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Cairo 1/4/2013,

Dear Valued Investor,

It has been another tumultuous quarter for Egypt. From Political instability to unstudied fiscal and economic decisions to weakening security to an unstable currency, I think it's safe to say that the Egyptian Investment climate remained under pressure for the quarter.

Nevertheless, given all the drawbacks of this previous quarter, our portfolios are little changed which again shows the high quality of our picks. This for us symbolizes the difference between investment and speculation, where our goal is to outperform over longer time frames.

One of the best measures of how we have been outperforming is a comparison of 2 benchmarks versus our average portfolio performance from January 2008 till today (about 5 years).

The comparative performance for this period is as follows:-

- Average Hermes Mutual Fund: -65%
- EGX30: -52%
- Andalucia average portfolio performance: +10%

(Hermes Funds performance can be found at this link: <http://www.efg-hermes.com/English/Services.aspx?PageID=12&expa..>)

This means that by and large, we were able to reach the primary objective for our clients in the Egyptian market which is capital conservation in exceptionally turbulent times. Speaking to other investment management firms, clients, and even brokers, we are comfortable saying that we have constantly outperformed all competition by a very decent margin.

The second objective, as we have repeatedly said, is realizing profits, which requires a minimum period of stability to reach our performance goals. We are still holding on to our portfolio waiting for this period.

Our investment methodology again, is value investing, which implies that we only invest in stocks selling at distressed valuations compared to their intrinsic value, setting all speculation aside. We buy and we hold, until the market realizes our estimate of the fair value of the stock.

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We have seen a clear example of this with the acquisition of NSGB this month. We bought the stock in November 2011 at about 22.50 EGP, then we had a 10% free stock distribution, getting the value down to 20.25 EGP then we had a 1.25 EGP coupon distribution, getting the value down to 19, then we had another 10% free stock distribution, bringing the ultimate stock buying price to 17.1 EGP. NSGB was acquired by QNB this month at a price of 38.65 EGP, even in case the government goes through with a 10% tax on the profit, this would mean to us an acquisition price of EGP 36.49 (Worst case scenario) which translates into a gain of 113.39% on that stock in less than 1.5 years.

Value realization does not always come through acquisitions though. Actually it usually comes by the market realizing the true value of the company in question. A clear example that we have seen is the case of Nilesat (Symbol EGSA). We have entered a position in Nilesat in April 2010 at an average price of about US\$ 5.20 at the time. Through the various coupons and stock distributions, our cost has come down to about US\$ 3.60 per stock. Today, the stock closed at US\$ 6.25. A gain of 73.61% on the US\$ stock price in 3 years and another gain of about 20% (at least) on the US\$/EGP exchange rate, which translates into a gain of nearly 90% on this stock in 3 years (a period that included a revolution) and still, we believe the stock has ways to go.

This is the methodology and these are the results. We continue to have faith in our stock picks until ultimate value realization which we expect to happen as soon as there are about 2 months of perceived stability in our beloved country. This does not mean that there are no risks, but as all investments go, we have to measure risk VS. reward. We believe that our risk/reward ratio is more than acceptable given our buying prices.

Finally, as usual, I will be personally available to answer any questions/comments either by email or phone. Your questions are more than welcomed.

Thank you and best regards,
Mohamed Hawary



Managing Director
Andalucia Financial Consultancy and Investment