Consultation**"), the IMF noted that high inflation has become a major issue for the UAE. The IMF pointed out that rapid growth in recent years coupled with capacity constraints have put upward pressure on asset and consumer prices and that shortages of housing, which have been more severe in Dubai and Abu Dhabi than in the other emirates, have led to sharp rises in rents which have been reflected in an increase in the consumer price index. The IMF concluded that if inflation was allowed to persist at the current rate, it could become entrenched with the attendant risk of undermining competitiveness and long-term growth of the UAE's economy. In its UAE 2009 Article IV Consultation (the "**2009 Consultation**"), the IMF recognised that inflationary pressures had eased in the UAE and were likely to continue to do so in the near future due to the global slowdown, however it remains that any inflation-related downturn in the UAE may have an adverse effect on the economy of Ras Al Khaimah.

The IMF also highlighted in its 2009 Consultation its expectation for a substantial correction in the UAE real estate market. Property prices and rents have experienced double-digit growth in recent years, fuelled by strong population growth (about 6 per cent. per year), the opening of the real estate market to non-residents, negative real interest rates and loan-to-value rates of up to 95 per cent. However, since September 2008, growth has slowed, as evidenced by the sharp drop in the value of listed real-estate companies, significant layoffs in the real estate sector and the fact that many projects currently under construction have been slowed and new projects put on hold. The IMF also acknowledged that anecdotal evidence shows a clear decline in property prices and a rise in distressed sales since the final quarter of 2008. Such weaker prospects for the UAE real estate market may have an adverse effect on the economy of Ras Al Khaimah.

Statistical Information

The statistical information in this Prospectus has been derived from a number of different identified sources. Certain information (for example information relating to the balance of payments and information on the banking sector) is only available on a Federal (as such term is used in "Description of the Emirate of Ras Al Khaimah") basis relating to the entire UAE. This and the other statistical information provided in this Prospectus may differ from that produced by other sources for a variety of reasons, including the use of different definitions and cut-off times. The IMF, in the 2006 Consultation, identified a number of weaknesses in the statistical information prepared in relation to the UAE including with respect to data quality, coverage, periodicity, timeliness and inter-sectoral consistency which will have impacted the statistical data included in this Prospectus.

The GDP numbers for individual emirates within the UAE cannot be prepared until the GDP numbers for the UAE as a whole are finalised and, accordingly, the GDP numbers for Ras Al Khaimah set out in this Prospectus may not be as recent as GDP numbers produced by other sovereign issuers as at the date of this Prospectus.

Ras Al Khaimah's fiscal numbers for 2009, as set out in this Prospectus, are preliminary. Certain companies whose financial statements are consolidated in the Emirate's annual fiscal results have not, as at the date of this Prospectus, had their annual financial statements for 2009 audited. Accordingly, the Emirate is not yet able to prepare final fully consolidated fiscal results for 2009. The Emirate estimates that the final fiscal results for 2009 may show a variance of ± 5 per cent. when compared with the numbers for 2009 as set out in this Prospectus.

In addition, the data on non-trade flows into and out of the UAE set out in this Prospectus under section "Balance of Payments and Foreign Trade" is not complete and is subject to revision, reflecting, in part, weaknesses of the central statistical bodies, and in part, the operation of the large free zones. In addition, no data is released by the UAE on external debt and accordingly only IMF estimates of the UAE external debt are set out in this Prospectus.

Enforcement of Liabilities; Waiver of Immunity

It may not be possible to enforce against the Issuer, in courts of jurisdictions other than the Emirate or the UAE, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions. Courts in the Emirate or the UAE may not enforce any judgment obtained in a court established in an emirate or country other than the Emirate or the UAE unless a treaty between such emirate or country and the Emirate or the UAE, as the case may be, providing for reciprocal enforcement of judgments is in effect and then only in accordance with the terms of such treaty. There is no such treaty in effect between the Emirate or the UAE and the United Kingdom, respectively. In addition, courts in the Emirate or the UAE are unlikely to enforce an English law judgment without re-examining the merits of the claim and may not observe the parties' choice of English law as the governing law of the transaction. In addition, even if English law is applied as the governing law, this will only be applied to the extent that it is compatible with Ras Al Khaimah law and public policy. Moreover, judicial precedent in the Emirate or the UAE has no binding effect on subsequent decisions, there is no formal system of reporting court decisions in the Emirate or the UAE and the laws applicable solely to Ras Al Khaimah (as opposed to the Federal laws of the UAE which are published and apply in all emirates) are not published in a publicly available publication. These factors create greater judicial uncertainty than would be expected in certain other jurisdictions.

The Issuer has waived its rights in relation to sovereign immunity, however there can be no assurance as to whether such waivers of immunity from execution or attachment or other legal process by it under the Bonds, the Agency Agreement (as defined in "Terms and Conditions of the Bonds") and the Subscription Agreement (as defined in "Subscription and Sale") are valid and binding under the laws of the Emirate and the applicable Federal laws of the UAE.

The Issuer may be adversely affected if the UAE dirham/US dollar peg were to be removed or adjusted

The UAE dirham is the currency of the Emirate and the UAE. As of the date of this Prospectus, the UAE dirham remains pegged to the US dollar. However, there can be no assurance that the UAE dirham will not be de-pegged in the future or that the existing peg will not be adjusted in a manner that adversely affects the Issuer and/or the UAE. Any such de-pegging or adjustment could have an adverse effect on the Issuer's and/or the UAE's business, financial condition and results of operations.

Factors which are Material for the Purpose of Assessing the Market Risks Associated with the Bonds

Bonds may not be a Suitable Investment for all Investors

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained in this Prospectus or any applicable supplement;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds;

(d) understand thoroughly the terms of the Bonds; and

(e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

A potential investor should not invest in the Bonds unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of such Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

Risks related to Enforcement

Enforcement Risk

In case the Issuer fails to fulfil its payment obligations under the relevant Bond documents, it may be necessary to bring an action against it to enforce such obligations which could be both time consuming and costly.

Claims for Specific Performance

In the event that the Issuer fails to perform its obligations under the relevant Bond documents, claims for specific performance could be brought against it. However, there is no assurance that a court will provide an order for specific performance which is a discretionary matter. There is no assurance on the level of damages awarded by the court in the event of a failure by the Issuer to perform its obligations.

Risks Related to the Bonds Generally

Optional Redemption by the Issuer

The optional redemption feature may limit the market value of the Bonds. During any period before the Issuer may elect to redeem Bonds, the market value of those Bonds generally will not rise substantially above the price at which they can be redeemed. The Issuer may be expected to redeem the Bonds when its cost of borrowing is lower than the interest rate on the Bonds. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Bonds being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Optional Redemption by a Bondholder

Depending on the number of Bonds in respect of which the put option provided for in Condition 5(c) of the Terms and Conditions of the Bonds is exercised, any trading market in respect of those Bonds in respect of which such put option is not exercised may become illiquid.

Modification, Waivers and Substitution

The Terms and Conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Bonds also provide that the Bonds and such Terms and Conditions of the Bonds may, subject to the prior written approval of the Issuer, be amended without the consent of the Bondholders to correct a manifest error. In addition, the parties to the Agency Agreement (as defined in "Terms and Conditions of the Bonds") may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Bondholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Bondholders.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**"), each Member State is required to provide to the tax authorities of another Member State details of certain payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident or certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other counties). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland) with effect from the same date.

In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, none of the Issuer, any Paying and Transfer Agent or any other person would be obliged to pay additional amounts with respect to any Bond as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying and Transfer Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Savings Directive.

Change of Law

The Terms and Conditions of the Bonds are based on English law in effect as at the Issue Date. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the Issue Date.

Risks Related to the Market Generally

The Secondary Market Generally

The Bonds may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

Exchange Rate Risks and Exchange Controls

The Issuer will pay principal and interest on the Bonds in yen. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than yen. These include the risk that exchange rates may significantly change (including changes due to devaluation of yen or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the yen would decrease (a) the Investor's Currency-equivalent yield on the Bonds, (b) the Investor's Currency equivalent value of the principal payable on the Bonds and (c) the Investor's Currency equivalent market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest Rate Risks

The Bonds pay a fixed rate of interest and an investment in the Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

Legal Investment Considerations may Restrict Certain Investments

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) the Bonds are legal investments for it, (b) the Bonds can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase or pledge of any Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Bonds under any applicable risk-based capital or similar rules.

Developing Markets

Investors in developing markets should be aware that these markets are subject to greater risks than more developed markets, including, in some cases, significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in developing markets is only suitable for sophisticated investors who fully appreciate the significance of the risk.

Credit Ratings May Not Reflect All Risks

The Issuer has been assigned a sovereign credit rating of A by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies Inc. ("**S&P**") and A by Fitch. The Bonds are expected, on issue, to be rated A by Fitch and one or more other independent credit rating agencies may from time to time assign credit ratings to the Bonds. A credit rating is not a recommendation to buy, sell or hold the Bonds. Credit ratings are subject to revision or withdrawal at any time by the assigning rating agency. The Issuer cannot be certain that a credit rating will remain for any given period of time or that a credit rating will not be downgraded or withdrawn entirely by the relevant rating agency if, in its judgment, circumstances in the future so warrant. Except for the obligations the Issuer has pursuant to Condition 5(c) of the Terms and Conditions of the Bonds, the Issuer has no obligation to inform Bondholders of any such revision, downgrade or withdrawal. A suspension, downgrade or withdrawal at any time of the credit rating assigned to the Issuer may adversely affect the market price of the Bonds.

TERMS AND CONDITIONS OF THE BONDS

The issue of the ¥5,000,000,000 3.58 per cent. Bonds due 2030 (the "**Bonds**") was authorised by the Government of Ras Al Khaimah (the "**Issuer**") by Emiri Decree No. 14 of 2010 passed on 25 October 2010. A fiscal agency agreement to be dated on or about 8 November 2010 (the "**Agency Agreement**") will be entered into in relation to the Bonds between the Issuer, The Bank of New York Mellon as fiscal agent and principal paying and transfer agent, The Bank of New York Mellon (Luxembourg) S.A. as registrar and paying and transfer agent and the other paying and transfer agent named in it. The fiscal agent and principal paying and transfer agent, the registrar and the paying and transfer agents for the time being are referred to below respectively as the "**Fiscal Agent**", the "**Registrar**" and the "**Paying and Transfer Agents**" (which expression shall include the Fiscal Agent). The Agency Agreement includes the form of the Bonds. The Bonds are constituted by, and the Bondholders (as defined below) are entitled to the benefit of, a deed of covenant dated 8 November 2010 and made by the Issuer (the "**Deed of Covenant**"). The original of the Deed of Covenant will be held by the Fiscal Agent on behalf of the Bondholders at its specified office. Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified offices of the Paying and Transfer Agents. The Bondholders are deemed to have notice of all the provisions of the Agency Agreement and the Deed of Covenant applicable to them.

1 Form, Denomination and Title

(a) **Form and denomination:**

The Bonds are serially numbered and in registered form in the denomination of ¥500,000,000 (an "**authorised denomination**").

(b) **Title:**

Title to the Bonds will pass by transfer and registration as described in Condition 2. Subject as set out below, the holder (as defined below) of any Bond will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or its theft or loss (or that of the related certificate, as appropriate) or anything written on it or on the certificate in respect of it (other than a duly executed transfer thereof)) and no person will be liable for so treating the holder. In these Conditions, "**holder**" shall mean the person in whose name a Bond is registered in the Register (as defined in Condition 2(a) (or, in the case of joint holding, the first named thereof) and "**Bondholder**" shall be construed accordingly).

For so long as any of the Bonds is represented by interests in a global bond certificate in registered form (the "**Global Certificate**") held on behalf of Euroclear Bank S.A./N.V. ("**Euroclear**") and/or Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Bonds (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated as the holder of such principal amount of such Bonds for all purposes other than with respect to the payment of principal or interest on such principal amount of such Bonds, for which purpose the registered holder of such Bonds shall be treated as the holder of such principal amount of such Bonds in accordance with and subject to the terms of the Global Certificate, and the expressions "**Bondholder"** and "**holder of Bonds"** and related expressions shall be construed accordingly.

(c) **Status:**

The Bonds constitute (subject to Condition 3) direct, unconditional and unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

2 Registration and Transfer of Bonds

(a) **Registration:**

The Issuer will cause a register (the "**Register**") to be kept at the specified office of the Registrar on which will be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers and redemptions of the Bonds in accordance with the provisions of the Agency Agreement.

(b) **Transfer:**

The Bonds may, subject to the terms of the Agency Agreement and to Conditions 2(c) and 2(d), be transferred in whole or in part in an authorised denomination by lodging the relevant Bond (with the form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the specified office of the Registrar or any Paying and Transfer Agent.

No transfer of a Bond will be valid unless and until entered on the Register. A Bond may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number).

The Registrar will within seven business days (as defined in Condition 6(c)), in the place of the specified office of the Registrar, of any duly made application for the transfer of a Bond, deliver a new Bond to the transferee (and, in the case of a transfer of part only of a Bond, deliver a Bond for the untransferred balance to the transferor) at the specified office of the Registrar or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Bond by uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

(c) **Formalities free of charge:**

Such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar.

(d) **Closed periods:**

Neither the Issuer nor the Registrar will be required to register the transfer of any Bond (or part thereof) (i) during the period of 15 days ending on and including the day immediately prior to 8 November 2030 (the "**Maturity Date**"); or (ii) during the period of 15 days ending on (and including) any Record Date (as defined in Condition 6(a)) in respect of any payment of interest on the Bonds.

3 Negative Pledge

So long as any Bond remains outstanding (as defined in the Agency Agreement), the Issuer will not create, or have outstanding, any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues to secure any Relevant Indebtedness or Relevant Sukuk Obligation, or any guarantee or indemnity in respect of any Relevant Indebtedness or Relevant Sukuk Obligation, without at the same time or prior thereto according to the Bonds the same security as is created or subsisting to secure any such Relevant Indebtedness or Relevant Sukuk Obligation, guarantee or indemnity or such other security as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Bondholders.

In these Conditions:

"**Relevant Indebtedness**" means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or are capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market; and

"**Relevant Sukuk Obligation**" means any undertaking or other obligation to pay any money given in connection with the issue of trust certificates, whether or not in return for consideration of any kind, which for the time being are, or are intended to be or are capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market.

4 Interest

The Bonds bear interest from (and including) 8 November 2010 to (but excluding) the Maturity Date at the rate of 3.58 per cent. per annum, payable semi-annually in arrear on 8 May and 8 November in each year (each an "**Interest Payment Date**"). The amount of interest payable on each Interest Payment Date for the Interest Period (as defined below) ending on such date shall be ¥8,950,000 per ¥500,000,000 in principal amount of Bonds. Each Bond will cease to bear interest from the due date for redemption unless, upon due surrender, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder and (b) the seventh day after the Fiscal Agent has notified the Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions). If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

The period from (and including) 8 November 2010 to (but excluding) the first Interest Payment Date and each successive period from (and including) an Interest Payment Date to (but excluding) the next succeeding Interest Payment Date is called an "**Interest Period**".

5 Redemption and Purchase

(a) **Final redemption:**

Unless previously redeemed or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Maturity Date. The Bonds may not be redeemed at the option of the Issuer other than in accordance with Condition 5(b).

(b) **Redemption at the option of the Issuer:**

On giving not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 13 (which notice shall be irrevocable and shall oblige the Issuer to redeem the Bonds in accordance with this Condition 5(b)) and at least 5 days' notice to the Fiscal Agent, the Issuer may redeem all (but not some only) of the Bonds for the time being outstanding on 8 November 2020 at their principal amount together with accrued interest to (but excluding) the date of redemption.

(c) **Redemption at the option of a Bondholder:**

If a Put Event occurs (unless the Issuer has given notice under Condition 5(b)):

(i) the Issuer shall as soon as practicable following the occurrence of the Put Event and in any case not later than 10 business days (as defined in Condition 6(c)) thereafter give notice (a "**Put Event Notice**") to the Bondholders in accordance with Condition 13 and the Fiscal Agent specifying the nature of the Put Event and the procedure for exercising the option contained in this Condition 5(c); and

(ii) the holder of each Bond will have the option to require the Issuer to redeem that Bond on the Put Date (as defined below) at its principal amount, together with any interest accrued up to (but excluding) the Put Date.

For the purpose of these Conditions:

A "**Put Event**" will occur if at any time while any of the Bonds remains outstanding:

(A) either of a rating of the Bonds or the Sovereign Credit Rating from any Rating Agency is either (x) an investment grade credit rating (being at least BBB- in relation to S&P, Baa3 in relation to Moody's or BBB- in relation to Fitch), and any such rating from such Rating Agency is downgraded to a non-investment grade credit rating (being BB+ or below in relation to S&P, Ba1 or below in relation to Moody's or BB+ or below in relation to Fitch), or (y) a non-investment grade credit rating, and any such rating from any Rating Agency is downgraded by one or more notches (for illustration, Ba1 to Ba2 being one notch); or

(B) the Bonds cease to carry a credit rating from any Rating Agency, and no Rating Agency assigns within 90 days of the withdrawal or other cessation of the credit rating, an investment grade credit rating to the Bonds; or

(C) the Sovereign Credit Rating ceases to be assigned from any Rating Agency, and no Rating Agency assigns within 90 days of the withdrawal or other cessation of such Sovereign Credit Rating, an investment grade Sovereign Credit Rating.

For the avoidance of doubt, each occurrence of any of the events falling in (A)(x), (A)(y), (B) or (C) above will constitute a separate Put Event giving rise to the Bondholders' right to require redemption of the Bonds under this Condition 5(c).

"**Fitch**" means Fitch Ratings Ltd.

"**Moody's**" means Moody's Investors Service, Inc.

"**Rating Agency**" means (i) S&P, Moody's or Fitch or their respective successors, (ii) if all such rating agencies cease ratings business or cease to publish ratings in respect of investments, any other rating agency approved by the Security Valuation Office (SVO) of the National Association of Insurance Commissioners (NAIC) (or any successor body) for the purpose of filings by insurance companies of their investments, or (iii) if all rating agencies described in (i) or (ii) cease ratings business or cease to publish ratings in respect of investments, any other rating agency of equivalent international standing specified by the Issuer from time to time, but excluding any rating agency providing a rating on an unsolicited basis.

"**S&P**" means Standard & Poor's Rating Services.

"**Sovereign Credit Rating**" means a long term issuer credit rating assigned to the Emirate of Ras Al Khaimah (in respect of its ability to meet foreign currency financial obligations if a different rating is assigned in relation to local currency financial obligations) by a Rating Agency and means, as of 8 November 2010, the sovereign credit rating for S&P, the long term issuer rating for Moody's and the foreign currency long term issuer default rating for Fitch.

Such option may be exercised by the holder delivering its Bonds during business hours of the relevant Paying and Transfer Agent on any business day (as defined in Condition 6(c)) within the period (the "**Put Period**") of 30 days after a Put Event Notice is given, at the specified office of any Paying and Transfer Agent, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying and Transfer Agent (a "**Put Notice**") and in which the holder may specify a bank account (in the currency of the Bonds) to which payment is to be made under this Condition 5(c).

Payment in respect of any Bond so delivered will be made, if the holder duly specified a bank account (in the currency of the Bonds) in the Put Notice to which payment is to be made, on the date (the "**Put Date**") falling seven days after the expiry of the Put Period by transfer to that bank account and, in every other case, on or after the Put Date against presentation and surrender or (as the case may be) endorsement of receipt of the Bond at the specified office of any Paying and Transfer Agent. A Bond, once deposited by a Bondholder together with a duly completed Put Notice in accordance with this Condition 5(c), may not be withdrawn; provided however, that if prior to the Put Date an Event of Default has occurred and is continuing or if, upon due presentation of the Bond payment of principal in respect of the Bond and/or accrued interest up to (but excluding) the Put Date is improperly withheld or refused, such Bondholder may elect, by notice to the Issuer or the Fiscal Agent, to withdraw the Put Notice and the Paying and Transfer Agent with whom the Bond and the Put Notice had been deposited shall return the Bond by uninsured first class mail (and airmail, if overseas) to the address specified by the Bondholder. The Issuer shall redeem the relevant Bonds on the Put Date at their principal amount, together with any interest accrued up to (but excluding) the Put Date unless previously redeemed or purchased.

