



Initial Coverage

Dana Gas PJSC

Rating: Market Perform

Abu Dhabi National Energy Co. PJSC

Rating: Underperform

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UAE Energy Sector: Looking for Catalysts

Initiating coverage on DANA with a *Market Perform* rating and on TAQA with an *Underperform* rating. These two names make up the public UAE energy sector.

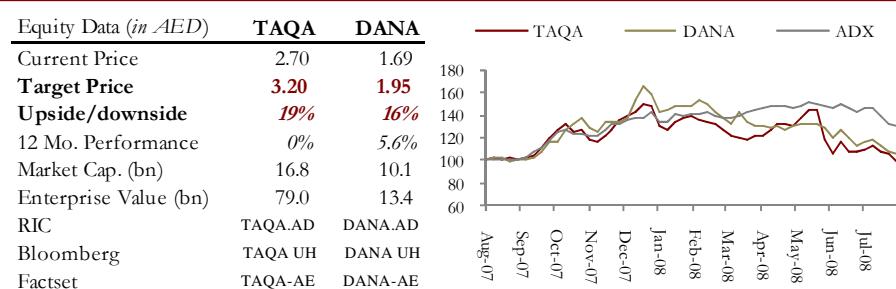
Introducing our price deck: we forecast ~70% and ~55% yoy rise in 2008 oil and gas prices to \$122/b and \$10.6/mmbtu, respectively. Our long-term mid-cycle price estimates are \$86/b and \$7.30/mmbtu. While Middle East oil and gas fundamentals should remain a “pocket of strength,” our longer-term energy price outlook is underpinned by a global “normalization” of price-demand-supply dynamics.

Given limited visibility into its Iran gas deal, we rate DANA a *Market Perform* with a price target of AED1.95. Our target is based on a 10-year DCF model. Excluding uncertainty related to limited visibility on the Iran project, we like DANA’s fundamental story, given it (1) is the only “truly” public energy pure play in the Middle East, and (2) has an unique MENASA natgas niche which leverages regional secular gas market growth while avoiding “head-on” competition with oil-focused larger players.

Visibility on the Iran deal is the catalyst we need to potentially reassess our rating on DANA. While timing remains muddy, we do believe this project will eventually start. Our alternate DCF-based analysis, which includes Iran’s contribution from 2009 onwards, yields a price of AED3.27, a ~70% upside from our current price target of AED1.95.

Mindful of the impending major equity dilution from its convertible bonds on September 1st, we rate TAQA an *Underperform* in the near-term. With an additional 50% share float at AED2/share coming online, TAQA shares could face significant technical pressure in the coming weeks. While currently identifiable acquisitions drive our significant 117% revenue and 55% EPS growth in 2008, we remain somewhat skeptical whether growth from future deals would actually benefit TAQA’s public shareholders. If TAQA continues to finance future purchases with dilutive equity offerings like its recent converts deal, the stock could face additional pressure, we believe.

We could revisit our rating on TAQA after the technical “dust” settles. After the stock shrugs off any conversion-related weakness and has a free path to trade up to our DCF-derived value of AED3.20 a share, we could reassess our rating.



	TAQA			DANA		
AED millions	2007A	2008E	2009E	2007A	2008E	2009E
Revenues	8,337	18,087	24,663	1,036	1,484	2,768
Gross Margins	59.3%	68.5%	68.5%	90.6%	87.9%	88.7%
EBIT	3,041	7,126	9,706	189	304	1,084
EBIT Margin	36.5%	39.4%	39.4%	31.2%	35.8%	52.4%
EBITDA	4,469	10,824	14,748	430	621	1,610
EBITDA Margin	53.6%	59.8%	59.8%	71.1%	73.1%	77.9%
EPS (AED)	0.25	0.39	0.51	0.02	0.04	0.15
PE	10.8x	7.0x	5.3x	91.4x	40.3x	11.3x
EV/EBITDA	16.5x	6.8x	5.0x	27.4x	19.0x	7.3x

Contents

.....	
DANA Investment Summary	3
TAQA Investment Summary	5
Introducing Our Oil & Gas Price Assumptions.....	7
Oil & Gas Fundamentals Remain Healthy	8
Dana Gas (ADX: DANA): Flare for Success.....	16
Investment Positives.....	16
Investment Risks	23
Valuation Summary.....	27
Detailed Analyses of Project Drivers.....	30
Project Descriptions & Impact.....	31
Company Overview	35
Abu Dhabi National Energy Co. (ADX: TAQA): Appetite for Acquisitions	39
Investment Positives.....	39
Investment Risks	44
Valuation Summary.....	47
Detailed Analyses of Revenue Drivers	49
Company Overview	50



DANA Investment Summary

Dana Gas (ADX: DANA): Flare for Success

Company Description

Dana Gas PJSC, headquartered in the Emirate of Sharjah, operates across the natural gas value chain from upstream (exploration & production) activities through midstream (transmission, sweetening, and processing) operations to downstream (marketing and sale) activities. As of 2Q08, the company had 27.5mboe/d in average daily production and 61.5mmboe in 2P reserves (all Egypt). DANA reported net revenues of AED605mn in FY07.

Investment Positives

Not majority owned by the government

I. Only “truly” public energy play in the middle east. DANA is the region’s only publically-traded energy company that is not majority-owned by a government entity. The company permits up to 49% foreign or non-GCC ownership, boosting liquidity. Case in point: DANA’s 30-day average daily trading volume is around 25mn shares, 2.5X more than its larger competitor TAQA, which does not permit foreign ownership.

Regional gas focus is a key positive

II. MENASA niche a source of competitive advantage driving future growth. We believe its core focus in the Middle East, North Africa, and South Asia (MENASA) region should help fuel DANA’s future growth. Simply stated, this growth stems from (a) the company’s ability to look at almost every energy-related grassroots and M&A deal in the region, while (b) possessing the requisite expertise to evaluate, develop and operate natgas opportunities there.

- **Why this matters: Niche allows DANA to leverage secular growth in MENASA natgas market plus makes it an attractive regional partner.**

DANA straddles the entire natgas “food-chain”

III. Vertically integrated to generate synergies across the natgas value chain. Unlike most companies that focus on one or two portions of the natgas value chain, Dana Gas operates across the entire natgas value chain, from upstream activities through midstream operations to downstream activities.

Natgas focus allows DANA to avoid “head-on” competition with oil-focused heavyweights

IV. DANA has no direct competitors. Dana Gas remains the only “truly” public, MENASA-focused, vertically integrated natgas play. Given its niche, we do not think it likely for DANA to face head-on competition over the next 1-2 years.

Investment Risks

Cancellation of the Iranian project is the single largest risk perceived by some investors...

I. Perception by some investors that the Iranian gas supply deal could fall through. This, in our view, is the *single largest risk*—as perceived by some investors—facing the company. *Our most recent conversations with DANA management reveal that the company is now expecting this deal to begin by YE2008.* While we have been conservative in excluding this contract from our projections and valuation, DANA stock could come under pressure if this project falls through.



- **Our view: we think it is *highly unlikely* that the Iran deal gets cancelled.** This is based on:
 - **Recent conversations with management reveal they are optimistic that gas supplies will begin by YE2008.**
 - **Crescent, DANA's partner who inked the deal in 2001, is actively negotiating to account for higher prices.**
 - **This deal should make economic sense for Crescent even at higher gas prices.** There is significant need for gas in the UAE with this contract's primary end customers, SEWA and FEWA, currently being forced to resort to very expensive (\$20-25/mmbtu) fuel oil for power generation needs. Given these are investment-grade customers with high capacity to pay, there is very little chance that this deal becomes uneconomical.
 - **Iran & DANA/Crescent have already invested substantial time and money in this project to let it fall through.** Given the 3+ years delay in gas supplies, along with the roughly \$1.5bn that Iran has already sunk into building the infrastructure, that nation has an incentive to follow through
 - **Iranian gas is very sour, furthering decreasing the likelihood of striking a new deal with someone else.**
 - **International restrictions leave Iran with little choice to look for additional alternatives.** Currently, Iran is being forced to flare some of its gas from the Salman field, which we think is untenable in the long term.
 - **Net-net, Crescent will agree to a price increase as long as it makes economic sense.** It is our view that the *when* is the pertinent question here, and not the *if*. We believe that it is highly unlikely that Crescent will walk away from this agreement.

...but we think such a scenario is highly unlikely

II. Major shareholder and operational partner Crescent could wield considerable control over DANA. With a 20.9% stake, significant current and previous management ties, and a framework or umbrella agreement in place until 2011 with Dana Gas, Crescent Petroleum could, in theory, exert considerable control over DANA's management.

- **Our view: As a major shareholder, Crescent's interests essentially are aligned with DANA's.** To the extent that DANA share price appreciation benefits Crescent as well, we perceive no inherent conflict of interest. In addition, DANA benefits from Crescent's significant oil and gas expertise.

Valuation Summary

We rate DANA a Market Perform; target price AED1.95

We rate DANA a Market Perform; our price target of AED1.95 could be revised ~70% higher when Iran contract visibility improves. Given the lack of visibility about the timing of the UAE gas project (the Iran deal), we have not included its impact in our valuation work. *However, we see DANA stock move towards AED3.27 once investors have definitive visibility into the Iran contract.*



TAQA Investment Summary

Abu Dhabi National Energy Company (ADX: TAQA): Appetite for Acquisitions

Company Description

TAQA is a global energy investment company with nearly 70 subsidiaries and/or investments in power generation, water desalination, upstream oil/gas, gas storage and pipeline networks. Founded in June 2005, Government of Abu Dhabi majority-owned TAQA, through its subsidiaries, provides over 85% of the water and electricity consumed in the Emirate of Abu Dhabi. As of 2Q08, the company held 9,423MW (gross) of installed generation, 119mboe/d in average upstream oil/gas production, 2P reserves of 501mmboe, gas processing, pipelines and natural gas storage. In FY07, TAQA's revenues increased 72% to AED8.3bn.

Investment Positives

TAQA is positioning itself as a global integrated energy player

Backing of Abu Dhabi govt. = cheap and easy access to international credit markets...

...this allows TAQA to make acquisitions at will, irrespective of global credit conditions

Predictable downstream cash flows = major positive for bondholders

TAQA continues to enjoy strong, acquisition-driven growth

I. Exposure to the entire energy value chain promises synergies. Building upon its downstream (utility) operations, TAQA has continued expanding its asset base through acquisitions over the last year or so. As of 2Q08, the company derives 50%/45%/5% of its revenues from upstream/downstream/midstream operations, respectively.

II. Government backing is fueling significant growth. Given the Abu Dhabi government's 70.4% ownership stake in TAQA (pro-forma its AED4.15bn converts offering), the company is essentially a government vehicle for energy investments. Moreover, considering that TAQA fulfills the vital function of providing over 85% of Abu Dhabi's water and electricity needs, it is in the government's interest to support the company. We think this implicit backing should continue to allow TAQA to show significant asset value growth as (a) the company retains easy access to global debt markets despite the current turmoil in financial markets, and (b) its investment grade rating (AA- from Standard & Poor's, Aa2 from Moody's) allows for inexpensive borrowing costs.

- **Why this matters: TAQA retains the dry powder to pursue opportunistic acquisitions.** As global credit conditions deteriorate, smaller players could get squeezed and be forced to dispose of assets. Moreover, higher oil prices are tempting the majors to sell off marginal properties. Both these factors provide ample opportunity for TAQA to continue to buy assets, which is critical if it intends to meet its goal of raising total assets from \$23.5bn in June 2008 to \$60bn by 2012.

III. Water desalination and power generation utilities form a stable base of cash flow, which is most attractive for bondholders. Its 6 domestic/4 international downstream assets operate under long-term purchase agreements and together form the base of TAQA's operations. For its 6 domestic UAE IWPPs, TAQA procures its gas feedstocks at zero cost from the government (ADWEA) and sells its net power output back to ADWEA. The PWPAs account for all variable, operating and maintenance costs and factor in debt service. Net-net, revenues from domestic downstream utility operations are essentially immune to price/costs risks—ideal for TAQA's bondholders.

IV. TAQA is a growth story; we forecast 179% and 55% growth in production and EPS in 2008, respectively, followed by 35% and 32% in 2009.



Investment Risks

Stock could be weak given 50% additional float coming online on Sep. 1

I. Near-term stock price weakness possible given technical overhang in September 2008 when convertible bond converts at AED2 per share. We think this is *the most significant threat* to the share price in the very near term because of the dilutive consequences of the convertible. TAQA issued convertible bonds totaling AED4.15bn (\$1.13bn) to shareholders of record as of June 16, 2008. The conversion rate has been set at AED2 per share; on September 1, 2008, every AED1,000 (face value) of the TAQA bond issue will convert to two common shares, inflating the number of shares outstanding by 50% from 4.150bn to 6.225bn.

II. Significant execution risks remain given TAQA's insatiable acquisition appetite. Since 2007, TAQA has adopted a strategy of making acquisitions at a break-neck speed, in line with its strategy of growing its asset base to \$60bn by 2012. These acquisitions involve significant execution risks, and only time will tell whether any actual synergies are realized. Furthermore, any missteps in integrating these purchases are likely to become more apparent if oil and gas prices head south.

III. Management has so far not managed the business with minority (public) shareholders in mind. While Abu Dhabi's backing provides TAQA's bondholders with a safety net, one can hardly say the same about the minority (public) shareholders. Indeed, the recent AED4.15bn convertible bond offering, which sent the share price sliding down from ~AED3.80, suggests that management has been somewhat indifferent toward maintaining shareholder value. While we remain enthusiastic about the company's acquisition-driven growth prospects, we are somewhat skeptical whether this growth would actually benefit its public shareholders.

Valuation Summary

We rate TAQA an Underperform given its upcoming convertible bond conversion

We rate TAQA an Underperform given the technical overhang of its convertible bonds converting to common equity on Sep. 1st; we could reassess our rating post that event. On September 1, 2008, the company is going to issue an additional 2.075bn shares at AED2/share, which could put significant selling pressure on the stock. *We could reassess our rating after the "dust settles" from the conversion and the stock has a free path to trade up to our DCF-derived value of AED3.20 a share.*

Introducing Our Oil & Gas Price Assumptions

Our mid-cycle oil & gas price assumptions are \$86/b & \$7.30/mmbtu, respectively

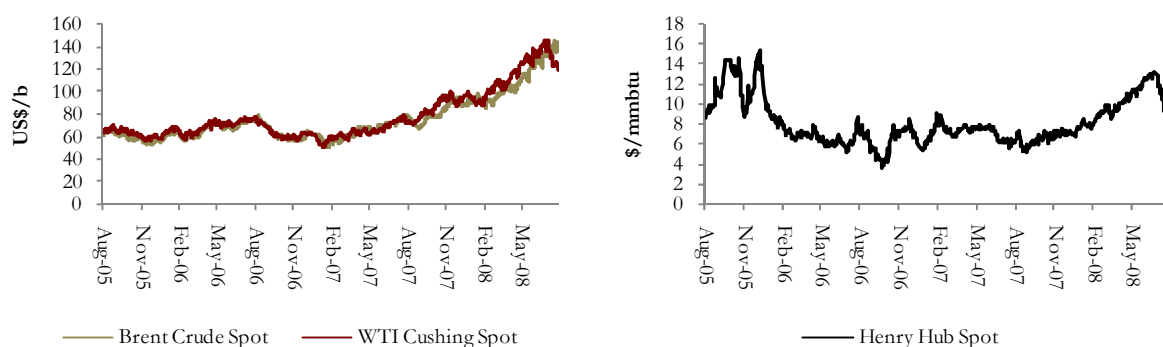
On the back of ~70% and ~55% yoy rise in 2008 crude oil and gas prices, we forecast longer-term mid-cycle prices of \$86/b and \$7.30/mmbtu. We forecast a steady decline in Brent/WTI crude prices and Henry Hub natural gas after 2008; our mid-cycle price assumptions are \$86/b and \$7.3/mmbtu. We will go into more detail about the fundamental assumptions underpinning our price forecasts in the next section. Below, we detail our oil and gas price deck assumptions:

Figure 1. Oil & Gas Prices Could Average \$122/\$10.6 in 2008 & \$116/\$9.9 in 2009

	2007A	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Oil (Brent, \$/b)	72.6	120.4	115.0	110.0	100.0	95.0	90.0	85.0	85.0	85.0	85.0	85.0
yoy Growth		66%	-5%	-4%	-9%	-5%	-5%	-6%	0%	0%	0%	0%
Oil (WTI, \$/b)	72.2	121.7	116.0	111.0	101.0	96.0	91.0	86.0	86.0	86.0	86.0	86.0
yoy Growth		69%	-5%	-4%	-9%	-5%	-5%	-5%	0%	0%	0%	0%
Gas (HH, \$/mmbtu)	7.0	10.6	9.9	9.4	8.6	8.2	7.7	7.3	7.3	7.3	7.3	7.3
yoy Growth		53%	-7%	-4%	-13%	-17%	-22%	-26%	-23%	-15%	-10%	-5%

Source: Al Mal Capital, Bloomberg

Figure 2. Oil & Gas Prices are Still Enjoying Near-Historical Highs Despite Some Recent Softness



Source: Bloomberg

Why this matters: Our oil and gas price assumptions form important drivers behind our estimates for DANA and TAQA.

Our mid-cycle oil & gas price assumptions impact our DCF-based valuations

- **DANA: Liquids prices dependant on Brent; gas prices contractually defined.** DANA's condensates and LPG prices are usually related to the level of Brent prices. On the gas side, prices are defined on a contract-by-contract basis, which sometimes are not related to actual market prices, as is the case in the company's Egyptian project.
- **TAQA: Liquids realizations pegged to both Brent/WTI; gas prices usually market driven.** The company's North American and European crude prices are based on WTI and Brent prices, respectively. When it comes to gas realizations, the company usually uses the Henry Hub price as the benchmark.

In the next section, we delve into the oil and gas market fundamentals underpinning our energy price forecasts.



Oil & Gas Fundamentals Remain Healthy

In this section, we discuss the fundamental outlook for energy consumption and the demand and supply trends we forecast for the oil and gas markets, a major portion of the energy complex. We also try to parse the data in order to point out the relative attractiveness of the regional energy markets versus its western counterparts. This section forms the basis of our oil and gas price forecasts.

Why this section matters: Our fundamental outlook on energy (and its constituents, oil and gas) have positive implications for TAQA and DANA. We explain more below:

TAQA & DANA stand to benefit from our energy (including oil & gas) markets fundamental assumptions

- **Overall energy, oil, and gas demand and supply fundamentals bolster our mid-cycle oil and gas price assumptions.** This is because of recent softness seen in fossil fuel demand from countries that do not subsidize oil prices. Moreover, we contend that the acceleration in supply growth to take advantage of high oil and gas prices will have the effect of normalizing these prices in the long term as demand-supply dynamics come into more of a balance.
- **Leveraged to global oil/gas growth, TAQA poised to benefit.** The company is highly leveraged to the global crude/gas demand and stands to benefit longer-term at our mid-cycle price assumptions.
- **For DANA increased regional energy needs plays into its natgas niche.** With the UAE being a net exporter of oil, the region's escalating energy demand due to economic growth favors DANA, a regional gas play. Natgas is also an important component of oil field injections in order to maintain/boost oil production.

Next, we discuss in greater detail our fundamental view on the energy markets and then drill down into the oil and gas market dynamics:

Stable Global Energy Outlook, GCC Remains a Region of Strength

We expect stable global energy demand growth...

While we expect stable overall global energy demand growth, South/Central America, Africa, Asia Pacific and the Middle East are clear outperformers. Our analysis shows that the total world primary energy consumption is set to increase by approximately 29% from 2006 to 2015 at a CAGR of 2.9%. We provide some color below:

...but we point to recent demand softness due to high prices...

- **Forecasted 2006-2015 CAGR of 2.9% relatively in line with historical 3% CAGR from 2001-2006.** During 2001-2006, world energy consumption grew at a rate of 3% p.a. to reach 435 quadrillion Btu. By 2015, world energy consumption is projected to reach 563 quadrillion Btu, a 2.9% CAGR.
- **However, high oil and gas prices have had some effect in dampening recent demand.** Considering the tremendous increase in fuel prices, growth in consumption of primary energy supplied by fossil fuels slowed in 2006, rising by only 2.4% as opposed to 3.2% in 2005.

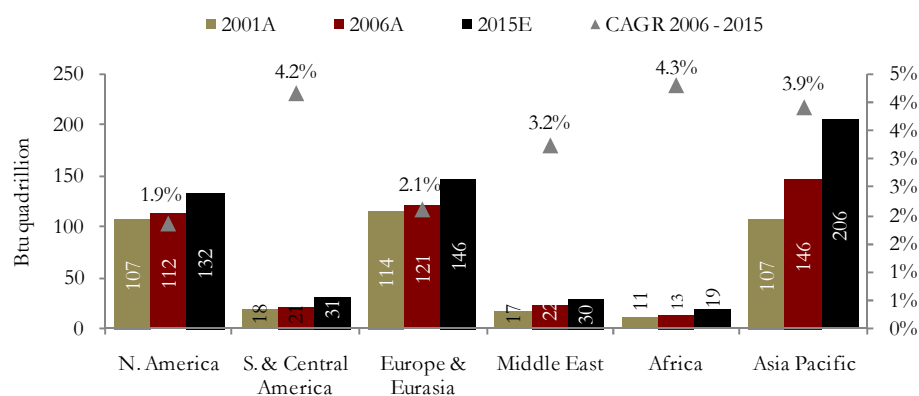
...which bolsters our mid-cycle price assumptions



- Delving deeper into the demand metrics, we see “pockets of strength” in South & Central America, Africa, Asia Pacific, and the Middle East.
 - From 2001 to 2006, North America, China, and Russia were the largest drivers, representing 21.4%, 15.6%, and 6.5% of total consumption.
 - But robust growth in demand was led by Asia Pacific (mostly China) and the Middle East with CAGRs of 6.37% and 5.70%, respectively.
 - The 2006-2015 outlook predicts that demand growth could stem from South/Central America, Africa, Asia Pacific & the Middle East at CAGRs of 4.15%, 4.28%, 3.90% and 3.23% respectively. U.S., Europe Russia & China together could account for 58.2% of the energy consumed in 2015. Finally, in our view the Middle East demand could account for approximately 6% of the primary energy consumed by 2015.

