

Short-Term Rec.: Accumulate Current Price*: AED 0.78
Long-Term Rec.: Buy LT Fair Value: AED 1.58

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■ We are upgrading our recommendation on Dana Gas to a ST Accumulate/LT Buy from ST Reduce/LT Sell after incorporating recent positive changes and developments at the firm into our assumptions. Our LT Fair Value increases to AED1.58 per share from AED1.46 previously.

■ **Iranian Gas Expected 1H2009.** Despite repeated delays, we still believe that the company's cornerstone UAE gas project will materialize and now expect it to start contributing to forecasts in 2H2009. While management credibility has been damaged by its failed promises on the Iranian deal in the past, we believe management's current commentary that the start of these operations is now imminent is more reliable.

■ **Centurion Looking Positive.** With Centurion, the company has undertaken an aggressive exploration and development programme in Egypt, adding 15 exploration wells and four development wells. Centurion is targeting 600 bcf of risked reserves. We believe that this exploration program looks promising in terms of new discoveries, highlighted by the company's recent successes in finding new reserves.

■ **Kurdistan Project Underway.** After entering into agreements with the Kurdistan Regional Government (KRG) of Iraq for the development of its substantial gas resources, Dana Gas's Kurdistan project is now underway. Dana Gas will be allowed to recover all its costs before sharing any profits with the KRG, with our estimate of a payback period of between two to three years and lumpy cash flows expected in the short term.

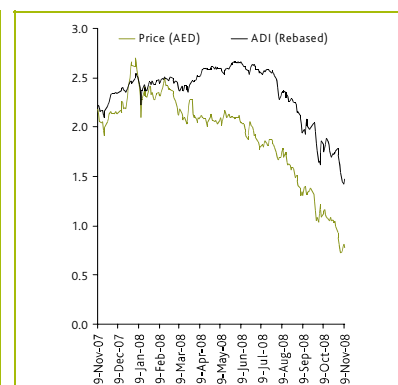
■ **Valuation of AED1.58/share Offers 103% Upside.** We have separately analyzed the company's three major projects (Iranian, Egyptian and Kurdistan). Our estimated LT fair value of AED1.58 per share is the sum of our individual DCF analysis for each of these projects, and overall offers 103% upside to the current share price.

■ **Turning from a Seller to a Buyer.** For the last year, we have held a negative stance on the company. However, with the shares now trading below the floatation price and Dana Gas' strategy and implementation capabilities finally coming together, we believe the risk-reward is now on the upside and we upgrade our recommendation to ST Accumulate/LT Buy. With Kurdistan operational, new gas finds in Egypt, and high confidence on the Iranian gas deal, we believe the tide has turned for the company and we expect positive news flow to act as a catalyst for the shares in the short-term. However, our ST recommendation is somewhat tempered by global worries on oil and commodity prices, which will likely continue to impact Dana's shares from a sentiment standpoint.

COMPANY NOTE

December year end	2007a	2008e	2009e	2010e
Revenue	605.0	757.6	1,746	2,727
EBITDA	430.0	555.9	1,449	2,375
Operating Profit	189.0	241.2	992.5	1,787
Income from Associates	-	-	94.7	278.5
Net Attrib. Income	146.0	109.1	658.4	1,591
EPS	0.02	0.02	0.11	0.27
DPS	-	-	-	-
Net Debt (Cash)	1,375	920.0	(194.2)	(2,374)
P/E (Attrib.)	32.1	42.9	7.1	2.9
EV/EBITDA	14.1	10.1	3.9	2.4
P/BV	0.69	0.66	0.65	0.59
P/CF	421.7	9.3	3.5	2.0
Dividend Yield	-	-	-	-
RoAE	2.1%	1.5%	8.7%	18.4%

Figures in AED million unless otherwise stated



<i>Estimates Changes</i>					
	2007a	2008e		2009e	
(AED mn)		Old	New	Old	New
Revenue	605.0	2,480	757.6	2,776	1,746
EBITDA	430.0	921.7	555.9	1,021	1,449
EBITDA Margin	41.5%	37.2%	45.8%	36.8%	63.8%
Net Attrib. Income	146.0	307.0	109.1	356.2	658.4

Stock Data	
Mkt. Cap. / Shares (mn)	AED4,680 / 6,000
Av. Monthly Liqd. (mn)	AED1,405
52 Week High / Low	AED2.70 / 0.72
Bloomberg / Reuters	DANA UH / DANA.AD
Est. Free Float	80%

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* prices as of 19 November 2008

KINDLY REFER TO THE
IMPORTANT DISCLOSURES AND
DISCLAIMERS ON BACK PAGE

I. PROJECT BY PROJECT ANALYSIS

Our previous forecasts for Dana Gas had been based on our assumptions for i) the UAE gas project and ii) the Egyptian operations (the company's acquired Centurion business). We had not incorporated other projects, such as that in Kurdistan given low visibility. However, based on operational progress at a number of projects and improved management disclosure, we are now able to improve our analysis levels and incorporate these projects into our forecasts and valuation, with the key changes highlighted as follows:

We have taken a project-by-project approach to our analysis of Dana Gas' three major projects/operations (Iran, Egypt and Kurdistan),

- We expect the UAE gas project to begin contributing to our numbers from the beginning of 2H2009 versus our previous assumptions of beginning of 2008. For 2009e, we estimate FCF of AED176 million from this project.
- We have included the Kurdistan project (signed with the Kurdistan Regional Government of Iraq to develop, process and transport gas domestically) into our forecasts as it has quickly swung into operational mode. For 2009e, we assume AED673 million in FCF as Dana recoups its investment in the project. For 2010e, we assume AED815 million in FCF.
- For the operations in Egypt (Centurion), we are now assuming revenues of AED1,426 million and FCF of AED395 million in 2009e as the company increases production levels in this region boosted by recent discoveries such as Al-Tawil well.
- We have included other projects such as Gulf of Suez plant, which contribute by AED0.15 to the valuation.

A. DANA GAS UAE – THE IRANIAN DEAL

TERMS OF THE DEAL

Dana Gas's UAE gas project is a 25-year contract with Crescent Petroleum to import, transport, process, and sell natural gas and by-products from Iran to the UAE. Crescent Petroleum (one of the UAE's oldest, independently-owned, upstream oil and gas producing companies and parent company to Dana Gas) has an agreement in place with NIOC to buy the Iranian sour gas, which will be exported from Iran's Salman field. Crescent will then sell this gas to CNGCL (Crescent National Gas Corporation), which is 35% owned by Dana Gas and 65% owned by Crescent Petroleum.

In turn, CNGCL will take title of the raw gas and will transport, process and then re-sell this gas (at a mark-up) to end users such as Federal Electricity & Water Authority (FEWA) and Sharjah Electricity & Water Authority (SEWA) - via United Gas Transmissions (UGTC) and SajGas (both of which are 100% wholly owned subsidiaries of Dana Gas).