If the rating designations employed by S&P, Moody's or Fitch are changed from those which are described in this Condition 5(c), or if a rating is assigned by another Rating Agency, the Issuer shall determine the rating designation(s) of S&P, Moody's or Fitch or such other Rating Agency (as appropriate) as are most nearly equivalent to the prior rating designations of S&P, Moody's or Fitch, and this Condition shall be construed accordingly.

(d) **Purchase:**

The Issuer may at any time purchase Bonds in the open market or otherwise at any price. The Bonds so purchased, while held by or on behalf of the Issuer, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Bondholders or for the purposes of Condition 11(a).

(e) **Cancellation:**

All Bonds which are redeemed will be cancelled and may not be re-issued or resold. The Bonds which are purchased may, at the option of the Issuer, be cancelled and, if so cancelled, may not be re-issued or resold.

6 Payments

(a) **Method of payment:**

Payment of principal in respect of the Bonds and accrued interest payable on redemption of the Bonds other than on an Interest Payment Date will be made to the persons shown in the Register at the close of business on the Record Date, subject to the surrender of the Bonds at the specified office of any Paying and Transfer Agent. Payments of interest due on an Interest Payment Date will be made to the persons shown in the Register at close of business on the Record Date. For this purpose, "**Record Date**" means the date that is one business day in Brussels and Luxembourg before the due date for the relevant payment. Each such payment will be made by transfer to a yen account maintained by the payee with a bank in Tokyo.

(b) **Payments subject to fiscal laws:**

All payments are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 7. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

(c) **Delay in payment:**

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due (i) as a result of the due date not being a business day or (ii) if the holder is late in surrendering the relevant Bonds. In these Conditions, "**business day**" means a day on which commercial banks and foreign exchange markets are open in London and Tokyo and (where such surrender is required by these Conditions) in the place of the specified office of the relevant Paying and Transfer Agent to whom the relevant Bond is surrendered.

(d) **Registrar and Paying and Transfer Agents:**

The initial Registrar and Paying and Transfer Agents and their initial specified offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying and Transfer Agent and/or the Registrar and appoint additional or other Paying and Transfer Agents, provided that it will maintain (i) a Registrar and a Fiscal Agent, (ii) a Paying and Transfer Agent (which may be the Fiscal Agent) having its specified office in a major European city (which, so long as the Bonds are admitted to the Official List of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and admitted to trading on the London Stock Exchange's Regulated Market, shall be London) and (iii) a Paying and Transfer Agent (which may be the Fiscal Agent) with its specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC on the taxation of savings income. Notice of any change in the Registrar or the Paying and Transfer Agents or their specified offices will promptly be given to the Bondholders.

7 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Bonds shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Arab Emirates or the Emirate of Ras Al Khaimah or any political subdivision thereof or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond:

(a) **Other connection:**

to a holder, or to a third party on behalf of a holder, if such holder is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the United Arab Emirates or the Emirate of Ras Al Khaimah other than the mere holding of the Bond; or

(b) **Surrendered more than 30 days after the Relevant Date:**

surrendered (where surrender is required) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrender of such Bond for payment on the last day of such period of 30 days; or

(c) **Payment to individuals:**

where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) **Payment by another Paying and Transfer Agent:**

surrendered (where surrender is required) for payment by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by surrendering the relevant Bond to another Paying and Transfer Agent in a Member State of the European Union.

In these Conditions, "**Relevant Date**" means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Fiscal Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders. Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition.

8. Events of Default

If any of the following events occurs and is continuing:

(a) **Non-payment:**

the Issuer fails to pay the principal of, or any interest on, any of the Bonds when due and such failure continues for a period of 10 days; or

(b) **Breach of other obligations or undertakings:**

the Issuer defaults in performance or observance of or compliance with any of its other obligations or undertakings in respect of the Bonds and either such default is not capable of remedy or such default (if capable of remedy) is not remedied within 30 days after written notice of such default shall have been given to the Issuer by any Bondholder at the specified office of the Fiscal Agent; or

(c) **Cross-default:**

(i) the holders of any Indebtedness or Sukuk Obligation of the Issuer accelerate such Indebtedness or Sukuk Obligation or declare such Indebtedness or Sukuk Obligation to be due and payable or required to be prepaid (other than by a regularly scheduled required prepayment or pursuant to an option granted to the holders by the terms of such Indebtedness or Sukuk Obligation), prior to the stated maturity thereof or (ii) the Issuer fails to pay in full any principal of, or interest on, any of its Indebtedness or Sukuk Obligation when due (after expiration of any applicable grace period) or any guarantee of any Indebtedness or Sukuk Obligation of others given by the Issuer shall not be honoured when due and called upon; provided that the aggregate amount of the relevant Indebtedness or Sukuk Obligation or guarantee in respect of which one or more of the events mentioned above in this paragraph (c) shall have occurred equals or exceeds US$30,000,000 (or its equivalent in any other currency or currencies); or

(d) **Moratorium:**

the Issuer shall enter into an arrangement with its creditors generally for the rescheduling or postponement of its Indebtedness, or a moratorium on the payment of principal of, or interest on, all or any part of the Indebtedness of the Issuer shall be declared; or

(e) **Unlawfulness or invalidity:**

the validity of the Bonds is contested by the Issuer or the Issuer shall deny any of its obligations under the Bonds or as a result of any change in, or amendment to, the laws or regulations in the United Arab Emirates or the Emirate of Ras Al Khaimah, which change or amendment takes place after 8 November 2010, (i) it becomes unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Bonds or the Agency Agreement or (ii) any of such obligations becomes unenforceable or invalid,

then the Fiscal Agent shall, upon receipt of written request to the Issuer at the specified office of the Fiscal Agent from holders of not less than 25 per cent. in aggregate outstanding principal amount of the Bonds, declare all the Bonds immediately due and payable, at their principal amount together with accrued interest, without further formality. Upon such declaration by the Fiscal Agent, the Fiscal Agent shall give notice thereof to the Issuer and to the holders of the Bonds in accordance with Condition 13.

If the Issuer receives notice in writing from the holders of at least 50 per cent. in aggregate outstanding principal amount of the Bonds to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Bondholders (with a copy to the Fiscal Agent) whereupon the relevant declaration shall be withdrawn and shall have no further effect but without prejudice to any other rights or obligations which may have arisen before the Issuer gives such notice.

In these Conditions:

"**Indebtedness**" means all obligations, and guarantees or indemnities in respect of obligations, for moneys borrowed (including, without limitation, obligations evidenced by bonds, debentures, notes or other similar instruments); and

"**Sukuk Obligation**" means any undertaking or other obligation, and any guarantee or indemnity in respect of any undertaking or other obligation, to pay any money given in connection with the issue of trust certificates whether or not in return for consideration of any kind.

9 Prescription

Claims in respect of principal and interest of the Bonds will become void unless made within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

10 Replacement of Bonds

If any Bond is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Bonds must be surrendered before replacements will be issued.

11 Meetings of Bondholders, Modification and Waiver

(a) **Meetings of Bondholders:**

The Agency Agreement contains provisions for convening meetings of Bondholders to consider matters relating to the Bonds, including, without limitation, the modification of any provision of these Conditions. Any such modification may be made if, having been approved in writing by the Issuer, it is sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by the Fiscal Agent upon the request in writing of Bondholders holding not less than 10 per cent. of the aggregate principal amount of the outstanding Bonds. The quorum at any meeting of Bondholders convened to vote on an

Extraordinary Resolution will be one or more persons holding or representing not less than 50 per cent. of the aggregate principal amount of the outstanding Bonds or, at any adjourned meeting of Bondholders, one or more persons being or representing Bondholders, whatever the aggregate principal amount of the outstanding Bonds held or represented; provided, however, that any proposals relating to a Reserved Matter may only be sanctioned by an Extraordinary Resolution passed at a meeting of Bondholders at which one or more persons holding or representing not less than 75 per cent. of the aggregate principal amount of the outstanding Bonds or, at any adjourned meeting, 25 per cent. of the aggregate principal amount of the outstanding Bonds form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders, whether present or not.

If a resolution is brought in writing, such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(b) **Extraordinary Resolution:**

In these Conditions "**Extraordinary Resolution**" means:

(i) in relation to any Reserved Matter:

(A) a resolution passed at a meeting of Bondholders duly convened and held in accordance with the Agency Agreement by a majority consisting of not less than 75 per cent. of the principal amount of the Bonds for the time being outstanding; or

(B) a resolution in writing signed by or on behalf of holders of not less than 75 per cent. of the principal amount of the Bonds for the time being outstanding; and

(ii) in relation to any other matter:

(A) a resolution passed at a meeting of Bondholders duly convened and held in accordance with the Agency Agreement by a majority consisting of not less than 66.67 per cent. of the aggregate principal amount of the outstanding Bonds which are represented at that Meeting; or

(B) a resolution in writing signed by or on behalf of holders of not less than 66.67 per cent. of the outstanding principal amount of the Bonds for the time being outstanding.

(c) **Reserved Matter:**

In these Conditions "**Reserved Matter**" means any proposal to:

(i) change any date, or the method of determining the date, fixed for payment of principal or interest in respect of the Bonds or to reduce the amount of principal or interest payable on any date in respect of the Bonds;

(ii) effect the exchange or substitution of the Bonds for, or the conversion of the Bonds into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed;

(iii) reduce or cancel the principal amount of the Bonds;

(iv) vary the currency in which any payment in respect of the Bonds is to be made;

(v) amend the status of Bonds under Condition 1(c);

(vi) amend the obligation of the Issuer to pay additional amounts under Condition 7;

(vii) amend the Events of Default set out in Condition 8;

(viii) amend the Put Event set out in Condition 5(c);

(ix) amend the law governing the Bonds, the courts to the jurisdiction of which the Issuer has submitted in the Bonds, the Issuer's obligation to maintain an agent for service of process in England or the Issuer's waiver of immunity in respect of actions or proceedings brought by any Bondholder set out in Condition 16;

(x) modify the provisions contained in the Agency Agreement concerning the quorum required at any meeting of the Bondholders or any adjournment thereof or concerning the majority required to pass an Extraordinary Resolution or the percentage of votes required for the taking of any action;

(xi) change the definition of "Extraordinary Resolution" or "outstanding" in the Conditions and/or the Agency Agreement;

(xii) instruct any Bondholder or committee appointed on behalf of all Bondholders pursuant to Condition 11(e) to withdraw, settle or compromise any proceeding or claim being asserted pursuant to Condition 8;

(xiii) confer upon any committee appointed pursuant to Condition 11(e) any powers or discretions which the Bondholders could themselves exercise by Extraordinary Resolution; or

(xiv) amend this definition.

(d) **Manifest error, etc.:**

The Bonds and these Conditions may be amended by the Issuer without the consent of the Bondholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Bondholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of the Issuer, not materially prejudicial to the interests of the Bondholders.

(e) **Bondholders' representative committee:**

(i) **Appointment:**

The Bondholders may, by a resolution passed at a meeting of Bondholders duly convened and held in accordance with the Agency Agreement by a majority of at least 50 per cent. in aggregate principal amount of the Bonds then outstanding, or by notice in writing to the Fiscal Agent signed by or on behalf of the holders of at least 50 per cent. in aggregate principal amount of the Bonds then outstanding, appoint any persons as a committee to represent the interests of the Bondholders if any of the following events shall have occurred:

(A) an Event of Default;

(B) any event or circumstance which would, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 8 become an Event of Default; or

(C) any public announcement by the Issuer to the effect that the Issuer is seeking or intends to seek a restructuring of the Bonds (whether by amendment, exchange offer (other than a tender, exchange or similar offer made by the Issuer at any time when all amounts payable in respect of the Bonds have been paid in a timely manner) or otherwise),

provided, however, that no such appointment shall be effective if the holders of more than 25 per cent. of the aggregate principal amount of the outstanding Bonds have either (aa) objected to such appointment by notice in writing to the Issuer (with a copy to the Fiscal Agent) during a specified period following notice of the appointment being given (if such notice of appointment is made by notice in writing to the Issuer) where such specified period shall be either 30 days or such other longer or shorter period as the committee may, acting in good faith, determine to be appropriate in the circumstances, or (bb) voted against such resolution at a meeting of Bondholders duly convened and held in accordance with the Agency Agreement. Such committee shall, if appointed by notice in writing to the Issuer, give notice of its appointment to all Bondholders in accordance with Condition 13 as soon as practicable after the notice is delivered to the Issuer.

(ii) **Powers:**

Such committee in its discretion may, among other things, (i) engage legal advisers and financial advisers to assist it in representing the interests of the Bondholders, (ii) adopt such rules as it considers appropriate regarding its proceedings and (iii) enter into discussions with the Issuer and/or other creditors of the Issuer. The Issuer shall pay any reasonably incurred fees and expenses of any such committee (including, without limitation, the fees and expenses of the committee's legal advisers and financial advisers, if any) within 30 days of the delivery to the Issuer of a reasonably detailed invoice and supporting documentation.

(f) **Outstanding Bonds:**

For the purposes of (i) ascertaining the right to attend and vote at any meeting of Bondholders or to sign any resolution in writing of the Bondholders and (ii) Condition 8, Condition 11 and Schedule 4 (Provisions for Meetings of Bondholders) to the Agency Agreement, those Bonds (if any) which are for the time being held by any person (including but not limited to the Issuer) for the benefit of the Issuer or by any public body owned or controlled, directly or indirectly, by the Issuer shall (unless and until ceasing to be so held) be deemed not to remain outstanding.

12 Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further securities either (i) having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or (ii) upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds.

13 Notices

Subject to the provisions relating to the Bonds while represented in global form, notices to the Bondholders will be sent to them by first class mail (airmail if overseas) at their respective addresses on the Register, and will be deemed to have been given on the day after the date of mailing.

14 Currency Indemnity

Yen is the sole currency of account and payment for all sums payable by the Issuer under or in connection with the Bonds, including damages. Any amount received or recovered in a currency other than yen (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction or otherwise) by any Bondholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the yen amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that yen amount is less than the yen amount expressed to be due to the recipient under any Bond, the Issuer shall indemnify it against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it will be sufficient for the Bondholder to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Bondholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Bond or any other judgment or order.

15 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

16 Governing Law and Submission to Jurisdiction

(a) **Governing law:**

The Agency Agreement and the Bonds, and any non-contractual obligations arising out of or in connection with them, are governed by, and shall be construed in accordance with, English law.

(b) **Agreement to arbitrate:**

Subject to Condition 16(c), any dispute, claim, difference or controversy arising out of, relating to or having any connection with, the Bonds (including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with them) (a "**Dispute**") shall be referred to and finally resolved by arbitration under the LCIA Arbitration Rules (the "**Rules**") which Rules (as amended from time to time) are incorporated by reference into this Condition. For these purposes:

(i) any Request for Arbitration (as defined in the Rules) may be served on the Issuer by any Bondholder lodging the same with the Fiscal Agent;

(ii) the seat of arbitration shall be London;

(iii) there shall be three arbitrators, each of whom shall be disinterested in the arbitration, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions;

(iv) the language of the arbitration shall be English; and

(v) any requirement in the Rules to take account of the nationality of a person considered for appointment as an arbitrator shall be disapplied and a person shall be nominated or appointed as an arbitrator (including as a chairman) regardless of his nationality.

(c) **Option to litigate:**

Notwithstanding Condition 16(b), any Bondholder may, in the alternative, and at its sole discretion, by notice in writing to the Issuer;

(i) within 28 days of service of a Request for Arbitration (as defined in the Rules); or

(ii) in the event no arbitration is commenced,

require that a Dispute be heard by a court of law (subject to Condition 16(d)). If any Bondholder gives such notice, the Dispute to which such notice refers shall be determined in accordance with Condition 16(d) and, subject as provided below, any arbitration commenced under Condition 16(b) in respect of that Dispute will be terminated. Each person who gives such notice and the recipient of that notice will bear its own costs in relation to the terminated arbitration.

If any notice to terminate is given after service of any Request for Arbitration in respect of any Dispute, the relevant Bondholder must also promptly give notice to the LCIA Court and to any Tribunal (each as defined in the Rules) already appointed in relation to the Dispute that such Dispute will be settled by the courts. Upon receipt of such notice by the LCIA Court, the arbitration and any appointment of any arbitrator in relation to such Dispute will immediately terminate. Any such arbitrator will be deemed to be *functus officio*. The termination is without prejudice to:

(A) the validity of any act done or order made by that arbitrator or by the court in support of that arbitration before his appointment is terminated;

(B) his entitlement to be paid his proper fees and disbursements; and

(C) the date when any claim or defence was raised for the purpose of applying any limitation bar or any similar rule or provision.

(d) **Effect of exercise of option to litigate**:

In the event that a notice pursuant to Condition 16(c) is issued, the following provisions shall apply:

(i) subject to paragraph (iii) below, the courts of England shall have exclusive jurisdiction to settle any Dispute and the Issuer submits to the exclusive jurisdiction of such courts;

(ii) the Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary; and

(iii) this Condition 16(d) is for the benefit of the Bondholders only. As a result, and notwithstanding paragraph (i) above, any Bondholder may take proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, the Bondholders may take concurrent Proceedings in any number of jurisdictions.

(e) **Agent for service of process:**

The Issuer irrevocably appoints Jordans Limited of 21 St Thomas Street, Bristol BS1 6JS as its agent in England to receive service of process in respect of any Proceedings or Disputes in England based on any of the Bonds. If for any reason the Issuer does not have such an agent in England, it will promptly appoint a substitute process agent in respect of any Proceedings or Disputes and notify the Bondholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

(f) **Waiver of immunity:**

To the extent that the Issuer may in any jurisdiction claim for itself or its revenues, assets or properties which consist of its public and private properties invested in financial, commercial or industrial activities or deposited in banks ("**Sovereign Assets**") immunities from suit, execution, attachment (whether in aid of execution, before judgement or otherwise) or legal process, in all cases related to the Bonds, and to the extent that in any such jurisdiction there may be attributed to itself or its Sovereign Assets such immunity (whether or not claimed), the Issuer hereby irrevocably agrees for the benefit of the Bondholders not to claim and hereby irrevocably waives such immunity to the fullest extent permitted by the laws of such jurisdiction. In addition, to the extent that the Issuer or any of its Sovereign Assets shall be entitled in any jurisdiction to any immunity from set-off or any similar right or remedy, and to the extent that there shall be attributed, in any jurisdiction, such an immunity, the Issuer hereby irrevocably agrees not to claim and irrevocably waives such immunity to the fullest extent permitted by the laws of such jurisdiction with respect to any claim, suit, action, proceeding, right or remedy arising out of or in connection with the Bonds.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE REPRESENTED IN GLOBAL FORM

The Global Certificate contains provisions that apply to the Bonds that it evidences, some of which modify the effect of the Terms and Conditions of the Bonds. The following is a summary of those provisions.

Payments

Payments of principal and interest in respect of Bonds evidenced by the Global Certificate will be made to the person who appears at the relevant time in the Register as holder of the Bonds against presentation for endorsement by the Fiscal Agent and, if no further payment falls to be made in respect of the relevant Bonds, surrender of the Global Certificate to or to the order of the Fiscal Agent or such other Paying and Transfer Agent as shall have been notified to the relevant Bondholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Certificate, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Bonds.