South/Central America, Africa, Asia Pacific, & Middle East remain the global energy demand “sweet spots”

Figure 3. Energy Consumption (Btu quadrillion) and CAGR by Region Highlight the Growth Regions

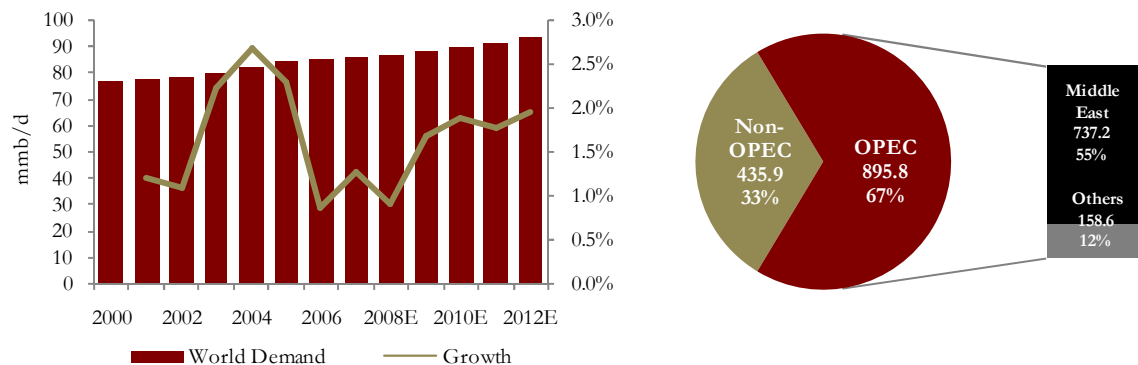


Source: BP Statistical Review 2007, International Energy Outlook 2008, Energy Intelligence Research 2008, Al Mal Capital Research



Global Oil Market – Demand & Supply Dynamics Point to Price Normalization

Figure 4. World Oil Demand Growth to Remain Stable Despite Some Near Term Hiccups; OPEC Garner's Lion's Share of '08 Reserves



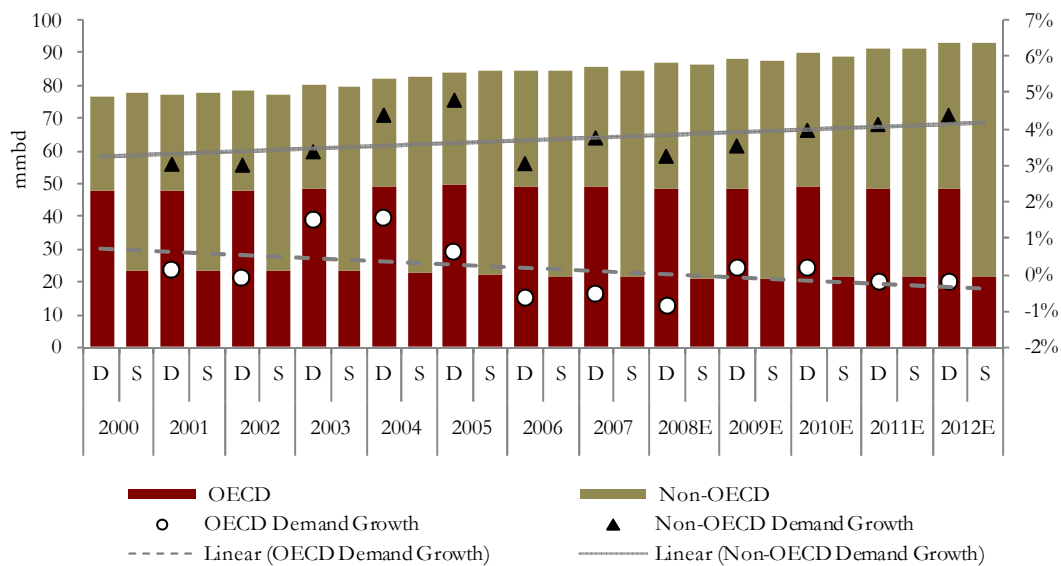
Source: BP Statistical Review 2007, International Energy Outlook 2008, Energy Intelligence Research 2008, Al Mal Capital Research

Aggregate global oil demand growth just flattish despite emerging markets growth due to high oil prices

Global oil demand growth could stay flattish; lackluster demand possible until prices normalize in regions that do not subsidize oil. In 2007, total oil consumption was 86.03mmb/d growing at a CAGR of 1.66% since 2000. Current estimates call for a similar 1.64% average annual growth in oil demand from 2007-2012. This implies oil demand growth could remain flattish, reaching 93.31mmb/d by 2012. A more detailed analysis of the growth picture reveals a significant divergence between OECD and non-OECD demand patterns:

- **So far, demand growth in emerging markets and Russia trumps OECD by 12x.** OECD oil demand has been growing at a meager 0.31% rate annually for the last 7 years, compared to Non-OECD's 3.63% annual growth in oil demand. However, OECD led by N. America remains the largest consumer of oil, followed by emerging economies led by China, the GCC and Russia.
- **Looking forward, Non-OECD nations, led by Asia, the GCC and Russia will boost demand at CAGR of 3.86% until 2012.** This demand could be fuelled by robust economic growth, burgeoning industrial activity, and rapidly expanding transportation.
- **But overall global demand growth remains just stable as high oil prices drag down OECD growth.** With demand expected to fall in countries where oil is not a subsidized commodity, non-OECD demand growth actually falls by 0.17% from 2007 to 2012. .

Figure 5. Non-OECD Demand CAGR to Exceed OECD Demand CAGR*



Source: BP Statistical Review 2007, International Energy Outlook 2008, Energy Intelligence Research 2008, Al Mal Capital Research

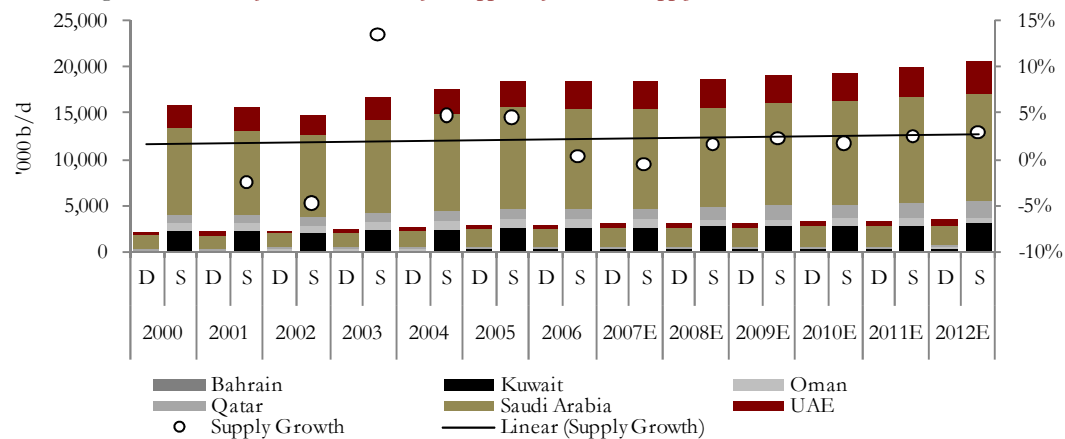
As oil supply increases in response to high prices, longer-term prices should normalize

Driven by high prices, crude supply growth could exceed demand growth, implying longer-term price normalization. While over 2000-2007 global oil demand growth surpassed global supply growth, this trend is projected to reverse in the future. We explain below:

- **Global oil demand growth beat out supply growth by 45bps in the past.** Crude supply managed to eke out a 1.21% CAGR over the last seven years until 2007. This is in contrast to global crude demand, which posted a 1.66% average growth, as we mentioned in the oil demand section above. While OECD supply growth declined 1.16% on an average in this time period, non-OECD (includes the OPEC nations) made up for shortfall by growing their supply by 2.13%
- **Going forward, high crude prices could flip the demand-supply imbalance.** Current projections call for a global supply CAGR of 1.98% from 2007-2012 which outpaces the aforementioned average demand growth of 1.64% over the same period. OPEC's reserves are its key strength, and the group is expected to increase production to meet demand at a CAGR of 4% through 2012.



Figure 6. *GCC Projected to be the Major Supplier of Oil, but Supply Growth Should Remain Flat**



Source: BP Statistical Review 2007, International Energy Outlook 2008, Energy Intelligence Research 2008, Al Mal Capital Research

GCC Oil Demand & Supply – Still in a “Sweet Spot”

GCC expected to build upon its net exporter status, although crude supply growth acceleration relatively modest. Considering the GCC's massive reserves and the current high level of oil prices, these economies could soar further because of growing oil wealth, liquidity, and high economic surpluses. In absolute terms, GCC oil supply towers over GCC oil demand by about 6X.

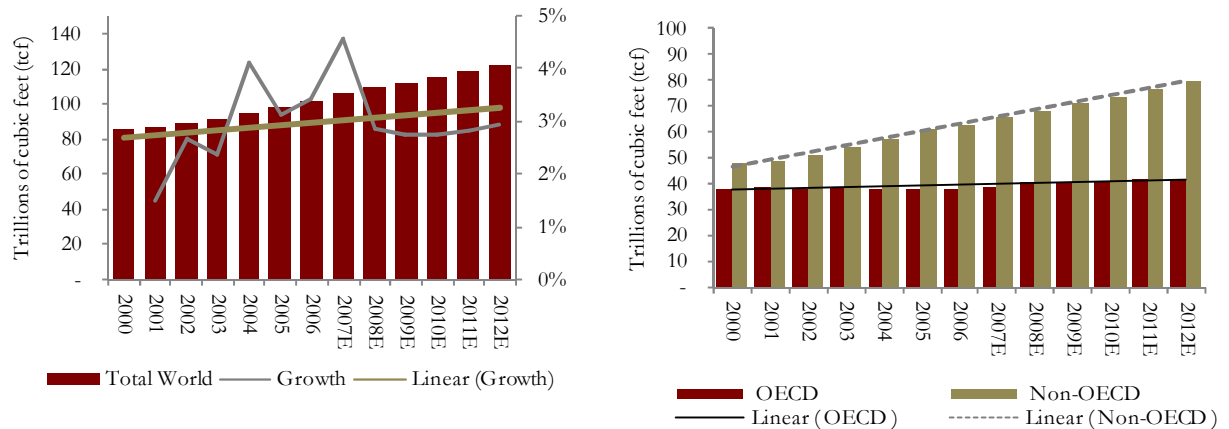
GCC crude supply growth uptick relatively modest, but surplus capacity remains

- **Despite OPEC supply growth, overall GCC supply growth flattish.** For the GCC, we could see an annual average supply growth of 2.25% over our forecast period of 2007-2012. This represents a slight uptick versus the 2.02% CAGR the Gulf nations posted over 2000-2007. Generally speaking, the GCC countries certainly have surplus capacity and can increase production to meet rising demand from non-OECD nations and relieve high oil prices.
- **Demand for oil remains healthy in the GCC.** Demand could grow at 2.99% per annum until 2012. The GCC alone accounts for approximately 7% of the world oil demand growth.



Global Gas Market – Demand & Supply Fundamentals Again Point to Longer-Term Price Normalization

Figure 7. Worldwide Natural Gas Demand to Continue Growing, while Non-OECD Spearheads Supply Growth



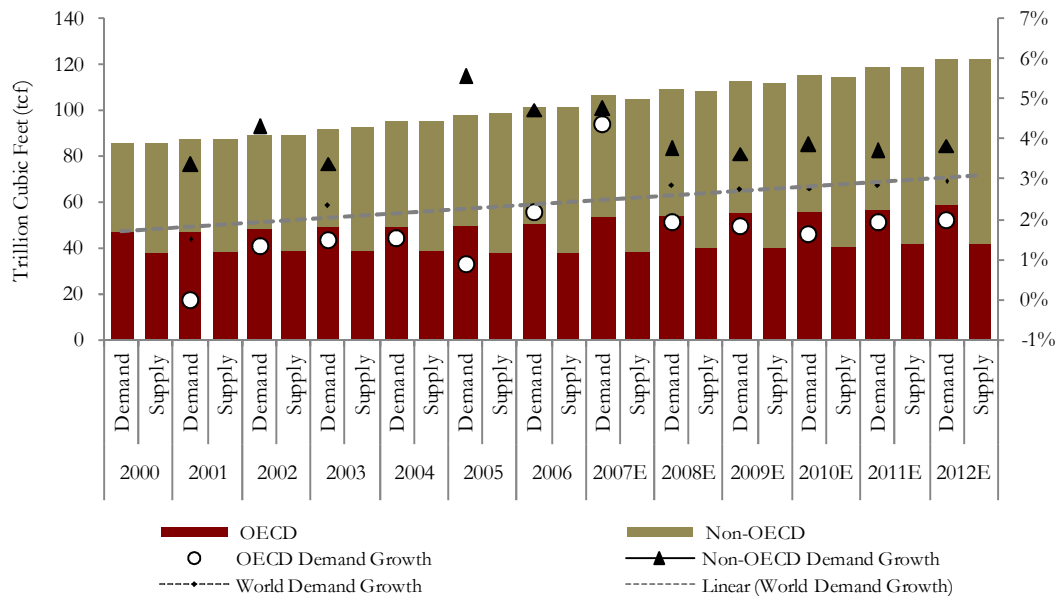
Source: BP Statistical Review 2007, International Energy Outlook 2008, Energy Intelligence Research 2008, Al Mal Capital Research

Global gas demand benefits from high oil prices...

Global gas demand growth projected to increase. Natural gas is an essential fuel for the electricity generation and industrial sectors. Therefore, demand growth in natural gas depends significantly on the amount consumed by the electricity and power generation sectors. From 2000 to 2006, gas demand growth averaged about 2.86% worldwide reaching 102tcf. Current projections call for an acceleration in the 2006-2012 global gas consumption CAGR to 3.11%. This implies about 122tcf in total worldwide gas demand by 2012. As it was in the case of crude oil, a more detailed analysis of the growth picture reveals a significant divergence between OECD and non-OECD demand patterns:

- **Regions outside the OECD made up 80% of the average annual growth historically.** Over 2000 to 2006, non-OECD consumption posted a CAGR of 4.72% versus OECD's CAGR of just 1.22%. Within the OECD, the U.S. is the largest consumer, followed by Europe. In 2007, U.S. industrial sector demand grew at over 2%, while residential sector demand grew at over 8% per annum.
- **Non-OECD demand could outpace OECD demand by ~2X over the projection period.** Non-OECD demand accounts for 67% of the demand growth for the next 5 years.
 - **Chindia is projected to increase gas consumption.** Though gas is a small source of energy for non-OECD Asia, primarily China & India, their reliance on gas as a major source of energy could grow at 4.6% per annum.
 - **Economic expansion in Mexico and BRIC countries are expected to drive demand growth in near future.**
 - **Industrial activity and electricity generation in US, Europe & China could continue to be the 2 main sectors fuelled by natural gas.**
- **Net-net, gas demand should benefit from power generation needs especially in light of high prices of feedstock substitutes like fuel oil.** Gas is a cleaner fuel with less CO₂ emissions and higher fuel efficiency.

Figure 8. By 2012, Gas Demand CAGR of non-OECD to Exceed OECD's by ~2x



Source: BP Statistical Review 2007, International Energy Outlook 2008, Energy Intelligence Research 2008, Al Mal Capital Research

...but with global gas supply outpacing demand, prices could come down longer-term

Driven by higher prices gas supply growth could exceed demand growth implying longer-term price normalization. We understand gas prices are benefitting from increased oil prices and the attractiveness of gas as a feedstock for electricity generation plants. However gas supply is projected to rise in order to capitalize on higher gas prices, which in the longer-term could bring about a more balanced price outlook.

- **Global gas demand growth beat out supply growth by 7bps in the past.** Natgas supply posted a 2.79% CAGR over the last six years until 2006. This was slightly less than global gas demand, which posted a 2.86% average growth, as we mentioned in the gas demand section above. While OECD supply growth was almost flat at 0.13% growth on an average in this time period, non-OECD made up for the shortfall by growing their supply by 4.67%.
- **Going forward high gas prices could cause supply to outpace demand and hence lower prices.** Current projections call for a global supply CAGR of 3.21% from 2006-2012, which outpaces the aforementioned average demand growth of 3.11% over the same period.
 - **Non-OECD supply will increase at CAGR of 3.8% for the next 5 years to account for 80% of the growth in supply.**
 - **Middle East & Eurasia float on ¾ of the world's gas reserves.** Iran, Qatar and Russia account for ~60% of the world's gas reserves and hence, these economies are empowered with significant potential for future development.



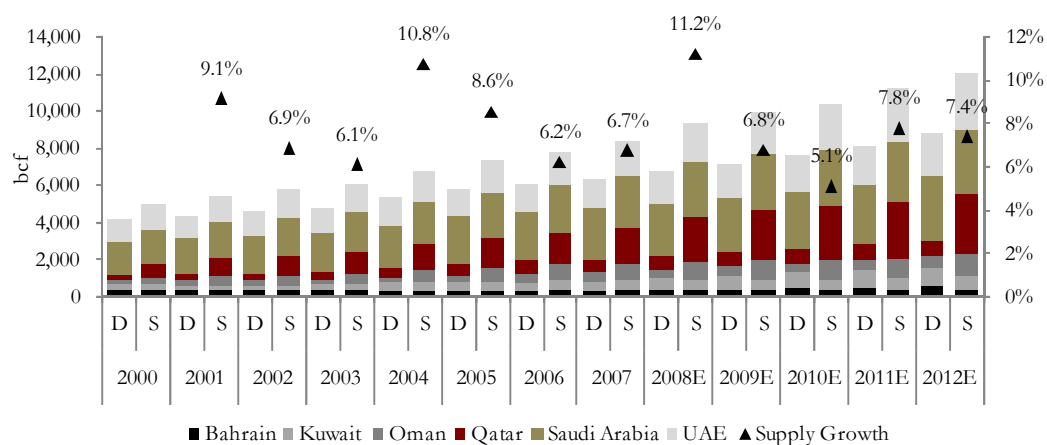
GCC Gas Demand & Supply—Still Playing 2nd Fiddle to Oil?

GCC gas demand could grow almost 2.5X its demand for crude oil. Under current forecasts, GCC demand could grow at 6.66% per annum from 2007-2012. This is significantly higher than this region's expected growth in oil demand, which, as we pointed out, previously is about 2.99% per year until 2012. On the supply side, the CAGR for the same period comes out to 7.64%. We explain more below:

- **GDP growth and high oil prices provide impetus to gas demand growth.**
 - **Acceleration in gas demand is driven by higher oil prices.** Oil exporting countries, that constitute the GCC, seeking to capitalize on record-high oil prices, are likely to consume more gas as a fuel source for upstream oil production.
 - **Expanding economies, like the GCC, need more electricity and thus more natgas.** In addition, the soaring demand for electricity due to the recent dramatic growth in Middle Eastern economies—especially in the GCC's industrial, real estate and construction sectors—has required increased output from GCC power plants, which are predominantly gas-fired.
- **Qatar and Saudi Arabia are expected to be the biggest GCC suppliers, followed by the UAE.** Collectively, they will account for 81% of the GCC gas supplied by 2012. Saudi Arabia and the UAE possess the 4th and 5th largest gas reserves in the world, respectively and we understand several projects are underway to boost the capacity of existing fields.

GCC gas market is in secular growth mode

Figure 9. GCC Gas Consumption (Demand) and Production (Supply) Rising Steadily, Supply Led by Qatar and Saudi Arabia



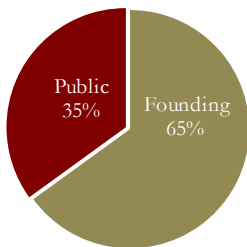
Source: BP Statistical Review 2007, International Energy Outlook 2008, Energy Intelligence Research 2008, Al Mal Capital Research



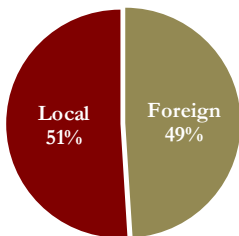
Dana Gas (ADX: DANA): Flare for Success

Investment Positives

Diverse shareholder base



Foreign ownership allowed



BoD members from every GCC nation

Mr. Hamid D. Jaber – Executive Chairman	
Dr. Adel Khalid Al-Sabeeh – Deputy Chairman	
Sheikh Sultan Bin Ahmed Bin Sultan Al Qasbi	
Mr. Abdulaziz Hamad Al-Jomaih	
Mr. Abdulla Nasser Husein Al-Mansoori	
Mr. Ahmed Rashid Al-Arbeed	
Mr. Adib Abdullah Al-Zamil	
Mr. Khalid Abdul Rahman Saleh Al-Rajhi	
Mr. Majid Hamid Jaber	
Mr. Rashad Mohammed Al-Zubair	
Dr. Tawfeeq Abdulrahman Almoayed	
Mr. Varoujan Nerguizian	
Mr. Ziad Abdullah Ibrahim Galadari	
Mr. Rashid Saif Al-Jarwan	
Mr. Said Arrata	

Well-connected BoD & major shareholders allow access to regional energy projects

Regional natgas expertise + high expected MENASA gas market growth = overall DANA success

I. Only “truly” public energy play in the Middle East. DANA is the region’s only publically-traded energy company that is not majority-owned by a government entity and permits foreign ownership.

- **No government ownership/control.** Unlike most of the so-called public companies abounding in the GCC region, no government entity retains direct or indirect control over DANA. This circumvents the risk of one overwhelming shareholder dictating the operations of the company, as is the case when it comes to TAQA, which is 70.4%-owned by the Government of Abu Dhabi.
- **Over 300,000 public shareholders—the highest of any ADX listed company.** According to the company, close to 425,000 investors from 100+ countries submitted applications totaling in excess of \$78 billion over 10 days in DANA’s ADX (then called ADSM) IPO back in late 2005.
- **Permits up to 49% foreign or non-GCC ownership, thereby boosting liquidity.** DANA’s 30-day average daily volume is around 25mn shares, 2.5X more than its larger competitor TAQA, which does not permit foreign ownership.