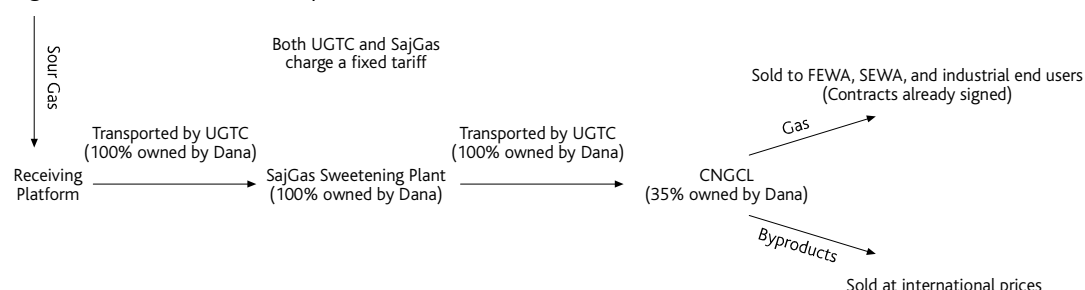
Dana Gas revenues are based on the sale of by-products such as condensate, sulphur and LPG

Dana Gas derives its revenues from the re-sale of gas through CNGCL, and also from the sale of by-products such as condensate, sulphur and LPG (liquefied petroleum gas). In addition to these two revenue streams, Dana Gas' other subsidiaries will charge a tariff for both the transportation (UGTC subsidiary) and the processing (SajGas subsidiary) of the gas, which gives rise to further revenues.

The Iranian project will process an initial quantity of 600 mcfpd (million cubic feet per day) of gas which will be pumped from Iran's Salman field to the Mubarak field in the UAE. We believe Crescent Petroleum is currently in negotiations over the price and volume of additional gas imports (however this can only presently be increased up to 1 billion cubic feet of gas per day due to the capacity of the existing pipeline), and we believe that due to gas shortages within the emirate/country, CNGCL will comfortably be able to sell any additional gas that is supplied by the Iranian side (above the initial gas quantity which is already contracted for sale under take-or-pay agreements).

In addition to customers such as FEWA and SEWA, Dana Gas has a 50:50 JV with Emarat to deliver gas to industries within the Emirate of Sharjah and also has the rights through CNGCL to any by-products (such as LPG, Sulphur and condensate) in the course of sweetening and processing that gas. Dana Gas' operations within the UAE are illustrated in Figure 1.

Figure 1: Flow of Dana Gas' Operations in the UAE



Source: Dana Gas, EFG-Hermes

REVENUE DRIVERS FOR THE UAE GAS PROJECT

CNGCL (Crescent National Gas Corporation)

CNGCL is 35% owned by Dana Gas and 65% by Crescent Petroleum. CNGCL has long term purchase agreements with Crescent Petroleum (for the purchase of the gas imported from Iran) and the subsidiary has already secured long-term take-or-pay contracts to deliver 600 mcfpd (million cubic feet of gas per day) to end users including SEWA, FEWA, and other industrial end users in the UAE. CNGCL's business also includes LPG, condensates and sulphur marketing and trading.

We have assumed that CNGCL will not make a margin on the revenues from selling gas as this will be offset by the cost of importing the gas from Iran. In addition, CNGCL will have to pay for the costs involved with processing and transporting the gas and the shrinkage in gas volumes as a result of capturing by-products. Therefore, CNGCL's profitability will mainly be based on the sale of by-products. The quantity of by-products/liquids that CNGCL will be able to generate from processing 600 mcfpd of gas is as follows:

- i) Condensate – 2,500 barrels per day
- ii) LPG – 30,000 Tons per month
- iii) Sulphur – 10,000 Tons per month

Figure 2: CNGCL Revenue Drivers and Assumptions

AED million, unless otherwise stated

	2009e	2010e	2011e	2012e	2013e
Condensate Price (USD) / barrel	80	90	80	80	80
LPG Price (USD) / ton	720	810	720	720	720
Sulphur Price (USD) / ton	300	300	300	300	300
Revenue from by Products	236	481	491	501	511

Source: EFG-Hermes estimates

Note that our assumptions above are based on 600 mcfpd of gas being imported with significant further upside possible if this increases to 1 billion cfpd.

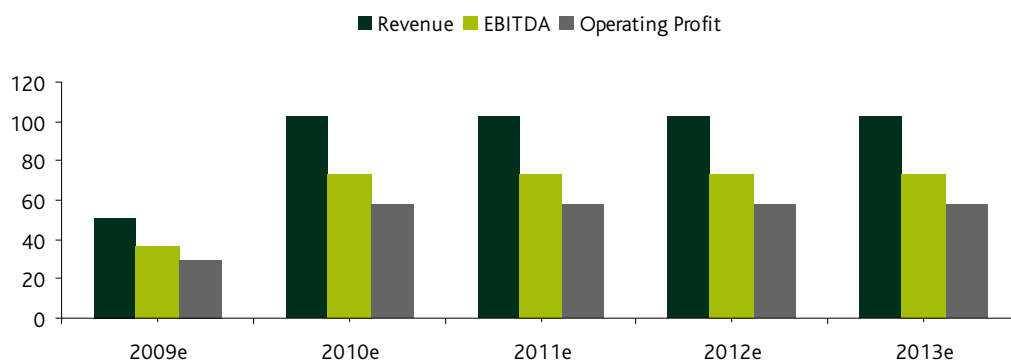
SajGas

SajGas owns a 600 million standard cubic feet per day sweetening, sulphur recovery and sulphur pastillation facility in Sharjah which was completed in November 2005. SajGas will be responsible for sweetening the gas coming from Iran, however due to the delays to the start of the contract, the subsidiary's operations have to date been held back.

The facility's capacity has been built for 600 mcfpd of gas per day (the target amount of gas being imported from Iran by CNGCL), however capacity can also be increased to 1 billion cfpd at a minimal/ small cost of USD30million if import levels are increased. We expect the plant to become fully operational by mid-2009 following the anticipated commencement of gas supplies from Iran. It is worth noting that the SajGas plant has been built with its own, on-site power plant, protecting the facility against cost increases or potential power shortages.

Due to the fixed nature of the tariff and capacity assumptions, our forecasts are relatively flat going forward (adjusted for minor cost increases year on year). Based on management guidance, we have estimated the total cost of the plant at USD100 million and assume a target IRR of at least 12% (based on a capacity of 400 mcfpd). However, assuming actual capacity of 600 mcfpd, we believe the actual IRR achievable is much higher at around 23%. Moreover, it is worth noting that our estimated tariff is at the lower end of management guidance.

Figure 3: Financial Forecasts for SajGas
AED million, unless otherwise stated



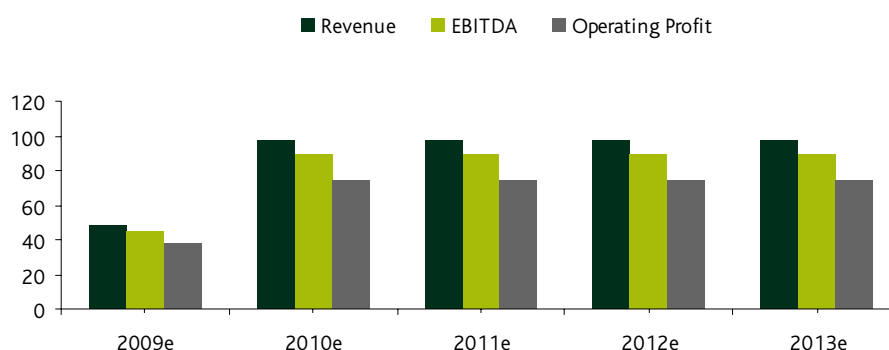
Source: EFG-Hermes estimates

UGTC will be responsible for the transportation of gas in the UAE Gas Project

UGTC (United Gas Transmission Company)

UGTC is a gas midstream company which owns and operates major gas reception and transmission facilities. The pipeline was built with a capacity of 1 bcfpd in anticipation of a possible increase in the amount of gas being imported from Iran. Under a long-term contract with CNGCL from which UGTC derives its revenues, UGTC will be responsible for the transportation of gas in the UAE Gas Project. With no gas flowing to date, UGTC has yet to contribute revenues/profits to the overall numbers; however we believe that UGTC will start contributing to Dana Gas' top & bottom lines in mid-2009. For our forecasts, we have assumed a transportation capacity of 600 mcfpd of gas and at this time do not forecast an increase to a potential 1 bcfpd in the future.