Notices

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system, notices to Bondholders may be given by delivery of the notice to such clearing system for communication by them to entitled account holders in substitution for notification as required by Condition 13 of the Terms and Conditions of the Bonds.

Meetings

The holder of the Global Certificate will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Bondholders and in any such meeting as having one vote in respect of each integral ¥500,000,000 in principal amount of Bonds.

Cancellation

Cancellation of any Bond required by the Terms and Conditions of the Bonds to be cancelled will be effected by reduction in the principal amount of the Global Certificate on its presentation to or to the order of the Fiscal Agent.

Exchange

The Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for definitive registered certificates ("**Definitive Certificates**") if (i) it is held by or on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 calendar days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar, (ii) an Event of Default has occurred and is continuing, by the holder giving notice to the Registrar, or (iii) if the Issuer would suffer a material disadvantage in respect of the Bonds as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 7 of the Terms and Conditions of the Bonds which would not be suffered were the Bonds in definitive form, by the Issuer giving notice to the Registrar and the Bondholders, of its intention to exchange interests in the Global Certificate for the Definitive Certificates on or after the Exchange Date (as defined below) specified in the notice.

In the event that:

(a) the Definitive Certificates have not been delivered in accordance with the foregoing by 8:00 p.m. (London time) on the thirtieth day after notification of the exchange; or

(b) the Bonds are accelerated by the holder in those circumstances described in Condition 8 of the Terms and Conditions of the Bonds where any Bond is still represented by the Global Certificate and the Global Certificate (or any part thereof) has become due and repayable in accordance with Condition 8 and payment in full of the amount due has not been made in accordance with the provisions of the Global Certificate, then the Global Certificate (including the obligation to deliver the Definitive Certificates) will become void at 8:00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 8:00 p.m. (London time) on the day immediately following such day (in the case of (b) above) and the holder of the Global Certificate will have no further rights thereunder, subject to any Event of Default or Events of Default having been cured in accordance with Condition 8 in which case the Global Certificate shall be deemed no longer to be void (in the case of (b) above). At the same time holders of interests in the Global Certificate credited to their accounts with a clearing system will become entitled to proceed directly against the Issuer on the basis of statements of account provided by the clearing system on an subject to the terms of a deed of covenant dated 8 November 2010 and executed by the Issuer.

"**Exchange Date**" means a day falling not later than 60 calendar days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the relevant Paying and Transfer Agent is located.

The Registrar will not register the transfer of, or exchange of interests in, the Global Certificate for Definitive Certificates for a period of 15 calendar days ending on the date for any payment of principal or interest in respect of the Bonds.

Delivery

If any of the events described in "Exchange" above occurs, the Global Certificate shall be exchangeable in full but not in part for Definitive Certificates and the Issuer will, free of charge to the Bondholders, cause sufficient Definitive Certificates to be executed and delivered to the Registrar for completion and despatch to the relevant Bondholders. A person having an interest in the Global Certificate must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Definitive Certificate.

Transfers

Transfers of interests in the Bonds with respect to which the Global Certificate is issued shall be made in accordance with the Agency Agreement.

Transfers of interests in the Bonds with respect to which the Global Certificate is issued shall be effected through the records of the relevant clearing system and its respective participants in accordance with the rules and procedures of the relevant clearing system and its direct and indirect participants.

Exercise of Put Option

For so long as all of the Bonds are represented by the Global Certificate, the option of the Bondholders provided for in Condition 5(c) of the Terms and Conditions of the Bonds may be exercised by a direct participant of a clearing system giving notice to the Paying and Transfer Agent in accordance with the standard procedures of the relevant clearing system (which may include notice being given on his instructions by the relevant clearing system or any common depositary for it to the Paying and Transfer Agent by electronic means) of the principal amount of the Bonds in respect of which such option is exercised and at the same time presenting or procuring the presentation of the Global Certificate to the Paying and Transfer Agent for notation within the time limits set forth in that Condition.

CLEARANCE AND SETTLEMENT OF THE BONDS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of the clearing systems currently in effect. The information in this section concerning the clearing systems has been obtained from sources that the Issuer believes to be reliable, but neither the Issuer nor the Manager takes any responsibility for the accuracy of this section. Investors wishing to use the facilities of any of the clearing systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant clearing system. Neither the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Bonds held through the facilities of any clearing system or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Custodial and depository links have been established with Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Bonds and transfers of the Bonds associated with secondary market trading.

The clearing systems

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry of changes in the accounts of their participants. Euroclear and Clearstream, Luxembourg provide their respective participants with, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg's participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Bonds held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Fiscal Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

Registration and Form

Book-entry interests in the Bonds held through Euroclear and Clearstream, Luxembourg will be evidenced by the Global Certificate, registered in the name of a nominee of the common depositary of Euroclear and Clearstream, Luxembourg. The Global Certificate will be held by a common depositary for Euroclear and Clearstream. Luxembourg. Beneficial ownership in Bonds will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream, Luxembourg.

The aggregate holdings of book-entry interests in the Bonds in Euroclear and Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. Euroclear and Clearstream, Luxembourg (as the case may be), and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the Bonds, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interest in the Bonds. The Fiscal Agent will be responsible for ensuring that payments received by it from the Issuer for holders of interests in the Bonds holding through Euroclear and Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg, as the case may be.

The Issuer will not impose any fees in respect of the Bonds; however, holders of book-entry interest in the Bonds may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and Clearstream, Luxembourg.

Global Clearance and Settlement Procedures

Initial Settlement

Interests in the Bonds will be in uncertificated book-entry form. Purchasers electing to hold book-entry interests in the Bonds through Euroclear and Clearstream, Luxembourg accounts will follow the settlement procedures applicable to conventional eurobonds. Book-entry interests in the Bonds will be credited to Euroclear and Clearstream, Luxembourg participants' securities clearance accounts on the business day following the Issue Date against payment (for value the Issue Date).

Secondary Market Trading

Secondary market sales of book-entry interests in the Bonds held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Bonds through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional participants.

General

Although the foregoing sets out the procedures of Euroclear and Clearstream, Luxembourg in order to facilitate the transfers of interests in the Bonds among participants of Euroclear and Clearstream, Luxembourg, neither Euroclear nor Clearstream, Luxembourg is under any obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time.

Neither the Issuer nor any of its agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations.

USE OF PROCEEDS

The Issuer will use the net proceeds of the issue of the Bonds for its general budgetary purposes.

DESCRIPTION OF THE EMIRATE OF RAS AL KHAIMAH

Introduction

The Emirate of Ras Al Khaimah ("**Ras Al Khaimah**" or the "**Emirate**") is one of seven emirates which together comprise the federation of the United Arab Emirates ("**UAE**"). The federation was established on 2 December 1971. On formation, the federation comprised the following emirates: Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al Qawain and Fujairah. Ras Al Khaimah joined in February 1972. Abu Dhabi is the capital city of the UAE. The President of the UAE is His Highness Sheikh Khalifa bin Zayed Al Nahyan who is also the ruler of Abu Dhabi. Ras Al Khaimah was headed by its former ruler His Highness Sheikh Saqr Bin Mohammed Al Qasimi for the last 62 years. Upon the death of His Highness Sheikh Saqr Bin Mohammed Al Qasimi on 27 October 2010, the former Deputy Ruler and Crown Prince of Ras Al Khaimah, His Highness Sheikh Saud Bin Saqr Al Qasimi, was appointed as the new Ruler of Ras Al Khaimah.

While the terms "Federal" and "Federation" are used in this description, the term "Union" may be more accurate based upon the definition (ittihad) which the founding fathers of the United Arab Emirates gave in the 1971 Provisional Constitution of the United Arab Emirates (as amended). However in line with common parlance, the terms "Federal" and "Federation" are used throughout in this description.

Location

Ras Al Khaimah is the northernmost emirate of the UAE. The Emirate has a logistically advantageous geographical location as it is located on the strait of Hormuz and close to the entrance of the Arabian Gulf and the Gulf of Oman. In common with the other emirates, Ras Al Khaimah's strategic position at the crossroads between the East and West has helped establish it as a trading and services hub between the Far East and Europe.

A creek divides the Emirate into two parts. The western side is known as Ras Al Khaimah and the eastern side is known as Al Nakheel. The Emirate has borders with the emirates of Umm Al Quwain, Fujairah and Sharjah as well as the Sultanate of Oman. The Emirate has a coastline of 64 kilometres and covers an area of 2,478 square kilometres, which makes it the fourth largest emirate in the UAE. The capital city of the Emirate is Ras Al Khaimah City and is located at the foot of the Al Hajar al Gharbi Mountains.

Although milder than the rest of the UAE, Ras Al Khaimah's climate is generally hot and dry. The hottest months are July and August, when average maximum temperatures can reach above 48°C on the coastal plain. In the mountains, temperatures are considerably cooler as a result of increased altitude. Average minimum temperatures for the Emirate, which are in January and February, are between 10°C and 14°C. The average annual rainfall in the coastal area is fewer than 120 millimetres, but in some mountainous areas annual rainfall often reaches 350 millimetres.

The UAE as a whole extends along the west coast of the Arabian Gulf, from Saudi Arabia to Ras Al Khaimah in the North and across parts of the Mussandum peninsula to the Gulf of Oman in the East. The UAE covers an area of 83,699 square kilometres in total.

History

The territory of Ras Al Khaimah has a history stretching back to 5,000 BC. It has been host to continuous settlement and farming since the Bronze Age. By the end of the second millennium BC, settlers could be found in each of the four types of landscapes found in Ras Al Khaimah: the fertile plains, the mountainous region, the coastal areas and the desert. Settlement became easier as new irrigation techniques made possible the extensive watering of agricultural areas. By the first century AD, overland caravan traffic between Syria and cities in southern Iraq, followed by seaborne travel to the port of Omana (probably present-day Umm al-Quwain) and then to India was an alternative to the Red Sea route used by the Romans.

The arrival of envoys from the Prophet Muhammad (PBUH) in 630 AD heralded the conversion of the region to Islam. The Portuguese arrival in the Gulf in the sixteenth century adversely affected the Arab residents of Julfar (present day Ras Al Khaimah) and east coast ports like Dibba, Bidiya, Khor Fakkan and Kalba. However, while European powers competed for regional supremacy, a local power, the Qawasim, was gathering strength. At the beginning of the nineteenth century the Qawasim had built up a fleet of over 60 large vessels and could put nearly 20,000 sailors to sea, eventually provoking a British offensive to control the maritime trade routes between the Gulf and India.

Following the defeat of the Qawasim by the British, Ras Al Khaimah and the other emirates of the current UAE each entered into a separate treaty with the British. These emirates became collectively known as the Trucial States or Sheikhdoms and the area was generally known as the Trucial Coast. The Sheikhdoms were each led by a Sheikh, who typically belonged to the most influential tribe in that area.

The British remained in the area until their withdrawal from the region in 1971. Steps were then taken by the rulers of the seven emirates to bring the individual Sheikhdoms together into a single federation. This resulted in the formation by six of the seven emirates of the UAE in December 1971, with Ras Al Khaimah joining in February 1972.

In May 1976, the seven emirates agreed to merge their armed forces. In 1979, the Ruler of Dubai, His Highness Sheikh Rashid bin Said Al Maktoum, became Prime Minister of the Federal government. His Highness Sheikh Zayed bin Sultan Al Nahyan of Abu Dhabi served as President of the UAE from 1971 until his death in November 2004, when he was succeeded by his son, His Highness Sheikh Khalifa bin Zayed Al Nahyan, as Ruler of Abu Dhabi and President of the UAE.

Population

The population of the UAE, based on a census carried out in 2005, was approximately 3.8 million, of whom more than two hundred thousand resided in Ras Al Khaimah. However, it is estimated that there were over 300,000 non-UAE nationals resident in the country who were not included in the census. This takes the total population of the UAE to more than 4 million.

The populations of both the UAE and Ras Al Khaimah have grown significantly since 1975, reflecting an influx of foreign labour, principally from Asia, as the emirates have developed. The table below illustrates this growth using official census data since 1985.

	1975	**1980**	**1985**	**1995**	**2001**	**2005**	**2006**	**2007**	**2008**
Ras Al Khaimah population	43,845	73,918	96,578	143,334	181,000	210,063	214,000	222,000	231,000
Total UAE population	557,887	1,042,099	1,379,303	2,411,041	3,500,000	3,769,080	4,229,000	4,488,000	4,765,000

Source: Official census data for 1975, 1980, 1985, 1995, 2001 and 2005, and estimates from RAK Statistical Year Book for the years 2006 -2008

The estimated total Ras Al Khaimah population for 2009, as published in the 2010 Statistical Yearbook of the Emirate of Ras Al Khaimah was 241,000. As per latest published data, it is estimated that nearly 58 per cent. of the Emirate's population are expatriates, mainly from the Asian subcontinent followed by expatriates from other Arab countries, Europe and North America.

Education and training are an important strategic focus for the Emirate (see further *"The Economy of Ras Al Khaimah – Infrastructure – Education"* below). Based on a census carried out in 2005, the literacy level for the economically active population in Ras Al Khaimah was 83 per cent. Approximately 14 per cent. of the economically active population had university or equivalent level degrees and a further 35.7 per cent. had completed secondary education. Looking ahead, Ras Al Khaimah believes that one of its key challenges will be the creation of jobs for the local population supported by initiatives to educate and motivate young nationals to join the workforce and the private sector. With a view to achieving this, Ras Al Khaimah has already put in place certain initiatives designed to educate and motivate young nationals to join its work force and private sector, including:

- The Sheikh Saud Young Business Leader's Programme, which is designed to help young entrepreneurs succeed in their business ventures by providing them with general advice on business matters and, where appropriate, assisting them in finding finance opportunities; and

- The Sheikh Saud RAK Government Award for Creativity and Excellence, which is an annual award designed to reward gifted students from Ras Al Khaimah, including, in certain cases, by sponsoring their education abroad.

The Sheikh Saud bin Saqr Al Qasimi Foundation for Policy Research (**"SSFPR"**) has also been established by His Highness Sheikh Saud Bin Saqr Al Qasimi to develop and foster research collaboration between the Government of Ras Al Khaimah and the international and local research community in order to aid the economic and social development of Ras Al Khaimah and the United Arab Emirates.

Relationship between the UAE Constitution and Ras Al Khaimah

The UAE Constitution

The original constitution of the UAE (the "**Constitution**") was initially provisional and provided the legal framework for the Federation. The Constitution was made permanent pursuant to a constitutional amendment in May 1996 (which also confirmed Abu Dhabi as the permanent capital of the UAE).

The major principle enunciated by the Constitution in relation to the separation of powers between the Federation and the individual emirates is that, on specific matters, legislative and executive, or solely legislative, competences were conferred on the Federation, with each individual emirate remaining sovereign within its own territory on all residuary matters.

Accordingly pursuant to Articles 120 and 121 of the Constitution, the Federal government has exclusive legislative and executive competences in relation to foreign affairs; security and defence; nationality and immigration; Federal finance, taxation and public borrowing; education; public health; the currency; postal, telephone and other communications services; air traffic control and the licensing of aircraft. The UAE's monetary and exchange rate policy is managed on a federal basis by the UAE Central Bank. See "Monetary and Financial Systems".

Similarly, pursuant to Article 121 of the Constitution, the Federation has exclusive legislative (but not executive) competence in relation, for example, to: labour relations, banks, insurance, major codal legislation, intellectual property protection, the delimitation of territorial waters, the extradition of criminals and financial free zones. In relation to these competences, the implementation of the Federal legislation is left to the executive authorities of each emirate.

Article 122 of the Constitution confirms that "the Emirates shall have competence in relation to all matters where the Federation does not hold exclusive competence in accordance with the provisions of the preceding two Articles".

In this way, the individual emirates retain flexibility in the governance and management of their own emirates. Examples of the sectors for which Ras Al Khaimah has retained responsibility include its customs controls, local planning authorities and tourism.

The natural resources and wealth in each emirate are considered to be the public property of that emirate.

Federal Supreme Council

The UAE is governed by the Supreme Council of the Rulers of each of the emirates (the "**Supreme Council**"). This is the highest federal governing body and consists of the Rulers of the seven emirates. The Supreme Council elects from its own membership the President and the Vice President of the UAE (for renewable five-year terms). The Supreme Council is vested with legislative as well as executive powers. It ratifies federal laws and decrees, plans general policy and approves the appointment, resignation or dismissal of the Prime Minister.

The then Ruler of Abu Dhabi, His Highness Sheikh Zayed bin Sultan Al Nahyan, was elected in 1971 as the first President of the UAE and was re-elected as President for successive five-year terms until his death in November 2004. The then Ruler of Dubai in 1971, His Highness Sheikh Rashid bin Said Al Maktoum, was elected as the first Vice-President of the UAE and continued as Vice-President until his death in 1990. Both were succeeded by their Crown Princes, who became Rulers of their emirates and were elected by the members of the Supreme Council to become respectively President, for the Ruler of Abu Dhabi, and Vice-President for the Ruler of Dubai.

His Highness Sheikh Saud Bin Saqr Al Qasimi, the Ruler of Ras Al Khaimah, represents Ras Al Khaimah, on the Supreme Council.

Federal Council of Ministers

The Federal Council of Ministers (the "**Cabinet**") is described in the Constitution as "the executive authority" for the Federation and is responsible for implementing policy decisions of the Supreme Council. The Cabinet is the principal executive body of the Federation. Based in Abu Dhabi, the Cabinet is headed by the Prime Minister and consists of the Deputy Prime Ministers and other Ministers. These ministers are normally selected (for no fixed term) by the President of the Supreme Council on the recommendation of the Prime Minister. The Constitution defines the competences of the Cabinet, which include the issuing of regulations, the preparation of draft laws and the drawing up of the annual Federal budget.

Federal National Council

The Federal National Council is a parliamentary body which comprises 40 members who are UAE nationals. Each emirate appoints members for a particular number of seats based on such emirate's population and size. Abu Dhabi and Dubai have eight members each, Sharjah and Ras Al Khaimah have six members each and the other emirates have four members each. The nomination of representative members is left to the discretion of each emirate, and the members' legislative term is four calendar years. The members represent the UAE as a whole rather than their individual emirates.

Presided over by a speaker, or either two deputy speakers elected from amongst its members, the Federal National Council has both a legislative and supervisory role under the Constitution. This means that it is responsible for examining and, as appropriate, amending or rejecting, all proposed federal legislation, and is empowered to summon and to question any federal minister regarding ministry performance. One of the main duties of the Federal National Council is to discuss the annual budget of the UAE. Although the Federal National Council can monitor and debate government policy, it has no veto or amendment power and cannot initiate any legislation by itself, and its amendments to, or rejection of, draft legislation placed before it can ultimately be overridden by the Supreme Council.

During 2006, reforms were made with a view to enhancing public participation in indirect elections to the Federal National Council. Under these reforms, each Ruler will select an electoral college whose members should be at least 100 times the number of Federal National Council members for the emirate. The members of each college elect half of the Federal National Council members for their emirate, with the remainder being appointed by the Ruler.

Legal and Court System

There are three primary sources of law in the UAE, namely: (i) federal laws and decrees applicable in all seven emirates, (ii) local laws i.e. laws and regulations enacted by the emirates individually and (iii) *Shari'ah* (Islamic) law. The secondary form of law is trade custom or practice. In the absence of federal legislation on areas specifically reserved to federal authority, the Ruler or local government of each emirate will apply his or its own rules, regulations and practices.

The federal judiciary, whose independence is guaranteed under the Constitution, includes the Federal Supreme Court and Courts of First Instance. The Federal Supreme Court consists of five judges appointed by the Supreme Council. The judges decide on the constitutionality of federal laws and arbitrate on inter-emirate disputes and disputes between the Federal government and the emirates.

