



Andalucia

Cairo 7/2/2011,

Dear Valued Investor,

Due to unprecedented events in the previous period, we will be sending you more newsletters in the coming period to update you of the status of your investments.

Crisis Management:

Thursday January 27th, we saw one of the worst days in the history of the Egyptian stock exchange. Trading had been halted for an hour after the index dropped more than 6%, 10 minutes into the trading session.

As the market started trading again, it went within minutes to a decline of about 11%. Our stocks were trading at prices that are exceptionally below their fair values so we had to take a quick decision, these are the two choices we had and the rationale behind them:

Choice 1:

Keep our stocks:

Waiting for the market to realize their true values, we could have kept our positions intact, waiting for an eventual return to their fair values.

Choice 2:

Sell as much as we can:

As the stock market had been halted for an hour and no mechanism had been introduced to support the drop till mid session, we saw the following scenario as a possibility:

- Closing of the stock market which meant that for an undetermined period, you would not have access to your funds nor means to know your net worth.
- A deterioration of events with unknown time frames and consequences which could have a direct impact on some or all of the economy and business environment.

The risks of the second choice far outweighed the rewards of the first choice therefore by conducting a quick risk/reward analysis; we reached the conclusion that it's better to liquidate as many positions as we can on Thursday the 27th at very distressed market prices.

This resulted in an ultimate liquidation of about 70% on average of our portfolios with an average of 30% still in the market.

What happened since?

- The stock market has been closed for over a week now.
- Egyptian GDP growth has been revised from 5.3% to 3.7% thus far.
- Surprisingly, although GDR share prices sunk for two days after the 27th, they have seen an impressive rally over the past few days.
- As the Egyptian stock market remains closed, and we learnt of talks of special measures to be taken in the coming period concerning trading operations, we have no idea how the market will open and we are yet to decide on our strategy for the coming period.
- For more information about the status quo, please see this article in today's Al Masry Al Youm:

<http://www.almasry-alyoum.com/article2.aspx?ArticleID=286994&IssueID=2037>

The EGP/US\$ Exchange rate:

Since late 2010, our view was that inflation and the worldwide increase in commodity prices will lead to local currency devaluation.

Furthermore, the recent conditions imply tighter monetary policy and the Egyptian government will use more of its resources to curb inflation in order to keep social and political unrest in check.

All of this entails a medium to long term devaluation of the currency. As our mandate is still protection of your real net worth, we still see converting a decent portion of your funds into US\$ as an important precautionary measure.

This been said, although we see the currency devaluation as something that will happen eventually because of economic factors, we recognize that such precautionary measures such as the ones we are proposing might lead to increased pressure and might indeed expedite the devaluation.

As your financial advisor, we have to present to you an unbiased picture and recommendation; yet, we recognize the patriotic implications of our decisions. We believe it is our duty to protect your real net worth by taking this precautionary measure. In case you do not want to transfer any of your funds into US\$ please email us within the next 48 hours.

What's next?

As we mentioned in our newsletter in the beginning of the year, we expect this to be a year of inflation which means that commodities are at the forefront of possible investment opportunities. As food commodities have already had a very impressive rally during the past few months and we see more social and political unrest or at least the fear of such unrest forming around the world as a direct consequence of food price inflation, we believe that assets that serve as

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safe havens such as gold, silver and oil are poised for a decent rally at least until end of Q3 2011.

By the end of the year, we see the worldwide stocks rally coming to an end and by then bonds should be selling at greatly discounted prices. We expect an investment in safe bonds to be an opportunity worth looking at by year end together with shorting worldwide price indices.

We are not yet issuing any recommendations until the local stock market opens (and local brokers as well) and we are able to formulate a plan of action for the coming period which we will communicate to you as soon as we have it in place.

Till then we hope you stay safe and please do not hesitate to contact me if you have any questions/comments.

Thank you and best regards,
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