Figure 4: Financial Forecasts for UGTC
AED million, unless otherwise stated



Source: EFG-Hermes estimates

Total Forecasts for UAE operations

Based on our current assumptions, we expect revenues of AED48 million in 2009e from Dana's UGTC subsidiary and revenues of AED51 million from SajGas in the same year (based on half a year's contribution). Given the fixed nature of the company's tariffs and our assumption of no increases to capacity for now, we estimate revenues to remain flat over the long-term (on an adjusted full year contribution basis).

In terms of costs, we have assumed operating costs to be equal to 2% of the initial capex (of USD100 million) for UGTC and 8% of initial capex (of USD100 million) for SajGas. For our depreciation assumptions, we use a straight line deprecation method for both the sweetening plant and the pipelines over their useful life (of 25 years). Meanwhile, we have assumed that Dana Gas will follow the equity method of consolidation for the company's CNGCL subsidiary given that it owns just a 35% share in the subsidiary, and this will result in profit contribution from CNGCL below the operating profit line.

This will result in a total revenue forecast from the company's UAE operations of AED100 million in 2009e and net profits of AED174 million in 2009e (as shown in figure 5). It is worth noting that we have excluded any SG&A and interest expenses to arrive at these forecasts, instead choosing to include them on a corporate/holding level.

Figure 5: Total forecasts for UAE Operations
AED million, unless otherwise stated

	2009e	2010e	2011e	2012e	2013e
UGTC Revenues (Transportation)	48	97	97	97	97
Sajgas Revenues (Processing)	51	102	102	102	102
Total Revenues	100	199	199	199	199
Cost of Sales	(18)	(37)	(37)	(37)	(37)
EBITDA	81	162	162	162	162
Depreciation	(15)	(29)	(29)	(29)	(29)
Operating Profit	67	133	133	133	133
Income from Associates (35% ownership in CNGCL)	95	241	186	184	182
Net Profit	161	374	319	317	316

Source: EFG-Hermes estimates

DCF Valuation of UAE Operations of AED0.63

Based on our current assumptions and a WACC of 9.9% (derived from a cost of equity of 11.0% - RFR of 5.0% and RP of 6.0%, and cost of debt of 7.5%), we reach a LTFV of AED0.63 for Dana Gas' UAE operations as shown in Figure 6.

Figure 6: UAE Operations DCF Valuation

AED million, unless otherwise stated

	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e
FCF	176	403	348	347	345	343	341	339
PV FCF	158	330	260	235	213	193	175	158
Terminal Value	4,396							
Perpetual Growth Rate	2.0%							
WACC	9.9%							
PV of Cash Flows 08-15	1,722							
PV of Perpetuity	2,047							
Total Firm Value	3,769							
Net Debt	-							
Equity Value	3,769							
Total Equity Value	3,769							
No. of Shares	6,000							
FV per Share (AED)	0.63							

Note: Excludes investment in working capital and net debt which will be assigned at the corporate/holding level

Source: EFG-Hermes estimates

PROJECT DELAYS SHOULD BE COMING TO AN END ...

The Iranian gas project had originally been scheduled for gas deliveries by 2Q2006, however it has suffered through a series of delays which we believe are due to a combination of: 1) disagreements relating to the gas price at which NIOC sells the gas to Crescent Petroleum as well as 2) delays from the Iranian side in completing the infrastructure needed for the commencement of the project.

Management believes that gas supplies will begin very shortly, with over 95% of the infrastructure complete

Given that construction on the Iranian side is almost complete now, Dana Gas' management believes that gas supplies will begin very shortly. With over 95% of the infrastructure complete, and USD1 billion spent by Dana and a further USD1.2 billion by NIOC, we believe the investment/capital already committed to this project is significant enough to prevent either party from simply walking away from the contract.

Since Dana will be supplying this gas for residential use, as well as to feed power plants which are operated by UAE-owned electricity utilities (SEWA, FEWA), we also assume that any differences in the pricing of the contract will not be passed on to end consumers. With the practice of subsidized utilities in the UAE, the Sharjah government is likely to absorb any additional costs to ensure fair tariffs for consumers. Also, SEWA and FEWA are currently using distillate oils or other fuels to operate their plants. These alternative fuels cost significantly more than the gas equivalent - around between USD25 and USD35 per mmbtu vs. international gas prices of USD6.8 per mmbtu. Therefore, ultimately, even if CNGCL secures gas from Iran at international prices (i.e. much higher than the original price agreed upon), we believe that the subsidiary will still be able to market this gas to end users in the UAE since it would still represent a discount to what they are paying for current feedstock.

... HOWEVER SUCCESS NOT COMPLETELY GUARANTEED

At this point, we believe it is worth exploring the risks to our new assumptions and look at a more negative argument - what if the Iranian contract does not come to fruition? Indeed, recent press speculation has pointed to NIOC finding an alternative recipient for its gas, which would be willing to meet its terms. Further still, suggestions have been made that NIOC may even be able to use the existing infrastructure, which is almost complete, to supply its gas to another company in the UAE.

We note that the above scenario assumes the worst possible outcome for Dana Gas and as such is highly unlikely in our view particularly given the capital already committed by both parties to the project. In the event that Dana does not receive any supply of gas from NIOC, the company's operations and hence future revenues and earnings would stall until alternative gas supplies were arranged - something that would have obvious time and cost implications for the company. This worse case scenario would indeed have a significant impact on the company with the Iranian deal accounting for a third of our LT fair value for Dana Gas.

B. DANA GAS KURDISTAN

TERMS OF THE DEAL

Dana Gas was appointed to provide natural gas supplies to fuel domestic electric power plants

In 1H2007, Dana Gas signed a strategic alliance (alongside Crescent Petroleum) with the Kurdistan Regional Government of Iraq. Under the terms of the strategic alliance, Dana Gas (granted 25 year exclusive rights on a 50% working interest basis) was appointed, on a service contract basis, to develop, process, and transport natural gas from the Khor Mor Gas field and to provide natural gas supplies to fuel domestic electric power generation plants currently under construction near Erbil and Suleymaniya. Moreover, the company was given the rights to appraise and develop a second and potentially larger field – the Chemchemical Field. Production from the Khor Mor project has now started, with the first phase expected to reach full capacity by beginning of next year.