In accordance with the Constitution, three of the seven emirates (Dubai, Abu Dhabi and Ras Al Khaimah) have elected to maintain their own court system, separate from that of the UAE, and these courts have sole jurisdiction to hear cases brought in the respective emirates.

Ras Al Khaimah's judicial system mirrors the structure of the federal judicial system and is comprised of (i) a Court of First Instance (ii) a Court of Appeal and (iii) a court of Cassation.

International Relations

Pursuant to Articles 120 of the Constitution, foreign policy and international relations are a Federal matter and, accordingly, Ras Al Khaimah has no right to enter into agreements with foreign governments other than, under certain conditions, "limited agreements of a local and administrative nature" with neighbouring states.

The foreign policy of the UAE is based upon a set of guiding principles laid down by the country's first President, His Highness Sheikh Zayed bin Sultan Al Nahyan. He derived these principles from his belief in the need for justice in international dealings between states, including the necessity of adhering to the principle of non-interference in the internal affairs of others and the pursuit, wherever possible, of peaceful resolution of disputes, together with support for international institutions, such as the United Nations (the "**UN**").

Within the Arabian Gulf region, and in the broader Arab world, the UAE has sought to enhance cooperation and to resolve disagreement through the pursuit of dialogue. Thus one of the central features of the country's foreign policy has been the development of closer ties with its neighbours in the Arabian Peninsula. The Gulf Co-operation Council (the "**GCC**") grouping, which comprises the UAE, Kuwait, Saudi Arabia, Bahrain, Qatar and Oman, was founded at a summit conference held in Abu Dhabi in May 1981.

At the broader level of the Arab world as a whole, the UAE is committed to rebuilding a sense of common purpose among both its people and its governments and, to this end, has supported the strengthening of common institutions, such as the League of Arab States. Beyond the Arab world, the UAE has pursued a policy of seeking, wherever possible, to build friendly relations with other nations, both in the developing and in the industrialised world. The UAE also maintains cordial relations with other regional states and has established good relations with the United States and the European Union as well as with developing nations in Africa and many of the countries of the former Soviet Union.

Since the establishment of the UAE, the country has played an active role in the provision of financial aid to developing countries and has been a contributor of emergency relief to countries and areas affected by conflict and natural disasters. Countries that have benefited in recent years from the UAE's financial aid include Pakistan, Morocco, Mauritania, Sudan, Yemen and Egypt. The philosophy behind the aid policy is two-fold: first, the provision of help for the needy is a duty incumbent on all Muslims and, second, the country's policy on utilisation of the revenues from its oil and gas production has always included a component that they should be devoted, in part, to helping other countries which have fewer natural resources.

The UAE is also an active participant in a number of multi-lateral aid-giving institutions, including the International Bank for Reconstruction and Development (the "**World Bank**"), the International Monetary Fund (the "**IMF**"), the International Development Agency and regional bodies like the OPEC Fund for International Development, the Arab Gulf Fund for the UN, the Arab Bank for Economic Development in Africa, the Abu Dhabi-based Arab Monetary Fund and the Islamic Development Bank. In addition, the UAE is a member of various other international organisations including, *inter alios,* the GCC, the United Nations, the League of Arab States, the Organisation of Islamic Countries, the Organisation of Arab Petroleum Exporting Countries, the Organisation of Petroleum Exporting Countries ("**OPEC**"), the World Health Organisation, the International Organisation for Industrial Development, the World Trade Organisation and the Asia-Pacific Economic Co-operation.

The UAE has an impasse with Iran and Saudi Arabia over border issues. Since 1971, the three Gulf islands of Abu Musa and Greater and Lesser Tunb have been occupied by Iranian forces. The UAE believes that the islands should be returned to Sharjah which claims sovereignty over them and is seeking to resolve the dispute through bilateral negotiations or a reference to international arbitration.

The UAE is also seeking, through negotiation, to resolve issues related to the 1974 provisional and, as yet, unratified agreement with Saudi Arabia on the border between the two countries.

The Government of Ras Al Khaimah

The powers of government in Ras Al Khaimah are vested in the Ruler and the Crown Prince. The Ruler of Ras Al Khaimah is His Highness Sheikh Saud Bin Saqr Al Qasimi. His Highness Sheikh Saud Bin Saqr Al Qasimi was appointed Ruler of Ras Al Khaimah on 27 October 2010 following the death of his father His Highness Sheikh Saqr Bin Mohammed Al Qasimi who had been in power since 1948.

Upon his accession as the former Crown Prince and Deputy Ruler on 14 June 2003, His Highness Sheikh Saud Bin Saqr Al Qasimi embarked on a wide-ranging development programme for Ras Al Khaimah aimed at diversifying and reforming its economy as well as encouraging foreign investment. His Highness Sheikh Saud Bin Saqr Al Qasimi's development and diversification programme has focused on the industrial, technology, financial services, ports, aviation, pharmaceuticals, financial services, real estate and tourism sectors of the economy as well as aiming to establish the Emirate as a centre of excellence for education and health care. During the last four years (2006-2009), the Emirate's cash revenues and operational cash surpluses have seen compound annual growth rates of 25.2 per cent. and 23.7 per cent., respectively (see further "*Public Finance*" section).

The various departments and other arms of the Government of Ras Al Khaimah and their respective executives operate under the powers and responsibilities specifically delegated to them from time to time by the Ruler. The laws adopted in Ras Al Khaimah are passed by virtue of a decree of the Ruler.

The key government departments are:

- Finance Department
- Municipality
- Public Works and Services Department
- Department of Education
- Department of Health
- Department of Interior
- Department of Economic Development
- Investment & Development Office
- Ras Al Khaimah Investment Authority
- Ras Al Khaimah Free Trade Zone

The Government of Ras Al Khaimah has adopted a strategy for its economy which is intended to complement the economic growth in other emirates such as Abu Dhabi and Dubai. In particular, Ras Al Khaimah is seeking to diversify its revenue sources by leveraging its mineral resources and its strategic location position in the Arabian Gulf and the Middle East as well as by focussing on the development of its tourism industry. In the context of the overall contraction of the UAE's economy, particularly in the case of Dubai and Abu Dhabi, the resulting impact on Ras Al Khaimah's economy has been largely contained, primarily, due to the Emirate's limited exposure to the real estate sector, comparatively. However, during this period, the government has actively sought to explore new markets and further diversify its economic base, while pursuing a selection of real-estate projects that are backed by consumer demand. To achieve these goals, the Government of Ras Al Khaimah has established the Economic Development Department, the Investment & Development Office, the Ras Al Khaimah Investment Authority (see *"The Economy of Ras Al Khaimah — Introduction"* below) and the Ras Al Khaimah Free Trade Zone (see *"The Economy of Ras Al Khaimah — Foreign Direct Investment and Free Zones"* below) and has also adopted the following objectives aimed at attracting investors by establishing a business friendly environment in the Emirate:

- improving the investment climate by removing or otherwise addressing legal, administrative and other impediments to investments and doing business;
- providing world-class infrastructure and other public services at a competitive cost;
- ensuring that there is clarity, objectivity and transparency in the Emirate's legal and regulatory framework; and
- provide investment funding as needed.

Rating

On 25 February 2010, S&P affirmed 'A' long term and 'A-1' short-term sovereign credit ratings on the Emirate of Ras Al Khaimah (with a stable outlook), and on 16 March 2010 Fitch affirmed an 'A' long-term foreign and local currency issuer default rating (with a stable outlook)~~.~~ on the Emirate of Ras Al Khaimah. Both of Fitch and S&P have also affirmed the United Arab Emirates Country Ceiling rating of 'AA+'.

Environmental matters

Ras Al Khaimah has a number of environmental priorities, including dust control and management of marine and coastal environments and their natural resources; development and management of water resources; infrastructure development and population growth; conservation of biodiversity; and the safe storage and movement of toxic chemicals and hazardous waste. In order to address certain of these environmental issues, the Government of Ras Al Khaimah has adopted the following strategies and measures:

- in 2007, the Ras Al Khaimah Environmental Protection and Development Authority was established with overall responsibility for environmental matters within the Emirate;
- dust and gas pollution are monitored regularly (using both fixed and mobile air quality monitoring stations);
- those cement quarries and crushers which are owned or subsidised by the Government of Ras Al Khaimah have begun to adopt cleaner technology. In order to reduce dust pollution, guidelines are in place for encapsulating equipment (in order to reduce the amount of dust escaping into the air); the use of water spraying technology to damp-down dust emissions; asphalting of roads; and the proper storage of material.
- new industries established in Ras Al Khaimah are required to comply with certain environmental standards before they commence operations; and
- systems are in place for the movement of municipal waste (including systems for its collection and segregation, together with a secure landfill).

Business Address

The address of the Investment & Development Office of Ras Al Khaimah is Investment & Development Office, Government of Ras Al Khaimah, P.O. Box 12222, Ras Al Khaimah, United Arab Emirates and the telephone number is: +971 7 2277888.

THE ECONOMY OF RAS AL KHAIMAH

Introduction

Ras Al Khaimah does not have the abundant energy resources of some of the other emirates in the UAE and has consequently concentrated on developing a fully diversified economy. It established the UAE's first cement company in the early 1970s and is now the UAE's largest producer of cement. In the 1980s, the Emirate formed RAK Ceramics, which has become the world's largest ceramics producer, and Gulf Pharmaceutical Industries (also known as Julphar), the Gulf region's first pharmaceuticals and medical supplies company. Julphar has developed into a global brand and now sells its products in 45 countries.

In 2005, RAK Investment Authority ("**RAKIA**") was formed as a public authority to support the economic development of Ras Al Khaimah. RAKIA's primary purpose is to develop the economy of Ras Al Khaimah.

RAKIA is organised into four divisions: Industrial and Free Zones; Real Estate; Tourism and Marketing; and RAK Offshore.

- **Industrial and Free Zones —** The Industrial and Free Zones division of RAKIA promotes and develops its industrial zones and free zones and is responsible for infrastructure development, investor relations, utilities and facilities management. See "*Foreign Direct Investment and Free Zones*" below.

- **Real Estate —** The Real Estate division conducts feasibility and market studies for RAKIA's real estate sector projects and provides advisory services in relation to the establishment and financial structuring of real estate companies in the Emirate. This division also coordinates the master planning and sales of RAKIA's projects.

- **Tourism and Marketing —** The Tourism and Marketing division is responsible for promoting Ras Al Khaimah as a tourist destination. The division also promotes the awareness of the Emirate as an investment destination.

- **RAK Offshore —** In September 2006, the Authority launched RAK Offshore, a project modelled on the British Virgin Islands and the Cayman Islands, that offers an offshore facility that generates revenue through non-resident business registration and advisory services. See "*Foreign Direct Investment and Free Zones*" below.

The Investment & Development Office of the Government of Ras Al Khaimah ("**IDO**") was established through an Amiri decree in 2004, with the objective of channeling new investment opportunities into the Emirate and managing the government's balance sheet. The organisation is primarily involved in the credit rating process of the Emirate and the compilation of consolidated government accounts on a quarterly basis. It also acts as the financial advisor to the government and provides treasury management and corporate finance functions for government-held companies, investment analysis and due-diligence on investment opportunities, and financial restructuring of government entities.

Gross Domestic Product

Ras Al Khaimah's economy showed marked improvement despite the global economic conditions in 2009 as reflected by the increase of 8 per cent., from AED 16.22 billion in 2008 to AED 17.52 billion, in the Emirate's gross domestic product ("**GDP**") in nominal terms.. Ras Al Khaimah's economy is led by the manufacturing sector, which accounted for 23.3 per cent. of its GDP in 2009, followed by wholesale and retail trade sector at 11.9 per cent.

Data published by the UAE National Bureau of Statistics (the "**NBS**") has estimated that nominal GDP in the UAE for 2009 was AED 914.3 billion, representing a decline of approximately 2.1 per cent. as compared to 2008, reflecting the adverse effects of the global economic crisis and the drop in oil prices during 2009.

Ras Al Khaimah's GDP accounted for 1.8 per cent. of the country's total GDP in 2005, 1.6 per cent. in 2006 and 2007, 1.7 per cent. in 2008 and 1.9 per cent. in 2009.

The GDP per capita in Ras Al Khaimah was AED 70,212 in 2008 and AED 72,680 in 2009. Ras Al Khaimah has achieved a compound annual growth rate of 17.41 per cent. in GDP during the last four years (2005-2009).

The following table shows the GDP and GDP per capita for the periods between 2005 and 2009:

	2005	2006	2007	2008	2009
United Arab Emirates GDP *(AED billion)*	506.78	643.50	758.03	934.26	914.30
Ras Al Khaimah GDP *(AED billion)*	9.22	10.51	11.97	16.22	17.52
Ras Al Khaimah per capita GDP *(AED)*	46,662	49,093	53,923	70,212	72,680

Sources: RAK Statistical Yearbook and National Bureau of Statistics

Principal Sectors of the Economy

Ras Al Khaimah’s economy is currently led by the manufacturing sector which contributed approximately 23.3 per cent. of GDP in 2009, primarily driven by the Industrial and Free Zones at RAKIA. Outside this sector, the principal contributors to GDP in Ras Al Khaimah in 2009 were: wholesale and retail trade (11.9 per cent.); government services (11.9 per cent.); construction and building (7.6 per cent.); real estate and business services (7.6 per cent.); agriculture, livestock and fishing (7.4 per cent.); transport, storage and communication (6.8 per cent.); oil and gas (6.3 per cent.); and financial institutions and insurance (5.9 per cent.).

The following table shows Ras Al Khaimah’s GDP by industry sector for the periods indicated:

Sectors	2006 (AED million)	(per cent.)	2007* (AED million)	(per cent.)	2008* (AED million)	(per cent.)	2009 (AED million)	(per cent.)
Wholesale/retail trade and repair services	1,529	14.6	1,738	14.5	1,938	11.9	2,084	11.9
Government services	1,420	13.5	1,613	13.5	1,925	11.9	2,084	11.9
Real estate and business services	1,002	9.5	1,154	9.6	1,229	7.6	1,331	7.6
Agriculture, livestock and fishing	980	9.3	1,040	8.7	1,201	7.4	1,296	7.4
Construction and building	920	8.8	1,130	9.4	1,229	7.6	1,331	7.6
Manufacturing	900	8.6	1,052	8.8	3,784	23.3	4,081	23.3
Transport, storage and communication	802	7.6	942	7.9	1,106	6.8	1,192	6.8
Financial institutions and insurance	765	7.3	860	7.2	955	5.9	1,033	5.9
Electricity and water	400	3.8	441	3.7	518	3.2	561	3.2
Mining and quarrying	427	4.1	477	4.0	546	3.4	596	3.4
Crude oil and natural gas	814	7.7	885	7.4	1,023	6.3	1,104	6.3
Restaurants and hotels	210	2.0	252	2.1	328	2.0	350	2.0
Social and personal services	337	3.2	387	3.2	437	2.7	473	2.7
GDP at current price	**10,506**	**100**	**11,971**	**100**	**16,219**	**100**	**17,516**	**100**

Source: RAK Statistical Yearbook
Note:
* Ras Al Khaimah's GDP data was significantly revised in 2008 following a survey of the Emirate’s manufacturing sector, having been conducted for the first time in that year, with a view to quantifying more accurately Ras Al Khaimah’s nominal GDP for 2008. As a result of this survey, Ras Al Khaimah's estimated contribution of the manufacturing sector to nominal GDP data for 2007 is not directly comparable with the sector’s contribution to GDP for subsequent years.

Manufacturing

The manufacturing sector contributed 23.3 per cent. of Ras Al Khaimah’s nominal GDP in each of 2009 and 2008 up from 8.8 per cent. in 2007, based on the sector’s survey results conducted in 2008. Within this sector, the non-metal minerals industry (principally comprising cement, ceramics, glass and other construction materials) accounted for 65 per cent. of the manufacturing workforce and accounted for about 66 per cent. of investment in the manufacturing sector in 2009. These industries all benefit from Ras Al Khaimah’s large limestone quarries and iron, copper and chromium resources. A significant element of Ras Al Khaimah’s long-term economic strategy involves further expansion of the Emirate’s industrial base. Specific strategic priorities include the promotion of specialised economic zones including the Ras Al Khaimah Free Trade Zone and the free zones operated by RAKIA, see “*Foreign Direct Investment and Free Zones*” below. In addition, the Government of Ras Al Khaimah has sought to encourage public private partnerships as a means of increasing private sector participation.

Certain of the Emirate’s key industrial sectors are briefly described below:

Cement

Ras Al Khaimah has the largest deposit of limestone (the principal raw material for making cement) in the UAE and, accordingly, one of Ras Al Khaimah's most important local industries is the cement and building materials industry. Local stone, quarried from the mountains, is used to produce a variety of building materials from aggregates to ceramic tiles. Ras Al Khaimah is the only emirate in the UAE to produce oil-well cement, white cement (produced by RAK White Cement Company) and lime, and is a major domestic supplier and exporter. The principal companies engaged in this sector are Union Cement Company which commenced production in 1975 and is currently the largest cement producer in the UAE, Gulf Cement Company, and RAK Cement Company, which was established in 1995. Both Gulf Cement Company and Union Cement Company are private sector companies listed on the Abu Dhabi Stock Exchange. As at 31 December 2009, Gulf Cement Company and Union Cement Company had 512 and 571 employees respectively. During the year ended 31 December 2009, Gulf Cement Company and Union Cement Company generated revenues of approximately AED 743 million and AED 700 million, respectively. As at 31 December 2009, the Government of Ras Al Khaimah held 7.26 per cent. and 40.84 per cent. of the shares in Gulf Cement Company and Union Cement Company, respectively. The Government of Ras Al Khaimah also holds a 50 per cent. stake in Pioneer Cement Industry Company, which produces grey cement. Ras Al Khaimah accounts for 45 per cent. of the UAE's cement capacity. The majority of Ras Al Khaimah's cement production facilities are strategically located close to Saqr Port, which is specially equipped for handling bulk cargo and cement exports.

Pharmaceuticals

The pharmaceutical industry of Ras Al Khaimah covers the local and export market (worldwide). Ras Al Khaimah is home to Gulf Pharmaceutical Industries LLC (also known as Julphar), which has developed into an international industry leader in a highly competitive market. Gulf Pharmaceutical Industries is a private sector company listed on the Abu Dhabi Stock Exchange. The company focuses principally on manufacturing pharmaceuticals which are no longer protected by patents but also has some retail pharmacy chains within the UAE, Saudi Arabia and Oman. Julphar has nine manufacturing plants in the UAE and is investing approximately AED 500 million to expand its production capacity and introduce new products by establishing four new plants, all of which will be located in the UAE. At the end of 2009, the company had a total of 3,487 products registered in 45 countries around the globe, with more than 800 formulations and 184 brands across every major therapeutic category. During the year ended 31 December 2009, Julphar generated revenues of approximately AED 762 million. As at 31 December 2009, the Government of Ras Al Khaimah held 22.73 per cent. of the shares in Gulf Pharmaceutical Industries.

Ceramics

The principal company engaged in the ceramics sector is RAK Ceramics, which is a private sector company listed on the Abu Dhabi Stock Exchange. This company operates ten tile plants and three sanitary-ware plants in the Emirate and also has plants in Bangladesh, Sudan, India, Iran and China. RAK Ceramic's latest facility in the UAE is one of the world's largest single ceramic products plant. With exports to more than 150 countries on five continents, RAK Ceramics is one of the largest ceramic manufacturers in the world by volume. It is located 20 kilometres south of Ras Al Khaimah city on the highway to Dubai, giving it easy access to the UAE markets and ports. RAK Ceramics' operations in the Emirate have a production capacity of 227,000 square metres per day for ceramic tiles and 8,500 units per day for sanitary ware. As at 31 December 2009, RAK Ceramics employed 5,200 employees and, during the year ended 31 December 2009, RAK Ceramics earned revenues of approximately AED 3,770 million. As at 31 December 2009, the Government of Ras Al Khaimah held 4.97 per cent. of the shares in RAK Ceramics.