II. MENASA niche a source of competitive advantage driving future growth. We believe its core focus in the Middle East, North Africa, and South Asia (MENASA) region should help fuel DANA’s future growth. Simply stated this growth stems from the company’s ability to look at almost every energy grassroots/M&A deal in the region, while possessing the requisite expertise to evaluate, develop and operate natgas opportunities there. We expand on these points below:

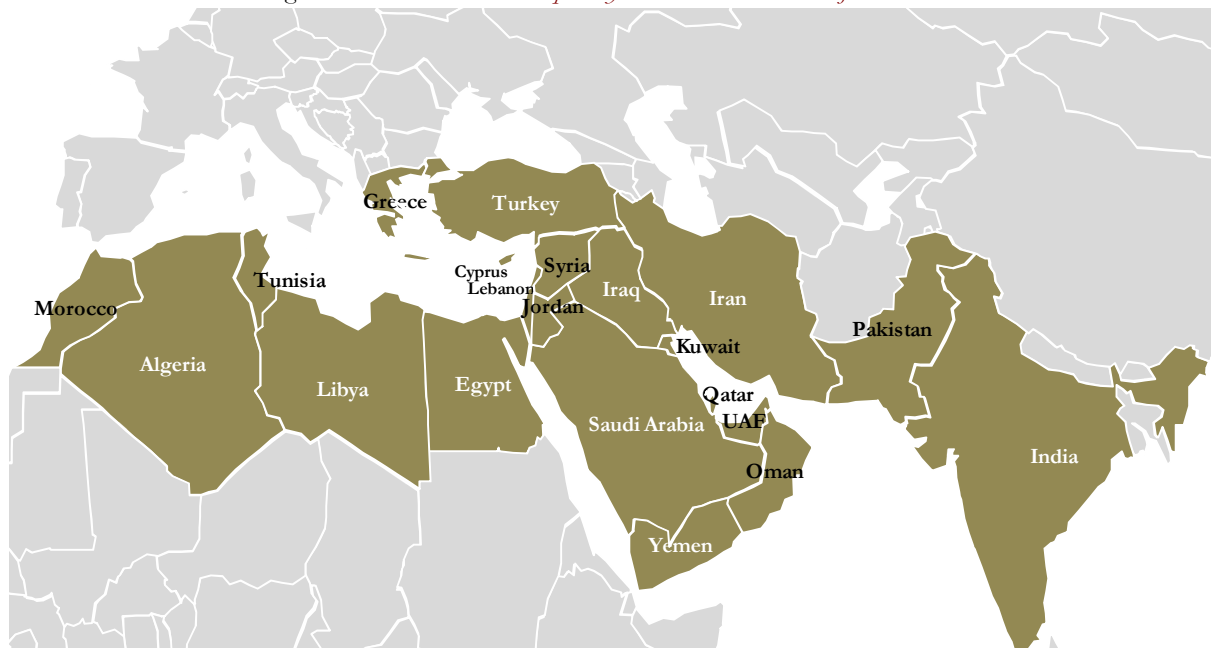
- **DANA’s Board of Directors and major stakeholders have deep regional relationships.** As we detail later in the report, DANA’s BoD and major stakeholders list reads like a veritable “who’s who” in the Middle East. Founding shareholders are 300 leading institutions/individuals from the Middle East, and every GCC state has at least one member on the BoD. Not only are these players fully immersed in the regional deal flow, they also wield considerable control over those transactions. This ensures that DANA is assured a “seat at the table” when it comes to most regional energy grassroots and M&A deals, a major positive in our opinion.
- **Company personnel have considerable expertise in identifying, developing, and operating regional hydrocarbon (especially natgas) projects.** DANA’s senior technical staff are all drawn from major international oil and gas companies, with an average of about 20 years experience in their different areas of the business exploiting natural gas reserves, designing/fabricating mid-stream infrastructure and in marketing/distributing natgas. This means that DANA’s natgas expertise is very well suited to leverage the expected growth in the MENASA gas market, which, according to the company, has 45% of the global gas reserves but only 18% of worldwide production.



MENASA niche makes DANA a “partner of choice”

Why this matters: MENASA niche not only important for growth, but makes DANA an attractive regional partner. We understand that such regional expertise is hard to replicate, which acts not only as a substantial barrier to entry but also makes DANA an attractive partner for players like international independents, majors, and so on. One example we would note is the company’s partnership with Kuwait International Oil & Environment (KIOEC) on the Komombo field in Egypt. We could envision such partners becoming significant shareholders once the MENASA natgas industry hits its inflection point in 2009-10.

Figure 10. Focus and Core Competency in MENASA is a Major Positive



Source: Company Reports

DANA straddles the entire natgas “food-chain”

III. Vertically integrated to generate synergies across the natgas value chain. DANA has positioned itself to be a vertically integrated natgas (and associated liquids) play. Unlike most companies that focus on one or two portions of the natgas value chain, Dana Gas operates across the natgas value chain from upstream (exploration & production) activities through midstream (transmission, sweetening and processing) operations to downstream (marketing and sale) activities. We provide details on each segment in the next three charts.

Natgas focus allows DANA to avoid “head-on” competition with oil-focused heavyweights

Why this matters: Natgas niche also allows DANA to avoid direct competition with ‘800-lb gorillas’ such as large NOCs and the international super-majors. The company’s natgas focus has enabled it to avoid direct competition with the national oil companies and international super-majors, who are still predominantly concerned with crude oil.



Figure 11. Centurion's Upstream Operations Provide Immediate Cash Flow and the Promise of Exploration Upside

Upstream (Oil & Gas Exploration & Production)	
Nov-06	Acquires Centurion with significant Egyptian E&P assets for ~\$1bn; deal closes Jan. 2007 ; assets acquired: 10 development/4 exploration leases in Egypt, Tunisia & offshore West Africa; important metrics: YE2006 reserves ~100mmboe, 26.3k km ² exploration potential, production +31kboe/d, expected revenues/operating cash flows of \$165mm/\$90mm
Feb-07	Announces 15 well (10 exploration, 5 development) drilling program in Egypt; also reports first LPG from newly commissioned El Wastani LPG plant (capacity: 160mmcf/d); aims to maximize production from shallow Abu Madi horizons + wildcatting in the high potential & deeper Sidi Salem & Oligocene basins
Apr-07	DANA & Crescent sign strategic alliance with Kurdistan's regional govt; agree to develop, process & transport gas from the Khor Mor field on a fast-track basis & appraise the Chemchemical field; goal: to provide natgas to power generation plants in Erbil & Suleymania; total planned capex by YE2008: \$650mm (50/50 DANA/Crescent); also launches Kurdistan Gas City project, which is a natgas-utilization industrial complex boosting private sector investment in gas-related industries
Apr-07	Farms out 50% non-operator working interest in its Egyptian western desert-based Komombo concession to Kuwait Intl Oil & Environment (KIOEC)
	Updates to the Egyptian drilling program:
	1) Successful discovery: El Wastani West-2 well (EWW-2; initial flow rates: 9.5mmscf/d gas & 1.022 b/d condensate from the Qawasim sands; well comes on line late May & is tied into the El Wastani plant
	2) Work-over of EW-12 results in increased flow from the Abu Madi formation
	3) Infill well, EW-8, in El Wastani field completed by end-June, adding to natgas/condensates output from Abu Madi formation
Jun-07	4) Using 2 rigs to drill exploration prospects in the West El Manzala & West El Qantara concessions; Marzouk-1 well in the West Manzala block is drilling towards the Sidi Salim formation (well already encountered gas zones in Kafr El Sheikh); in Upper Egypt, Komombo-4, spudded late May is on track to test the Cretaceous & Jurassic sandstone reservoirs
	5) Luzi-1 discovery well, West Manzala, which tested 9.5 mmcf/d gas & 123 b/d condensate starts flowing commercially in June 2007 after being approved by the Egyptian govt. in April 2007
Jan-08	Exceeds 2007 production targets in Egypt, with an exit rate of 32kboe/d
Jan-08	The Nigeria-São Tomé & Príncipe Joint Development Authority (JDA) formally approve a 10% share for DANA in the Joint Development Zone (JDZ) Block 4 located in the Gulf of Guinea, West Africa ; JDZ has moderate risk reserve potential as it is located in the vicinity of many deep water Nigerian "giant" oilfields; Block 4 spans 212k acres & is close to the OBO-1 discovery; operator Addax committed to spudding 3 wells prior to YE2008 ; DANA's 10% share of well costs is \$6.1mm in 2008
Mar-08	Announces Kurdistan project 70% complete; engineering, procurement & manufacturing 100% complete & the project is in construction stage; goal: initial supply of 150mmcf/d by mid-2008 rising to 300mmcf/d by early 2009 (but these timelines have been pushed out thus far); end customers are 2 power plants being constructed in Erbil & Sulymaniya (total capacity: 1,250 MW); total project spending of \$650mm includes E&P, LPG plant processing & natgas delivery via a new 180km pipeline; progress being made in strategic alliance protocol, including the "Kurdistan Gas City," which is in final site selection
Mar-08	Marks foray into the GCC E&P sector, signs a 25-year agreement for exploration & development of the Western Offshore concession (Sharjah); block covers ~1k km offshore & includes the development of the Zora gas field within Sharjah (discovered 1979); drilling plans: resume horizontal drilling of 2 old Crescent wells, complete drilling & install offshore platforms for processing & production, transport processed gas through 25km of offshore pipeline (to be installed by DANA); also undertake geological evaluation, followed by seismic surveys & drilling of exploration wells; initial costs \$120mm (\$55mm/\$65mm development/exploration); region attractive as Sharjah 2 well tested 41mmcf/d from Thamama zone in 2001
Mar-08	Announces 19 well (15 exploration, 4 development) drilling program in Egypt; total capex +\$170mm & 5 drilling rigs are being acquired; well location: Komombo concession in Upper Egypt & 2 Nile Delta concessions; breakout: 1 exploration & 1 development in the Komombo concession/3 development & 14 exploration wells in the Nile Delta, 5 of which target the Sidi Salem formation
May-08	States that Egyptian production is running at 140mmcf/d gas & 6k b/d of propane, butane, & condensates
May-08	Announces its Kurdistan project is about 80% complete
Jun-08	Announces first Egyptian discovery of 2008; Al Baraka-2 confirming Al Baraka-1 in the Abu Ballas formation, & proving a new discovery in the underlying Six Hills zone; also starts drilling the West Baraka-1 exploration well in a new prospect in Komombo; results expected before YE2008 ; progress in drilling deeper gas exploration wells in its Nile Delta acreage

Notes: Below are business development ventures, not yet classified into upstream, midstream or downstream:

- 1) **Nov. 2006**: Establishes Saudi Arabia office; appoints new GM in March 2007; gains Saudi gas license in April 2007
- 2) **May 2007**: APICORP strategic agreement
- 3) **July 2007**: Strategic alliance with Abraaj Capital; Aim: identify strategic acquisitions & develop new gas projects in MENASA

Source: Company reports



Figure 12. The Iran Gas Supply Project Forms the Majority of DANA's Midstream Operations

Midstream (Gas Processing & Transportation)	
Apr-01	Crescent agrees to import gas from Iran's Salman offshore field; originally scheduled to start Nov. 2005, disagreement over prices (based on oil prices, now at historical highs) leading to delays; checks show gas imports could begin by 4Q08
Jul-05	Forms Sajaa Gas Private Limited (SAJGAS), United Gas Transmission (UGTC), & Crescent Natural Gas (CNGCL, 35% affiliate)
Jan-06	UGTC & Emirates General Petroleum (Emarat) start 50/50 deal to build 48" 32km pipeline from Sajaa, Sharjah gas hub to the Hamriyah Free Zone; contract value: \$670mm over 25 years; 1bcf/d capacity; pipeline cost: \$182mm; 3 end-users: the Federal Electricity & Water Authority of the UAE (FEWA), the Sharjah Electricity & Water Authority (SEWA), & CNGCL
Jun-06	Phase I of the Hamriyah gas pipeline goes into operation
Oct-06	Forms Danagaz Bahrain; 66/34 Danagas/Bahraini partners; agrees to build Gulf of Suez liquids plant in Egypt; state-owned Egyptian Natural Gas (EGAS) & Arab Petroleum Investments (APICORP), a top energy sector-focused inter-govt'l regional financial entity are partners; processing capacity: 150mmcf/d gas, 120k tonnes/year of liquid propane & butane
Oct-06	UGTC partners with Single Buoy Moorings (SBM), which builds oil production terminals; goal: develop a network of floating LNG terminals in MENASA, with particular focus on Pakistan, Lebanon & Kuwait
Mar-07	UGTC & Emarat officially sign JV; FEWA, SEWA & industrial firms in the HFZ reaffirmed as buyers
Apr-07	DANA & Crescent sign strategic alliance with Kurdistan's regional govt; agree to develop, process & transport gas from the Khor Mor field on a fast-track basis & appraise the Chemchemical field; goal: to provide natgas to power generation plants in Erbil & Suleymania; total planned capex by YE2008: \$650mm (50/50 DANA/Crescent); also launches Kurdistan Gas City project, which is a natgas-utilization industrial complex boosting private sector investment in gas-related industries
Jun-07	Danagaz deal closes; the plant project & export marketing is being executed by a JV called Egyptian Bahraini Gas Derivative Company (EBGDCO); ownership: 40/40/20 Danagaz Bahrain/EGAS/APICORP
Feb-08	Signs JV with Emarat to own, manage & operate the Middle East common user gas pipeline; completion: March 2008; Phase I has been delivering gas to the SEWA power station at Hamriyah since May/June 2006
Mar-08	Announces Kurdistan project 70% complete; engineering, procurement & manufacturing 100% complete & the project is in construction stage; goal: initial supply of 150mmcf/d by mid-2008 rising to 300mmcf/d by early 2009 (but these timelines have pushed out thus far); end customers are 2 power plants being constructed in Erbil & Sulymaniya (total capacity: 1,250 MW); total project spending of \$650mm includes E&P, LPG plant processing & natgas delivery via a new 180km pipeline; progress being made in strategic alliance protocol, including the "Kurdistan Gas City," which is in final site selection
May-08	Announces its Kurdistan project is about 80% complete
Jun-08	Announces completion of joint Hamriyah gas pipeline project

Notes: Below are business development ventures, not yet classified into upstream, midstream or downstream

1) **Nov. 2006:** Establishes Saudi Arabia office; appoints new GM in **March 2007**; gains Saudi gas license in **April 2007**

2) **May 2007:** APICORP strategic agreement

3) **July 2007:** Enters into strategic alliance with Abraj Capital, a private equity firm; aim: identify strategic acquisitions & develop new gas projects in MENASA

Source: Company reports



Figure 13. The Ecosystem of 'DANA Gas Cities' Rounds Out the Company's Business on the Downstream End

Downstream	
Gas Distribution & Marketing for Feedstock/Fuel Use in Petrochemical, Industrial & Power Sectors	
Apr-07	DANA & Crescent sign strategic alliance with Kurdistan's regional govt; agree to develop, process & transport gas from the Khor Mor field on a fast-track basis & appraise the Chemchemical field; goal: to provide natgas to power generation plants in Erbil & Suleymania; total planned capex by YE2008: \$650mm (50/50 DANA/Crescent); also launches Kurdistan Gas City project, which is a natgas-utilization industrial complex boosting private sector investment in gas-related industries
Oct-07	Announces Dana Gas city initiative in Bahrain
Oct-07	Announces Dana Gas city initiative in Egypt
Feb-08	Inks deal with Kuwait-based Ikarus Petroleum concerning production & marketing of petrochemicals in MENA; specific focus is on Dana Gas Cities
Mar-08	Announces Kurdistan project 70% complete; engineering, procurement & manufacturing 100% complete & the project is in construction stage; goal: initial supply of 150mmcf/d by mid-2008 rising to 300mmcf/d by early 2009 (but these timelines have pushed out thus far); end customers are 2 power plants being constructed in Erbil & Sulymaniya (total capacity: 1,250 MW); total project spending of \$650mm includes E&P, LPG plant processing & natgas delivery via a new 180km pipeline; progress being made in strategic alliance protocol, including the "Kurdistan Gas City," which is in final site selection
May-08	Announces its Kurdistan project is about 80% complete
Jul-08	Announces details on its Kurdistan Gas City project; government assigns land to build a \$3bn industrial complex; aim is to attract direct foreign investments of +\$40bn; construction of 461sqkm complex to start Sep. 21st ; gas city to house ~20 petrochemical & heavy manufacturing plants & hundreds of SMEs

Source: Company reports



IV. DANA has no direct competitors. Dana Gas remains the only “truly public,” MENASA-focused, vertically integrated natgas play. Given its niche, we do not think it likely for DANA to face head-on competition over the next 1-2 years. This enviable position is due to factors we have already discussed previously, but repeat briefly below:

Plays to an open competitive landscape...

...as regional focus makes DANA an ideal partner for international players...

- **Laser-like focus on the MENASA region.** This strategy of focusing on its core region of MENASA has enabled the company to leverage the regional “reach” or connections of its BOD and major shareholders. Moreover, DANA has built a regional “toolkit” of personnel and geo-seismic expertise. This makes it an attractive local partner for international independents and smaller major oil companies. This regional focus is not likely to change in the future, our conversations with DANA management confirm. Examples of such existing and potential partnerships include:
 - **SBM partnership set to build LNG terminals.** Single Buoy Moorings (SBM), a specialist in building oil production terminals, has teamed up with DANA’s subsidiary UGTC since October 2006 in order to develop a network of floating LNG terminals. Our sense is that SBM sought to leverage DANA’s expertise in gas and its extensive connections in the MENASA region. Besides providing platform design input, UGTC will procure the LNG, which will then be reconverted back to gas for delivery to end customers. We provide some details below:

Figure 14. Partnership with SBM Highlights DANA’s Regional Natgas Expertise

Date	Region	Details
Jan-07	Pakistan	Agreement to collaborate with SBM and Granada Group of the US to develop a LNG terminal at Port Qasim, Karachi, Pakistan; cost estimated at \$200mm; initial capacity: 3.5mmt/y; site surveys are complete and the partners have received approval from local authorities for the location & design of the platform; currently in discussions with potential gas buyers in Pakistan in order to set up long term gas sales & purchase agreement

Source: Company reports

...while emphasis on gas avoids “head-on” competition with national oil firms and the “super-majors”

DANA’s indirect regional competitors: TAQA, RAK Petroleum, Kuwait Energy, etc.

- **Other partnership opportunities abound:** As an example, we point to DANA’s partnership with Kuwait International Oil & Environment (KIOEC) on the Komombo field in Egypt.
- **Concentrating on natgas, while skirting crude oil for now.** We point out that DANA has positioned itself to be a vertically integrated natgas play. This, so far, has enabled the company to avoid direct competition with the national oil companies and international super-majors, who are still predominately concerned with crude oil.

Caveat: Competition has no place to go but up. By definition, growing markets lure entrants and we believe DANA could face increased competition over the longer-term (2010 and beyond). We envision such a scenario due to the dual-impact of: (a) higher natgas prices attracting capital inflows into the MENASA region, and (b) buoyant oil prices prompting DANA to pursue opportunistic acquisitions in non-regional oil assets.

In the following table, we lay out the company’s regional competitive landscape.

Figure 15. *Competitive Landscape Highlights DANA's Niche Positioning*

Name	Ticker	
Saudi Arabian Oil Co. (Saudi Aramco)	Private	Government-owned Saudi Aramco is the world's largest oil company in terms of output and specializes in the exploration, production and distribution of crude, petrochem and natgas. Oil operations cover Saudi Arabia and territorial waters in the Arabian Gulf and Red Sea, totaling more than 1.5 million sq.km and proven reserves of 259.8 bn barrels of oil. It has a total production capacity of 3 trn cubic ft. of gas, 3.25 bn barrels of crude oil and 399 million barrels of natural gas liquids per year, as of April 2008. Most production comes from fields in a 300-kilometer area in the Eastern Province. Saudi Aramco operates terminals that service more than 10 tankers per day. Through subsidiaries and partnerships, the company delivers its products to clients in N. America, Europe and Asia.
Qatar Fuel Company (Woqod)	QFSL.DSM	Has the only concession to market, distribute, transport and store petroleum products in Qatar Markets, built and operates bunker fuel storage facility with annual capacity of 4 million tons
Qatar Petroleum	Private	Specializes in exploration, drilling, production, transport, storage and sale of crude oil, natural gas liquids, LNG, refined products, petrochemicals and fertilizers; Produces over half of Qatar's total output with a total current oil production capacity of 890,000 b/d and is expected to reach 1million b/d by the end of 2009; LNG production capacity will reach 77 million tons/yr by 2010
Gulf Petroleum Investment (Kuwait)	GPIKSE	Invests in oil and gas services entities including drilling, supply of parts, equipment, reservoir engineering, development, planning, monitoring and control, oil refining and consulting for upstream and downstream related projects.
Aref Energy	AREFENRGY.KSE	Kuwaiti enterprise that invests in power generation, oil and gas exploration and production, oil refining, petrochemical, and construction contracting companies according to Islamic Shariaa principles.
Dolphin Energy Ltd.	Private	UAE-based strategic natural gas initiative that involves producing and processing natgas from Qatar and transporting by sub-sea pipeline to the UAE; part of a national endeavor to boost UAE natgas supplies for fuel (power generation) and feedstock; Ownership: Govt. of Abu Dhabi (51%), Total Group (24.5%), Occidental Petroleum (24.5%)
RAK Petroleum	Private	Strategic focus to develop into an international integrated oil and gas entity through investment and acquisitions in upstream oil and gas production & development, midstream gas transportation & storage, downstream gas processing, and petrochem projects; recently acquired Indago Petroleum Ltd's E&P assets in Oman and UAE

Source: Zawya



Investment Risks

Cancellation of the Iranian project is the single largest risk perceived by some investors...