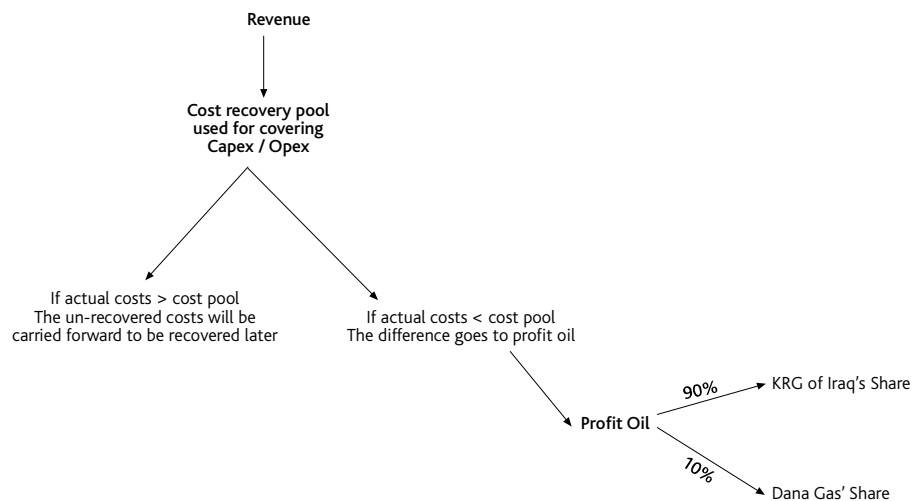
The initial costs for the Khor Mor Field development and the Chemchemical appraisal program, which are currently estimated at USD600 million and USD50 million respectively, will be funded equally by Dana Gas and Crescent Petroleum. The consortium has installed a 180km of major gas transmission pipelines to transfer the gas from the fields to the power stations. Also, the consortium is building processing plants (including an LPG plant) to process the natural gas.

REVENUES MAINLY FROM BY PRODUCT SALES

Dana Gas has the right to extract liquids & condensates from the rich gas

Dana Gas does not generate revenues from the sale of gas from the Khor Mor field, however, it has the right to extract liquids & condensates from the rich gas and to sell these by-products to the International market. From the sale of these liquids and condensates, Dana Gas has the right to recover i) all of its investment costs from the set up of its operations in Kurdistan (plus a contractually agreed rate of return on investment) , ii) all of its operating costs, and iii) has a right to a proportion of any surplus money made (over and above any operating costs) that will be returned to the Kurdistan Regional Government of Iraq.

Figure 7: Profit Sharing Agreement (PSA) Flow Chart – Dana Gas Kurdistan



$$\text{Net Cashflow for Dana Gas} = \text{Cost Recovery Pool} + \text{Profit Share} - \text{Capex} - \text{Opex}$$

Source: EFG-Hermes

GAS, LPG AND CONDENSATE QUANTITIES TO DOUBLE BY 2H2009 IN PHASE 2

The Kurdistan deal is split into two phases, with the first phase consisting of an initial quantity of 150mscf/d (million standard cubic feet per day) of gas to be pumped from the Khor Mor field to various power stations within the Kurdistan region. Along with the delivery of this gas, the company expects to produce 470 tonnes of LPG per day and 7,000 bbl/d (barrels per day) of condensate. For the second phase, which is expected to commence in 2H2009, we expect gas quantities to be delivered to double to 300mm scf/d and LPG to increase to 940 tonnes per day and condensate to 14,000 bbl/d, as shown in Figure 8.

Figure 8: Khor Mor Development Field in Kurdistan

Phase 1	Phase 2
Gas: 150 mm scf/d	Gas: 300 mm scf/d
LPG: 470 tonnes per day	LPG: 940 tonnes per day
Condensate: 7,000 barrels per day	Condensate: 14,000 barrels per day

Source: Dana Gas, EFG-Hermes estimates

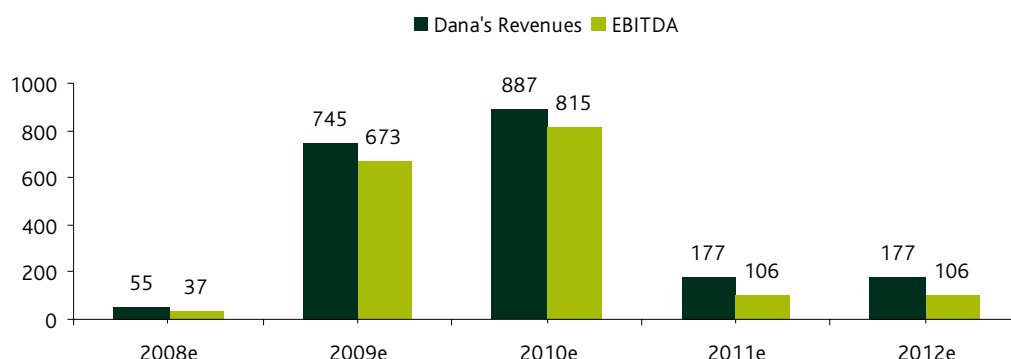
For our revenue and profit calculations, we have used the following key assumptions:

- i) We have assumed that Dana Gas will recover its proportion (50%) of the USD650 million capital costs involved in the project
- ii) All operating costs to be recovered within the same year they are made
- iii) After the completion of the development cost recovery, we have assumed that Dana Gas will receive a 10% share of the profits
- iv) We have used international prices for LPG and condensates

This results in total revenue forecasts from the Kurdistan operations of AED55 million in 2008e, AED 745 million in 2009e, and AED887 million in 2010e. Beyond this, we expect revenues to fall sharply given our assumptions that Dana Gas fully recovers its costs in the first two years of operations and only maintains the right to recover its operating costs and a small marginal profit thereafter.

Figure 9: Kurdistan Operations Revenue and EBITDA Outlook

AED million, unless otherwise stated



Source: EFG-Hermes estimates

We reach a LTFV of AED0.32 for Dana Gas' Kurdistan operations

In valuing the Kurdistan operations, we have used DCF analysis with the following key assumptions: We have added a country risk premium of 600 bps to our risk free rate of 3.7% (which is equal to the yield on the US 10 year Treasury bond) to reflect the much higher risk of operations in the politically unstable Kurdistan region of Iraq. We have used a cost of debt of 7.5% and equity risk premium of 6.0% (with a debt to equity ratio of 40:60). Based on our current assumptions and a resulting WACC of 13.2%, we reach a LTFV of AED0.32 as shown in Figure 10.

Figure 10: Kurdistan Operations DCF Valuation

AED million, unless otherwise stated

	2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e
EBITDA	37	673	815	106	106	106	106	106
Capex	-	-	-	-	-	-	-	-
 FCF	 37	 673	 815	 106	 106	 106	 106	 106
PV FCF	36	586	628	72	64	56	50	44
 Terminal value	 966							
Perpetual Growth Rate	2.0%							
WACC	13.2%							
PV of Cash Flows 08-15	1,535							
PV of perpetuity	401							
Total Firm Value	1,936							
Net Debt	-							
Equity Value	1,936							
 Total Equity Value	 1,936							
No. of Shares	6,000							
FV per Share (AED)	0.32							

Note: Excludes investment in working capital and net debt which will be assigned at the corporate/holding level

Source: EFG-Hermes estimates

CHEMICAL OFFERS SIGNIFICANT UPSIDE POTENTIAL

We believe there could be considerable upside potential to Dana Gas' operations in Kurdistan. The company has been granted exclusive rights to develop not only the Khor Mor field further – which has initial estimated reserves of 2.5 Tcf (according to the Iraqi Ministry of Oil and KRG Ministry of Natural Resources), but also to develop the neighbouring Chemchemical Field – which has initial estimated reserves of more than 2.5 Tcf. Moreover, the upside potential of Chemchemical looks even more attractive, as Dana Gas may have the right to sell the gas from this field. However, given the uncertainties attached to the potential of the Chemchemical field at this stage, we have not included it in our forecasts for now, but are mindful of this upside to our estimates.