Wholesale/retail trade and repair services

The wholesale/retail trade and repair services sector accounted for approximately 11.9 per cent. of Ras Al Khaimah's GDP in 2009 and 2008. The sector accounted for the highest contribution to the Emirate's GDP at 14.6 per cent. in 2006 and 14.5 per cent. in 2007.

Government Services

The public sector (government services) accounted for approximately 11.9 per cent. of GDP in 2009, down from 13.5 per cent. in 2006. This proportion is forecast to continue to decline over time as the size of the public sector is reduced and the private sector is expanded as a result of the establishment of new companies and job creation initiatives in the private sector.

Construction and Real Estate

Real estate and business services, and construction and building together accounted for approximately 15 per cent. of Ras Al Khaimah's GDP in both 2009 and 2008 down from 19.0 per cent., in 2007 and 18.3 per cent. in 2006, reflective of the sector's resilience amidst the regional construction slowdown largely due to sustainable levels of pricing and real demand-driven projects. Issues relating to construction and real estate are determined by the Government of Ras Al Khaimah rather than the Federal government. In November 2005, the Government of Ras Al Khaimah issued a decree permitting expatriates to purchase freehold properties in certain developments in the Emirate. There are a number of significant real estate development companies operating in Ras Al Khaimah, including RAK Properties PJSC (a private sector company established in February 2005 which has been granted 4.6 million square metres of development land by the Government of Ras Al Khaimah), which is the principal real estate developer within the Emirate, and Rakeen Development PJSC (FZC) ("**Rakeen**") (established in 2006). As at 31 December 2009, the Government of Ras Al Khaimah held 3.28 per cent. of the shares in RAK Properties PJSC. The Government of Ras Al Khaimah believes that there are residential, commercial and tourist development projects with an estimated value of AED 10 billion (the equivalent of approximately US$3 billion) currently in progress in the Emirate, almost all of which are private sector led. A number of the key tourism projects are described under "*Tourism*" below.

Agriculture, Livestock and Fishing

Agriculture, livestock and fishing accounted for 7.4 per cent. of Ras Al Khaimah's GDP in 2009 and 2008, down from 8.7 per cent. in 2007 and 9.3 per cent. in 2006. This sector employed around 13 per cent. of the Emirate's workforce in 2009. Agriculture, which accounts for around half the sector's output, covers around 123,000 donums of land on around 5,080 farms according to the RAK Statistical Yearbook.

Transport, storage and communication

The transport, storage and communication sector accounted for 6.8 per cent. of Ras Al Khaimah's GDP in 2009 and 2008. The sector is primarily driven by the expansion of port facilities in Ras Al Khaimah to support the growing needs of the Emirate's manufacturing sector, in particular its rock and cement industries.

Oil and Gas

The contribution of the oil and gas sector to the economy of Ras Al Khaimah is low (around 6.3 per cent. of GDP for 2009).

The Ras Al Khaimah Gas Company ("**RAKGAS**"), which is wholly owned by the Government of Ras Al Khaimah, receives raw gas and oil from RAKGAS' own field Saleh, from Oman's Bukha and West Bukha fields and from the Umm al Qawain field. Ras Al Khaimah's exploration potential is estimated to be 100 million barrels of oil equivalent.

RAKGAS receives approximately 100 million standard cubic feet per day ("**MMscfd**") of gas and 10,000 barrels per day ("**b/d**") of oil/condensates from its current fields and processes these in its gas processing plant in Khor Khwair. The RAKGAS plant has recently been expanded to allow production of 150 MMscfd of sour gas and 20,000 b/d of condensates and/or oil, 120 tonnes of LPG (liquefied petroleum gas or cooking gas) and 500 barrels of pentanes per day. The LPG is sold via trucks to end users. The condensates are shipped to refineries worldwide via its own Single Point Mooring system (SPM).

During 2007 and 2008, RAKGAS laid a 75 kilometre gas line between the RAKGAS plant and Umm al Qawain to allow it to purchase gas from the platform located in that area. A second processing train with sweetening facilities was designed and built to provide the industry in Ras Al Khaimah with natural gas. Meanwhile RAKGAS has built gas infrastructure in Al Hamra and Al Ghayl industrial areas. In October 2009, a new sweetening plant was commissioned for the Bukha train, as part of the ongoing programme of upgrading the plant. RAKGAS has invested almost US$300 million during the past few years.

RAKGAS is also engaged in a number of international ventures. It holds production sharing contracts in Tanzania and Egypt. A gas discovery was made in the Nyuni block, which will, in due course, be sold to industrial users in Tanzania.

In 2005, RAK Petroleum PCL ("**RAK Petroleum**") was incorporated with limited liability at the RAKIA free trade zone. As at 30 October 2010, the Government of Ras Al Khaimah owned 6.87 per cent. of the shares in

RAK Petroleum. RAK Petroleum invests in oil and gas projects with assets across the upstream sector in exploration, appraisal, development and production activities.

RAK Petroleum is operator of four blocks in Oman (Block 8 50 per cent., Block 47 50 percent., Block 30 100 per cent. and Block 31 100 per cent.) and three in the Emirate of Ras Al Khaimah (Rak Onshore 100 per cent., Rak Saleh 100 per cent. and Rak B 40 per cent.). RAK Petroleum also holds a 30 per cent. non-operated interest in the Hammamet Offshore License in the Republic of Tunisia.

Block 8 has two producing fields, the Bukha gas-condensate field on production since 1994 and the West Bukha volatile oil field on production since February 2009. The two fields are currently producing approximately 9,500 barrels of oil and condensate per day as well as 35 MMscfd of gas from two wells in each field. The drilling of two more wells on the West Bukha field and one on the Bukha field is scheduled for 2011.

Block 30 contains four gas discoveries which have been appraised by RAK Petroleum and previous operators. A field development plan has been submitted to the Ministry of Oil and Gas in Oman. Approval of the development plan is under consideration pending technical and commercial negotiations.

The Saleh block contains the Saleh gas-condensate field developed in the 1980's. RAK Petroleum plans to redevelop the field to access un-drained gas and associated condensate. The deepening of the Saleh -5 well scheduled for March 2011 is the first step in the redevelopment plan.

The Zad prospect in Block 47 was spud in October 2010. Results of the exploration well will not be known until the end of 2010. The Zad prospect is an Amin sandstone target at a depth of circa 4,200 metres expected to be gas with significant levels of associated liquids.

The Wabah prospect in Block 31 is planned for drilling in 2011. The Wabah prospect is a cretaceous target, expected to be gas with a low amount of associated liquids.

The Hammamet Offshore license in Tunisia is a non-operated joint venture in which RAK Petroleum holds 30 per cent. The Fushia 1 exploration well discovered a 16 metre hydrocarbon column when drilled in the second quarter of 2010. The commerciality of the field is not yet confirmed. The partnership continues to review the results and possible development scenarios. A 300 km 3D seismic survey is planned for 2011 in relation to other prospects.

Financial Institutions and Insurance

The financial institutions and insurance sector contributed 5.9 per cent. of Ras Al Khaimah's GDP in 2009 and 2008, and 7.2 per cent. in 2007. There are two banks incorporated in Ras Al Khaimah, RAKBANK and Commercial Bank International ("**CBI**") (which have seven and three branches, respectively, in the Emirate), as well as five branches of foreign banks and 32 branches of national banks. As at 31 December 2009, the Government of Ras Al Khaimah held 52.75 per cent. and 5.02 per cent. of the shares in RAKBANK and CBI, respectively. In addition, RAK National Insurance Co. is a public company listed on the Abu Dhabi Securities Exchange ("**ADX**"), which offers both life and non-life insurance products. As at 31 December 2009, the Government of Ras Al Khaimah held 47.27 per cent. of the shares in RAK National Insurance Co. Each of RAKBANK, CBI and RAK National Insurance Co. are listed on the Abu Dhabi Stock Exchange.

Mining and Quarrying

Ras Al Khaimah has been endowed with large mineral deposits which include limestone, iron, copper and chromium, and are largely owned by the Government of Ras Al Khaimah. Ras Al Khaimah has limestone quarries and crushers for aggregate production which support the construction, steel and cement industries in the UAE.

Stevin Rock and The Ras Al Khaimah Rock Company (both of which are wholly-owned by the Government of Ras Al Khaimah and whose annual financial statements are consolidated in the Government of Ras Al Khaimah's annual fiscal results) sold over 50 million tonnes of aggregates and rock products and had a combined annual revenue of over AED 900 million during 2009. The Emirate has approximately 25 small to medium size enterprises that are engaged in the rock crushing business. The Government of Ras Al Khaimah estimates that its current quarry reserves will expire in 25 years.

Tourism and Real Estate

The Government of Ras Al Khaimah has adopted a tourism master plan that encompasses a number of large-scale developments, including luxury hotels, residential complexes, a man-made offshore island and the redevelopment of the Emirate's creek area, as well as promotion of its heritage sites.

The tourism sector's contribution to Ras Al Khaimah's GDP is estimated to have been around 2.0 per cent. in 2009.

Hotels, Rooms, Beds and Occupation Percentage 2005-2009

	2005	2006	2007	2008	2009
Hotels	6	6	6	6	15
Rooms	933	1,069	933	1,069	2,258
Beds	1,630	1,863	1,630	1,701	3,338
Guests (in thousands)	157	168	214	234	542
Nights (in thousands)	473	518	614	633	1,066
Occupation (per cent.)	77	81	98	95	66

Source: Ministry of Economy and Planning

The Government of Ras Al Khaimah has shown a commitment to building on this growth and a number of tourism and real estate projects are currently under development, including the Al Hamra Palace Hotel (currently due to be completed by September 2011), Mina Al Arab (first phase complete), Al Hamra Village (initial phase has been completed and further expansion is underway), Al Marjan Islands (first phase currently due to be completed by the middle of 2012) and the WOW Theme Park (which was opened early October 2010). The Banyan Tree Al Wadi Resort has been completed and commenced operations in early 2010.

Inflation

The table below shows the levels of the General Consumer Price Index (together with its constituent elements) for Ras Al Khaimah for each of the years indicated.

	Weight	2005	2006	2007	2008	2009
General Consumer Price Index	**100.0**	**120.2**	**131.8**	**144.8**	**111.1**	**113.4**
Food, beverages and tobacco	**14.5**	116.5	123.0	128.3	118.39	115.8
Clothing and footwear	**6.7**	114.1	118.8	120.8	115.89	114.1
Housing and housing services	**36.1**	126.8	147.6	172.0	110.93	113.9
Furniture and housing Materials	**7.4**	111.6	115.5	119.0	104.36	113.6
Medicare	**1.9**	121.6	125.6	130.9	109.11	106.2
Transport and communication	**14.9**	115.8	125.8	131.5	102.92	110.8
Entertainment, education & culture	**10.3**	121.5	124.0	138.5	111.07	111.8
Other miscellaneous goods and services	**8.2**	116.8	124.9	127.8	115.46	115.7

Source: Ministry of Economy

Notes: For 2005 through 2007, base year 2000=100; for 2008 and 2009 base year 2007=100.

The table below shows the General Consumer Price Index ("**CPI**") and the percentage change, year on year of the CPI of Ras Al Khaimah for each of the years indicated. The Ministry of Economy revised its base year to 2007 in 2008, as a result of which the CPI Index and the percentage change from 2008 and onwards is not comparable to the previous years shown below.

	2005	2006	2007	2008	2009
CPI Index	120.2	131.8	144.8	111.1	113.4
CPI (percentage change, year on year)	6.5	9.7	9.9	11.1	2.1

Note: Base year is 2000 for the period 2001-2007 and 2007 from 2008 onwards.

The Ras Al Khaimah inflation rate was 2.1 per cent. in 2009 as compared to 11.1 per cent. in the previous year. This drop in inflation rate is principally attributable to a decline in rental rates in the real estate sector and reduction in construction activity.

During the years 2005-2008, the increases in inflation evidenced in the above table reflect a combination of gasoline price rises, increased real estate rents and the weakness of the US dollar (to which the dirham is linked) against the currencies of the UAE's main trading partners, which boosted the cost of imports.

The housing and housing services group constitutes 36.1 per cent. of the Ras Al Khaimah CPI. The food and non-alcoholic beverages group has a 14.5 per cent. weighting in the CPI. This group consists of basic foods items such as meat, breads and cereals, milk products, fish and seafood along with beverages such as tea, coffee, juices and mineral water. The other major expenditure groups are transport and communication, and entertainment, education and culture accounting for 14.9 per cent. and 10.3 per cent. respectively in the CPI weighting.

Employment and Wages

Based on 2005 census information, the population of working age in Ras Al Khaimah was approximately 138,500 of which 101,880 were employed, although a significant proportion of the remaining working age population were either students or engaged in housework.

The table below shows employment by occupation sector in Ras Al Khaimah based on the results of the 1995 and 2005 censuses.

	Employees	
Occupation	**1995(2)**	**2005(2)**
Legislators and Senior Official Managers	1,489	2,065
Professionals	5,314	8,034
Administrative	2,583	3,661
Service and sales	15,680	23,171
Skilled agricultural and fishery	5,433	5,226
Trade	13,945	39,226
Elementary occupations(1)	8,143	11,865
Armed forces	4,907	7,501
Other	642	1,131
Total	**58,136**	**101,880**

Source: 1995 and 2005 censuses.

Note:

(1) "Elementary occupations" comprises all non-skilled trades and professions not otherwise described in this table.

The 2005 census indicated that approximately six per cent. of the labour force was unemployed at the time of the census. Unemployment benefits are payable only to UAE nationals and the responsibility for the payment lies with the Federal government.

In September 1999, UAE nationals working for private companies became entitled to the same social security and pension benefits as those working for the Federal government. Under the Federal government's national pension and social security scheme, nationals who have contributed to the scheme will be eligible for retirement benefits, disability benefits and compensation on death. The General Authority for Pensions and Social Security, an independent entity which invests employer and employee contributions to fund the social security programme, was established to operate the scheme.

Non-UAE nationals are not entitled to pensions but are legally entitled to end-of-service benefits based on the length of service and in accordance with the terms of their employment contracts.

Separate social security provision is made for all members of the military and the police force.

Infrastructure

Ras Al Khaimah has embarked on a programme of infrastructure development to attract industrial and commercial enterprises. It is well connected to the other emirates, has good telecommunication facilities, a well established road network and a number of ports. It is within 45 minutes of three international airports, located at Ras Al Khaimah, Sharjah and Dubai.

In 2008, the Federal Government ordered the allocation of a total of AED 16 billion (US$4.4 billion) for infrastructure projects in the northern emirates with the intention of boosting economic growth and prosperity. This amount will be used to fund the construction of road networks, new housing communities, drainage networks and other projects considered necessary for sustainable economic growth. Regarding healthcare, construction on the new Federal government sponsored Sheikh Khalifa Hospital is underway at a cost of over AED 500 million (US$136 million) and an initial expected capacity of 248 beds. It is also planning to extend the Emirates Highway connecting Ras Al Khaimah to the southern Emirates. In 2009, the power supply in RAK was supplemented by 400 MW from the federal grid. The Federal government has also approved new power connection projects in Ras Al Khaimah.

Roads and Highways

An extensive network of roads has been developed in Ras Al Khaimah over the last two decades. Three free flowing dual-carriageways link Ras Al Khaimah with the southern emirates. One follows the coast. The second runs out towards the airport in the direction of Khatt, Masafi, Fujairah and Thaid and further onto Oman. The third, the Emirates Highway, traverses the emirates of Umm Al Quwain, Ajman, Sharjah and Dubai.

A key project underway is the AED 1 billion RAK Ring Road, with the first phase expected to be completed in 2012, followed by the second in 2015 and the final phase in 2020. This project is being wholly funded by the Federal government. Other projects include the Siji to Shawkah link, the RAK Coastal Road, as well as improvements to the existing system, such as widening, new flyovers and better junctions.

Ports

Saqr Port, built in 1976, is located in the industrial area of Khor Khuwair around 25 kilometres north of the city of Ras Al Khaimah and is the Emirate's main port. The port, which provides bulk and container services, is close to major international shipping lanes and the Strait of Hormuz. It has 12 deep-water berths, each 200 metres long, is dredged to 12.2 metres and has specialised berths for handling bulk general cargo, cement and aggregate shipments. Other services include ship handling, crew changes and 800,000 square metres of storage area. In 2009, exports totalled 27.45 million tons of which limestone accounted for over 96 per cent. of total exports through Saqr Port.

The port is currently undergoing modernisation and new equipment is being installed, with two new hoppers, two mobile ship loaders and a mobile harbour crane commissioned in 2009. As part of the ongoing improvement of the Emirate's road network, two new roads are due to be linked to Saqr Port further improving inland transit for the types of goods handled by the port.

In January 2007, Kuwait-based KGL Ports International ("**KGL**") opened a new container terminal at Saqr Port which increased the overall capacity of the port to 350,000 twenty-foot equivalent units per annum. Throughput for 2009 was 91,113 twenty-foot equivalent units ("**TEUs**").

RAK Maritime City (the "**City**") is a land and waterfront free zone development owned and sponsored by Saqr Port. Adjacent to Saqr Port, it comprises of 4 km of waterfront and 5m sq metres of land available for development, 1.5m sq metres of which have already been taken up. The City was launched in the second quarter of 2010 and leases out land and quay usage, as well as issues trade licenses to mainly industrial entities. The infrastructure roll-out for the complex has been planned in a phased manner, due to be completed over the next five years.

A seaport at Al Jazeerah Al Hamra was commissioned in 2003 to handle the growing demand for bulk shipments of aggregates and rocks for the construction industry in the UAE. Located 20 kilometres south of Ras Al Khaimah City, Al Jazeerah Port has the advantage of being close to the national highway linking Ras Al Khaimah and Dubai. The port has nine berths with a total aggregate length of 1.1 kilometres. The main port is designed for loading and discharging all types of cargo, while the breakwater area of the port is meant for loading rock materials. Al Jazeerah Port has agency services, customs and immigration facilities, afloat repair and maintenance infrastructure, pilotage, towage and tug assistance, and bunkering facilities. The Al Jazeerah Port is in the process of opening its new AED 150 million dry dock, which is expected to be fully operational by end-210 following a soft launch in 2009. The dry dock has 12 dry berths and a lifting capacity of 1,000 tonnes.

The Government of Ras Al Khaimah has completed the expansion of RAK Port, which involved building a passenger terminal at RAK Port and extending the port's berthing capacity.

In addition, Ras Al Khaimah's fourth port at Al Jeer, near the border with Oman, commenced operations in 2008. The port has a 270 metre quay, with berthing space to accommodate 120 vessels and a passenger terminal to facilitate ferry services between Bandar Abbas, Iran and Ras Al Khaimah.

RAK International Airport and RAK Airways

RAK International Airport is currently upgrading its facilities, including expansion of its freight facilities and renovating its passenger arrival and departure terminals. A master plan has been finalised, which involves phased construction of two new terminals and the upgrade of existing terminals. The investment will increase the airport's capacity to 1.5 million passengers per year. An aviation free zone in partnership with RAK Free Trade Zone ("**RAK FTZ**") is also being planned. The master plan for the development of the airport also includes a cargo warehouse, a hotel and the introduction of aviation academics.

In October 2010, RAK Airways re-launched its operations with flights to Jeddah and Calicutt, in line with its focus on establishing a regional network initially, and later exploring opportunities in other markets.