I. Perception by some investors that the Iranian gas supply deal could fall through. This, in our view, is the *single largest risk* – as perceived by some investors – facing the company. The crux of the issue here is that the contracted price for natgas is based on a formula linked to oil prices. As oil prices are at all-time highs, despite some recent softness, Iran is looking to get a much higher price for its gas supplies than originally envisioned by Crescent, DANA's partner that signed this deal back in 2001. Crescent obviously does not concur and both sides are currently still in deep discussions. *Our most recent conversations with DANA management reveal that the company is now expecting this project to begin by YE2008.*

While we have been conservative in excluding this contract from our projections and valuation, DANA stock could come under pressure if this project falls through. Multi-year delays and persistent squabbling in the press over the price for natgas delivered under this contract has clearly left investors concerned. In some press reports, Iran has threatened to build a pipeline to divert this gas to its Assaluyeh region. In our view, it is *unlikely* that the parties cannot come to some sort of understanding to finally launch gas supplies from Iran. The pertinent question is *when* the imports will begin and not *if* they will begin. We elaborate below:

- **Our view:**

- **Our research shows progress in talks.** We point to recent press reports stating that Iran was looking to remove the gas price formula for the first 7 years as a sign that both Crescent and Iran are moving forward towards a mutually agreeable pricing structure.
- **Recent conversations with management reveal DANA remains optimistic that gas supplies will begin by YE2008.** Construction of facilities on the Iranian side is over and commissioning is underway, with overall physical infrastructure required by the project about 99% complete.
- **Crescent is actively negotiating to account for higher prices.** Our industry checks show that Crescent is amenable to a higher contracted natgas price. We explain more in the below point:
- **This deal should make economic sense for Crescent even at higher gas prices.** There is significant need for gas in the UAE with this contract's primary end customers, SEWA and FEWA, currently being forced to resort to very expensive (\$20-25/mmbtu) fuel oil for power generation needs. Given these are investment-grade customers with high capacity to pay, there is very little chance that this deal becomes uneconomical.
- **Iran and DANA have already invested substantial time and money in this project to let it fall through.** Given the 3+ years delay in gas supplies, along with the roughly \$1.5bn that Iran has already sunk into building the infrastructure, that nation has an incentive to follow through in getting this deal done. DANA is carrying about \$1bn in its books relating to its processing facility acquisitions costs as related to this project. Thus, the company itself is not looking to let this contract fall through its fingers.

...but we think such a scenario is highly unlikely

We believe the when—not the if—is the only pertinent question about the Iran deal

- **Iranian gas is very sour, further decreasing the likelihood of striking a new deal.** Salman field's gas is very sulfurous, we gather. Given the substantial time and money that has already been invested in order to set up natgas sweetening plants for this project, Iran could have a hard time setting up alternative processing arrangements, in our view.
- **Current international restrictions leave Iran with little choice to look for additional alternatives.** Given international sanctions against it and the prospect of international majors like Shell and Total deemphasizing investments in Iranian projects, we see no easy alternatives for Iran when it comes to exporting gas. In addition, any new pipelines to divert gas for internal use could entail significant time and capital resources. Currently the nation is being forced to flare some of its gas production from the Salman field, which in our view is an untenable strategy in the long term.
- **Net-net, Crescent will agree to a price increase as long as it makes economic sense.** It is our view that the *when* is the pertinent question here, and not the *if*. We find it highly unlikely that Crescent will walk away from this agreement. Our contention is that the company will ultimately bend to Iran's price demands as long as it makes economic sense. DANA management is all too well aware of the significance of this contract for the stock and are not likely to jeopardize the future of the company for the sake of posturing, our checks show. Given all the reasons mentioned above, we can envision Crescent cancelling this deal only if the price becomes uneconomical, a somewhat unlikely scenario considering the prevailing price environment and the accelerating demand for natgas in the UAE.

II. Kurdistan project could expose DANA to regional execution risks. The semi-autonomous region of Kurdistan is perceived to be a volatile region by many investors. Indeed DANA has faced some delays in ramping operations in that region given the company has had to pick safe pipeline routes away from the minefields and install most of the delivery infrastructure in difficult terrain. More importantly, it seems to us that DANA may not be able to compete for any future Iraqi projects. This is because the company has been blacklisted by the Iraqi central government, which considers contracts doled out by the Kurdish government to be illegal.

• **Our view:**

Kurdistan could be a potentially volatile region...

- **DANA has actually shown better-than-anticipated progress.** Our sense is grassroots projects like Kurdistan take about 4 years or so to come to fruition, while we expect first gas here within 16 months—no mean feat.
- **Reality is far better than perception when it comes to security.** DANA has faced no major issues in terms of safety of its staff and infrastructure in all its time in Kurdistan. Moreover, the company has hired a local security firm with experience in working with oil and gas players in the region. It is our understanding that comprehensive contingency plans are already in place to deal with any incidents if and when they arise.
- **DANA could indeed regain the ability to vie for future Iraqi projects.** In our view, nothing is set in stone regarding the so-called ban on Dana Gas. Indeed if recent events are any indication, where the UAE government forgave \$7bn in Iraqi government debt, the two countries seem to be getting closer



*...but “on-the-ground”
reality thus far has soothed
investors*

together. Thus it does not take too much of a leap in faith to assume that UAE firms like DANA would regain some favor with the Iraqi government in the future.

- **Executive Chairman Hamid Jafar, a UAE national, is of Iraqi origin and has deep ties to that region.**

*Increasing E&P focus
makes DANA a riskier
name...*

III. Corporate risk profile increasing: As DANA shifts to drilling an increased percentage of exploration wells, the risks of encountering dry holes increase.

- **Our view:**

- **DANA predominantly focuses on lower-risk exploration activity.** This in our view is a prudent strategy, as the company can keep on knocking down “singles” and “doubles” without risking it all on hitting it out of the park.
- **DANA follows conservative *successful efforts* accounting method.** In contrast to the *full-cost* basis, successful efforts only capitalizes expenses associated with appraising and drilling a well if that well proves to be a commercial find (or could help in drilling other successful wells tapping the same hydrocarbon reservoir). All carried expenses are subject to a technical, commercial and management review at least once a year to make sure that they are still viable prospects. Net-net, with dry hole costs hitting the income statement in the same quarter that they occur in, DANA’s EPS accurately informs the investor of the company’s drilling successes or the lack thereof.

*...but conservative
exploration strategy &
accounting methodology
mitigates risk*

IV. Major shareholder and operational partner Crescent could wield considerable control over DANA. With a 20.9% stake, significant current and previous management ties, and a framework or umbrella agreement in place until 2011 with Dana Gas, Crescent Petroleum could, in theory, exert considerable control over DANA’s management. This could create a perception among investors that there is some inherent conflict of interest between DANA and Crescent.

- **Our view:**

- **As a major shareholder, Crescent’s interests essentially are aligned with the company’s.** To the extent that DANA’s share price appreciation benefits Crescent as well, we perceive no inherent conflict of interest.
- **DANA benefits from Crescent’s significant oil and gas expertise.** Crescent has been around since 1969, making it one of the UAE’s oldest privately owned independent energy companies. The company discovered Mubarek, the first offshore gas field in Sharjah, and has over the years become the premier oil and gas firm in the region. Moreover, we note that DANA also retains the right of first refusal to any gas projects undertaken by Crescent, as defined by the umbrella agreement.
- **DANA is likely to emerge semi-independent, in terms of projects undertaken, from Crescent by or before 2011.** Essentially a startup company, DANA has benefited from Crescent’s executive support thus far. Moreover, Crescent has already supported DANA’s bid to appoint independent individuals to the posts of General Manager and Legal Director. As far as the umbrella

*Crescent may not always
have DANA’s best
interests in mind...*

*...but so far their
partnership has served
DANA well*

agreement is concerned, we understand that it is not likely to be renewed even if it runs its full course until 2011. This does not mean that DANA and Crescent will stop collaborating with each other; rather, both parties would no longer retain the right of first refusal.

- **Recent Crescent agreement with India's Reliance signals its intention to diversify beyond DANA.** Back in late June 2008, Crescent inked a deal with Reliance's E&P division and established a framework for collaborating across the entire energy value chain. This announcement, in our opinion, shows that Crescent is willing to look beyond Dana Gas for partners on future projects.

*Oil price declines could
hurt the stock...*

V. Oil and gas price exposure is a double-edged sword. The decline in energy prices from their current all-time highs, as we have seen recently, could hurt DANA's stock, in our view. We do note that the company did not really benefit from the significant run-up in oil prices, given its predominant gas exposure. However, notwithstanding the previous fact, we think it is possible that the stock actually gets hurt on the downside when energy prices do ease somewhat.

- **Our view:**

*...but potential positive
news on Iran could act as
an offsetting factor*

- **Expected positive news flow on Iran gas deal is likely to counteract potential easing of the energy complex.** The Iran gas contract, in our view, is the single largest catalyst impacting Dana Gas. If visibility into the timing of this contract improves, we fully expect the stock to shrug off any weaknesses in energy prices later this year.



Valuation Summary

We rate DANA a Market Perform; target price AED1.95

We rate DANA a Market Perform; our price target of AED1.95 could be revised ~70% higher when Iran contract visibility improves. Given the lack of visibility about the timing of the UAE gas project (the Iran deal) we have not included its impact in our valuation work. However, we see DANA stock move towards AED3.27 once investors have definitive visibility into the Iran contract. We note that the company continues to expect Iran to start by YE08 and so we provide investors with DCF and EPS analysis both excluding as well as including Iran.

- Our 10-year DCF yields a stock price of AED1.95 ex Iran and AED3.27 including Iran.
- Base case DCF shows AED1.95 stock price implying that DANA is fairly valued. We lay out our DCF model assumptions and conduct a sensitivity analysis of WACC and terminal growth rates to determine a range of derived prices for DANA's stock below.

Figure 16. Our Analysis Results in an AED1.95 Price Target for DANA Shares

Assumptions		DCF-Derived Price*		Terminal Growth	WACC					
Risk Free Rate	5.5%	Total PV of Free Cash Flow	4,445		3.0%	2.15	1.93	1.75	1.59	1.45
Debt Spread	2.0%	Discounted TV	8,927		3.5%	2.28	2.05	1.84	1.67	1.52
Risk Premium	5.5%	Enterprise Value	13,372		4.0%	2.44	2.18	1.95	1.76	1.59
Beta	1.26	Net Debt	1,658		4.5%	2.63	2.33	2.08	1.86	1.68
Tax Rate	0.0%	Mkt. Value of Equity	11,714		5.0%	2.86	2.51	2.22	1.98	1.78
Debt /Total Capitalization	32.1%	Shares Outstanding (mn)	6,000							
Equity /Total Capitalization	67.9%	Target Price per share	AED 1.95							
Levering Factor	1.32	Upside/downside	15.5%							
Unlevered Beta	0.95									
Levered Beta	1.26									
Cost of Equity	12%									
Cost of Debt	7.5%									
WACC	10.9%									
Terminal Growth Rate	4.0%	*in AED millions, except per share data								

*in AED millions, except per share data

Source: Company reports, Al Mal Capital Research

DANA becomes a compelling story after Iran deal goes through

- Including Iran's impact, DCF model shows a derived value of AED3.27 or about 70% upside from our current target price.

Figure 17. Iran Deal Could Boost NAV by More than AED1/Share

Assumptions		DCF-Derived Price*		Terminal Growth	WACC					
					9.9%	10.4%	10.9%	11.4%	11.9%	
Risk Free Rate	5.5%	Total PV of Free Cash Flow	8,608		3.0%	3.56	3.25	2.99	2.75	2.54
Debt Spread	2.0%	Discounted TV	12,682		3.5%	3.76	3.41	3.12	2.86	2.64
Risk Premium	5.5%	Enterprise Value	21,290		4.0%	3.98	3.60	3.27	2.99	2.75
Beta	1.26	Net Debt	1,658		4.5%	4.25	3.82	3.45	3.14	2.87
Tax Rate	0.0%	Mkt. Value of Equity	19,632	5.0%	4.58	4.07	3.66	3.31	3.01	
Debt /Total Capitalization	32.1%	Shares Outstanding	6,000							
Equity /Total Capitalization	67.9%	Price per share	AED 3.27							
Levering Factor	1.32	Upside/downside	93.5%							
Unlevered Beta	0.95									
Levered Beta	1.26									
Cost of Equity	12%									
Cost of Debt	7.5%									
WACC	10.9%									
Terminal Growth Rate	4.0%	*in AED millions, except per share data								

*in AED millions, except per share data

Source: Company reports, Al Mal Capital



DANA is more sensitive to Δ oil prices than Δ output

- **DANA's EPS is highly leveraged to crude oil prices, but changes in production are less consequential.** We also conduct a sensitivity analysis to variances in average realized prices and daily production rates. Note DANA's liquids prices are related to Brent prices, while its gas prices are defined on a contract-by-contract basis, which sometimes are not related to actual market prices, as is the case in the company's Egyptian project.

Figure 18. *DANA EPS is Highly Sensitive to Crude Oil Prices*

	2008E		2009E		2010E		2011E	
Variance in Daily Production (boe/d)	-1000	+1000	-1000	+1000	-1000	+1000	-1000	+1000
Change in EPS	-11%	11%	-3%	3%	-8%	8%	-4%	4%
Variance in boe Prices	-10%	10%	-10%	10%	-10%	10%	-10%	10%
Change in EPS	-34%	34%	-23%	23%	-61%	61%	-43%	43%

Source: Al Mal Capital

- **On multiples, DANA currently looks expensive but *inexpensive* once Iran gas starts flowing.** The company becomes relatively more attractive in 2009 with or without Iran as its other projects start contributing.

Iran could help boost EPS from 2009 onwards but we exclude it from our model for now

- **DANA is expensive at 19x and 7.3x its 2008 and 2009 EV/EBITDA versus comps of 6.3x and 5.7x.** The picture improves when we consider its 2009 P/E of 11.3x, a discount to its comps, which trade at 12.1x.
- **However when Iran is factored in, DANA is inexpensive at 6.7x and 5.3x 2009 P/E and EV/EBITDA.**

Figure 19. *DANA Looks Attractive Once Iran is Factored In*

Name	Price	Market Cap	EPS			EBITDA			P/E			EV	EV/EBITDA			P/B
			FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E		FY07	FY08E	FY09E	Current
In AEDmm*																
DANA	1.69	10,140	0.02	0.04	0.15	430	621	1,610	91.4x	40.3x	11.3x	11,798	27.4x	19.0x	7.3x	1.4x
TAQA	2.70	16,808	0.25	0.39	0.51	4,469	10,824	14,748	10.8x	7.0x	5.3x	73,698	16.5x	6.8x	5.0x	1.3x
In US\$mm*																
Apache	115.89	38,760	7.91	15.85	17.16	7,174	11,230	12,135	9.4x	7.3x	6.9x	49,625	6.9x	4.4x	4.1x	2.4x
Anadarko	60.63	28,404	3.71	6.72	6.44	69,993	10,054	10,039	46.6x	9.6x	9.8x	45,916	0.7x	4.6x	4.6x	1.7x
Santos	16.47	9,807	0.87	1.00	1.02	1,508	1,740	1,690	22.0x	18.2x	17.6x	13,210	8.8x	7.6x	7.8x	4.1x
Woodside	49.73	34,231	1.58	3.81	4.41	2,241	4,605	5,354	28.7x	18.0x	13.7x	35,370	-	8.3x	6.6x	-
ONGC	23.38	50,004	2.32	2.66	2.65	9,665	11,066	11,121	11.0x	11.2x	11.0x	40,316	4.2x	3.6x	3.6x	3.3x
CNOOC	1.37	61,179	9.05	13.71	15.32	6,608	9,929	14,033	13.0x	9.0x	8.5x	66,721	10.1x	6.7x	4.8x	3.1x
TransCanada	37.76	21,827	2.09	2.19	2.25	3,707	4,024	4,237	17.4x	17.7x	17.3x	35,322	9.5x	8.8x	8.3x	2.0x
Mean									21.2x	13.0x	12.1x		6.7x	6.3x	5.7x	2.7x
Median									17.4x	11.2x	11.0x		7.8x	6.7x	4.8x	2.7x
DANA																
(including Iran)	1.69	10,140	0.02	0.04	0.25	430	621	2,228	91.4x	40.3x	6.7x	11,798	27.4x	19.0x	5.3x	1.4x

*Except Per Share Figures and Multiples

Notes: ONGC FY ends March

Source: Al Mal Capital, FactSet, Bloomberg



Figure 20. We See Significant EPS Acceleration from 2009 if Iran Starts to Flow

In AEDmm Except per Share Figures	2007A	2008E	2009E	2010E	2011E
Base Model, No Iran Impact					
Net Revenues	605	849	2,068	1,059	1,410
Net Income	111	252	898	174	326
Share O/S	6,000	6,000	6,000	6,000	6,000
EPS	AED 0.02	AED 0.04	AED 0.15	AED 0.03	AED 0.05
Upside Model, Including Iran Impact					
Net Revenues	605	849	2,068	1,059	1,410
Net Income	111	252	1,517	963	1,225
Share O/S	6,000	6,000	6,000	6,000	6,000
EPS	AED 0.02	AED 0.04	AED 0.25	AED 0.16	AED 0.20
Change in EPS	0%	0%	69%	455%	276%

Source: Company reports, Al Mal Capital

*Once Iran is included,
the multiples look
attractive*

Put together, while DANA stock is fairly valued given the lack of visibility into Iran, we expect significant stock price appreciation once visibility improves.

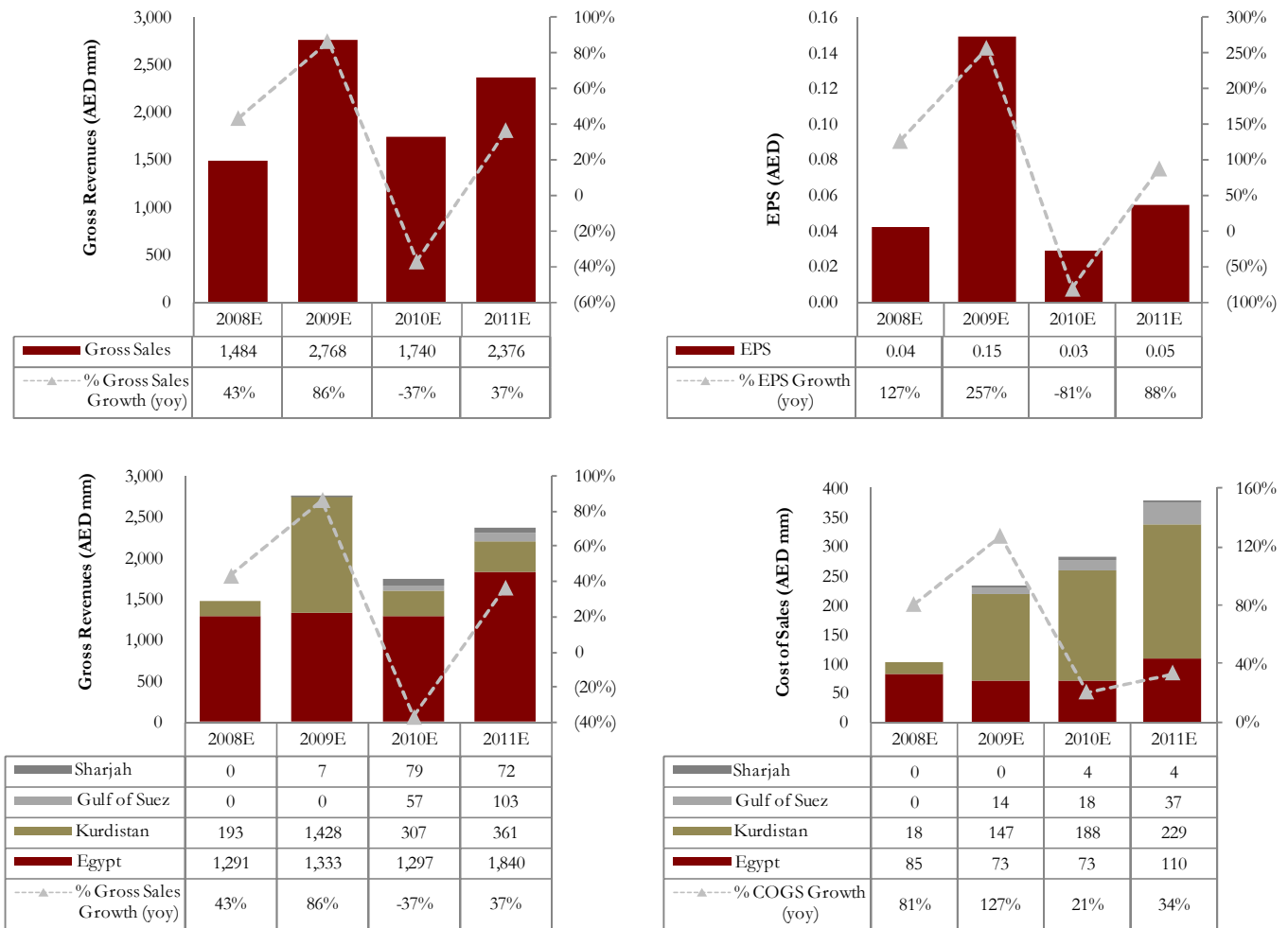


Detailed Analyses of Project Drivers

Iran could significantly boost 2009 EPS if it starts by then

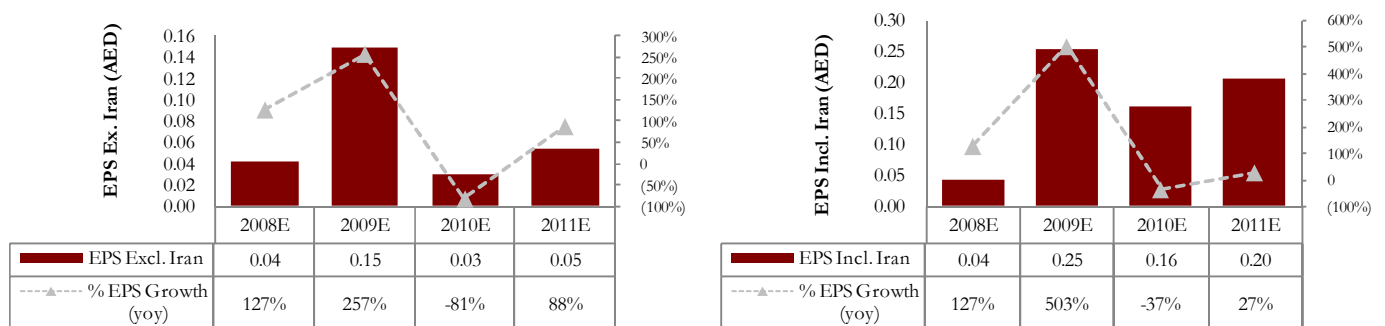
EPS to fall off significantly in 2010 unless Iran kicks in. In our base model, we project a sharp revenue and EPS falloff in 2010 after significant growth in both 2008 and 2009. This is because revenues from the Kurdistan project should slow down considerably by 2010 given its cost recovery phase will have run its course. However if the Iran gas project starts by 2009, we could see an EPS acceleration in 2009, followed by a somewhat muted EPS decline in 2010 (see charts below).