Further upside could come from the establishment of a 'Gas City' in Kurdistan. The idea is to attract industries and businesses to an area of land neighboring the Chemchemical field's location, thereby bringing potential demand to the source of the supply of gas and thus reducing transmission costs significantly.

POTENTIAL THREATS

With the relative political instability in the Kurdistan region of Iraq, we believe that there is a risk of possible delays or disruption to the operations of the project. Also, we are aware of the potential risk of Dana Gas' plants and pipelines being targeted directly in acts of sabotage. However, the company has already insured these plants and pipelines against any such events and is confident of the relative stability of the region currently.

Dana Gas has been granted exclusive rights to develop the neighbouring Chemchemical Field

C. DANA GAS EGYPT

DETAILS OF OPERATIONS

Dana Gas' Egyptian operations are based on Centurion Energy International, which is a Canadian-based oil and gas exploration & production company with assets in the MENA region (operating principally in the Egyptian Nile Delta) which was acquired by Dana Gas at the end of 2006. The subsidiary has exploration assets in Egypt, Tunisia and the Sao Tome/Nigeria JDZ and represents Dana Gas' exposure to the upstream gas sector.

Production has now reached a rate of around 28,500 barrels of oil equivalent per day

The past few years have witnessed an aggressive expansion of Centurion's Nile Delta natural gas properties in Egypt. Production has now reached a rate of around 28,500 barrels of oil equivalent per day (boepd), increasing six-fold from 4,600 boepd in 2002. Also, a multi-well drilling program is underway to explore more land in the Nile Delta region of Egypt, which underlines further upside potential in this area.

Additionally, Centurion has an extensive land position of over 6.2 million net acres in Egypt and Tunisia, and was recently awarded a 7.5% net interest in an offshore Block 4 in the Joint Development Zone of Nigeria/Sao Tome. The Tunisian and West African assets are currently still under development and the greater viability of the Egyptian reserves has resulted in almost all of Centurion's production originating in Egypt. The production in Egypt consists of natural gas (80%) which is sold at a fixed price of USD2.65/Mcf, with the remainder 20% divided between oil, condensate, and LPG - which are sold at International prices.

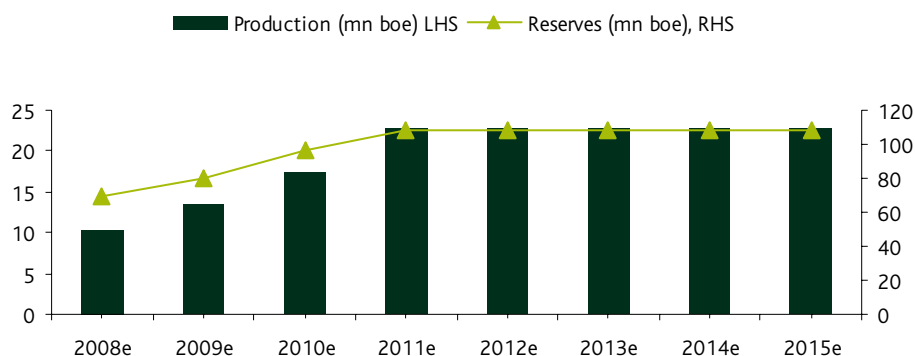
We believe reserves are likely to increase further from the current level of 70 mboe

Within the company's Egyptian operations, reserves have jumped from 51.4 million barrels of equivalent oil (mmboe) in 2004 to current levels of 70 mmboe (end of 1H2008) as a result of the relative success in exploration the company has enjoyed over the last few years. In terms of future prospects, with greater exploration activity currently being undertaken by Centurion, we believe reserves are likely to increase further. Indeed, the company has undertaken an aggressive exploration and development programme for its Egypt assets adding 15 exploration wells and four development wells. The total capex budgeted for this programme is around USD170 million and the company is targeting 600 bcf of risked reserves (adjusted for the recovery factor) in the Nile Delta, which would be equal to 108 million boe.

If successful, these reserves should be more than enough to replace the company's current production and maintain reserve levels at around 100 million boe even if we were to assume that Centurion would gradually double its current production levels. As the result of the company's capex program, we expect production to increase to 13.4 million boe in 2009e and to double to 22.7 million boe by 2011e (as shown in Figure 11).

Dana Gas recently announced a gas and condensate discovery in its Egyptian concessions. The "Al Tawil-1" well tested at a daily rate of 23.5 million standard cubic feet of gas and 1,027 barrels of condensate (totalling approximately 5,000 barrels of boe per day therefore adding around 1.8 million boe to production per annum). The well will also add recoverable reserves of 90 billion cubic feet of gas (16 million boe), in addition to 4 million barrels of associated condensate, which represent an increase of 20% to the current reserves of Dana Gas in Egypt.

Figure 11: Production and Reserves Estimates
Million barrels of oil equivalent



Source: EFG-Hermes

It is worth noting that Dana Gas' Egyptian exploration assets have in the region of 3.5 trillion cubic feet (equivalent to 630 million boe) of risked gas potential based on an engineer's report from UK based Gaffney, Cline & Associates.

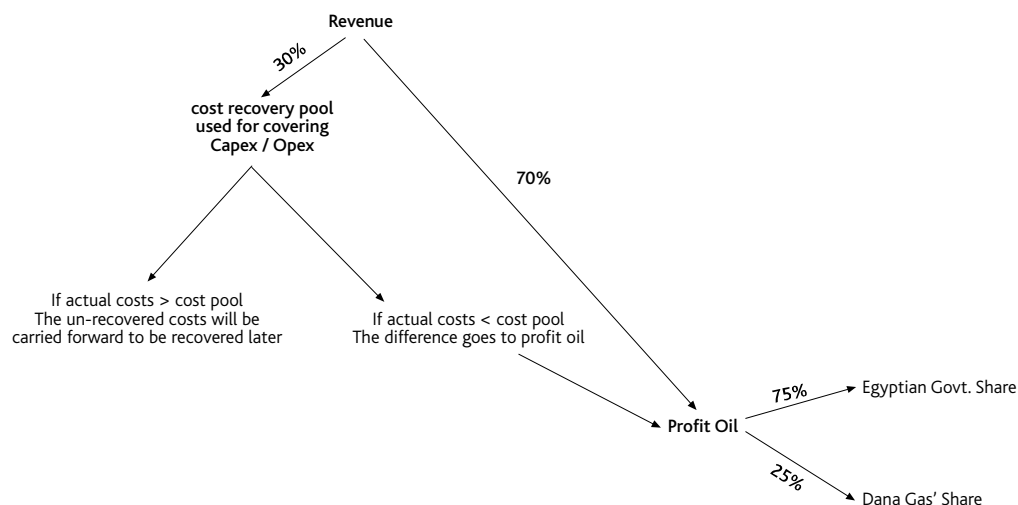
PSA for Dana's Egyptian operations allows for recovery of exploration costs and operating costs

REVENUES BASED ON THE PRODUCTION SHARING AGREEMENT (PSA)

The production sharing agreement (PSA) for Dana's Egyptian operations allows for recovery of exploration costs and operating costs from the allocated cost recovery pool "cost oil" which has a ceiling at 30% of gross oil (or revenues). After costs have been recovered, the remaining surplus is split between the Egyptian government (75% of profit oil) and Dana Gas (25% of profit oil).