Telecommunications

The UAE has a well-developed, technologically-advanced telecommunications infrastructure and has high mobile telephone penetration. Since 1976, the majority Federal government-owned telecoms corporation, Emirates Telecommunications Corporation ("**Etisalat**"), has operated, maintained and developed the national and international fixed-line network, mobile telephony, internet access and cable TV services.

In mid-2004, the Federal government announced plans to end the monopoly of Etisalat. A regulator, the Telecommunications Regulatory Authority ("**TRA**"), was formed to oversee the process and, in 2006, it granted a licence to Emirates Integrated Telecommunications Company, a new telecom provider (known in the market as 'du') owned 40 per cent. by the Federal government, 20 per cent. by Mubadala Development Company, 20 per cent. by Emirates Telecommunications and Technology Ltd and 20 per cent. by the public.

According to the TRA, as at 31 May 2010 there were approximately 1.54 million fixed lines in operation in the UAE, with 10.6 million mobile subscribers and approximately 1.5 million internet subscribers (comprising 741,921 broadband subscribers and 725,329 dial-up subscribers). As of 31 May 2010, the fixed line penetration rate (being the number of lines expressed as a percentage of the estimated population) was 29 per cent., the mobile penetration rate (being the number of mobile subscribers expressed as a percentage of estimated population) was 199 per cent., and the internet penetration rate (being the number of subscribers expressed as a percentage of the estimated population, assuming 2.5 subscribers per internet subscription) was 68.5 per cent.

In 2009, the total number of mobile phones and the total number of landlines in Ras Al Khaimah both decreased by 3 per cent. over 2008. The number of users of comprehensive internet service increased in 2009 by 26 per cent. over 2008.

Energy

The Ras Al Khaimah energy sector comprises the production, transmission, distribution and supply of electricity and potable water to customers. The Federal Electricity & Water Authority ("**FEWA**") is responsible for providing power and water in the northern emirates. The Emirate secured 400 MW from the federal grid to cover the short-term power gap. Private power stations are also being built for industrial demand, and developers planning major infrastructure schemes are generally also required to develop private power supplies. For example, RAKIA has commissioned the following two power stations for its industrial zones: the 80 MW (2X40 MW) Al Ghayl power plant, which provides electricity to the Al Ghayl Industrial Zone and Free Zone and the 45 MW (2X22.5 MW) Al Jazeera power plant, which provides electricity to the Al Jazeera Al Hamra Industrial Zone and Free Zone.

Electricity is generated by gas and diesel fired power stations located at Nakheel and Galila. During 2009, the Al Nakheel and Galila power stations had an installed capacity of 427,000 and 93,000 kilowatt hours ("**KWh**"), respectively, and, during the same period, together generated 1,833,787 KWh of electricity. Transmission lines of 132 kilovolts connect the major centres of generation and demand. Electricity is distributed to customers at 33 and 11 kilovolts.

In common with other emirates in the UAE, the power supply to Ras Al Khaimah is insufficient to meet demand. In 2007, for example, demand for electricity in Ras Al Khaimah was estimated at 650 megawatts ("**MW**") although its actual supply was around 600 MW. Ras Al Khaimah (and the other emirates) seek to manage shortfalls in energy supply in as efficient a manner as is possible through short-term scheduled load shedding.

Details relating to the Emirate's oil and gas sector are set out above under "*The Economy of Ras Al Khaimah – Principal Sectors of the Economy – Oil and Gas*".

Education

The development of Ras Al Khaimah's education system has been a key priority for the Emirate since His Highness Sheikh Saud bin Saqr Al Qasimi became Crown Prince and Deputy Ruler in 2003, and is founded on the belief that an educated population is vital to the long-term growth of Ras Al Khaimah's economy. The Emirate is aiming to establish itself as a local centre for educational excellence and, in order to achieve this, has invested significantly in this area in recent years. In particular, Ras Al Khaimah allows educational institutions to be incorporated at the Ras Al Khaimah Free Trade Zone ("**RAK FTZ**") with the aim of encouraging international campuses, and has also established the Ras Al Khaimah Education Company ("**EDRAK**") for the purpose of investing in projects to promote the educational sector.

Two of the universities located in the RAK FTZ include the University of Bolton and the Vatel International Business School for Hotel and Tourism Management. The University of Bolton's Ras Al Khaimah campus commenced operations in 2008 and at present has a total enrolment of 300 students. It offers undergraduate programmes in built environment, engineering, business and information technology along with an MBA programme.

In addition, the University of Pune, one of India's top-ranked state universities, commenced operations in May 2009 by offering an executive MBA programme. Its Ras Al Khaimah campus offers MBA programmes with specialisations in the areas of finance, human resource management, marketing and operational management.

In April 2009, the Government of Ras Al Khaimah established, through Emiri Decree, the American University of Ras Al Khaimah. The university has in excess of 100 students currently and offers undergraduate programmes in biotechnology, business administration, management, electronics and communications engineering and computer engineering.

In February 2009, Tufts University's Friedman School of Nutrition Science and Policy, in partnership with EDRAK, commenced its hybrid distance learning Masters in Nutrition Sciences and Policy programme in Ras Al Khaimah. At present, the programme is in its final stage of being awarded accreditation in the UAE and has been able to double its intake for the current academic year 2010/2011.

Ras Al Khaimah Medical and Health Sciences University, established in 2006, moved to its new campus in February 2009. At present the school has 330 students representing 30 nationalities and offers bachelors programmes in medicine, surgery, dental surgery, nursing and pharmacy, as well as a Registered Nurse/Bachelor of Science bridging programme.

Outside of further education, the Emirate also offers a broad range of lower educational facilities, including public schools with courses tailored to the educational systems adopted in the United States, the United Kingdom and Australia. Ras Al Khaimah believes that offering bespoke courses such as these assists in encouraging expatriate workers to accept jobs based in the Emirate.

Foreign Direct Investment and Free Zones

There are many incentives for foreign corporate entities to set up in one of the free zones in the UAE. Foreign corporate entities can operate in the free zones and free zone incorporated entities can be 100 per cent. foreign owned unlike corporate entities registered in the UAE. Foreign corporate entities are not permitted to operate in the Emirate outside of a free zone unless they operate in conjunction with a local partner. The ability to import into the free zones and to export without any import duties, taxes or currency restrictions being levied on the free zone entity has been a key driver for foreign corporate entities that are registered in the free zones. In 2007, Ras Al Khaimah was awarded the "most attractive destination" for Foreign Direct Investment from FDI Magazine.

Free zones have been established in each of the emirates of the UAE. The following is an overview of certain free zones in Ras Al Khaimah.

The Ras Al Khaimah Free Trade Zone ("RAK FTZ")

RAK FTZ was established in 2000 and is one of the fastest growing free trade zones in the region. It saw its total tally of international companies reach 5,476 by the end of 2009, with these companies contributing an estimated capital of AED 10 billion to Ras Al Khaimah's economy.

The RAK FTZ organised the establishment of free trade zones in the Emirate according to function, operating requirements and the needs of surrounding communities. This was the first time that such an approach had been adopted within the UAE. It has created a system of free zone parks within the Emirate as follows:

- *The Business Park*

  The business park free zone is centrally located within Ras Al Khaimah's business district and has amenities such as a five star hotel and a premier shopping and entertainment complex.

- *The Industrial Park*

  The industrial park free zone is situated approximately 15 kilometres north of Ras Al Khaimah City and very close to Saqr Port. Plot sizes are provided to suit individual clients' requirements and are fully serviced with utilities.

- *The Technology Park*

  The technology park free zone is located to the south of Ras Al Khaimah City and offers easy access to RAK International Airport and Saqr Port.

In 2006, RAK FTZ won awards for "The Best Emerging Free Trade Zone" and "Young Achiever Award" for His Highness Sheikh Faisal Al Qasimi at the Middle East Logistics Awards 2006.

Alongside the three business parks described above, Ras Al Khaimah is flexible in awarding individual new real estate and tourism projects a free zone status if appropriate.

The Ras Al Khaimah Investment Authority ("RAKIA")

Since 2006 RAKIA has attracted more than AED 7 billion in foreign direct investments to Ras Al Khaimah, with more than AED 180 million in 2009.

As part of its sectoral driven initiatives RAKIA has identified the auto, food processing and metal sectors for attracting additional investments. It has also undertaken the development of industrial infrastructure through the development of residential complexes, labour accommodations and warehouses aimed at driving industrial growth and promoting investments into the emirate.

RAKIA operates the following free zones:

Al Jazeera Al Hamra Industrial Zone and Free Zone

Al Jazeera Al Hamra is divided into an industrial zone and a free zone. As at 31 October 2010, there were 3,300 companies registered in Al Jazeera Al Hamra representing 100 per cent. of its current capacity. The Al Jazeera Al Hamra industrial and free zones are currently being expanded to address the demand for space in these zones.

The key tenants of RAKIA, in relation to the size of their committed investment in Ras Al Khaimah are Mahindra Emirates, Zamil Steel LLC, JBF RAK LLC, Guardian Industries, Kirby Building System, Naturelle LLC (Dabur), Duscholux Emirates Company Ltd. and Mabani Steel.

Al Ghayl Industrial Zone and Free Zone

Upon reaching 100 per cent. occupancy in the Al Jazeera Al Hamra industrial and free zones, RAKIA launched a new industrial zone and free zone in the Al Ghayl area of the Emirate. These zones will be utilised by companies in the heavy industry sector and will span 21 million square metres of which the free zone will comprise four million square metres. RAKIA had, as at 31 October 2010, reached agreements on leases with more than 350 companies covering 8 million square metres of the new zone and its key tenants include: Ashok Leyland, Ocean Rubber, SeAH Steel, Canadian Engineering Company, RAK Steel, KGL Transportation, Pioneer Cements, Anvem Group and Al Futtaim Auto & Machinery Co LLC.

The Al Ghayl site has been specifically designated to service the needs of heavy industrial manufacturers. It is 50 kilometres from Ras Al Khaimah City and strategically located close to the ports of Ras Al Khaimah, Sharjah and Dubai, providing tenants in the zone with a range of shipping options.

RAK Media Free Zone and Film City

RAK Media Free Zone and Film City ("**RAKMFZ**") was launched on 3 January 2006 by RAKIA. The free zone targets media establishments, television channels, production studios, computer graphics houses and animation studios. Licenses will be issued under RAKIA's mandate. Additionally, RAKMFZ will lease ready-to-use office space and satellite up-linking facilities where required to its licence holders and lease land to investors who wish to set up their own media facilities such as printing presses, film studios, advertising agencies, magazine offices or television studios.

RAK Offshore

In September 2006, the Authority launched RAK Offshore, a project modelled on the British Virgin Islands and the Cayman Islands, which offers an offshore facility that generates revenue through non-resident business registration and advisory services. The RAK Offshore facility has its own body of laws and regulations (known as the RAK Offshore Regulations 2006). During the second phase of its development, which will require federal approval, RAK Offshore plans to offer its clients general, corporate and charitable trusts as well as, amongst other products and services, collective investment schemes (including *Shari'ah*-compliant funds, mutual funds and hedge funds) and banking activities. RAK Offshore plans to target banking, insurance and marine registration firms to establish and operate their offshore units in the Emirate.

RAK Financial City will be designated as a free zone. As part of the second phase of its development, RAK Offshore plans to establish a financial services authority in RAK Financial City with the intention of establishing RAK Offshore as an international, regulated and multi-service offshore centre.

Inter-emirate transfer payments

Ras Al Khaimah receives a fixed AED 22 million each year from the Federal government by way of an inter-emirate transfer payment. In addition, the Federal government funds other socio-economic and infrastructure projects.

BALANCE OF PAYMENTS AND FOREIGN TRADE

As Ras Al Khaimah does not prepare separate balance of payment statistics, this section describes the UAE's balance of payments generally, although the discussion of foreign trade focuses on Ras Al Khaimah's trade rather than that of the UAE.

The UAE has traditionally pursued a free trade policy for deeper integration into the global trading system. Despite the recent global financial crisis and the associated fall in global trade, the UAE continues to pursue a free trade policy by liberalising its trade regime through free trade agreements ("**FTAs**") with other countries and organisations (including FTAs with Singapore, the European Free Trade Area and New Zealand in 2009). Being a member of the GCC, UAE's trade policy is closely linked to the trade policy of the other GCC member countries on account of, amongst other things, the GCC Economic Agreement of 2002 which calls for a 'collective negotiation strategy' in the conduct of FTAs with major trading partners, and the establishment of the GCC Customs Union in 2003 which was aimed at enhancing economic unity amongst the member states and to allow the member states to engage in FTA negotiations as a unified trading block.

Balance of Payments

Current Account

Since there are no separate figures on the current and capital account for Ras Al Khaimah, the table below gives the balance of payments for the UAE for each of the years indicated.

	2006	2007	2008	2009
		(AED millions)		
Current account balance	**132,375**	**72,132**	**81,818**	**28,816**
Trade balance (FOB)	211,302	170,852	231,092	154,760
Total exports of hydrocarbon	*257,442*	*271,128*	*374,915*	*249,273*
Total of non-hydrocarbon exports	*104,518*	*125,768*	*157,814*	*162,235*
Re-exports[1]	*172,706*	*259,124*	*345,779*	*294,320*
Total exports and re-exports (FOB)	534,666	656,020	878,508	705,828
Total imports (FOB)	(323,364)	(485,169)	(647,417)	(551,068)
Services (net)	(66,226)	(95,359)	(124,244)	(100,346)
Investment income (net)	17,400	30,750	13,970	11,800
Transfers (net)	(30,101)	(34,111)	(39,000)	(37,400)
Capital and financial account	**(58,987)**	**105,424**	**(203,061)**	**8,416**
Capital Account[2]	—	—	—	—
Financial Account	*(58,987)*	*105,424*	*(203,061)*	*8,416*
Net errors and omissions	(49,503)	5,683	(50,759)	(59,752)
Overall balance	**23,885**	**183,238**	**(172,002)**	**(22,520)**

Source: UAE Central Bank

Notes:

1. Includes re-exports of non-monetary gold
2. Data not disclosed

The UAE has a long history of positive trade balances reflecting both the importance of its hydrocarbon exports, which accounted for over 40 per cent. in each of 2006, 2007 and 2008 and for over 35 per cent. in 2009, and its significant volumes of re-exports. The value of the UAE's hydrocarbon exports, the vast majority of which are made by Abu Dhabi, can be volatile as they depend on prevailing oil prices and agreed OPEC production quotas. Its imports, on the other hand, tend to be more stable although they have exhibited a rising trend in the four years to 2008 reflecting economic expansion in the region (which has also boosted re-exports in those years) and increased demand for goods to support infrastructure development in the UAE. The UAE's trade balance as a percentage of nominal GDP was 27.1 per cent. in 2006, 32.4 per cent. in 2007 and 76.6 per cent. in 2008. Based on provisional estimates by the IMF, the nominal GDP for 2009 was AED 846 billion. On the basis of this estimate, the UAE's trade balance as a percentage of its nominal GDP for 2009 was approximately 18.3 per cent.

Data on non-trade flows into and out of the UAE is not complete and is subject to revision, reflecting, in part, weaknesses of the central statistical bodies, and, in part, the operations of the large free zones. In general, however, the UAE tends to have a non-trade balance deficit reflecting services outflows underlining the UAE's dependence on foreign services for the development of its industrial and services sectors. In addition, there are significant levels of current transfers principally reflecting expatriate workers' remittances.

The UAE had a positive current account balance in each of 2006, 2007 and 2008 equal to 23.3 per cent., 18.6 per cent., and 8.8 per cent., respectively, of the UAE's nominal GDP in each of these years. Based on the IMF's provisional estimate for nominal GDP for the UAE, in 2009 the UAE had a positive current account balance of 3.4 per cent. of the nominal GDP of the UAE.

Adverse global economic conditions throughout 2009 coupled with significant falls in hydrocarbon prices since mid-2008 resulted in a significant fall in exports in 2009 relative to 2008. This fall, coupled with reduced re-exports in 2009, was the primary cause of the lower trade balance in 2009 although the negative effects of those trends were partially mitigated by reduced imports in 2009 compared to 2008 as economic growth slowed. The account balance in 2009 was impacted as a result of declining services receipts and lower investment income.

Capital Account

No data is released by the UAE on external debt position. However, in its UAE 2009 Article IV Consultation released in February 2010, the IMF published the following summary estimate of the UAE's international investment position for each of the years indicated.

	2005	**2006**	**2007**	**2008**	**2009**
	(US$ billions, except percentages)[(1)]				
Maximum international debt, regardless of residency[(2)]	71	121	224	236	256
As a percentage of GDP[(3)(4)]	53%	74%	108%	90%	111%
External debt, adjusted for residency (A)	37	72	121	135	132
As a percentage of GDP[(3)(5)]	28%	44%	58%	52%	57%
Debt falling due in one year	20	32	53	53	57
External assets, excluding sovereign wealth funds ("**SWFs**") and high net worth individuals ("**HNWIs**") (B)	97	128	172	116	114
Net assets, excluding SWFs and HNWIs (B-A)	60	56	51	(19)	(18)
Net assets, including SWFs and HNWIs	522	460	410	311	305
As a percentage of GDP[(3)(6)]	389%	281%	198%	119%	132%
Memo, assets	22	20	37	37	35

Source: IMF (which in turn sources Bank for International Settlements, IMF staff estimates and calculation and other sources)

Notes:

(1) Including local currency denominated debt.

(2) Including insured export credit and off-balance sheet guarantees.

(3) GDP as estimated by the IMF

(4) Based on GDP as calculated by the NBS, the percentages for 2005, 2006, 2007, 2008 and 2009 (provisional) are 51 per cent., 69 per cent., 109 per cent., 93 per cent. and 103 per cent., respectively.

(5) Based on GDP as calculated by the NBS, the percentages for 2005, 2006, 2007, 2008 and 2009 (provisional) are 27 per cent., 41 per cent., 59 per cent., 53 per cent. and 53 per cent., respectively.

(6) Based on GDP as calculated by the NBS, the percentages for 2005, 2006, 2007, 2008 and 2009 (provisional) are 378 per cent., 263 per cent., 199 per cent., 122 per cent. and 123 per cent., respectively.

The IMF has based its estimations on bank reports of conventional claims, debt securities data compiled by the Bank for International Settlements and accounts payable and supplier credit data from export credit exposures that are reported by OECD-based agencies. The IMF used its own estimates of external assets, including those of the UAE's sovereign wealth funds and high net worth individuals.

See *"Indebtedness"* for a description of indebtedness incurred by Ras Al Khaimah. In general, the size of the UAE's trade and current account surpluses, coupled with the limited capacity of the local economy to absorb capital, ensure that net foreign capital flows have almost always been outward, entrenching the UAE's position as a net international creditor and foreign investor.

Most capital outflows have been directed towards the US and European capital markets although more recently there has also been an increase in direct investment in Europe, Asia and the Middle East. This has included entities wholly or partially owned by the governments of certain emirates purchasing significant stakes in foreign companies as well as major federal firms such as Etisalat making significant acquisitions in order to boost their regional and international presence.

The net balance of the financial account reached AED 105.4 billion in 2007, against a deficit of AED 59.0 billion in 2006. This was mainly due to the increase in private sector inflows, which rose by 148.1 per cent. from AED 87.6 billion in 2006 to AED 217.3 billion in 2007 (principally reflecting currency inflows connected with speculation that the UAE dirham – US dollar peg would be abandoned at the end of 2007 (see "M*onetary and Financial System – Monetary and Exchange Rate Policy"*), and the decrease in the public sector's outflows from AED 146.6 billion in 2006 to AED 111.9 billion in 2007.