Figure 21. Revenue and EPS Show Volatility in 2010 Given Slowdown in Kurdistan Post Cost Recovery



Source: Al Mal Capital

Figure 22. DANA's EPS Profile Shows Significant Improvement if Iran Project Starts



Source: Al Mal Capital

In this section, we detail each of the projects briefly.

Project Descriptions & Impact

DANA has a diversified portfolio of projects underpinning its growth prospects. We delve into the details of each project below:

Egypt: Source of DANA's Current Revenues

*Egypt is the current
"bread & butter" project*

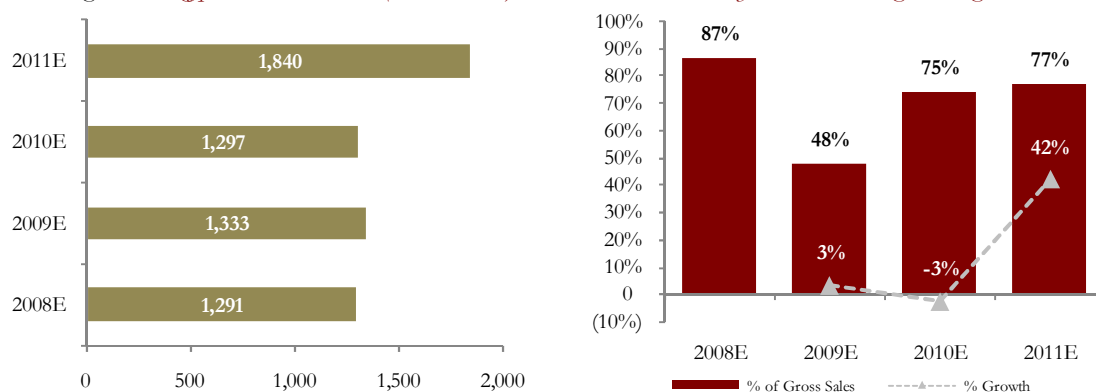
Making up about 90% of 2008 revenues, Egypt's importance in overall revenues could decline going forward. However, DANA still retains significant upside in terms of reserve potential, which when translated into production flows could boost Egyptian contribution to total revenues by 2011. In our model, DANA's \$170mm capex for appraisal and exploration has the potential to boost its Egyptian output by 50% beginning 2011 and double it in 2012.

Figure 23. Egypt Forms a Stable Base of Current Production & Could Promise Significant Upside

Concession	Reserve Profile	Production/Capacity Profile	Economics	Our Take
1) Production: El Wastani and South El Manzala	2Q08 reserves: 61.5mmboe (40.6/20.9m mboe P/2P)	Peak capacity thus far has been 30kboe/d made up of gas 140mmcf/d, condensates 3.5kb/d and LPG 2.5kb/d; \$170mm capex for appraisal and exploration should boost output by 50% beginning 2011 and double it in 2012	1) Gas is sold at fixed price \$2.80/mcf, LPG sells around 75% of Brent, condensates sell at a slight premium to Brent; contract designed as a PSC 2) PSC: 47.5/52.5 Dana/Govt. (30% maximum of revenues is cost of gas recovery, DANA gets 25% of remaining 70%, with govt. collecting the rest); govt. total share roughly 57%, expressed as royalty & taxes in income statement 3) 2.5% minimum taxes 4) \$170mm 2008-2009 capex	1) Forms a stable production base underpinning current revenues 2) Significant exploration upside possible with 3.5tcf of risked potential reserves; over 100 prospects have already been identified 3) Promises positive newsflow throughout 2008 (e.g. the June 2008 Al Baraka-2 discovery); 15 exploration and 4 development wells are scheduled for 2008

Source: Company reports, Al Mal Capital

Figure 24. Egypt's Gross Revenues (in AEDmm) Could Resume Growth by 2011 Assuming Drilling Success



Source: Al Mal Capital



Northern Iraq (Kurdistan): Expect Major Contribution in 2009

Kurdistan will have the most impact on 2009 estimates

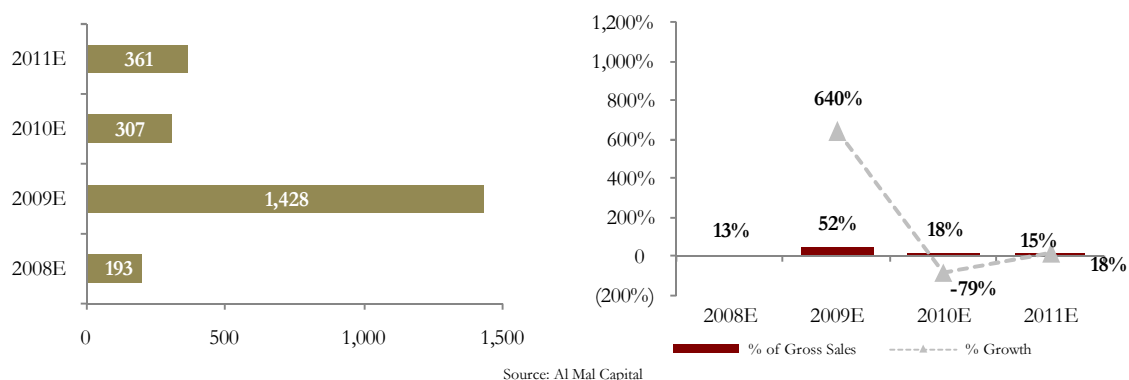
With Phase I beginning in late 2008, Phase I & II should boost 2009 revenues. Supply from the Khor Mor field (both phases) should become the largest source of DANA revenues in 2009, while the Chemchemical field should come on line around 2H10. While natgas is being sold at zero price, DANA should see a big revenue boost from Kurdistan in 2009 under its capex recovery program as set forth in its Kurdish service contract. From 2010 and onwards revenue contribution should decline, before assuming a more flattish profile, in our view.

Figure 25. Iraq Project to Ramp Significantly in 2009

Concession	Description	Reserve Profile	Production/ Capacity	Economics	Our Take
Khor Mor	1) 50/50 JV with Crescent 2) Goal: appraise, develop, and transport gas from Khor Mor field 3) Natgas for electricity generation near Erbil and Suleymania 4) JV has 100% development rights.	+2.5tcf potential	Phase I: Gas 150mmscf/d, LPG 500t/d, condensate 11kb/d; 75mmscf/d begins early Sep.; full Phase I by YE08 Phase II: Gas 300mmscf/d, LPG 1kt/d, condensate 22kb/d; begins 1Q09	1) Natgas sold at zero price but will earn a contractually defined return on capex, LPG sells around 75% of Brent, condensates sell at a slight premium to Brent; contract designed like a service contract 2) JV is developing LPG plant, pipeline in order to market LPG/condensates to domestic (or even international) markets 3) Surplus revenues in excess of costs recovery + permitted return goes back to the government 4) Opex: pipeline costs 2% of revenues, LPG plant costs 5% of revenues 5) \$325mm net capex requirement by YE2008	1) Significant incentive for government to develop natgas sources in Iraq with electricity demand far outstripping supply and alternative fuels like diesel relatively expensive; total cost savings estimated at \$1.5bn/year 2) Shortage of liquids/condensates likely to propel sales 3) Both fields retain significant reserve upside, with production boost from Chemchemical in 2010
Chemchemical	1) 50/50 JV with Crescent 2) Goal: appraise the Chemchemical field	+2tcf potential	We estimate 150-200mmscf/d + liquids around H2 2010	1) \$50mm appraisal program 2) Could lead to similar economics as Khor Mor if Chemchemical field is a commercial success 3) Could participate in gas marketing at Chemchemical assuming Khor Mor fulfills feedstock needs for the two power plants	

Source: Company reports, Al Mal Capital

Figure 26. After Peaking Due to Capex Recovery in 2009, We See a Moderation in Kurdistan's Contribution





Gulf of Suez & Sharjah Provide Some Longer Term Potential

Other projects offer longer-term potential

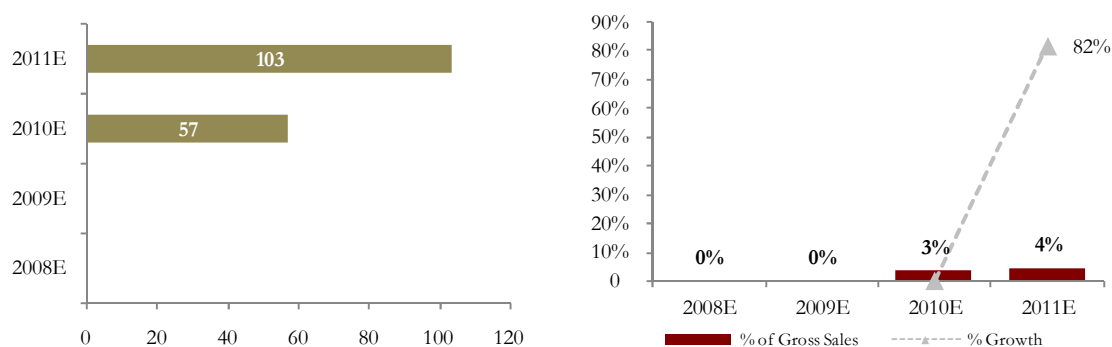
Other projects should start contributing to DANA top line next year. The Gulf of Suez liquids venture should impact revenues from 2H10, in our opinion. Additionally DANA's first upstream venture in the UAE in Sharjah should come online by December 2009. Other ventures in regions such as Tunisia and Nigeria are longer-term prospects.

Figure 27. Longer Term Projects Provide "Gravy"

Concession	Description	Production/Capacity Profile	Economics	Our Take
1) Gulf of Suez	1) Subsidiary Danagaz (66% owned) has a 40% stake in Gulf of Suez	1) Gulf of Suez should yield LPG 120kt/year (gross) beginning 2H10, opex: \$4-5mm/year	1) Gulf of Suez opex: \$4-5mm/year	Longer term projects provide "gravy"
2) Sharjah concession	2) Sharjah Western offshore concession	2) Sharjah supplies come on line around Dec. 2009; will extract about 25b/mmscf from 50mmscf/d or net 625b/d; 50/50	2) Sharjah LPG sells around 75% of Brent, condensates sell at slight premium to Brent; \$65mm exploration program in 2009, development cost: \$50mm/year	
3) Tunisia	50/50 JV with Crescent	LPG/condensates		
4) Nigeria				

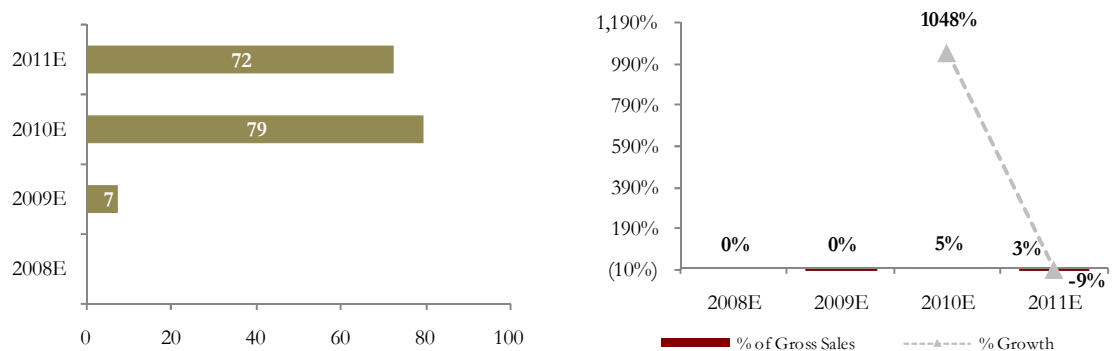
Source: Company reports, Al Mal Capital

Figure 28. Gulf of Suez Starts Showing Up in DANA Numbers from 2H10 Onwards



Source: Al Mal Capital

Figure 29. From a Small Base in 2009, Sharjah Should Start Contributing 3-5% of DANA's Top Line



Source: Al Mal Capital



Iran-UAE Gas Supply Project is *THE* Catalyst

Iran should boost EPS significantly when it goes through

If Iran gas project starts by early next year, we see significant EPS impact. Please note that we *do not* include any impact from Iran in our base model or in our DCF model-derived target price of AED1.95. However, we do provide investors with a potential upside price of AED3.27 given the significant EPS acceleration possible when Iran starts to flow. We point out that Iran does not impact DANA's top line as the company owns a minority stake of 35% in CNGC.

Figure 30. Iran Could Be a Game Changer for DANA

Concession	Description	Production/ Capacity	Economics	Our Take
Salman	1) 25-year gas import agreement from Iran (Salman offshore field)	600mmcf/d merchant gas sales model; could be revised upwards to 1bcf/d, condensates 2.5kb/d, LPG 30kt/month, sulfur 10kt/month	1) Contract terms are proprietary so for modeling purposes the simplifying assumption is provided that net margin from gas sales less processing expenses and gas purchases is 0 2) Revenues are generated from sales of condensates, LPG and sulfur 3) LPG sells around 75% of Brent, condensates sell at a slight premium to Brent, sulfur sells for \$500/t	1) Likely to be a significant stock price catalyst given upside potential and chronic delays thus far 2) UAE in dire need of gas given secular industrial growth prospects 3) Any incremental gas should be readily consumed by energy-hungry UAE despite as much as 2bcf/d from Dolphin; declining Sajaa gas field also influencing supply negatively 4) Current alternative feedstocks like fuel oil/diesel relatively more expensive
	2) NIOC's 30" pipeline transports gas to UGTC offshore receiving platform			
	3) UGTC's 30" 1bscf/d, 80km pipeline connects to SajGas plant for processing (600mmcf/d)		4) 50/50 UGTC/Emarat common user pipeline capex: \$23mm net 5) Fixed capacity tariff for CUP: FEWA/SEWA/CNGC 350/350/300mmcf/d 6) UGTC pipeline opex: \$7mm/year 7) SajGas opex: 6-8% of revenues	
	4) 50/50 UGTC/Emarat JV built 48" 1bscf/d, 32km onshore common user pipeline (CUP) transports sweetened gas to end customers			
	5) UGTC's customers are the power and desalination plants of Sharjah Electric & Water Authority (SEWA), Federal Electric & Water Authority (FEWA), CNGC and other industrial end users in the UAE			

Source: Company reports, Al Mal Capital

Figure 31. We See Significant EPS Acceleration from 2009 if Iran Starts to Flow

In AEDmm Except per Share Figures	2007A	2008E	2009E	2010E	2011E
Base Model, No Iran Impact					
Net Revenues	605	849	2,068	1,059	1,410
Net Income	111	252	898	174	326
Share O/S	6,000	6,000	6,000	6,000	6,000
EPS	AED 0.02	AED 0.04	AED 0.15	AED 0.03	AED 0.05
Upside Model, Including Iran Impact					
Net Revenues	605	849	2,068	1,059	1,410
Net Income	111	252	1,517	963	1,225
Share O/S	6,000	6,000	6,000	6,000	6,000
EPS	AED 0.02	AED 0.04	AED 0.25	AED 0.16	AED 0.20
Change in EPS	0%	0%	69%	455%	276%

Source: Company reports, Al Mal Capital



Company Overview

Company Description

Dana Gas PJSC, headquartered in the Emirate of Sharjah, operates across the natural gas value chain from upstream (exploration & production) activities through midstream (transmission, sweetening, and processing) operations to downstream (marketing and sale) activities. DANA (which means *pearl* in Arabic) currently has major operations in Egypt, Kurdistan (Iraq), Sharjah (UAE), and Bahrain, along with offices in Saudi Arabia, the UK, and Canada. As of 2Q08, the company had 27.5mboe/d in average daily production and 61.5mmboe in 2P reserves (all Egypt). The company reported net revenues of AED605mn in FY07.

History

IPO was in late 2005

Listed on the Abu Dhabi Securities Exchange (ADX) since December 2005, DANA reported its first operating revenues last year. As of the most recent quarter, the company had more than 300 employees worldwide. Below, we show a concise chronology of important events that have helped shape Dana Gas.

Figure 32. Major Events Have Shaped DANA into a Vertically Integrated, MENASA-Focused Story

Key Developments		
2005	July	Forms Sajaa Gas Private Limited (SAJGAS), United Gas Transmission (UGTC), & Crescent Natural Gas (CNGCL, 35% affiliate)
	October	IPO on Abu Dhabi Exchange
2006	January	UGTC & Emirates General Petroleum (Emarat) start 50/50 deal to build 48" 32km pipeline from Sajaa, Sharjah gas hub to the Hamriyah Free Zone; contract value: \$670mm over 25 years; 1bcf/d capacity; pipeline cost: \$182mm; 3 end-users: the Federal Electricity & Water Authority of the UAE (FEWA), the Sharjah Electricity & Water Authority (SEWA), & CNGCL (has access to supply of Iranian gas underpinned by a 25-year deal between a Crescent affiliate and NIOC)
	June	Phase I of the Hamriyah gas pipeline goes into operation
	October	Forms Danagaz Bahrain; 66/34 Danagas/Bahraini partners; agrees to build Gulf of Suez liquids plant in Egypt; state-owned Egyptian Natural Gas (EGAS) & Arab Petroleum Investments (APICORP), a top energy sector-focused inter-govt'l regional financial entity are partners; processing capacity: 150mmcf/d gas, 120k tonnes/year of liquid propane & butane
	October	UGTC partners with Single Buoy Moorings (SBM) to develop floating LNG terminals in MENASA, with particular focus on Pakistan, Lebanon & Kuwait
	November	Takeover of Centurion for \$1.1 billion; major operations in Egypt
2007	April	Agreement with KIOEC for KomOmbo field in Egypt
	April	DANA & Crescent sign strategic alliance with Kurdistan Regional Govt to develop, process & transport gas from Khor Mor field & appraise the Chemchemical field
	April	Acquires Saudi gas business license
	June	Danagaz deal closes; the plant project & export marketing is being executed by a JV called Egyptian Bahraini Gas Derivative Company (EBGDGO); ownership: 40/40/20 Danagaz Bahrain/EGAS/APICORP
	October	DANA Gas Sukuk offering upsized to ~\$1 billion
2008	February	DANA Gas and Ikarus Petroleum enter into strategic alliance
	March	Drilling of 19 wells in Egypt
	March	Deal to explore and develop western offshore concession in Emirate of Sharjah
	October	Continuing development of Khor Mor and Chemchemical fields in Iraq

Source: Company reports



Operating Subsidiaries

The company operates through the following subsidiaries and affiliates:

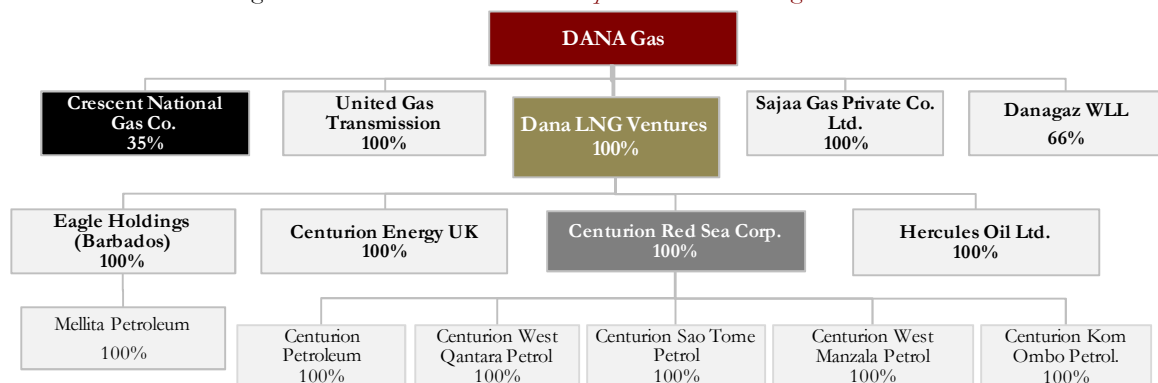
E&P subsidiary = Centurion

**Midstream subsidiaries =
SajGas & UGTC**

**Downstream affiliates = CNGC
& Danagaz Bahrain**

- **Centurion acquisition provides majority of upstream exposure:** DANA's early 2007 purchase of Canadian E&P Centurion Energy drives majority of its current revenues. Besides its core Egyptian assets, Centurion also has properties in Tunisia and in offshore West Africa.
- **SajGas and UGTCL are 100%-owned midstream subsidiaries:**
 - **SajGas owns and operates natgas sweetening facilities with total capacity of 600mmcf/d.** The subsidiary derives its name from its location in the Sajaa area of Sharjah. SajGas has a long-term agreement in place with CNGC for sweetening of gas.
 - **UGTCL is the fully owned pipeline subsidiary.** United Gas Transmissions or UGTCL, as we have mentioned previously, has completed the construction of a 48", 32km, 1bcf/d capacity transmission pipeline from Sajaa to end users in Hamriyah Free Zone of Sharjah. This subsidiary is also involved in the deal with SBM to develop floating LNG terminals in the MENASA region.
- **CNGC and Danagaz are the downstream affiliates:**
 - **CNGC is a natgas marketing and trading company.** 65/35 owned by Crescent/DANA, Crescent National Gas or CNGC is party to a 25-year contract between Crescent Petroleum and the National Iranian Oil Company. Essentially CNGC (through Crescent) will purchase natgas from Iran and market it to end-users such as the Federal Electricity & Water Authority, Sharjah Electricity & Water Authority, Dubai Natural Gas Company, and Oman Chemicals and Pharmaceuticals. We expect more customer announcements in the future.
 - **Danagaz Bahrain is developing the Gulf of Suez natgas liquid extraction plant.** As mentioned before, DANA owns a 66% interest in this private Bahraini company, which should start impacting the top line by 2H10. Once commissioned, the Gulf of Suez plant will produce 120k metric tons/year of LNG and condensate, which would be marketed to domestic and export customers.