The cost recovery pool provides protection for Dana Gas in the face of rising costs as they can recover these costs before starting to share profits with the government. Also, the PSA gives an incentive for Dana Gas to increase its exploration capex therefore adding to its reserves and production; especially in the event that the cost recovery pool is not sufficient enough to recover incurred costs, then the un-recovered costs may be carried forward to subsequent periods.

Figure 12: PSA Flow Chart – Dana Gas Egypt



$$\text{Net Cashflow for Dana Gas} = \text{Cost Recovery Pool} + \text{Profit Share} - \text{Capex} - \text{Opex}$$

Source: EFG-Hermes

FINANCIAL FORECASTS

Centurion currently produces around 28,500 barrels of oil equivalent a day (boepd) from its Nile Delta gas producing fields (El Wastani and SE Manzala). Of this, 23,000 barrels (which equates to roughly 140mmcfpd) is sold domestically to the government at fixed prices of USD2.65/Mcf through existing agreements/concessions, while a further c.6,000 barrels a day of LPG, oil, and condensates are sold by Dana Gas at International prices.

To get a sense of the level of contribution to earnings from each of these two revenue streams, last year, according to management, income derived from the sale of LPG was broadly equal to that from the sale of gas, despite the quantity of gas being much higher in the mix.

Our forecasts are less dependent on international oil & gas prices given Dana's fixed gas price agreement

Based on our base case assumption (which assumes that Dana Gas will be successful in recovering its risked reserves of 600 bcf and therefore doubling reserves), we forecast net profit of AED150 million in 2008e and AED167 million in 2009e. It is important to note that given the fixed gas price agreement (which comprises around 80% of production) our forecasts are less dependent on international oil & gas price forecasts. This reduces the company's exposure to the volatility in international oil & gas prices and gives more visibility for forecasts.

Figure 13: Financial Forecasts for Egyptian Operations

AED million, unless otherwise stated

	2008e	2009e	2010e	2011e	2012e
Revenues	1160	1426	1990	2410	2410
Less: Royalties	(457)	(524)	(731)	(987)	(1,047)
Net Revenue	703	902	1259	1423	1364
Cost of Sales	(76)	(99)	(128)	(167)	(167)
EBITDAX	627	803	1131	1256	1197
Exploration Costs	(22)	(18)	(19)	(25)	(25)
EBITDA	605	785	1111	1231	1172
Depreciation and Depletion	(303)	(394)	(512)	(665)	(665)
Net Operating Profit	302	392	600	566	507
Income Tax Expense	(152)	(225)	(313)	(423)	(449)
Net Profit	150	167	286	143	58

Source: EFG-Hermes estimates

BASE CASE VALUATION FOR EGYPT OPERATIONS OF AED0.84/SHARE

Our "base case valuation" assumes that Dana Gas will be successful in recovering its risked reserves of 600 bcf therefore gradually doubling reserves and production over the next few years. We have assumed that Dana Gas will keep operating and utilizing its Egyptian assets until 2015 after which they will divest their reserves at a price of USD10 per barrel of oil equivalent – a conservative estimate based on recent M&A transactions within the industry and below management's guidance of USD12 a barrel. We use a WACC of 9.7%

Figure 14: Centurion base case DCF valuation

AED million, unless otherwise stated

	2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e
EBITDAX - Tax	475	579	817	833	748	748	748	748
Capex	(440)	(184)	(192)	(250)	(250)	(250)	(250)	(250)
Divesment								4,790
FCF	35	395	625	583	498	498	498	5,288
FCF PV	34	358	515	438	341	311	284	2,745
Total Equity Value	5,027							
Value per Share	0.84							

Note: Excludes investment in working capital and net debt which will be assigned at the corporate level DCF

Source: EFG-Hermes estimates

BEST CASE VALUATION FOR EGYPT OPERATIONS OF AED2.15/SHARE

Our "best case valuation" takes into consideration that Dana Gas' Egyptian exploration assets have risked gas potential in the region of 3.5 trillion cubic feet (equivalent to 630 million boe) based on an engineer's report from UK based Gaffney, Cline & Associates. Assuming that Dana Gas will be successful in recovering its risked reserves of 3.5 tcf would mean that reserves would grow ten-fold. Again, we have assumed that Dana Gas will keep on operating and utilizing its Egyptian assets until 2015 after which they will divest their reserves at a price of USD10 per barrel of oil equivalent. We use a WACC of 9.7%

Figure 15: Centurion best case DCF valuation

AED million, unless otherwise stated

	2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e
EBITDAX - Tax	475	579	817	833	748	748	748	748
Capex	(440)	(184)	(192)	(250)	(250)	(250)	(250)	(250)
Divesment								20,010
FCF	35	395	625	583	498	498	498	20,508
FCF PV	34	358	515	438	341	311	284	10,643
Total Equity Value	12,925							
Value per Share	2.15							

Note: Excludes investment in working capital and net debt which will be assigned at the corporate level DCF

Source: EFG-Hermes

WORST CASE VALUATION FOR EGYPT OPERATIONS OF AED0.24/SHARE

Our "worst case valuation" assumes that Dana Gas will not be successful in finding any new reserves therefore being restricted to their current reserve levels only. Based on this assumption, Dana's reserves in Egypt would be fully depleted by 2015e (we have assumed that all of the reserves will be recovered although in reality the company would abandon the last portion of the reserves since it would involve much higher costs of extraction).

Figure 16: Centurion Worst Case DCF Valuation

AED million, unless otherwise stated

	2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e
EBITDAX - Tax	474.9	462.5	498.1	462.5	462.5	407.5	366.9	244.6
Capex	(440.4)	(183.5)	(132.1)	(132.1)	(132.1)	(132.1)	(132.1)	(88.1)
Divesment								0.0
FCF	34.5	279.0	366.0	330.4	330.4	275.4	234.7	156.5
FCF PV	34.2	252.4	301.7	248.3	226.4	172.0	133.6	81.2
Total Equity Value	1449.9							
Value per Share	0.24							

Source: EFG-Hermes

Dana signed an agreement for a 15 year supply of natural gas feedstock which allows the company to extract value from rich gas being transported in the pipeline