In 2008, the net deficit of the financial account was AED 203.1 billion, principally reflecting the repatriation of money once it became clear that the exchange rate peg would be maintained coupled with the closure of international capital markets in the period following the bankruptcy of Lehman Brothers. In 2009, a net surplus was achieved in the financial account of AED 8.4 billion principally reflecting an inflow of private sector non-bank capital and a reduction in the outflow of capital by public sector enterprises.

As a result of movements in the financial account, and after taking into account errors and omissions, the UAE's balance of payments showed a surplus of AED 23.9 billion in 2006 and AED 183.2 billion in 2007, equal to 4.2 per cent. and 25.1 per cent., respectively, of the UAE's nominal GDP in 2006 and 2007. In 2008, the balance of payments showed a deficit of AED 172 billion, equal to 18.0 per cent. of the UAE's nominal GDP in that year. In 2009, the balance of payments showed a deficit of AED 22.5 billion, equal to 2.7 per cent. of the UAE's nominal GDP in that year based on the IMF's provisional estimate for nominal GDP for the UAE in 2009.

As at April 2010, the UAE's official foreign asset holdings amounted to AED 79,065 million (source: UAE Central Bank). See "*Monetary and Financial System – Foreign Reserves"*.

Foreign Trade

External trade continues to be a significant sector of the Ras Al Khaimah economy. Efforts are underway to boost the export of Ras Al Khaimah manufactured products. Ras Al Khaimah has a large re-export sector particularly in the areas of transport vehicles; machinery, sound recorders, reproducers and parts; and products of chemicals and allied industries (based on 2009 figures). The information in all the tables below uses data supplied by Ras Al Khaimah's customs department and therefore excludes all imports from and exports to neighbouring emirates in the UAE. This data also does not separately present re-exports.

The tables below provide summary information on Ras Al Khaimah's principal imports and exports in each of, 2006, 2007, 2008 and 2009:

Imports

	2006	2007	2008	2009
		(AED million)		
Machinery, sound recorders, reproducers and their parts	1,089.14	950.04	509.37	621.46
Articles of stone, mica, ceramic products and glass	585.02	112.88	5.63	4.17
Foodstuffs, beverages and tobacco	95.55	223.74	0.55	35.81
Products of chemicals and allied industries	158.82	811.03	217.86	154.89
Vehicles of transport	86.50	498.96	79.53	38.64
Live animals and their products	135.46	173.59	344.37	37.67
Other	2,137.68	3,647.23	3,047.69	1,022.14
Total	**4,288.17**	**6,417.47**	**4,205.00**	**1,914.78**

Notes:

(1) The small differences between the annual total figures shown in this table and the annual total figures shown below in the table providing a geographical breakdown of imports are due to the groupings of countries adopted in the latter table causing minor rounding differences.

Source: RAK Statistical Yearbook

Ras Al Khaimah's principal import items in 2009 were machinery, sound recorders, reproducers and their parts and products of chemicals and allied industries which together made approximately 40 per cent. of total imports. The significant increase in other imports in 2006 was due to the re-classification of stone, ceramics and glass, and minerals.

Exports

	2006	2007	2008	2009
	(AED million)			
Articles of stone, mica, ceramic products and glass(1)	16.85	308.67	785.84	50.86
Textiles and textile articles	5.15	1.45	5.63	85.94
Products of chemicals and allied industries	2.90	0.26	3.69	3.32
Foodstuffs, beverages and tobacco	20.12	28.69	227.14	450.91
Live animals and their products	0.32	0.46	0.02	3.25
Pearls, stones, precious metals and its articles	0.00	0.00	-	0.01
Mineral products(1)	3,479.99(2)	1,853.78	1,231.94	792.30
Other	121.24	101.51	375.18	644.06
Total	**3,646.57**	**2,294.82**	**2,629.44**	**2,030.65**

Note:

(1) Prior to 2006, the majority of the export items that are now classified as "Mineral products" were classified under "Articles of stone, mica, ceramic products and glass". This reclassification, together with a significant increase in demand for mineral products from GCC countries during 2006 (see further below) are the principal reasons for the significant increase in the value of these export products in 2006.

(2) Pending classification.

Source: RAK Statistical Yearbook

Ras Al Khaimah's principal export items are mineral products. The products currently classified under this sector made approximately 40 per cent. of the total exports of the Emirate in 2009. This is representative of the importance of Ras Al Khaimah's manufacturing industry, particularly RAK Ceramics. (see "*Principal Sectors of the Economy – Construction and Real Estate*" and "*– Manufacturing*").

The tables below show the geographical breakdown of Ras Al Khaimah's imports and exports for each of 2006, 2007, 2008 and 2009:

Imports:

	2006		2007		2008		2009	
	(AED million)							
Country	**per cent.**	**Value**	**per cent.**	**Value**	**per cent.**	**Value**	**per cent.**	**Value**
GCC countries	16.85	722.01	5.10	327.34	15.54	653.6	15.55	297.70
Other Arab countries	0.00	0.00	0.20	12.90	0.34	14.20	0.34	6.50
Asian countries	55.71	2,386.62	63.10	4,049.46	65.50	2,753.86	65.50	1,254.10
European countries	22.29	954.74	23.08	1,481.29	2.55	107.02	2.54	48.70
America	3.36	143.87	6.57	421.62	6.04	253.93	6.04	115.64
African countries	1.79	76.81	1.94	124.44	10.04	421.93	10.03	192.10
Other countries	0.00	0.00	0.01	0.42	0.00	0.03	0.00	0.00
Total	**100.00**	**4,284.05**	**100.00**	**6,417.47**	**100.00**	**4,204.58**	**100.00**	**1,914.78**

Source: Department of Customs and Ports

During 2009, Asian countries accounted for approximately 65.5 per cent. of the total value of items imported into the Emirate, followed by GCC Countries and African countries which represented approximately 15.5 per cent. and 10.0 per cent. of the total value of imports, respectively.

Exports:

	2006		2007		2008		2009	
				(AED million)				
Country	**per cent.**	**Value**	**per cent.**	**Value**	**per cent.**	**Value**	**per cent.**	**Value**
GCC countries	98.22	3,581.54	96.75	2,220.22	96.34	2,533.13	96.34	1,956.27
Other Arab countries	0.00	0.00	0.52	11.88	0.01	0.13	0.01	0.10
Asian countries	1.51	54.97	2.73	62.64	3.40	89.40	3.40	69.04
European countries	0.23	8.26	0.00	0.00	0.13	3.55	0.13	2.74
America	0.00	0.00	0.00	0.02	0.00	0.00	0.00	0.00
African countries	0.05	1.77	0.00	0.00	0.00	0.00	0.00	0.00
Other countries	0.00	0.01	0.00	0.06	0.12	3.24	0.12	2.50
Total	**100.00**	**3,646.57**	**100.00**	**2,294.82**	**100.00**	**2,629.44**	**100.00**	**2,030.65**

Source: Department of Customs and Ports

Ras Al Khaimah currently exports almost 96 per cent. of its products to countries in the Middle Eastern region. The significant increase in the value of exports to GCC countries during 2006 reflected the demand for mineral products from those countries as a result of an increase in real estate and infrastructure development projects taking place within the GCC at that time which was met, in part, by capacity expansion and equipment modernisation programmes at certain facilities within the Emirate.

Whilst the Emirate has continued to export more than 96 per cent. of its total exports to GCC countries in 2009, the total value exported decreased by almost 22 per cent. from AED 2.5 billion in 2008 to AED 1.9 billion in 2009, thereby indicating the general slowdown experienced in the GCC economies.

MONETARY AND FINANCIAL SYSTEM

As Ras Al Khaimah does not have a separate monetary or financial system, this section describes the UAE's monetary and financial system generally, although certain sections focus specifically on Ras Al Khaimah where information is available.

Monetary and Exchange Rate Policy

The UAE's monetary and exchange rate policy is managed by the UAE Central Bank. The objective of the UAE's monetary policy is to facilitate the fixed exchange rate regime. In common with many other GCC countries, and reflecting the fact that oil and gas revenues are priced in US dollars, the UAE dirham is linked to the US dollar. In the case of the UAE, the exchange rate has been maintained at AED 3.6725 = US$1.00 since 22 November 1980. There are no exchange controls in the UAE and the UAE dirham is freely convertible.

Towards the end of 2007, there was significant press speculation that certain countries within the GCC (including the UAE) might de-peg or re-peg their national currencies from the US dollar in favour of a peg against a basket of currencies. To date, only Kuwait has taken this step. The UAE authorities have expressed publicly their commitment to the US dollar peg. In addition, there are ongoing discussions between GCC countries relating to a possible monetary union. The UAE has not publicly committed to any such union.

With the advent of the global financial crisis in 2008, the UAE's monetary policy has, in addition, been focussed on protecting its banking sector and a number of measures have been announced by the UAE Central Bank and federal authorities in this regard, see "*Recent Developments*" below.

Liquidity and Money Supply

The following table gives the liquidity indicators for the UAE as at 31 December in each of 2006, 2007, 2008, 2009 and as at 30 April 2010:

	2006	2007	2008	2009	2010(1)
			(AED millions)		
Currency issued (M0)	26,832	31,671	45,327	45,580	45,001
Money supply (M1)	120,019	181,664	208,138	223,482	232,970
Private domestic liquidity (M2)	399,293	565,702	674,310	740,618	750,683
Overall domestic liquidity (M3)	503,985	696,229	899,100	947,800	941,166
Broad money (M2) to nominal UAE GDP (%)	63.9	77.5	72.2	87.5	N/A(2)
Private sector credit	385,789	491,528	729,825	723,866	N/A
Private sector credit to nominal UAE GDP (%)	61.8	67.4	78.1	85.6	N/A(2)
Domestic credit	474,161	626,694	924,383	958,588	N/A
Domestic credit to nominal UAE GDP (%)	75.9	85.9	98.9	113.3	N/A(2)

Source: UAE Central Bank and IMF (for calculation of 2009 GDP)
Notes:

(1) As at 30 April 2010. UAE Central Bank Statistical Bulletin, 30 April 2010.

(2) No official estimate of the UAE's GDP for 2010 is available.

Reflecting high oil prices through the first half of 2008, the UAE experienced significant inflows of cash with broad money (comprising cash and money on deposit in banks in the domestic currency) expressed as a percentage of the UAE's nominal GDP growing from 63.9 per cent. in 2006 to 77.5 per cent. in 2007 before falling slightly to 72.2 per cent. in 2008. AED term deposits in particular grew significantly in the period to mid-2008. The growth in liquidity was also reflected in increased availability of credit with the levels of both private sector credit and domestic credit, expressed as a percentage of GDP, growing significantly from 61.8 per cent. in 2006 to 78.1 per cent. in 2008 in the case of private sector credit and from 75.9 per cent. in 2006 to 98.9 per cent. in 2008 in the case of domestic credit.

Since mid-2008 and reflecting the effects of the global financial crisis, the rate of growth in broad money has slowed, with AED term deposits increasing by only 8.9 per cent. in the 20-month period from July 2008 to March 2010 compared with an increase of 60.2 per cent. in the 12-month period from December 2006 to

December 2007. Similarly, the availability of credit has been constrained since the fourth quarter of 2008 with private credit sector standing at AED 729,825 million as at 31 December 2008 and AED 718,520 million as at 30 April 2010 and domestic credit standing at AED 924,383 million as at 31 December 2008 and AED 963,633 million as at 30 April 2010.

Foreign Reserves

The table below shows the foreign assets and gold holdings of the UAE Central Bank at 31 December in each of 2006 and 2007, 2008, 2009 and as at 30 April 2010:

	2006	2007	2008 (AED million)	2009	2010[(1)]
Foreign assets and gold holdings	102,345	285,693	113,039	89,875	79,065

Source: UAE Central Bank
Note:
(1) As at 30 April 2010.

These assets are principally held in deposit accounts with banks outside the UAE or are invested in securities and treasury bills issued by non-UAE issuers. The official reserves figure, however, excludes the stock of publicly controlled foreign assets held in other accounts by bodies controlled by other emirates.

In addition, the ruling families of the various emirates as well as the governments of the emirates and private citizens within the emirates have very significant sums invested abroad.

The significant increase in foreign reserves at the end of 2007 principally reflected US dollar purchases by the UAE Central Bank in response to market speculation that the UAE might abandon its policy of pegging the national currency to the US dollar. As this speculation abated in 2008, the UAE Central Bank was able to sell US dollars thus reducing its foreign currency reserves by comparison with the level at the start of the year. Foreign currency reserves also partially declined in the second half of 2008 onwards due to a drop in global oil prices as compared to oil prices prevailing in 2007 and the first half of 2008.

Banking and Financial Services

As at 31 December 2009, the banks which have been incorporated in, and were operating within, Ras Al Khaimah were RAKBANK and CBI. In addition to the ten branches of RAKBANK and CBI combined which were located in the Emirate as at that date, Ras Al Khaimah also had five branches of foreign banks and fourteen licensed money exchange houses. All banks in the UAE operate under the supervision of the UAE Central Bank.

UAE banks continue to be profitable, although they have been affected by the liquidity issues that have been experienced by banks globally since the second half of 2008. The IMF noted in its July 2006 UAE country report that credit risk is the most important risk factor in the UAE banking sector and that the increased concentration of bank loans to a few large business groups that dominate the economy calls for close monitoring. According to the UAE Central Bank, the aggregate loans and advances extended to residents and non-residents of the UAE as at 30 June 2010 was AED 1,025.6 billion, compared to AED 1,017.7 billion as at 31 December 2009 and AED 993.7 billion as at 31 December 2008. Of these amounts, specific and general provisions were AED 49.9 billion, AED 43.3 billion and AED 25.0 billion, respectively equating to provision rates of 4.9 per cent., 4.3 per cent. and 2.5 per cent., respectively.

The table below provides a statistical analysis of the UAE banking sector as at 31 December in 2006, 2007, 2008, 2009 and as at 30 April 2010.

	2006	2007	2008 (AED millions)	2009	2010[(1)]
Total number of banks	46	49	52	52	51
Total number of branches	573	589	696	756	770
Total number of employees	26,963	32,142	39,589	37,704	36,509
Total credit facilities[(2)] (AED millions)	N/A	626,694	924,383	958,588	963,633

Total provisions[3] (AED millions)	38,542	26,678	25,269	43,300	49,400
Total assets (AED millions)	859,665	1,202,285	1,447,894	1,521,002	1,524,829
Total deposits (AED millions)	518,806	716,021	912,169	982,580	972,263

Source: UAE Central Bank
Notes:

(1) As at 30 April 2010.

(2) Net of provisions and interest in suspense.

(3) Including interest in suspense.

Supervision of Banks

The UAE Central Bank, established in 1980, is the governing body that regulates and supervises all banks operating in the UAE. The UAE Central Bank has supervisory responsibility for all banking institutions in the UAE. Supervision is carried out through on-site inspections and review of periodic submissions from the banks. The frequency of inspection depends on the perceived risk of the bank, but inspections are carried out in all banks at least once every 18 months. Returns are made monthly, quarterly, semi-annually or annually, depending on the nature of the information they are required to contain. An improved risk management framework is currently being implemented, which is designed to provide the UAE Central Bank with more up-to-date information on credit, market and operational risks within the banking sector.

The UAE Central Bank does not act as a lender of last resort, a role which tends to fall on the individual emirates.

Federal Law No. 10 of 1980 (the "**1980 Law**") grants the UAE Central Bank powers to:

- exercise currency issue, stabilisation, valuation and free convertibility;
- direct credit policy for balanced growth of the economy;
- organise and promote an effective banking system with private banks and institutions;
- advise the Federal government on financial and monetary issues;
- maintain the Federal government's reserves of gold and foreign currencies;
- act as a bank for the Federal government and other banks operating in the UAE; and
- act as the Federal government's financial agent with the IMF, the World Bank and other international financial organisations.

The UAE Central Bank is also responsible for regulating anti-money laundering activities in the UAE. It has established a Financial Intelligence Unit and hosted teams from the Financial Action Task Force (the "**FATF**") and the IMF who reviewed, discussed and tested existing UAE laws and regulations. This led the FATF to conclude, in January 2002, that the UAE had put in place an adequate anti-money laundering system.

Since 1999, regulated banks in the UAE have been required to report in accordance with International Financial Reporting Standards by the International Accounting Standards Board.

Structure of the Banking System

Banking institutions in the UAE fall into a number of categories, as defined by the 1980 Law. Domestic commercial banks, also known as "local" banks, of which there were 23 at 30 April 2010, are required to be public shareholding companies with a minimum share capital of AED 40 million.

Licensed foreign banks, of which there were 28 at 30 April 2010, need to demonstrate that at least AED 40 million has been allocated as capital funds for their operations in the UAE. The 1980 Law also licenses "financial institutions" (institutions whose principal functions are to extend credit, carry out financial transactions, invest in moveable property and other activities but are not permitted to accept funds in the form of deposits), investment banks (institutions who do not accept deposits and whose maturities are less than two years but which may borrow from their head office or other banks and the financial markets) and financial and monetary intermediaries (money and stock brokers).

Characteristics of the Banking System

The UAE banks are predominantly focused on the domestic market. In 1987, foreign banks operating in the UAE were limited to a maximum of eight branches.

With much of the economy directly or indirectly dependent on the oil sector, the UAE banks are vulnerable during long periods of low oil prices. In particular, oil revenues tend to drive levels of liquidity. The high oil prices and strong economic conditions in the UAE between 2005 and 2008 allowed the UAE banks to significantly expand their activities with total loans and deposits of the banking sector increasing by 255 per cent. and 214 per cent., respectively, between 31 December 2004 and 31 December 2008. As a result, the UAE financial system entered the global crisis exposed to a highly leveraged economy, a factor which the authorities recognised and responded to during the crisis, see "*Recent Developments*" below.

There is a high degree of state involvement in the UAE banking sector, with the five largest banks being controlled by the governments and/or ruling families of individual emirates.

Additionally, a number of banks have developed in the Islamic world, including the UAE, to serve customers who wish to observe *Shari'ah* principles, including the prohibition on the charging of interest on any financial transaction. These institutions offer a range of products, which broadly correspond to conventional banking transactions but are structured to ensure that all relevant *Shari'ah* principles are complied with.

Recent Developments

Capital

The national banks are well capitalised by international standards. The UAE Central Bank previously required all UAE banks to have a total capital adequacy ratio of at least 10 per cent. (of which Tier I capital must reach a minimum of 6 per cent. and Tier II capital may only be considered up to a maximum of 67 per cent. of Tier I capital), of total risk weighted assets. However, as a result of the global economic slowdown, the UAE Ministry of Finance and the UAE Central Bank temporarily increased the total capital ratio to 11 per cent. (from 30 June 2009) and 12 per cent. (from 30 June 2012). Subsequently, on 31 August 2009, the UAE Central Bank recommended that domestic and foreign banks operating in the UAE should ensure a minimum Tier I capital adequacy ratio of 7 per cent. with a minimum total capital adequacy ratio of 11 per cent. by 30 September 2009. Furthermore, the UAE Central Bank required banks operating in the UAE to increase their Tier I capital adequacy ratio to at least 8 per cent., with a minimum total capital adequacy ratio of 12 per cent. by 30 June 2010. The new temporary minimum ratios are anticipated to be reviewed at the beginning of 2011.

While the calculation of capital adequacy ratios in the UAE follows the Bank of International Settlements guidelines, claims on or guaranteed by GCC central governments and central banks are risk weighted at zero per cent. and claims on GCC government non-commercial public sector entities are risk-weighted at 50 per cent.

Banks in the UAE are required to transfer 10 per cent. of profit each year into a statutory reserve until this reaches 50 per cent. of capital. Distributions cannot be made from this reserve, except in special legally defined circumstances. All dividends paid by UAE banks have to be authorised in advance by the UAE Central Bank.

The UAE banks were required to implement the Basel II Accord using the standardised approach for credit risk by December 2007 and all UAE banks are expected to be internal risk-based compliant for credit risk by 1 January 2011.