Figure 33. DANA Gas Subsidiaries Operate Across the Natgas Value chain



Source: Company reports



Shareholder Structure

Crescent owns ~21% of DANA

With about 21% of the total stake, Crescent Petroleum is DANA's largest shareholder. In fact, Crescent is the only 5+% shareholder in the company. As is the norm in this region, a minimum of 51% ownership is required among the GCC nationals or their legal representatives.

Figure 34. Crescent is DANA's #1 Shareholder

Shareholders	% Stake		
Crescent Petroleum	20.9%	HSBC	0.9%
Bank of Sharjah	2.5%	Abdul Hadi & Sons Co.	0.8%
Khalid Abdul Rahman Al-Rajhi	2.3%	Almajdouie Trading	0.8%
Natnl Industries Grp (Hldg)	1.5%	White Crystals Limited	0.7%
Government of Sharjah	1.5%	Government of Sharjah	0.7%
Khalid Salim Al-Muheiri	1.3%	The Saudi British Bank	0.7%
Al-Jabr Trading Co	1.1%	Arif Masoud Naqvi	0.7%
Abdullah Hassan Al-Rostamani	1.1%	Natnl Industries Grp (Hldg)	0.7%
Al Nasser Investments	1.1%	Overseas Investment Co	0.6%
Banque Saudi Fransi	0.9%	Al-Mamzar Investments	0.6%
Total Top 20			41.3%

Source: Company reports

Experienced management at the helm

Management

The board of directors of the company consists of individuals who possess invaluable experience in the industry and across the MENASA region. Overall, the top personnel have an average of about 20 years of oil and gas experience.

Figure 35. DANA Gas Management Have Considerable Industry and Regional Experience

Title	Name	Details
Executive Chairman	Hamid Diya Jafar	1) Chairman & CEO, Crescent Petroleum
		2) Chairman, GulfTainer
		3) Member of the Board, Abraaj Capital
		4) Director, URUK Group
		5) Former Managing Director, Intoil (Bahrain)
Deputy-Chairman	Dr. Adel Khalid Al-Sabeeh	1) Chairman, Proclad Group
		2) Chairman & Managing Director, National Industries Company for Building Materials (NIC-BM)
		3) Former Minister of Oil and Chairman, Kuwait Petroleum (Feb. 2001-2002)
General Manager	Rashid Saif Al-Jarwan	1) Various positions over 28 years covering technical, operational, commercial and executive areas, Abu Dhabi National Oil (ADNOC)
		2) GM, Abu Dhabi Gas Liquefaction (ADGAS), Dec. 1997 - Feb. 2006
		3) BoD, National Petroleum Construction (NPCC), Dec 2004 - Jan 2006
		4) Ruwais Fertilizer Industries (FERTIL), Dec 1998 - Jan 2006
		5) National Drilling (NDC) as an ADNOC Rep., June 1995 - Feb 2001
Executive Director	Ahmed Rashid Al-Arbeed	1) Executive Director (Upstream), Member of the Board, over 30 years of oil & gas experience
		2) Member of the Board, Kuwait Petroleum (KPC)
		3) Chairman & Managing Director, Kuwait Foreign Petroleum Exploration (KUFPEC)
		4) Managing Director, the Kuwait Project for re-introducing IOCs to develop Kuwaiti oil fields
		5) Managing Director, Privatization and R&D Programs at KPC
General Manager, Saudi Arabia	Salah Abdulrahman Al-Huzami	1) Over 20 years of experience in banking, trading & industry
Finance Director	Neeraj Agrawal	1) Over 25 years experience in the oil & gas industry with Crescent Petroleum, Ernst & Young & PWC

Source: Company data



Figure 36. Summary Financials—DANA Gas

(AED Millions)	2007A	2008E	2009E	2010E	2011E
INCOME STATEMENT					
Daily Gas Production (mboe/d)	28.9	31.9	69.1	80.1	105.2
Gross Revenue	1,036	1,484	2,768	1,740	2,376
Egypt		1,291	1,333	1,297	1,840
Kurdistan		193	1,428	307	361
Gulf of Suez		-	-	57	103
Sharjah		-	7	79	72
Less: Royalties	431	635	700	681	966
Net Revenue	605	849	2,068	1,059	1,410
Cost of Goods Sold	57	103	234	283	379
Gross Profit	548	746	1,834	776	1,031
<i>Gross Margin</i>	<i>91%</i>	<i>88%</i>	<i>89%</i>	<i>73%</i>	<i>73%</i>
Exploration Expenses	37	36	124	100	100
General & Administrative Expenses	81	90	100	120	130
EBITDA	430	621	1,610	556	801
<i>EBITDA Margin</i>	<i>71%</i>	<i>73%</i>	<i>78%</i>	<i>52%</i>	<i>57%</i>
Depreciation & Depletion	241	317	526	212	282
EBIT	189	304	1,084	344	519
<i>Operating Margin</i>	<i>31%</i>	<i>36%</i>	<i>52%</i>	<i>32%</i>	<i>37%</i>
Interest Income (Expense)	(153)	(277)	(275)	(275)	(275)
Other Income (Expense)	245	333	156	169	174
Pretax Income	281	359	965	238	418
Taxes	170	108	67	65	92
Net Income	111	252	898	174	326
Diluted Shares O/S	6,000	6,000	6,000	6,000	6,000
Diluted EPS	0.02	0.04	0.15	0.03	0.05
BALANCE SHEET					
Bank Balances & Cash	1,983	705	698	1,031	1,152
Assets Held for Sale	142	44	44	44	44
Accounts Receivable & Prepayments	286	421	1,024	524	698
Inventories	145	191	466	238	317
Total Current Assets	2,556	1,361	2,232	1,838	2,212
Property, Plant and Equipment	2,353	3,733	3,978	4,041	4,034
Investment Property	282	479	579	679	779
Intangible Assets	4,532	4,573	4,573	4,573	4,573
Goodwill	1,128	1,128	1,128	1,128	1,128
Total Long-Term Assets	8,295	9,913	10,258	10,421	10,514
Total Assets	10,851	11,274	12,489	12,259	12,726
ST Debt	2	2	2	2	2
Accounts Payable & Accruals	360	510	827	424	564
Other Current Liabilities	8	-	-	-	-
Total Current Liabilities	370	512	829	426	566
LT Debt	3,359	3,384	3,384	3,384	3,384
Other Liabilities	15	28	28	28	28
Total Long-Term Liabilities	3,374	3,412	3,412	3,412	3,412
Total Liabilities	3,744	3,924	4,241	3,838	3,978
Shareholders' Equity	7,107	7,350	8,248	8,422	8,748
Total Liabilities and Shareholders' Equity	10,851	11,274	12,489	12,259	12,726
CASH FLOW\$					
Net Income	111	252	898	174	326
Depreciation & Depletion	241	317	526	212	282
Other operating activities	(96)	18	147	134	129
Operating Cash before Δ Working Capital	256	586	1,571	519	737
Δ Working Capital	81	(31)	(561)	323	(113)
Net Operating Cash Flow	337	555	1,011	842	624
Capital Expenditures	(556)	(1,686)	(771)	(275)	(275)
Other investing activities	(3,874)	130	28	41	46
Net Investing Cash Flow	(4,430)	(1,556)	(743)	(234)	(229)
Net Financing Cash Flow	3,340	(277)	(275)	(275)	(275)
Increase (Decrease) in Cash Position	(753)	(1,278)	(8)	334	121
Year-end Cash Position	1,983	705	698	1,031	1,152

Source: DANA Gas, Al Mal Capital Research



Abu Dhabi National Energy Company (ADX: TAQA) Appetite for Acquisitions

Investment Positives

TAQA is positioning itself as a global integrated energy player

I. Exposure to the entire energy value chain promises synergies. Building upon its downstream (utility) operations, TAQA has continued expanding its asset base aggressively through acquisitions over the last year or so. As of 2Q08, the company derives 50%/45%/5% of its revenues from upstream, downstream and midstream operations.

Below we provide a detailed look at how TAQA has grown its E&P or upstream business by making sizable acquisitions:

Figure 37. Aggressive Investment Strategy in Upstream Assets and Development in Order to Leverage the Bull Run in Oil & Gas Prices

UPSTREAM Timeline	
Jan-07	Canadian O&G producer Talisman Energy agrees to sell assets in the Brae area of the North Sea to TAQA for \$550 million
Jan-07	Buys for US\$ 694mn 100% of onshore and off-shore E&P assets of BP Nederland Energie , including Piek Gas Installatie facility in Alkmaar, Netherlands; renames entity TAQA Energy
Aug-07	TAQA purchases Northrock Resources Ltd for US\$ 2bn from Pogo Producing Co. of Canada, which bought Northrock in 2005 for \$1.7 billion from Unocal Corp.; Northrock to provide TAQA with gross production of > 37 mboe/d; Renames entity TAQA North
Aug-07	Announces spending of \$3bn by end 2008 to boost production & reserves of TAQA North (formerly Northrock Resources); expects to boost reserves from 140 mmbob to 500 mmbob in a few years
Nov-07	Completes \$540 million purchase of Pioneer Natural Resources Canada . Receives approval from Canadian government to buy Primewest Energy Trust .
Jan-08	Subsidiary TAQA Bratani Ltd completes \$550 million acquisition of Calgary-based Talisman Energy's fields in the Brae area of the North Sea. Assets include interests in 6 fields, pipelines and onshore terminals, exploration interests and revenue from transporting and processing O&G for other producers. Fields have proved reserves of 18.5 million bob
Feb-08	Completes \$5.1 billion acquisition of Primewest Energy , a producer and seller of natgas and crude
Jul-08	TAQA Bratani buys licenses for six offshore and two sub-sea oil fields in the North Sea from Shell U.K. and Esso Exploration ; deal includes all equity, associated infrastructure & production license; fields produce about 40,000 bob/d, expected field life extension to 2020 following investment program; Partnership with Wood Group as operating & maintenance contractor & temporary duty holder for the assets; expected deal completion Q4 2008E

Source: Company reports, Bloomberg

Midstream operations garner only 5% of the overall revenues currently; we expect segment to ramp once the **Bergermeer** gas storage comes online by 2012-2013. We provide more details in the next chart:

Figure 38. TAQA's Midstream Acquisitions Should Bear Fruit in 2012-2013

MIDSTREAM Timeline	
1997	BP Nederland Energie commissions first peak gas shaver, Alkmaar Piek Gas Installatie (PGI) , in The Netherlands
2000	BP Nederland Energie expands PGI capacity by 50% to 36 million Nm ³ /d
2006	Conversion of Dutch onshore gas reservoir Bergermeer into underground gas storage facility commences; first commercial storage capacity expected to be operational by 2012-13, with working capacity of 3 billion Nm ³
Jan-07	TAQA buys for US\$ 694mn 100% of onshore and off-shore E&P assets of BP Nederland Energie, including Piek Gas Installatie facility and Bergermeer onshore gas reservoir; renames entity TAQA Energy
2007	TAQA North's E&P acquisitions in Canada add 50% interest in the East Cantaur Gas storage facility in Saskatchewan with capacity of 7 bcf, as well as interests in the Alliance Pipeline System running to the U.S.

Source: Company reports



With its domestic downstream operations providing TAQA with a stable base of revenues, its international investments hold promise. We explain more below:

Figure 39. Most of the International Downstream Investments Still Largely in Planning and Development Stages

DOWNSTREAM Timeline	
Nov-06	Announces plans to invest \$1 bn in power projects in India that could generate up to 10,000 MW over coming 5 years
Feb-07	Acquires for \$490 mn ABB Ltd. 's stakes in 2 power stations in Morocco and India; deal includes 50% of Jorf Lasfar coal-fired power plant near Casablanca and 50% in Neyveli , a lignite-fueled power station in Indian state of Tamil Nadu
May-07	Acquires CMS Generation LLC , a subsidiary of U.S.-based CMS Energy, for US\$900 million; Deal gives TAQA IWPP assets in Morocco, Saudi Arabia, Ghana and India, providing 4,300 MW of generation capacity; renamed TAQA Generation LLC .
Oct-07	TAQA sells 40% stake in Emirates CMS Power Co. to Marubeni of Japan for \$140 million; deal includes sale of Taweelah A2 Operating LLC, which manages, operates and maintains the eponymous power plant.
Apr-08	TAQA announces plans to invest \$4.5 bn in power stations in N. America and Saudi Arabia; company to buy a 2000 MW electricity plant in N. America for US\$ 2 bn; details still pending
Apr-08	TAQA also planning US\$5 bn JV with Zamil Group of Saudi Arabia to build power stations for the new economic cities in Saudi; plants to provide up to 5000MW, powered by fuel oil and natgas.
May-08	MoU with Iberdrola SA , Spain's largest power company, to explore joint investments in energy projects in N. America, Europe and MENA; partners to form committee to plan power generation, renewable and upstream energy investments
May-08	Declares intent to purchase stake in \$978 million coal-fired power plant to be built in the UAE
Jun-08	Bids jointly with French wind-power company Theolia for a 300 MW wind farm project in Morocco; buys 50% of Theolia's Compagnie Eolienne du Detroit , a 50.4 MW Moroccan wind farm

Source: Bloomberg

Backing of Abu Dhabi Govt. = cheap and easy access to international credit markets...

II. Government backing is fueling significant growth. Given the Abu Dhabi government's 70.4% ownership stake in TAQA (pro-forma its AED 4.15bn converts offering), the company is essentially a government vehicle (sovereign fund) for energy investments. Moreover, considering that TAQA fulfills the vital function of providing over 85% of Abu Dhabi's water and electricity needs, it is in the government's interest to support the company. We think this implicit backing should continue to allow TAQA to show significant asset value growth for the following reasons:

- **Easy access to global debt markets despite the current turmoil in financial markets.** Notwithstanding the bull run in oil and gas fundamentals, credit remains tight for many small-to-mid sized energy companies given uncertain financial markets. TAQA, however, continues to enjoy easy access to the global credit markets because of the sovereign credit rating of its majority shareholder, the Government of Abu Dhabi.
- **Investment grade rating allows for inexpensive borrowing costs.** TAQA currently holds credit ratings of AA- from Standard & Poor's and Aa2 from Moody's, given its government backing. Without the backing of Abu Dhabi's sovereign credit status, given the company's high 518% debt/equity ratio, TAQA's debt would likely be rated as junk.

...this allows TAQA to make acquisitions at will, irrespective of global credit conditions



Figure 40. TAQA is Undertaking Heavy Leverage to Fund its Acquisition Strategy

Debt and Debt-Like Instruments (AEDmm)	FY2007	1Q08A	2Q08A	Pro Forma
Long Term Liabilities				
Interest Bearing Loans & Borrowings	44,999	60,616	60,688	66,196
Islamic Loans	2,017	1,989	1,957	1,957
Loan from Related Party	27	49	49	49
Current Liabilities				
Interest Bearing Loans & Borrowings	3,548	3,388	1,484	1,484
Islamic Loans	1,125	1,153	1,158	1,158
Loans from Minority Interest Shareholders in Subsidiaries	20	20	20	20
Amounts Due to ADWEA & Other Related Parties	96	87	2	2
Bank Overdrafts	170	59	170	170
Total Debt	52,003	67,360	65,528	71,036
Bank Balances & Cash	7,601	5,514	4,300	13,959
Investments Available for Sale	99	99	187	187
Other Investments	0	-	-	-
Total Cash & Investments	7,701	5,614	4,487	14,146
Net Debt	44,302	61,746	61,041	56,891
Equity excl. Minority Interests, Loans from Minority Interest Shareholders & ADWEA	6,694	6,102	6,829	10,979
Total Capital	67,844	86,192	85,933	95,592
Net Debt to Equity	662%	1012%	894%	518%
Net Debt to Capital Excluding Cash	74%	77%	75%	70%
Debt to Capital	77%	78%	76%	74%

Source: Company reports, Al Mal Capital

Note: Pro Forma Figures include Early August 2008 Issued 5/10 Year Bonds Totalling \$1.5bn & AED4.15bn bonds convertible to TAQA Shares on Sep. 1, 2008

Why this matters: TAQA retains the dry powder to pursue opportunistic acquisitions. As we mentioned above, as global credit conditions continue to deteriorate, smaller players could get squeezed and be forced to dispose of assets. Moreover, higher oil prices are tempting the majors to sell off their marginal properties. Both these factors provide ample opportunity for TAQA to continue to buy assets. This acquisition strategy is critical if the company intends to meet its goal of raising its total assets from \$23.5bn in June 2008 to \$60bn by 2012. Below, we mention a few potential acquisitions that have been discussed in the media:



Figure 41. News Chatter of Potential Deals Keeps TAQA in the Press Limelight

Type	Region	Description	Comments
Upstream	Europe	TAQA Bratani buys licenses, equity interests and infrastructure for 6 offshore and 2 sub-sea North Sea oil and gas fields from Shell UK and ExxonMobil subsidiary; deal completion expected by end 2008; has entered into a purchase & sale agreement already	We forecast a ~\$1.5bn purchase of around 90-100mmboe in 2P reserves; 40mboe/d production volumes
	Morocco	Bidding for a 300MW wind farm along with Theolia	
Downstream	India	In talks with India's Tata Group to build a power plant under a JV agreement; aims to boost its power generation capacity in India to 8,000MW during the next 3-5 years (current capacity is 250MW); CEO also points to construction of a 750MW plant in Tripura	Given limited visibility on timing and cash flow impact we have not included these projects in our estimates
	India	In discussions with Tata and another big Indian firm; CEO believes a deal in renewable water and hydro power projects could be announced in 2H08; production could begin by 2012	
	Saudi Arabia	Looking to develop 3 power/water plants partnering with Al Zamil Group; CEO hints announcement on this front in 2008; has bid for 5,000MW of power projects	
	USA	Expects to announce 50/50 JV with a major US (top 5) utility in 3Q08; over the medium term expects to develop this into a power portfolio of 7000MW	
	Canada	Working on a power JV with a Canadian utility	

Source: Media reports, Al Mal Capital

III. Water desalination and power generation utility form a stable base of cash flow, which is most attractive for bondholders. Each of the 6 domestic and 4 international downstream assets operate under long-term purchase agreements and together form the base of TAQA's operations.

Predictable downstream cash flows = major positive for bondholders

- **TAQA's bread and butter: providing over 85% of Abu Dhabi's water and electricity needs.** For its 6 domestic UAE IWPPs, the company procures its gas feedstocks at zero cost from the government (through the Abu Dhabi Water and Electricity Authority or ADWEA) and sells its net power output under long-term contracts (Power and Water Purchase Agreements or PWPAs) back to ADWEA. The PWPAs account for all variable operating and maintenance costs and factor in debt service. Moreover, beyond timing issues, any additional or supplemental fuel costs are passed onto ADWEA. Net-net, revenues from domestic downstream utility operations are essentially immune to price/costs risks—ideal for TAQA's bondholders.
- **International expansion provides additional, "stable" revenue streams.** Last year TAQA purchased CMS Generation for \$900mm, expanding its downstream footprint internationally into Saudi Arabia, Morocco, Ghana and India. Another \$490mm purchase of ABB's interests further consolidated its interests in Morocco and India. These four international assets promise the same advantage as TAQA's domestic utility business, namely, stable revenue streams predicated by long-term contracts.



Figure 42. Downstream Business Forms a Stable Base Attractive to Bondholders

Name	Country	TAQA Ownrshp %	Utility Type	Partners/ Operators	Details	Gross Pwr Gen. Capacity (MW)	Gross Pwr Gen. 2007 (MW hrs)	Total Desaln. Capacity (mmIG)*	Water Desaln. Output, 2007 (mmIG/day)
Emirates CMS (Taweelah A2)	UAE	54%	Combined-Cycle, Gas-Fired	Marubeni Corp	-	777	4,123,060	50	16,863
Gulf Total Tractebel (Taweelah A1)	UAE	54%	Gas-Fired	Suez Energy, Total	-	1,350	6,183,608	84	25,976
Taweelah Asia (Taweelah B)	UAE	54%	Gas-Fired	Marubeni, BTU Pwr, Pendekar Pwr, JGC	Brownfield dvlpmnt commissioned in 2002	1,370	3,425,945	100	30,076
Emirates SembCorp (Fujairah 1)	UAE	54%	Gas-Fired	SembCorp Utilities	Partially privatized IWPP	650	4,450,025	100	32,829
Arabian United (Umm Al Nar)	UAE	54%	Gas-Fired	Intl Power, Mitsui, Tokyo Electric Pwr	-	1,700	8,378,505	160	44,878
Shuweihat CMS Intl. (Shuweihat S1)	UAE	74%	Gas-Fired	International Power	Represents ~15% of UAE's desaln. capacity & 19% of its pwr. capacity	1,500	6,979,009	100	31,760
Total Domestic						7,347	33,540,152	594	182,382
Jorf Lasfar Energy	Morocco	100%	Coal-fired	Power sold to govt. utility under 30-year contract	Supplies 50% of Morocco's pwr; 1/3 of country's total installed capacity	1,356	9,812,330	-	-
ST CMS Electric, Neyveli	India	100%	Lignite-Fired		Counter-guaranteed by Indian Govt 30-yr PWPA w/Tamil Nadu Electr. Board	250	1,693,068	-	-
Jubail	Saudi Arabia	25%	NatGas		Co-gen.facility (electricity, steam)	250	1,765,199	-	-
Takoradi	Ghana	90%	Crude oil	All pwr bought by Volta RA	3rd stage yet to be implemented	220	1,417,330	-	-
Total International						2,076	14,687,927		
TOTAL TAQA						9,423	48,228,079	594	182,382

* mmIG = Millions of Imperial Gallons

Source: Company reports

TAQA continues to enjoy strong, acquisition-driven growth

IV. TAQA is a growth story; we forecast 179% and 55% growth in production and EPS in 2008, respectively, followed by 35% and 32% in 2009. Given its voracious acquisition appetite, TAQA has showed significant growth thus far. We expect this growth to continue, although not at the same pace, this year and the next. As we will show, our estimates include the Shell Esso transaction, which is in a quite advanced stage of negotiations and should close by YE2008. Any further acquisitions this year and later, while likely, have little visibility at this point. Should such deals be accretive to EPS, we could envision raising our EPS estimates for TAQA in the future. According to management, TAQA has already identified \$2.5bn in viable acquisitions this year and has another \$2.5bn to go. This is in line with the company's goal to grow its asset base to \$60bn by 2012, targeting about 250mboe/d in production and 2bboe in 2P reserves by that year.