D. GULF OF SUEZ PROJECT

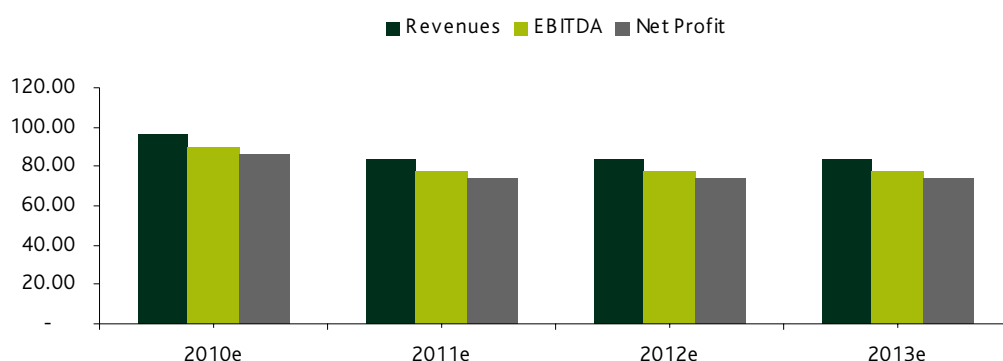
Danagaz (66% owned by Dana Gas) is developing a project to be carried out by a joint venture company in Egypt, the Egyptian Bahraini Gas Derivative Company ("EBGDCo"), to be owned 40% by Danagaz, 40% by EGAS and 20% by APICORP. The company's first project, the Gulf of Suez Gas Liquids Extraction Plant, involves the engineering, fabrication, installation and operation of a high-efficiency gas liquids extraction plant near Ras Shukheir, on the western shore of the Gulf of Suez, Egypt. EBGDCo has already signed an agreement for a 15 year supply of natural gas feedstock which allows the company to extract value from rich gas being transported in the pipeline (i.e. extracting LPG from it) and then returning the lean gas back into the pipeline for onward sale to end-customers (with very minimal gas volume shrinkage).

It is expected that the plant will be capable of processing at least 150 million cubic feet per day of natural gas, and that it will extract approximately 120,000 tons of LPG per year which will be sold to International markets. We anticipate the completion of the plant by 4Q2009, and therefore expect this to contribute to numbers from 2010e.

Dana Gas's share of this project is 26.4%. We have assumed that the LPG production will be sold at International prices and estimate that operating and transport costs will be around 9% of the initial capex of the plant (of USD75 million). We believe that since Dana Gas owns a minority stake in this venture, the profits from the Gulf of Suez Project will be consolidated into Dana Gas' financial statements using the equity method of consolidation.

Dana Gas is currently looking for opportunities to replicate this model at other locations in Egypt and across the region which would provide further upside potential to our forecasts.

Figure 17: Dana Gas' Estimated Share of Revenues, EBITDA, and Net Profit From Gulf of Suez Plant
AED million, unless otherwise stated



Source: EFG-Hermes estimates

Based on current financial forecasts for Dana's share of the Gulf of Suez plant and using a WACC of 9.7%, we arrive at a LTFV of AED0.15 per share for Dana Gas' shareholders from the Gulf of Suez Plant.

Figure 18: Gulf of Suez DCF valuation

AED million, unless otherwise stated

	2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e
FCF	-	-	22	77	77	77	77	77
PV FCF	-	-	18	58	53	48	44	40
Terminal Value	1,186							
Perpetual Growth Rate	3.0%							
WACC	9.7%							
PV of Cash Flows 08-15	260							
PV of perpetuity	613							
Total Firm Value	873							
Net Debt	-							
Equity Value	873							
Total Equity Value	873							
No. of Shares	6,000							
FV per Share (AED)	0.15							

Note: Excludes investment in working capital and net debt which will be assigned at the corporate level DCF

Source: EFG-Hermes estimates

E. FURTHER POTENTIAL PROJECTS

SHARJAH WEST CONCESSION

In March of this year, Dana Gas was awarded a 25 year contract for the exploration and development of the Western Offshore concession in Sharjah, UAE, which includes the Zora Gas Field. The development will cost USD55 million and includes resuming horizontal drilling of two wells, the installation of offshore platforms and the laying of a 25km pipeline. The company expects gas to flow from this concession by mid-to-late 2009, anticipating the production of 50 mcfpd. However, given lack of visibility, we have not included the prospects of this project in our forecasts for Dana Gas at this stage.

GAS CITIES

Dana Gas is looking to create further potential 'Gas Cities' across the region, and has identified one in Egypt and two further possible locations in the GCC. Again, the idea would be to create demand at the source of the supply of gas by attracting businesses and industries to a particular area. Again, we have not included assumptions for these projects in our forecasts, but note that successful implementation of such cities would offer upside to our longer-term forecasts.

II. CONSOLIDATED FORECASTS FOR DANA GAS

Our updated forecasts for Dana Gas incorporate the multiple projects we have detailed in the previous section. It is worth noting while operations from Egypt, Kurdistan, and UGTC & SajGas are proportionally consolidated (given Dana Gas' majority ownership in these operations), we have assumed that CNGCL and Gulf of Suez projects will be consolidated using the equity method. Moreover, we have assumed SG&A expenses on a holding level growing at 6% per annum due to the company's expansion and inflationary cost pressures. Also, interest expenses representing the 7.5% coupon payments due on the company's Sukuk are again charged at the corporate level.

Figure 19: Financial Forecasts for Dana Gas
AED million, unless otherwise stated

Increase in revenues due to:
i) Kurdistan cost recovery
ii) UGTC & SajGas starting operations
iii) production increases in Egypt

	2007a	2008e	2009e	2010e	2011e
Corporate level SG&A expenses - assume 6% growth per annum due to inflation & cost increases					
Revenues	1,036	1,214	2,271	3,459	3,738
Less: Royalties	(431)	(457)	(524)	(731)	(987)
Net Revenue	605	758	1,746	2,727	2,751
Cost of sales	(57)	(94)	(189)	(236)	(275)
Gross Profit	548	664	1,558	2,491	2,476
Gross Profit Margin	91%	88%	89%	91%	90%
SG&A	(81)	(86)	(91)	(96)	(102)
EBITDAX	467	578	1,467	2,395	2,373
Exploration Expenses	(37)	(22)	(18)	(19)	(25)
EBITDA	430	556	1,449	2,375	2,348
EBITDA Margin	42%	46%	64%	69%	63%
Depreciation & Depletion	(241)	(315)	(456)	(589)	(742)
Net Operating Profit	189	241	993	1,787	1,606
NOP Margin	31%	32%	57%	66%	58%
Non-Operating Income	5	85	0	0	0
Income from associates	0	0	95	278	260
Gain in FV of Inv. Property	205	125	0	0	0
Investment and finance income	35	85	71	115	156
Net Interest Income (Expense)	(118)	(275)	(275)	(275)	(275)
Earnings Before Taxes	316	261	883	1,904	1,747
Income Taxes	(170)	(152)	(225)	(313)	(423)
Net Profit After Unusual Items	146	109	658	1,591	1,324

Coupon payments on the company's Sukuk which matures in 2012

Contribution from CNGCL as Iranian project begins

Gulf of Suez also starts to contribute

Source: EFG-Hermes estimates

III. CONSOLIDATED VALUATION OF AED1.58 PER SHARE

Combining our DCF valuations, we arrive at an estimated LT fair value of AED2.14 per share

Combining our DCF valuations for Dana Gas' separate subsidiaries/projects, we arrive at an estimated LT fair value of AED1.58 per share. In arriving at this LTFV, we have deducted the company's current net debt and contingency payments (for various existing projects where commitments have been made by Dana Gas). It is worth noting that we have used a different WACC for each subsidiary/project reflecting the different risk levels for each.