The Basel II Accord are risk-based guidelines on capital adequacy requirements and regulatory standards, issued by the Bank of International Settlements in June 2004, and are a progression of the original 1988 Basel I global capital adequacy rules for banks and financial institutions. The Basel II framework has three "pillars": minimum capital requirements, supervisory review process and market discipline. Banks are required to allocate capital towards the standard banking risks: credit risk, market risk and operational risk, termed as Pillar I risks and also towards other risks such as liquidity risks, legal risks, interest rate risk in the banking book, reputational risks, etc., generally termed as Pillar II risks. The Pillar II framework also envisages that banks adopt an Internal Capital Adequacy Assessment Process (ICAAP).

Basel II requires banks to maintain a minimum capital adequacy ratio of 8 per cent. calculated as the percentage of total eligible regulatory capital to total risk weighted assets for credit risks, operational and market risks. Under Pillar II, regulators could require some banks to provide additional capital based on the overall risk profile, beyond the minimum requirements under Pillar I.

During 2009, the Federal government provided AED 50 billion in deposits to UAE banks and UAE banks were given the option to convert those deposits into tier 2 capital in order to enhance capital adequacy ratios. A number of banks in the UAE subsequently made such conversions. As a result, the average capital adequacy ratio of all UAE national banks increased to 20.3 per cent. at 31 March 2010 from 19.2 per cent. at 31 December 2009 and 13.3 per cent. at 31 December 2008.

Liquidity

Most of the UAE banks are funded through on demand or time based customer deposits made by private individuals or private sector companies. Together, these deposits constituted approximately 59.3 per cent. of total deposits of the UAE banking sector at 30 April 2010. Government and public sector deposits contributed approximately 18.0 per cent. of total deposits at 30 April 2010. Non-resident and other sources contributed approximately 22.7 per cent. as at the same date.

There is currently no formal deposit protection scheme in the UAE. While no bank has, so far, been permitted to fail, during the 1980s and early 1990s a number were restructured by the authorities. In October 2008, in response to the global financial crisis, the UAE Federal government announced that it intended to guarantee the deposits of all UAE banks and foreign banks with core operations in the UAE. Thereafter, in May 2009, the UAE's Federal National Council approved a draft law guaranteeing federal deposits although the law has not yet been passed and is still not in effect.

In addition, the UAE Central Bank announced a number of measures aimed at ensuring that adequate liquidity is available to banks operating in the UAE. In September 2008, the UAE Central Bank established an AED 50 billion liquidity facility which banks can draw upon subject to posting eligible debt securities as collateral. The liquidity facility is available only for the purpose of funding existing commitments. New lending is required to be based on growth in the customer deposit base. The UAE Central Bank also established a certificates of deposit repurchase facility under which banks can use certificates of deposit as collateral for dirham or US dollar funding from the UAE Central Bank.

Certain mortgage companies based in the UAE have experienced significant liquidity issues in recent months and plans are being formulated to support these institutions.

Increased Provisions and Insolvencies

A number of UAE and Dubai banks have announced exposures to well known GCC-based companies which have become insolvent or are being restructured. These include the Saad and Algosaibi groups of Saudi Arabia and the Dubai World group in the UAE. As a result of declining economic conditions since late 2008, the provisions recorded by banks in the UAE have increased from AED 25.0 billion, or 1.7 per cent. of total UAE bank assets, at 31 December 2008 to AED 50.5 billion, or 3.3 per cent. of total UAE bank assets at 31 December 2009 and AED 49.9 billion, or 3.2 per cent. of total UAE bank assets, at 30 June 2010. It is possible that bank provisions may continue to increase in 2010 in light of the Dubai World or other similar regional developments.

Large Exposures

In relation to private sector entities, the UAE Central Bank has set a large exposures limit of seven per cent. of bank capital and a single holding limit of five per cent. of bank capital. In relation to government-related commercial entities, the UAE Central Bank has set a single holding limit of 25 per cent. of bank capital. The UAE Central Bank has not specified a single holding limit for banks in relation to government departments.

Federal Debt Management

In June 2009, the Federal National Council passed the Public Debt Law under which the total value of UAE's public debt should not be more than 45 per cent. of the GDP or AED 300 billion, whichever is lower at the time of issuing public debt. The Public Debt Law is awaiting the approval of the President of the UAE and is therefore yet to be enacted. The Public Debt Law could therefore change before it is enacted.

Insurance

There is an absence of published statistical data on the insurance sector in the UAE and Ras Al Khaimah. Insurance companies are regulated by the Insurance Division of the Federal Ministry of Economy.

RAK National Insurance Co. ("**RAK National Insurance**") is a public shareholding company incorporated in the Emirate and is listed on the ADX. It undertakes several classes of insurance business, including life insurance, saving and accumulation of funds. In addition to its head office, RAK National Insurance has two further branches located in Dubai and Abu Dhabi.

Capital Markets

The capital markets in the UAE are regulated by a number of entities including the Emirates Securities and Commodities Authority ("**SCA**"), which licenses intermediaries to trade on the Abu Dhabi Stock Exchange and the Dubai Financial Market ("**DFM**"). SCA is a Federal government organisation but has financial, legal and administrative independence.

In common with other regional exchanges, the ADX and the DFM experienced a sustained decline in market capitalisation between mid-2005 and mid-2006 and again from mid-2008.

The other significant stock exchange in the UAE is NASDAQ Dubai (formerly known as Dubai International Financial Exchange) which commenced operations in September 2005 and, as an entity based in the Dubai International Financial Centre, is separately regulated.

PUBLIC FINANCE

Government Finance

Government of Ras Al Khaimah Budget and Financials

The Government of Ras Al Khaimah is organised into major departments each with specific responsibilities. The Finance Department has a number of sub-departments, which include: the civil courts, the economic department, the customs department, the Emirate's police force and the land department. The Municipality Department has one subsidiary, the Public Works Department.

The sub-departments under the Finance Department submit their individual budgets to the Finance Department on an annual basis whilst all other governmental entities prepare their annual budgets and financial statements independently from the Finance Department. All revenues generated by the Finance Department's sub-departments are credited to one main revenue account held by the Finance Department of the Government of Ras Al Khaimah. The departments' expenditures are paid for by the Finance Department in accordance with the approved annual budget for each department.

Funds from government entities which are not sub-departments of the Finance Department are transferred from these entities to the Finance Department as and when required by the Government of Ras Al Khaimah. The Government of Ras Al Khaimah's budget is prepared independently from the UAE federal budget.

Government Consolidated Accounts

The Government of Ras Al Khaimah, through the Investment & Development Office, has introduced full consolidated accounting on an accruals basis. The accounts are prepared quarterly and represent the net trading and asset position of the Emirate. The actual trading results for 2009 are as follows:

	2009
	(AED millions)
Net Government Department Surplus/(Deficit)	(72.4)
Net Profits from Business Subsidiaries	854.5
Dividends and Other Income	74.7
Increase/(Decrease) in Value of Listed Shareholdings	(559.0)
Movement in Value of Private Investments	0
Net Overall Surplus/(Deficit)	**297.8**

Source: IDO

The Government expects to experience a surplus close to AED 1 billion for the year, assisted by an improvement in the value of listed shares. The cost of government departments and services continues to be low, and dividends have also increased.

Whilst the trading performance of business entities is down compared to 2009, the general trend has been upwards since the beginning of the year and general profitability has been retained. The Government forecasts that a net overall surplus will continue to be achieved for the foreseeable future.

In addition, capital expenditure has reduced during the year as a number of key projects and developments move towards completion.

With the achievement of surpluses, and a reduction in capital expenditure, the overall cashflow effect is significantly positive and will allow a reduction in general debt levels and ensure that key ratios for interest coverage and principal repayment coverage remain strong.

Government Cash flow Analysis

The Government regularly prepares detailed cash flow data in order to centrally control the liquidity and payment commitments of the Emirate. The detailed cash flow statements from 2006 to 2009 were as follows:

	2006	2007	2008	2009
		(AED million)		
Cash Inflows				
Government departments	253	271	676	454
Port & maritime	126	146	262	226
Industrial development	123	663	2,204	692
Oil & gas	276	238	510	597
Mineral development	700	812	1,039	970
Tourism, travel and hospitality	81	60	68	111
Investment proceeds	69	20	282	207
Other cash flows	108	94	99	152
Total Cash Inflows	**1,736**	**2,575**	**5,140**	**3,408**
Revenue Expenditure				
Wages & salaries	(232)	(270)	(345)	(444)
General expenditure	(830)	(976)	(1,295)	(1,592)
Others	(31)	(113)	(137)	(119)
Finance costs	(25)	(67)	(70)	(84)
Total Revenue Expenditure	**(1,118)**	**(1,427)**	**(1,847)**	**(2,239)**
Operating Cash flow Surplus	**618**	**1,148**	**3,293**	**1,169**
Capital Expenditure	**(655)**	**(974)**	**(1,491)**	**(1,625)**
Investment and Debt transactions	**92**	**713**	**(2,538)**	**999**
Net Cash Movement	**55**	**887**	**(736)**	**543**

Source: IDO

Government Revenue

Ras Al Khaimah's revenues totalled AED 3,229 million for the year ended 31 December 2009.

The actual revenues for the period to 30 June 2010 totalled AED1.75 billion. The revenues continue to reflect the diversified economy which the Emirate enjoys, and no one entity contributes more than 20 per cent. of the total Government consolidated turnover. The largest contributors continue to be the oil and gas components together with the rock and limestone turnover.

This profile of diversification in Government income mirrors the overall GDP and industrial data for the Emirate as a whole.

Operating Expenditure

Operating expenditure principally comprises general expenses such as: payments for goods and services used by the various government departments and entities; wages and salaries; other overheads; and marketing expenses. General expenses accounted for the majority of Ras Al Khaimah's current expenditure and have represented more than two-thirds of the Emirate's total current expenditure during each of the last five years.

No significant increase in these costs is currently forecast.

Government Assets and Investments

Government Assets

The table below shows a summary of the tangible assets owned by the Government of Ras Al Khaimah as of 31 December 2009:

Investment In Securities	**AED (million)**
Direct Investment in listed companies	3,628
Direct Investment in non listed companies	**563**
Investments Held by Subsidiaries	**1,178**
Total Investments	5,369
Current Assets	
Cash and cash equivalent	1,053
Other current assets	**1,838**
Total Current Assets	2,891
Non Current Assets	
Tangible Fixed Assets	5,186
Other non Current Assets	**3,772**
Total non Current Assets	8,958
TOTAL ASSETS	**17,218**

Government Investments

The table below shows the principal commercial enterprises, both listed and unlisted, in which the Government of Ras Al Khaimah directly held a shareholding as at 31 December 2009. At that date, 87 per cent. of the Government of Ras Al Khaimah's total investments were in listed commercial enterprises and 13 per cent. in unlisted companies. No material change to this portfolio mix has occurred during 2010.

The strategy followed by the Government of Ras Al Khaimah in making these investments is to focus on strategic industries with a view to assisting in their development and growth.

The market value of the Government of Ras Al Khaimah's holding in listed companies, as at 31 December 2009 was as follows:

Company name	**Market value (AED million)**
RAK Bank	2,284
Union Cement Company	459
Gulf Pharmaceutical Industries	285
RAK National Insurance Co.	237
Gulf Cement Company	96
RAK Ceramics	45
RAK Co. for White Cement	43
RAK Properties	38
Other Listed Holdings	141
TOTAL MARKET VALUE OF LISTED SHARES	**3,628**

Source: The Finance Department and other government entities

INDEBTEDNESS

The Government of Ras Al Khaimah is adopting a centralised debt policy. In accordance with this policy, both sovereign level and subsidiary level debt obligations are managed and controlled centrally through the IDO.

The details of the outstanding loans which are consolidated in the Government of Ras Al Khaimah's finances as of 31 December 2009 are as follows:

Entity	**Sukuk**	**Bank Loans**	**Other Loans**	**Total**
		(AED million)		
Investment & Development Office (**IDO**)	2,470	0	0	2,470
RAK Investment Authority (**RAKIA**)	1,194	746	0	1,940
Other Entities		747	11	758
Total	**3,664**	**1,493**	**11**	**5,168**

Of the bank loans listed in the above table, approximately 25 per cent. mature by the end of 2010 and the remaining 75 per cent. mature between 2011 and 2015.

On 5 December 2007, RAKIA raised US$325 million (AED 1,193.89 million) for a term of five years by way of a sukuk issue which is guaranteed by the Government of Ras Al Khaimah. On 28 May 2008, the Government of Ras Al Khaimah through its Investment & Development Office raised AED 1 billion for a term of five years by way of a sukuk issue under a US$2 billion Certificate Issuance Programme.

The Government of Ras Al Khaimah has guaranteed a loan of AED 150 million of a RAKIA subsidiary and has also provided guarantees to RAKEEN for term loans totalling AED 1,246 million. Whilst it remains the Government of Ras Al Khaimah's general policy not to provide financial guarantees, it may, in the future, consider granting such guarantees in relation to specific projects that it considers to be of particular strategic importance after giving due care to the associated risks.

TAXATION

The following summary of certain United Kingdom, European Union and United Arab Emirates tax consequences of ownership of Bonds is based upon laws, regulations, decrees, rulings, income tax conventions, administrative practice and judicial decisions in effect at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Bonds. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of Bonds. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of Bonds, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this Prospectus, and of any actual changes in applicable tax laws after such date.

United Kingdom

The following is a discussion of certain United Kingdom withholding tax, stamp duty and stamp duty reserve tax considerations relating to the Bonds. It is based on current United Kingdom law and HM Revenue & Customs practice and does not discuss any other United Kingdom tax considerations relating to the Bonds, including but not limited to their acquisition, holding or disposal. Prospective Bondholders should consult their own tax advisers as to the consequences, both under the tax law of the country of which they are resident for tax purposes and the tax law of the United Kingdom, of acquiring, holding and disposing of the Bonds and receiving payments of interest, principal and/or other amounts under the Bonds. The comments relate only to the position of persons who are the absolute beneficial owners of the Bonds.

Withholding Tax

No United Kingdom withholding tax will apply in relation to payments of principal and/or interest on the Bonds.

Stamp Duty and Stamp Duty Reserve Tax

No United Kingdom stamp duty will be payable on the issue of the Bonds in global form or on the issue of the Bonds in definitive form.

No United Kingdom stamp duty will be payable on a transfer of the Bonds.

No United Kingdom stamp duty reserve tax will be payable on the issue of the Bonds or on an agreement to transfer the Bonds.

Provision of Information

Persons in the United Kingdom by or through whom interest is paid to, or by whom interest is received on behalf of, an individual may, in certain circumstances, be required to provide information to HM Revenue & Customs regarding the payment and the individual concerned (including as to the identity of the individual). These provisions will apply whether the individual is resident in the United Kingdom or elsewhere. In certain circumstances, the information may be exchanged with tax authorities in other jurisdictions.

EU Directive on Taxation of Savings Income

Under the Savings Directive, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entity established in that other Member State. However, for a transitional period Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Savings Directive, which included the Commission's advice on the need for changes to the Savings Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Savings Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of those proposed changes are made in relation to the Savings Directive, they may amend or broaden the scope of the requirements described above. Bondholders are advised to consult their independent professional advisers in relation to the implications of the proposed changes, once finally made. Investors who are in any doubt as to their position should consult their professional advisers.

United Arab Emirates and the Emirate of Ras Al Khaimah

Under current legislation, there is no requirement for withholding or deduction for, or on account of, UAE or Emirate of Ras Al Khaimah taxation in respect of payments of principal or interest on the Bonds.

The Constitution of the UAE specifically reserves to the Federal government of the UAE the right to raise taxes on a federal basis for purposes of funding its budget. It is not known whether this right will be exercised in the future.

The UAE has entered into Double Taxation Arrangements with certain other countries, but these are not extensive in number.

SUBSCRIPTION AND SALE

Pursuant to a Subscription Agreement dated 4 November 2010 (the "**Subscription Agreement**"), The Royal Bank of Scotland plc (the "**Manager**") has agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Bonds at the issue price of 100 per cent. of their principal amount. The Issuer will pay to the Manager a combined management, underwriting and selling commission to be deducted from the issue proceeds. The Manager is entitled to terminate and to be released and discharged from its obligations under the Subscription Agreement in certain circumstances prior to payment to the Issuer. The yield of the Bonds is 3.58 per cent. on an annual basis. The relevant yield is calculated as at the Issue Date on the basis of the relevant issue price. It is not an indication of future yield.

United States

The Bonds have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, US persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Bonds are subject to US tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a US person, except in certain transactions permitted by US Treasury regulations. Terms used in this paragraph have the meanings given to them by the US Internal Revenue Code of 1986 and regulations thereunder.

The Manager has agreed that, except as permitted by the Subscription Agreement, it will offer, sell or deliver the Bonds, (i) as part of their distribution at any time and/or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date only in accordance with Rule 903 of Regulation S under the Securities Act.

United Kingdom

The Manager has represented and agreed that (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer and (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving, the United Kingdom.

United Arab Emirates

The Manager has represented and agreed that the Bonds have not been and will not be offered, sold or publicly promoted or advertised by it in the UAE other than in compliance with laws applicable in the UAE governing the issue, offer and sale to the public of securities.

Japan

The Bonds have not been and will not be registered under the Financial Instruments Exchange Act (the "**FIEA**"). Accordingly, the Manager has represented and agreed, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, a resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other relevant laws and regulations of Japan.

General

Save for having obtained the approval of this Prospectus by the UK Listing Authority in accordance with Part VI of the FSMA no action has been taken, in any jurisdiction, by the Issuer or the Manager that would, or is intended to, permit a public offer of the Bonds or possession or distribution of this Prospectus or any other offering or publicity material relating to the Bonds in any country or jurisdiction where any such action for that purpose is required. Accordingly, the Manager has undertaken that it will not, directly or indirectly, offer or sell any Bonds or have in its possession, distribute or publish any prospectus, offering circular, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of the Bonds by it will be made on the same terms.

Persons into whose hands this Prospectus comes are required by the Issuer and the Manager to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Bonds or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Bonds, in all cases at their own expense.

GENERAL INFORMATION

(1) It is expected that listing of the Bonds on the Official List and admission of the Bonds to trading on the Market will be granted on or before 9 November 2010, subject only to the issue of the Global Certificate. Transactions on the Market will normally be effected for delivery on the third working day after the day of the transaction.

(2) The creation and issue of the Bonds have been authorised by Emiri Decree No. 14 of 2010 passed on 25 October 2010.

(3) There has been no significant change in the tax and budgetary systems, gross public debt, foreign trade and balance of payments, foreign exchange reserves, financial position and resources and income and expenditure figures of the Issuer since 31 December 2009.

(4) The Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past a significant effect on the financial position of the Issuer.

(5) The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code, ISIN and CINS for the Bonds are as follows:

Common Code: 055388270

ISIN: XS0553882704

CINS: M82109 AA3

(6) The Issuer does not publish audited financial statements.

(7) Where information in this Prospectus has been sourced from third parties, this information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of the third party information is identified where used.

(8) For the period of 12 months starting on the date on which this Prospectus is made available to the public as required by the FSA, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the specified offices of the Paying and Transfer Agents:

(i) the Agency Agreement;

(ii) the budget for the current fiscal year (as set out on pages 55 to 57 of this Prospectus); and

(iii) a copy of this Prospectus together with any Supplement to this Prospectus or further Prospectus.

This Prospectus will be published on the website of the Regulatory News Service operated by the London Stock Exchange at *www.londonstockexchange.com/en-gb/pricesnews/marketnews.*

(9) The total expenses related to the admission to trading of the Bonds are expected to be approximately £2,975.

ISSUER

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Ras Al Khaimah
United Arab Emirates

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