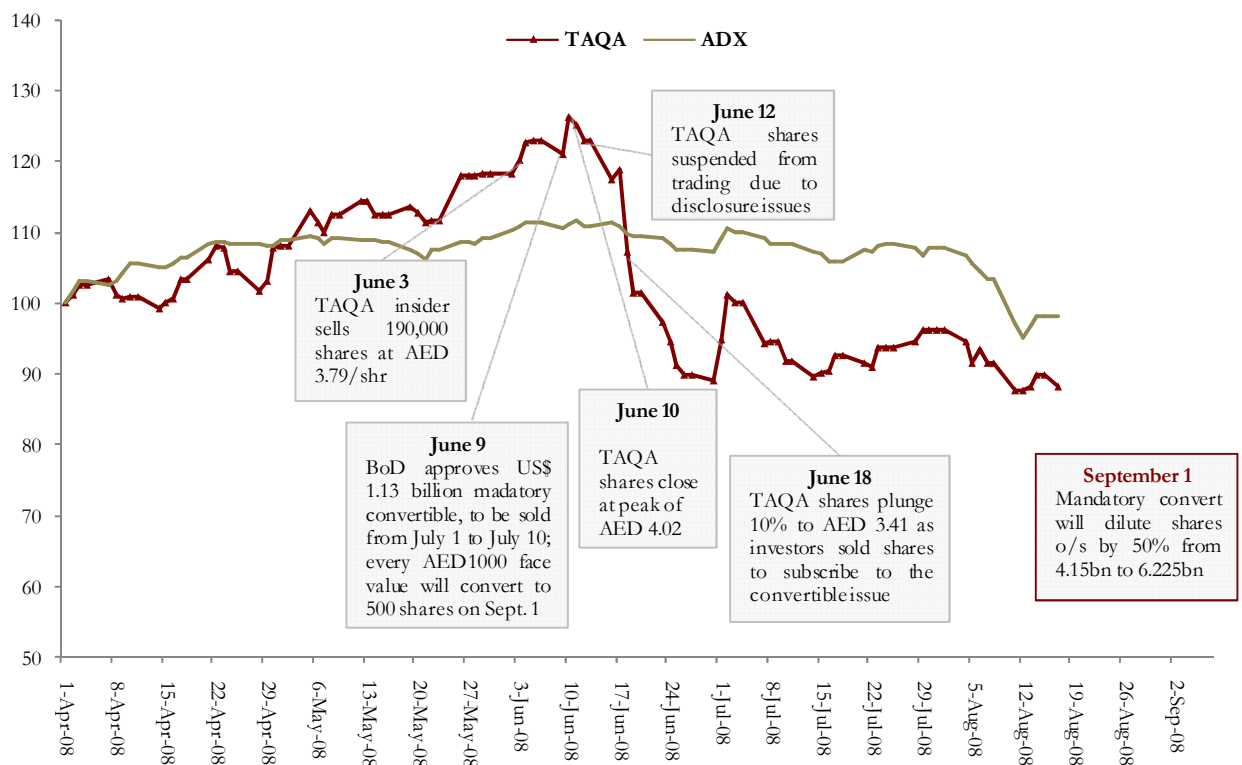


Investment Risks

Stock could be weak given 50% additional float coming online on Sep. 1

I. Near-term stock price weakness possible given technical overhang in September 2008 when convertible bond converts at AED2 per share. We think this is the *most significant* threat to the share price in the very near term because of the dilutive consequences of the convertible. TAQA issued convertible bonds totaling AED4.15bn (\$1.13bn) to shareholders of record as of June 16, 2008. The conversion rate has been set at AED2 per share; on September 1, 2008, every AED1000 (face value) of the TAQA bond issue will convert to two common shares, inflating the number of shares outstanding by 50% from 4.150bn to 6.225bn.

Figure 43. TAQA Shares Have Suffered and Could Continue to Suffer, Given the Technical Overhang of its Convertible Bond



Source: Bloomberg, Al Mal Capital

There are always execution risks in acquisitions

II. Significant execution risks remain given TAQA's insatiable acquisition appetite. Since 2007, TAQA has adopted a strategy of making acquisitions at a break-neck speed, in line with its strategy of growing its asset base to \$60bn by 2012. These acquisitions involve significant execution risks, and only time will tell whether any actual synergies are realized. Furthermore, any missteps in integrating these purchases are likely to become more apparent if oil and gas prices head south.



Figure 44. TAQA's Remarkable Buying Spree

Date	Acquisition/ Partner	%	Transaction	Asset Type	Price US\$ mn
Sep-06	Carlyle Group	-	Makes US\$200mn investment in Carlyle Infrastructure Fund	-	\$ 200
Jan-07	BP Nederland Energie	100%	Buys 100% of onshore and off-shore E&P assets of BP Nederland, including Piek Gas Installatie facility in Alkmaar, Netherlands; renames TAQA Energy	Upstream, Midstream	694
May-07	CMS Generation	100%	Acquires 100% of IWPP CMS Generation, a subsidiary of U.S.-based CMS Energy, with assets in Morocco, UAE, Ghana, India and Saudi Arabia; renames TAQA Generation LLC	Downstream	900
May-07	ABB	50%	Buys 50% stakes from ABB in Morocco's Jorf Lasfar Energy coal-fired power plant and in India's Neyveli lignite-fuelled power plant, to be operated by TAQA Generation	Downstream	490
Aug-07	Northrock Resources	100%	Purchase of Canadian E&P firm Northrock from Pogo Producing	Upstream	1,993
Nov-07	Pioneer Canada	100%	Purchase of oil & gas exploration company Pioneer Natural Resources Canada	Upstream	540
Nov-07	Emirates CMS Power	40%	TAQA sells 40% minority interest in Emirates CMS Power Co. (plant: Taweelah A2) to Marubeni Corp	Downstream	130
Dec-07	Talisman Energy	100%	Subsidiary TAQA Bratani acquires Talisman's North Sea Brae-Miller Linkline assets and interest in SAGE pipeline	Upstream, Midstream	550
Jan-08	PrimeWest Energy	100%	Completes acquisition of Calgary, Canada-based conventional oil & gas royalty trust for cash & debt	Upstream	4,661
Jun-08	CED	50%	Buys 50.4% of Theolia's Compagnie Eolienne du Detroit (CED), a 50.4MW wind farm in Morocco that supplies 2% of the country's electricity	Downstream	
Jul-08	Shell UK, Esso E&P*	100%	TAQA Bratani buys licenses, equity interests and infrastructure for 6 offshore and 2 sub-sea North Sea oil and gas fields from Shell UK and ExxonMobil subsidiary; deal completion expected by end 2008	Upstream	1500*

* Estimated purchase price of assets from Shell UK and Esso as well as production and 2P reserves

Source: Company reports, Al Mal Capital

Assets growth may not necessarily benefit minority shareholders

III. Management has so far not managed the business with minority (public) shareholders in mind. While Abu Dhabi's backing provides TAQA's bondholders with a safety net, one can hardly say the same about the minority (public) shareholders. Indeed, the recent AED4.15bn convertible bond offering, which sent the share price sliding down from ~AED4.02, suggests that management has been somewhat indifferent toward maintaining shareholder value. While we remain enthusiastic about the company's acquisition-driven growth prospects, we are skeptical whether this growth would actually benefit its public shareholders.

Increasing E&P focus makes TAQA a riskier name...

IV. Corporate risk profile increasing: As TAQA shifts to drilling more exploration wells, the risks of encountering dry holes increase. In 2007 TAQA reported ~AED13.2mm in exploration expenses.

• **Our view:**

- **TAQA predominantly focuses on lower-risk exploration activity in mature hydrocarbon basins.** We think this is a prudent strategy because the company can still profit adequately and steadily from smaller bets, as opposed to betting big on high cost explorations.



*...but conservative
exploration strategy &
accounting methodology
mitigates risk*

- **TAQA follows conservative *successful efforts* accounting method.** In contrast to the *full-cost* basis, successful efforts only capitalizes expenses associated with appraising and drilling a well if that well proves to be a commercial find (or could help in drilling other successful wells tapping the same hydrocarbon reservoir). All carried expenses are subject to a technical, commercial and managerial review at least once a year to make sure that they are still viable prospects. Net-net, with dry hole costs hitting the income statement in the same quarter that they occur in, TAQA's EPS accurately informs investors of the company's drilling successes or lack thereof.



Valuation Summary

We rate TAQA an Underperform given its upcoming convertible bond conversion

We rate TAQA an Underperform given the technical overhang of its convertible bonds converting to common equity on September 1st; we could reassess our rating after the event. On September 1, 2008 the company is going to issue an additional 2.075bn shares at AED2/share, which could put significant selling pressure on the stock. *We could reassess our rating after the “dust” settles from the conversion and the stock has a free path to trade up to our DCF-derived value of AED3.20 a share.*

- Our 10-year DCF yields a stock price of AED3.20.
- Our DCF shows a price of AED3.20, implying that TAQA holds 18.5% upside over the long-term. We lay out our DCF model assumptions and conduct a sensitivity analysis of WACC and terminal growth rates to determine a range of DCF-derived prices for TAQA's stock below.

Figure 45. Our Analysis Results in an AED3.20 Price Target for TAQA Shares

Assumptions		DCF-Derived Price		WACC						
Risk Free Rate	5.5%	Total PV of Free Cash Flow	35,739	Terminal Growth	5.6%	5.7%	5.9%	6.0%	6.1%	
Debt Spread	1.8%	Discounted TV	41,099		3.0%	1.45	1.14	0.86	0.60	0.35
Risk Premium	5.5%	Enterprise Value	76,838		3.5%	2.61	2.17	1.78	1.43	1.10
Beta	1.38	Net Debt	56,891		4.0%	4.49	3.80	3.20	2.68	2.21
Tax Rate	37.6%	Mkt. Value of Equity	19,948		4.5%	8.05	6.74	5.66	4.76	4.00
Debt /Total Capitalization	84.3%	Shares Outstanding (million)	6,225	5.0%	17.38	13.63	10.96	8.95	7.39	
Equity /Total Capitalization	15.7%									
Levering Factor	1.53	Target Price per share	AED 3.20							
Unlevered Beta	0.90	Upside/downside	18.52%							
Levered Beta	1.38									
Cost of Equity	13%									
Cost of Debt	7.3%									
WACC	5.9%									
Terminal Growth Rate	4.0%	*in AED millions, except per share data								

Source: Company reports, Al Mal Capital

- TAQA's EPS is highly leveraged to crude oil/gas prices; changes in production are less consequential. We also conduct a sensitivity analysis to variances in average realized prices and daily production rates.

TAQA is more sensitive to Δ oil and gas prices than Δ output

Figure 46. TAQA EPS is Highly Sensitive to Oil & Gas Prices

	2008E		2009E		2010E		2011E	
Variance in Daily Production (boe/d)	-1000	+1000	-1000	+1000	-1000	+1000	-1000	+1000
Change in EPS	-3%	3%	-2%	2%	-2%	2%	-1%	1%
Variance in boe Prices	-10%	10%	-10%	10%	-10%	10%	-10%	10%
Change in EPS	-30%	30%	-28%	28%	-26%	26%	-23%	23%

Source: Company reports, Al Mal Capital



- On multiples, TAQA currently looks fairly valued.

TAQA is fairly valued on EV/EBITDA multiples

- TAQA is trading in line with its peers at 6.8x and 5x its 2008 and 2009 EV/EBITDA versus comps of 6.3x and 5.7x. The picture looks better on the P/E front, with the company trading at 7.0x (2008E) and 5.3x (2009E) EPS, a discount to its comps, which trade at an average of 13.0x (2008E) and 12.1x (2009E).

Figure 47. TAQA Looks In Line Versus Industry Comps on EV/EBITDA

Name	Price	Market Cap	EPS			EBITDA			P/E			EV	EV/EBITDA			P/B
			FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E		FY07	FY08E	FY09E	Current
In AEDmm*																
DANA	1.69	10,140	0.02	0.04	0.15	430	621	1,610	91.4x	40.3x	11.3x	11,798	27.4x	19.0x	7.3x	1.4x
TAQA	2.70	16,808	0.25	0.39	0.51	4,469	10,824	14,748	10.8x	7.0x	5.3x	73,698	16.5x	6.8x	5.0x	1.3x
In US\$mm*																
Apache	115.89	38,760	7.91	15.85	17.16	7,174	11,230	12,135	9.4x	7.3x	6.9x	49,625	6.9x	4.4x	4.1x	2.4x
Anadarko	60.63	28,404	3.71	6.72	6.44	69,993	10,054	10,039	46.6x	9.6x	9.8x	45,916	0.7x	4.6x	4.6x	1.7x
Santos	16.47	9,807	0.87	1.00	1.02	1,508	1,740	1,690	22.0x	18.2x	17.6x	13,210	8.8x	7.6x	7.8x	4.1x
Woodside	49.73	34,231	1.58	3.81	4.41	2,241	4,605	5,354	28.7x	18.0x	13.7x	35,370	-	8.3x	6.6x	-
ONGC	23.38	50,004	2.32	2.66	2.65	9,665	11,066	11,121	11.0x	11.2x	11.0x	40,316	4.2x	3.6x	3.6x	3.3x
CNOOC	1.37	61,179	9.05	13.71	15.32	6,608	9,929	14,033	13.0x	9.0x	8.5x	66,721	10.1x	6.7x	4.8x	3.1x
TransCanada	37.76	21,827	2.09	2.19	2.25	3,707	4,024	4,237	17.4x	17.7x	17.3x	35,322	9.5x	8.8x	8.3x	2.0x
Mean									21.2x	13.0x	12.1x		6.7x	6.3x	5.7x	2.7x
Median									17.4x	11.2x	11.0x		7.8x	6.7x	4.8x	2.7x
DANA																
(including Iran)	1.69	10,140	0.02	0.04	0.25	430	621	2,228	91.4x	40.3x	6.7x	11,798	27.4x	19.0x	5.3x	1.4x

*Except Per Share Figures and Multiples

Notes: ONGC FY ends March

Source: Al Mal Capital, FactSet, Bloomberg

- Net-net, while TAQA looks reasonable on DCF/multiples, we suspect the stock could weaken in the near-term given its converts overhang. We could reassess our rating after the stock shrugs off any conversion-related weakness and has a free path to trade up to our DCF-derived value of AED3.20 a share.

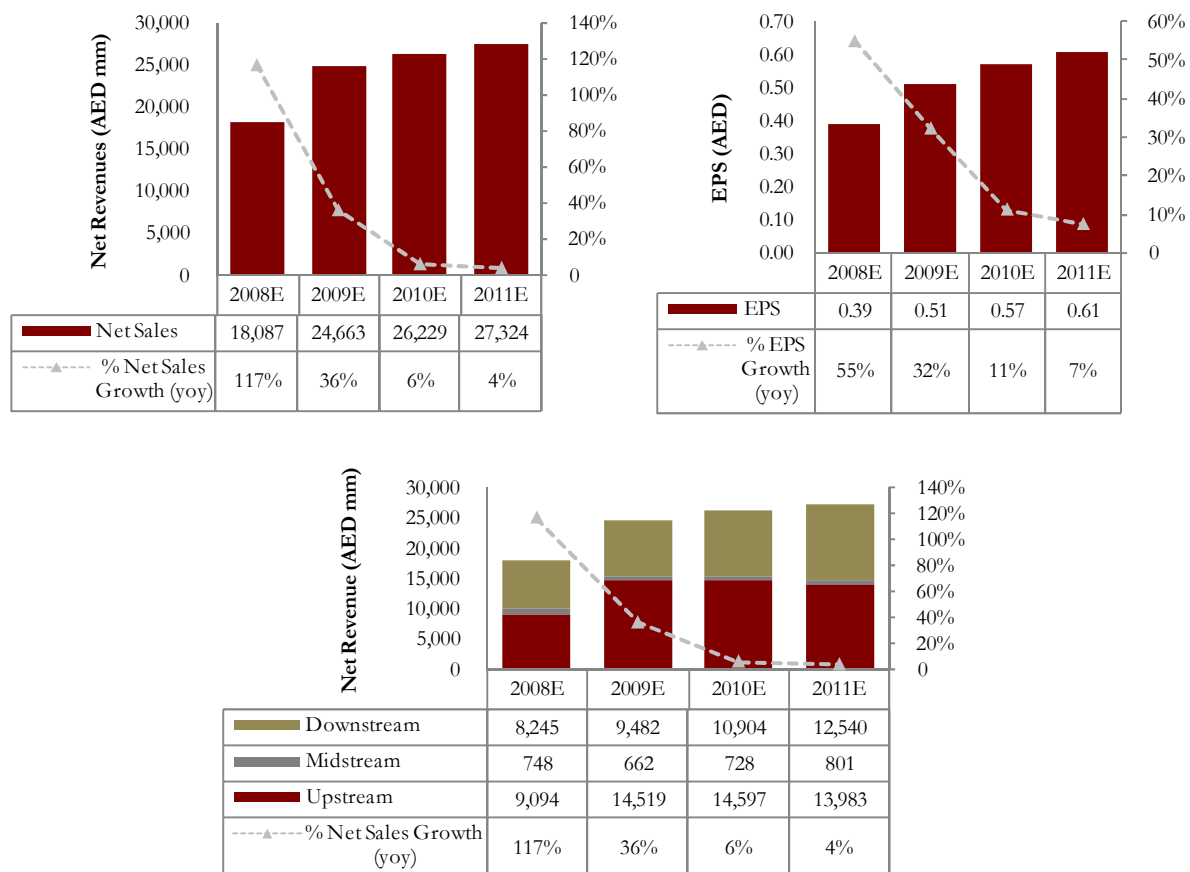


Detailed Analyses of Revenue Drivers

Growth Slows in 2009 on an organic basis

EPS growth to fall off significantly in 2009 assuming no new acquisitions except the Shell Esso North Sea acquisition. In our model, we project slowing revenue and EPS growth beginning 2009. Our calculations already assumes increased production impact of roughly 40mboe/d (mostly oil) from the 8 new fields expected to come in line end FY08/early 2009 from the Shell Esso deal (purchase and sale agreement already signed). We continue to expect the company to pursue new acquisitions through-out this year and in later years given management's goal of increasing its asset base from \$23.5bn as of 2Q08 to about \$60bn by YE2012. *However given limited visibility into the timing and type of these potential deals and the mix of new debt and/or equity required in order to finance them, we cannot include these transactions in our DCF-based valuation of the firm.*

Figure 48. Revenue and EPS Growth Slows Down Next Year Unless TAQA Remains Acquisitive



Source: Al Mal Capital



Company Overview

TAQA is an energy investment company whose rapidly expanding portfolio spans the entire energy value chain. TAQA (which means *energy* in Arabic) holds nearly 70 subsidiaries and investments in power generation, desalination, upstream oil/gas, pipeline networks, and gas storage. TAQA, through its subsidiaries, provides over 85% of the water and electricity consumed in the Emirate of Abu Dhabi. As of 2Q08, the company held 9,423MW (gross) of installed generation, 119mboe/d in average upstream oil/gas production, 2P reserves of 501mmboe, gas processing, pipelines and natural gas storage. In FY07, TAQA had 2,383 employees worldwide and its revenues increased 72% to AED8.3bn.

History

IPO was in 2H05

Established in June 2005, Government of Abu Dhabi majority-owned TAQA has, since inception, been a majority-owned subsidiary of the Abu Dhabi Water and Electricity (ADWEA). In August 2005, 25% of TAQA's shares were floated on the ADX for purchase by UAE nationals only. The Government of Abu Dhabi retained the remaining 75%, split between ADWEA (51%) and the Farmers Owners' Fund (24%), which provides Abu Dhabi's farmers with pension income and farm-development support.

TAQA started its buying spree in 2006...

In 2006, TAQA embarked on an international expansion strategy through highly leveraged acquisitions of upstream, midstream and downstream assets. Once a pure-play domestic electricity generation and water desalinization utility, TAQA has added exploration and production as well as storage and transmission operations to its portfolio, growing its consolidated total asset base from AED 52bn (US\$ 14.1bn) in 2006 to AED 68bn (US\$ 18.5bn) in 2007 and reaching AED 86bn (US\$ 23.5bn) by H1 2008.

Targeted Asset Mix

...with a goal to become a global diversified energy player by 2012

The company targets a diversified total international asset base of US\$ 60bn by 2012 with an upstream/midstream/downstream allocation of 40%/20%/40%. With respect to its geographic footprint, management is tentatively targeting equal distribution across North America, Europe, and the combined Middle East North Africa / South Asia regions. While the investments made thus far have involved assets already generating cash flows, management indicates that future greenfield investments are a possibility.

Figure 49. TAQA is Targeting a Balanced Asset Base and Geographic Distribution by 2012

in US\$ billion		N. America	Europe	MENASA	Total (by segment)	
	% of Total	33%	33%	33%	=	100%
Upstream	40%	8	8	8	=	24
Midstream	20%	4	4	4	=	12
Downstream	40%	8	8	8	=	24
Total (by region)	100%	20	20	20	=	\$ 60

Source: Company reports

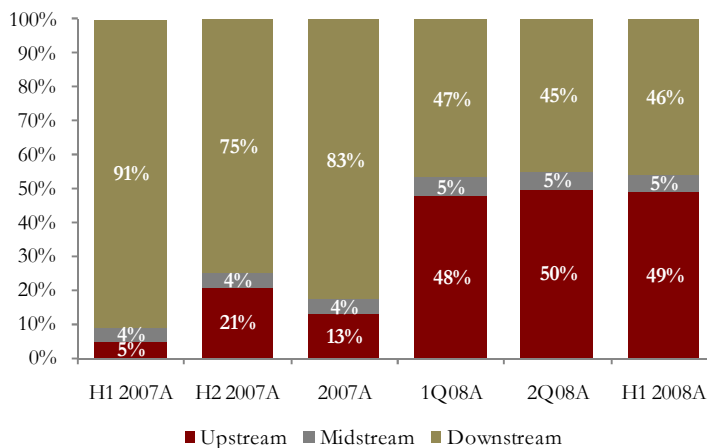


Revenue Mix

The dramatic growth in the firm's asset base has fundamentally altered its revenue mix. In Q2 2008, upstream operations constituted 50% of total revenue, up from 4% in Q2 2007, while downstream contributed 45%.