If we were to assume another one year delay to the start of the Iranian gas project, this would reduce our LTFV by just 5.6%. However, if we were to go a step further and exclude the Iranian project from our valuation for Dana Gas (something that we believe is unlikely), we would arrive at a LTFV of AED0.95.

Figure 20: Sum of The Parts Valuation

Subsidiary	(AED per share)
Centurion	0.84
Gulf of Suez	0.15
UAE Valuation	0.63
Kurdistan	0.32
Total	1.93
Net Debt	(0.33)
Contingencies	(0.02)
LTFV	1.58
Assuming 1 year delay to Iranian Project	1.49
LTFV Excluding Iran	0.95
Current Price	0.78
Upside	103%

Source: EFG-Hermes estimates

SENSITIVITY TO OIL PRICES

We have undertaken an exercise to establish the sensitivity of our LT fair value to international oil & gas prices. Some key points to keep in mind include

- The company's gas production in Egypt is sold at a fixed price based on the contractual agreement between Dana Gas and the Egyptian government
- In terms of the UAE operations, tariffs charged for processing and transportation of natural gas are also fixed

Therefore, Dana Gas' only exposure to international oil prices comes from its sale of LPG & condensate in Egypt, Kurdistan, and UAE (both prices being indexed to international oil prices in our assumptions). As shown in figure 20, our LT fair value moves in the same direction as our long term oil price assumption (of USD80 per barrel for 2011e and beyond), however, to a lesser magnitude due to a portion of our forecasts being driven from fixed contracts/ tariffs (for example a 13% drop to our oil price assumption to USD70 per barrel results in just a 9% decline in our LTFV to AED1.44).

Figure 21: Sensitivity of LTFV to Oil Prices
AED per share, unless otherwise stated

LT Oil Price	50	60	70	80	90	100	110
Change	-38%	-25%	-13%	0%	13%	25%	38%
LTFV	1.15	1.29	1.44	1.58	1.72	1.86	2.01
Change	-27%	-18%	-9%	0%	9%	18%	27%

Source: EFG-Hermes estimates

RECOMMENDATION

Having been a seller of the stock for the last year, we now believe the tide has turned for the company and with greater visibility across all its operations we feel that the risk-reward is now on the upside. Therefore, we upgrade our recommendation from ST Reduce/LT Sell to ST Accumulate/LT Buy. With the shares now trading near to their floatation price, in our view the stock is pricing in no or little value to the Iranian gas deal which we believe is too conservative. Moreover, future positive news flow regarding this contract would act as a catalyst for the stock to perform in the short term.

Further potential upside to our forecasts exists in the form of i) an increase in the level of gas imports from Iran, ii) the success of producing gas in the Chemchemical field in KRG, iii) the company's current risked reserves of 3.5 tcf (or 630 mboe) resulting in higher new discoveries in Egypt than our forecast, and iv) contribution starting from other projects such as the Gulf of Suez project and the Dana Gas city in Kurdistan.

IV. FINANCIAL FORECASTS

Figure 22: Income Statement
AED million, unless otherwise stated

	2007a	2008e	2009e	2010e	2011e	2012e
Revenues	1,036	1,214	2,271	3,459	3,738	3,738
Less: Royalties	(431)	(457)	(524)	(731)	(987)	(1,047)
Net Revenue	605	758	1,746	2,727	2,751	2,691
Cost of Sales	(57)	(94)	(189)	(236)	(275)	(275)
Gross Profit	548	664	1,558	2,491	2,476	2,416
Gross Profit Margin	91%	88%	89%	91%	90%	90%
SG&A	(81)	(86)	(91)	(96)	(102)	(108)
EBITDAX	467	578	1,467	2,395	2,373	2,308
Exploration Expenses	(37)	(22)	(18)	(19)	(25)	(25)
EBITDA	430	556	1,449	2,375	2,348	2,283
EBITDA Margin	42%	46%	64%	69%	63%	61%
Depreciation & Depletion	(241)	(315)	(456)	(589)	(742)	(742)
Net Operating Profit	189	241	993	1,787	1,606	1,541
NOP Margin	31%	32%	57%	66%	58%	57%
Non-operating Income	5	85	0	0	0	0
Income from Associates	0	0	95	278	260	258
Gain in FV of Inv. Property	205	125	0	0	0	0
Investment and Finance Income	35	85	71	115	156	128
Net Interest Income (Expense)	(118)	(275)	(275)	(275)	(275)	(275)
Earnings before Taxes	316	261	883	1,904	1,747	1,652
Income Taxes	(170)	(152)	(225)	(313)	(423)	(449)
Net Profit after Unusual Items	146	109	658	1,591	1,324	1,203

Source: EFG-Hermes estimates

Figure 23: Balance Sheet
AED million, unless otherwise stated

	2007a	2008e	2009e	2010e	2011e	2012e
Net PPE	6,885	6,570	6,114	5,526	4,783	4,041
Goodwill	1,128	1,128	1,128	1,128	1,128	1,128
Investment Property	282	282	282	282	282	282
Inventories	145	168	168	168	168	168
Accounts Receivables	286	374	374	374	374	374
Cash and Bank Balances	1,983	2,438	3,552	5,732	7,798	6,385
Assets Held for Sale	142	0	0	0	0	0
Total Assets	10,851	10,960	11,618	13,209	14,533	12,378
Share Capital	6,000	6,000	6,000	6,000	6,000	6,000
Statutory Reserve	92	92	92	92	92	92
Legal Reserve	92	92	92	92	92	92
Retained Earnings	732	841	1,499	3,090	4,414	5,617
Convertible Bonds Equity Component	191	191	191	191	191	191
Total Equity	7,107	7,216	7,874	9,465	10,789	11,992
Convertible Bonds	3,358	3,358	3,358	3,358	3,358	0
Finance Lease Obligations	1	1	1	1	1	1
Asset Decommissioning Obligation	15	15	15	15	15	15
Accounts Payable and Accruals	360	360	360	360	360	360
Total Liabilities	3,744	3,744	3,744	3,744	3,744	386
Total Equity and Liabilities	10,851	10,960	11,618	13,209	14,533	12,378

Source: EFG-Hermes estimates

Figure 24: Cash Flow Statement
AED million unless otherwise stated

	2007a	2008e	2009e	2010e	2011e	2012e
Net Profit	2	109	658	1,591	1,324	1,203
Depreciation	4	315	456	589	742	742
Finance Costs	3	190	204	161	119	148
Net Cash Flow from Oper. Activities	11	503	1,319	2,340	2,185	2,093
FCF	(18)	645	1,319	2,340	2,185	2,093
Interest Income	3	85	71	115	156	128
Interest Expense	(3)	(275)	(275)	(275)	(275)	(275)
LTD	11	-	-	-	-	(3,358)
Change in Cash	0	455	1,114	2,180	2,066	(1,413)

Source: EFG-Hermes estimates

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Accumulate	10 to 25%
Neutral	(10%) to 10%
Reduce	(10%) to (25%)
Sell	(25%) or more downside

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رأس المال المصدر: 1.939.320.000 جم. شركة المجموعة المالية - هيرميس القابضة (58 شارع التحرير - الدقي - الجيزة مصر 12311)

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