Figure 50. *Shifting Revenue Distribution is a Telling Indicator of a Transforming Asset Base*

Upstream segment taking center stage given high oil & gas prices



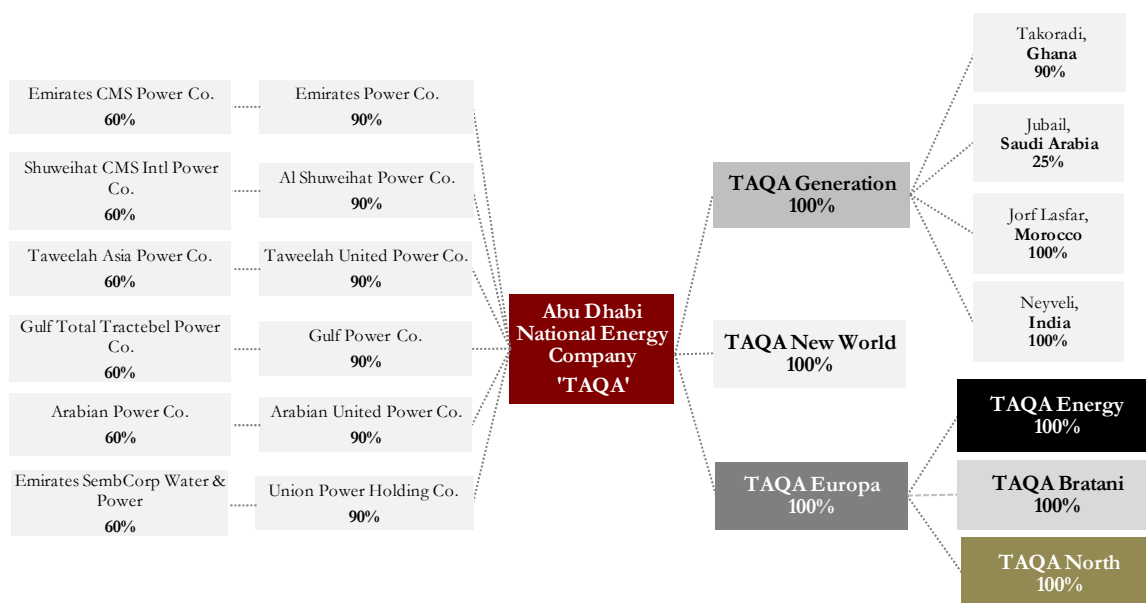
Source: Company reports

TAQA has about 70 subsidiaries

Operating Subsidiaries

TAQA's interests and acquisitions in oil & gas/power generation are spread across a network of ~ 70 subsidiaries, many of which are subject to further consolidation. The recent international downstream acquisitions have been consolidated into the subsidiary TAQA Generation, while the assets from the recent and ongoing upstream and midstream transactions are steadily being folded into any of three key subsidiaries: TAQA North, TAQA Bratani, and TAQA Energy. We provide details below:

Figure 51. *TAQA's Consolidated Domestic (left) and International (right) Subsidiaries (2008) Paint a Picture of Growth*



Source: Company disclosures



Upstream

*3 major E&P subsidiaries:
TAQA
North/Bratani/Energy*

Upstream assets (as well as a few secondary midstream entities) are held by subsidiaries **TAQA North**, **TAQA Bratani** and **TAQA Energy**. TAQA North is dedicated to North American oil and gas investments, while European upstream assets are currently divided between TAQA Bratani and TAQA Energy.

*E&P made up 50% of TAQA's
2Q08 top line...*

*...and North American
focused TAQA North is the
largest E&P subsidiary*

- **TAQA North is the largest upstream subsidiary.** Principal assets, all recently acquired, include:

- **Northrock Resources Ltd., Canada**

In August 2007 TAQA concluded the acquisition of 100% of Northrock Resources Ltd., a Calgary, Canada-based E&P company operating in Western Canada, for AED7.3bn (US\$2bn). The acquired entity was subsequently renamed TAQA North.

- **Pioneer Natural Resources Canada**

In November 2007, TAQA North closed the acquisition of 100% of Pioneer for AED1.94bn. Pioneer is an oil and gas E&P outfit with assets in the Western Canadian Sedimentary Basin (WCSB). These assets are primarily mature gas fields.

- **PrimeWest Energy Trust**

In January 2008, TAQA North concluded the US\$4.7bn acquisition of 100% of PrimeWest Energy, a Calgary-based conventional oil and gas royalty trust.

At YE2007, TAQA North's 2P reserves (including PrimeWest) were 461.2 mmboe.

- **TAQA Bratani is focused in Europe.** Principal assets, all recently acquired, include:

- **Talisman Energy's Brae Area Assets in the North Sea**

In December 2007, TAQA Bratani acquired Canada-based Talisman's extensive non-operated mature interests in the Brae Area fields in the United Kingdom Continental Shelf, as well as interests in the Scottish Area Gas Evacuation ("SAGE") pipeline and Brae-Miller Linkline in the North Sea, for a total purchase price of US\$550 million. The producing Brae assets and infrastructure were yielding, at acquisition, 14.6 mboe/d with 2P reserves of 28.7mmboe.

- **Assets of Shell UK Ltd. and Esso Exploration & Production UK Ltd.**

In July 2008, TAQA Bratani announced the acquisition of 100% of Shell UK and Esso's respective equity in the Tern, Kestrel, Eider, Pelican, Otter, Hudson, Cormorant North and South Cormorant fields and related infrastructure. The sale, which includes all equity, associated infrastructure and production licenses, is expected to be completed by the end of 2008. *We estimate a total acquisition cost of US\$ 1.5bn with production of 40mboe/d and 2P reserves between 90-100mmboe.*

- **TAQA Energy is the company's second major European subsidiary.** Principal upstream oil and gas assets, recently acquired, include:

- **BP Nederland Energie**

In January 2007, TAQA entered the Dutch upstream market by buying 100% of British Petroleum's E&P assets and gas infrastructure there for AED2.652bn (US\$694mn). The new entity, renamed TAQA Energy, housed extensive assets

*We expect TAQA Bratani to
close on the Shell/Esso deal
by YE2008*

*TAQA Energy has operations
in the Netherlands*



ranging from mature onshore/offshore gas field interests in addition to gas storage entities, which we address in our subsequent discussion of midstream operations.

Figure 52. *TAQA North is the Largest Upstream Subsidiary*

	1Q08	2Q08	1H08
TAQA NORTH			
Crude (mb/d)	21.6	22.7	22.2
NGLs (mb/d)	9.5	10.4	10
Gas (mmcf/d)	344.6	381.1	363
Total (mboe/d)	88.5	96.6	92.7
TAQA BRATANI			
Crude (mb/d)	4.9	5.1	5.0
NGLs (mb/d)	0.8	1.6	1.2
Gas (mmcf/d)	58.2	51.0	54.6
Total (mboe/d)	15.4	15.2	15.3
TAQA ENERGY			
Crude (mb/d)	0.3	0.7	0.5
Gas (mmcf/d)	45.8	39.0	42.4
Total (mboe/d)	7.9	7.2	7.6
Total Production (mboe/d)	111.8	119.0	115.6

Source: Company disclosures

Figure 53. *Upstream Acquisition and Reserve Profile Underscores Tremendous Top Line Growth*

Acquisition	Holding Subsidiary	Date	%	Asset Type	Price US\$ mn	Production mboe/d	2P reserves mmboe	\$/boe paid
BP Nederland Energie*	TAQA Energy	Jan-07	100%	Upstream, Midstream	\$ 694	10	11	-
Northrock Resources	TAQA North	Aug-07	100%	Upstream	1,993	33	166	12
Pioneer Canada	TAQA North	Nov-07	100%	Upstream	540	8	41	13
Talisman Energy	TAQA Bratani	Dec-07	100%	Upstream, Midstream	550	15	29	19
PrimeWest Energy	TAQA North	Jan-08	100%	Upstream	4,661	47	254	18
Shell UK, Esso E&P **	TAQA Bratani	Jul-08	100%	Upstream	1,500	40	90 - 100	16
Total, excluding Shell/Esso assets					\$ 8,438	113	501	
Est. Total, including Shell/Esso					\$ 9,938	153	596	

* Price includes both upstream and midstream assets

** Purchase price of assets from Shell UK and Esso as well as production and 2P reserves figures are estimates

Production and reserve figures are approximate at time of acquisition

Source: Company disclosures, Al Mal Capital

Midstream

5% of 2Q08 revenues came from midstream operations

Current midstream operations consist of three gas storage facilities in The Netherlands and Canada. The European midstream assets are owned by TAQA Energy.

- **East Cantaur Storage (Canada) and Alliance Pipeline System (Canada, USA) marks TAQA's foray into the North American midstream market.** TAQA North has a 50% interest in East Cantuar Gas Unit's 7 bcf storage reservoir in southwest Saskatchewan. Stored gas is transported at targeted throughput of 75 mmcf/d to Chicago via the Alliance pipeline system, in which TAQA North also has an interest.
- **Peak Gas Installation ('PGI'), the Netherlands, is an onshore gas storage asset.** PGI Alkmaar was commissioned in 1997 with a working gas volume of 500 mn Nm³ and production capacity of 36 mn Nm³/d. It delivers extra gas from the Alkmaar gas field to the national grid to meet additional consumer demand in the winter months. During summer months, spare space left by gas production is used to store reserves which can be tapped during peak winter months. Current storage capacity is 3.5 million m³, and it takes 140 days to fill the gas field to its maximum.
- **Bergermeer Gas Storage, the Netherlands, is Europe's largest gas storage facility.** The Bergermeer project is an ongoing development of the onshore Bergermeer gas reservoir into an underground storage facility with a total capacity of 3.2 billion Nm³. The facility is set to come online in 2013 and, once operational, is expected to remain in service for 40 to 50 years.

TAQA Energy intends to further expand existing midstream assets by developing offshore gas storage operations using depleted fields for gas storage as well as using retrofitted LNG tankers with regasification facilities to inject regasified product into offshore reservoirs.

Downstream

Downstream contributed 45% to overall 2Q08 top line...

...with a 72/28 split between domestic & international

TAQA is increasing emphasis on alternative downstream assets

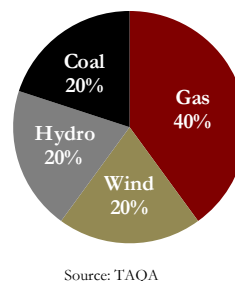
Domestic generation subsidiaries alone provide over 85% of the water and electricity consumed in the Emirate of Abu Dhabi. The power generation and water desalination portfolio consists of majority stakes in 6 of the UAE's 9 Independent Water and Power Producers (IWPP), which together provide more than 7000 MW of installed power generation capacity and close to 600MIGD of net water desalination capacity.

Domestic IWPPs get gas feedstocks for free! The IWPPs, which are principally gas-fired, receive their natgas from ADWEA at no cost. Supply disruptions and shortages of gas fuel in the UAE have led to increasing reliance on supplemental fuel sources, specifically fuel oil purchased from Abu Dhabi National Oil Company (ADNOC). However, these added costs have thus far been passed on to consumers in accordance with the existing Power and Water Purchase Agreement (PWPA) with ADWEA. *We note that extensive reliance on back-up fuel does hamper plant efficiency, requiring more frequent (and expensive) stoppages for maintenance.* TAQA maintains that the frequency of natural gas fuel shortages has reduced significantly ever since the Dolphin Pipeline, which carries natural gas from Qatar to the UAE, came on-stream in May 2007. The current domestic expansion strategy targets a substantial increase in the IWPPs' net power generation capacity to nearly 8080 MW by the end of 2009.

TAQA's foray into international downstream assets began in May 2007, when it acquired 100% of CMS Generation LLC for US\$900mn (renaming the enterprise TAQA Generation), followed by US\$ 490mn for ABB Ltd.'s 50% indirect interests in power plants in Morocco and India. The combined purchases gave TAQA ownership interests in IWPPs in Morocco, India, Ghana and Saudi Arabia. Management has suggested further investment of up to US\$4.5 bn in power plants in Saudi Arabia.

Going Forward—Expect More Alternative Energy Assets. In a notable deviation from its past downstream asset profile, TAQA began investing in downstream alternative energy production, a trend we expect to continue. Recently, the company initiated a joint bid with French renewable energy firm Theolia for a 300 MW Moroccan wind-farm project and has acquired from Theolia a 50% interest in an existing Moroccan wind farm with current capacity of 50.4 MW. The agreement marks TAQA's entry into the renewable energy sector, further diversifying its energy holdings across the energy value chain. Management is also in talks with Tata Group of India about an interest in a hydroelectric development slated to come online in 2012.

Figure 54. 2012 Targeted Power Generation Split Implies More Alternative Sources in the Mix



Shareholder Structure

TAQA is majority owned by the Government of Abu Dhabi

Ownership of TAQA’s shares is limited to UAE nationals only.

A 50% increase in outstanding shares is due on September 1st, 2008. In July 2008, AED 4.15bn of convertible bonds were issued at face value of AED 1000 each, mandatorily convertible on September 1, 2008 into TAQA shares at the ratio of 500 shares per AED 1000 bond, diluting the number of shares outstanding by 50% from 4.15bn to 6.225bn.

Figure 55. TAQA’s Expected Equity Dilution Will Increase its Float to Nearly 30%



Source: FactSet



Management

Figure 56. Members of Senior Management are “Deal Makers”

Title	Name	Details
Chairman	H.E. Hamad Mohamed Al-Hurr Al-Suwaidi	Currently serving as: Under-Secretary of Department of Finance, Govt of Abu Dhabi Director, Mubadala Development Company Chairman, Farmer Owners' Fund in Emirate of Abu Dhabi Executive Director, Abu Dhabi Investment Authority Chairman, Emirates Power Company
Vice-Chairman	H.E. Ahmed Saif Al-Darmaki	Currently serving as: Chairman, ADWEC Director of Planning & Development, ADWEA
Chief Executive Officer	Peter Barker-Homek	Formerly: Senior Adviser in M&A, British Petroleum Director of Worldwide Downstream Gas Distrib. & Devlpmt, BG Intl. VP of Development for E. Europe & Latin America, Pacific Enterprises
Chief Financial Officer	Doug Fraser	Formerly: VP and CFO, PrimeWest Energy VP and CFO, Husky Energy Assistant Controller, Imperial Oil Ltd.
Managing Director TAQA North	Frédéric Lesage	Formerly: Group VP, Integration & Optimization, TAQA Senior Consultant, McKinsey & Co. Legal expertise in labor & employment litigation
Managing Director TAQA Energy TAQA Bratani	Paul van Gelder	Formerly: Project Director, Bergermeer Gas Storage Director of Logistics, Driessen Aerospace Systems Commanding Officer, Royal Netherlands Navy
Group VP Global Power Group	Dan Dexter	Formerly: Exec. Managing Director, International Operations, CMS Enterprises
General Counsel	Carl Sheldon	Formerly: Managing Partner, Allen & Overy (New York and Frankfurt); More than 25 years private practice in Europe & U.S.

Source: Company reports



Competition

As the Government of Abu Dhabi's "sovereign energy fund," TAQA is somewhat insulated from competitive pressures. However, to the extent that competition from other well-funded players drives up acquisition prices for oil and gas assets globally, TAQA could get negatively impacted.

Figure 57. *Competitive Landscape Underscore's TAQA's Uniqueness*

Name	Ticker	
Saudi Arabian Oil Co. (Saudi Aramco)	Private	Government-owned Saudi Aramco is the world's largest oil company in terms of output and specializes in the exploration, production and distribution of crude, petrochem and natgas. Oil operations cover Saudi Arabia and territorial waters in the Arabian Gulf and Red Sea, totaling more than 1.5 million sqkm and proven reserves of 259.8 bn barrels of oil. It has a total production capacity of 3 trn cubic ft. of gas, 3.25 bn barrels of crude oil and 399 million barrels of natural gas liquids per year, as of April 2008. Most production comes from fields in a 300-kilometer area in the Eastern Province. Saudi Aramco operates terminals that service more than 10 tankers per day. Through subsidiaries and partnerships, the company delivers its products to clients in N. America, Europe and Asia.
Qatar Fuel Company (Woqod)	QFLS.DSM	Has the only concession to market, distribute, transport and store petroleum products in Qatar Markets, built and operates bunker fuel storage facility with annual capacity of 4 million tons
Qatar Petroleum	Private	Specializes in exploration, drilling, production, transport, storage and sale of crude oil, natural gas liquids, LNG, refined products, petrochemicals and fertilizers; Produces over half of Qatar's total output with a total current oil production capacity of 890,000 b/d and is expected to reach 1million b/d by the end of 2009; LNG production capacity will reach 77 million tons/yr by 2010
Gulf Petroleum Investment (Kuwait)	GPLKSE	Invests in oil and gas services entities including drilling, supply of parts, equipment, reservoir engineering, development, planning, monitoring and control, oil refining and consulting for upstream and downstream related projects.
Aref Energy	AREFENRGY.KSE	Kuwaiti enterprise that invests in power generation, oil and gas exploration and production, oil refining, petrochemical, and construction contracting companies according to Islamic Shariaa principles.
Dolphin Energy Ltd.	Private	UAE-based strategic natural gas initiative that involves producing and processing natgas from Qatar and transporting by sub-sea pipeline to the UAE; part of a national endeavor to boost UAE natgas supplies for fuel (power generation) and feedstock; Ownership: Govt. of Abu Dhabi (51%), Total Group (24.5%), Occidental Petroleum (24.5%)
RAK Petroleum	Private	Strategic focus to develop into an international integrated oil and gas entity through investment and acquisitions in upstream oil and gas production & development, midstream gas transportation & storage, downstream gas processing, and petrochem projects; recently acquired Indago Petroleum Ltd's E&P assets in Oman and UAE

Source: Zawya



Figure 58. Summary Financials—TAQA

(AED Millions)	2007A	2008E	2009E	2010E	2011E
INCOME STATEMENT					
Daily Oil & Gas Production (mboe/d)	42	117	159	169	181
Revenues	8,337	18,087	24,663	26,229	27,324
Oil & Gas	1,121	9,094	14,519	14,597	13,983
Water & Electricity	4,717	5,498	6,323	7,271	8,362
Gas Storage	303	602	662	728	801
Income from Backup Fuel & Other	2,196	2,893	3,159	3,633	4,178
COGS	(3,392)	(5,698)	(7,770)	(8,263)	(8,608)
Gross Profit	4,945	12,389	16,894	17,966	18,716
Gross Margin	59.3%	68.5%	68.5%	68.5%	68.5%
SG&A	(476)	(1,565)	(2,146)	(2,282)	(2,377)
EBITDA	4,469	10,824	14,748	15,684	16,339
EBITDA Margin	53.6%	59.8%	59.8%	59.8%	59.8%
Depreciation & Amortization	(1,428)	(3,698)	(5,042)	(5,362)	(5,586)
EBIT	3,041	7,126	9,706	10,322	10,753
Operating Margin	36.5%	39.4%	39.4%	39.4%	39.4%
Interest Income (Expense)	(2,529)	(3,959)	(4,212)	(4,212)	(4,212)
Investment Income	568	228	285	342	407
Other Income (Expense)	238	166	227	227	227
Pretax Income	1,318	3,562	6,006	6,679	7,175
Taxes	57	(1,339)	(2,257)	(2,510)	(2,697)
Minority Interest	341	351	562	625	672
Net Income	1,035	1,872	3,186	3,543	3,807
Shares Outstanding (mn)	4,150	4,842	6,225	6,225	6,225
Earnings Per Share	0.25	0.39	0.51	0.57	0.61
BALANCE SHEET					
Cash & Equivalents	7,601	9,604	11,016	13,226	15,739
Acct. Receivables	2,381	3,707	5,054	5,375	5,599
Inventories	1,495	1,758	2,397	2,549	2,655
Lease Receivable	267	294	294	294	294
Loan to an Associate	32	32	32	32	32
Total Current Assets	11,776	15,394	18,792	21,476	24,319
PP&E	46,051	65,936	67,060	68,255	69,500
Lease Rcvbl, Spares Fee	5,914	5,894	5,894	5,894	5,894
Advances to Related Party	213	208	208	208	208
Avlbl for sale investments & Invsmts in Associates	285	398	398	398	398
Other LT Assets & Intangibles	3,606	9,224	9,224	9,224	9,224
Total Assets	67,844	97,056	101,578	105,457	109,545
ST Debt	4,959	2,834	2,834	2,834	2,834
Accounts Payable	2,565	3,839	5,235	5,568	5,800
Deferred Taxes & Other Liabilities	-	243	243	243	243
Total Current Liabilities	7,525	6,916	8,312	8,644	8,876
LT Debt	47,429	68,957	68,957	68,957	68,957
Other Liabilities	6,197	8,996	8,996	8,996	8,996
Total Liabilities	61,150	84,869	86,265	86,597	86,829
Shareholders' Equity	6,694	12,187	15,313	18,859	22,715
Total Liabilities & Shareholders' Equity	67,844	97,056	101,578	105,457	109,545
CASH FLOW\$					
EBT	1,318	3,562	6,006	6,679	7,175
Depreciation & Amortization	1,428	3,698	5,042	5,362	5,586
Other Operating Activities	1,866	1,782	0	0	0
Operating Cash Flow before Δ Working Capital	4,612	9,041	11,048	12,041	12,761
Δ Working Capital	(962)	(583)	(591)	(141)	(98)
Interest, Taxes and Other Income	(2,382)	(2,431)	(2,257)	(2,510)	(2,697)
Operating Cash Flow	1,268	6,027	8,200	9,390	9,966
Investing Cash Flow	(17,143)	(25,878)	(6,166)	(6,557)	(6,831)
Dividends Paid	(208)	(415)	(623)	(623)	(623)
Other Financing Cash Flow	8,110	22,289	0	0	0
Financing Cash Flow	7,902	21,874	(623)	(623)	(623)
Net F/X Difference	(384)	150	0	0	0
Increase (Decrease) in Cash Position	(8,358)	2,174	1,411	2,211	2,512
Year-end Cash Position	7,431	9,604	11,016	13,226	15,739

Source: TAQA, Al Mal Capital Research

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