

Maris Africa Fund

Q4 2011

First Closing	9th June, 2009
Final Closing	8th December, 2010
Commitments	\$26 million
Fund's domicile	Cayman Islands
Structure	One General Partner 55 Limited Partners
Investment focus	Start-up Development capital Buy-out investments Sub Saharan Africa

Investors are unlikely to remember 2011 with much affection: according to the World Bank, GDP growth worldwide in 2011 was an underwhelming 3.3%. This figure was supported largely by emerging markets, which posted growth of over 6%; Africa grew by 6.7%.

For us 2011 was a year of expansion and learning. Our portfolio increased from four to seven investments: two of these companies were start-ups at too early a stage for detailed financial reporting. The remaining five all posted positive earnings and revenue growth. Total consolidated revenues for our portfolio stood at \$11.6m, net income at \$1.37m, and the star performers, Network Support Services and Acacia Village in South Sudan, paid combined dividends totaling \$350,000 to the fund. Karebe Gold Mining Limited has staged a recovery following its start-up challenges and is set to do well into 2012, whilst Untu shook off mid-year turbulence to finish the year on a positive note.

Last year the fund made three new investments - Untu (Zimbabwe), OSS Mozambique, and MTA (Angola). All three deals have taken the fund into new territories and while they have presented challenges, all three should make good headway in 2012. The investments have diversified the portfolio away from South Sudan and have succeeded in unlocking strong deal flow from these markets, particularly in Mozambique.

Mozambique is likely to be a focus for the fund in 2012, given the opportunities presented by large-scale natural resource developments on and offshore: over the next 10 years few countries worldwide are likely to see stronger growth. While we have entertained opportunities in West Africa, our portfolio looks to likely to settle primarily in East Africa. From Nairobi we can reach all our target markets within four hours and can develop our investments in a scalable and cost effective manner. We remain confident in our investment thesis, especially now that Eastern Africa is seeing significant developments in the oil and gas sectors. Africa now has a middle class comparable to India - the population of East Africa alone is set to pass 400 million by 2025 - while gradual improvements in infrastructure and cross-border trade point towards an encouraging future.

All in all it's been a good year and the Maris team is increasingly comfortable in its sphere of operations. There have been frustrations at the rate of progress with portfolio companies and in finalizing deals, but these are natural given the nature of our portfolio. On behalf of the entire team we wish you well in 2012 and look forward to bringing you our next report in late April.

Charlie Tryon, Managing Partner

PORTFOLIO COMPANIES AT 31/12/11 (US\$ M)

Invest. Date	Name	Geography	% Equity	Industry	Cost	Fair Value	Realised Gain	Multiple to Cost
June 09	KGML	Kenya	80%	Gold mining		6.10	-	3.13
Sept 09	NSS	S Sudan	60%	Telecoms		1.46	0.15	1.10
Sept 09	Afritise	S Sudan	30%	Advertising		0.14	-	1.00
Sept 09	OSS	S Sudan	47%	Services		1.02	0.26	1.26
April 11	Untu	Zimbabwe	19%	Microfinance		0.51	-	1.00
May 11	OSS M	Mozambique	50%	Mining support		0.60	-	1.00
July 11	MTA	Angola	33%	Construction		1.60	-	1.00
Total						11.43	0.41	1.63

FUND SUMMARY (US\$ M)

Capital committed	26.09
Capital called	10.51
Advisory fee since first close	(1.66)
Establishment and operating costs	(0.33)
Late entry interest payments	0.10
Gain on revaluation	4.46
Dividends accrued	0.41
Value of fund	13.49
Fair Value/Capital called	1.28x
Capital distributed	Nil
Reserved for follow on	2.50
Available for drawdown	15.58

ADVANCED INVESTMENT PIPELINE

1. Tete Riverside, Mozambique

The fund is seeking to build serviced accommodation on the banks of the Zambezi in Tete province, north Mozambique, to service large scale coal mining projects. The aim is to break ground in early April and open to clients in Q4 2012/Q1 2013.

Investment stage:	Post final investment review
Possible equity stake	100%
Maris Africa Fund cost:	\$2m

2. Equatoria Teak Company, South Sudan

The fund is seeking to restart operations and develop teak plantations in South Sudan previously owned by CDC/Actis. We are waiting for the Ministry of Forestry to ratify an extension of the concession period from 32 to 60 years in line with the 2009 Investment Promotions Act. We are nearing the end of that process and expect to conclude an agreement in Q1 2012.

Investment stage:	Post final investment review
Possible equity stake	37.5%
Maris Africa Fund cost:	\$2m

INVESTMENT PIPELINE

Further pipeline sectors include telecoms services, agriculture, financial services, mining and light manufacturing.

INVESTOR TRIP

We have rescheduled our first investor trip to South Sudan and Kenya to OCTOBER 1 - 5th, 2012. Please email coco.ferguson@mariscapital.com if you would like to join us.

PORTFOLIO COMPANY



KAREBE GOLD MINING LIMITED

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Karebe Gold Mining Limited, Kenya ("KGML") is one of two gold mining companies in Kenya. Underground mining commenced in September 2010 and underground mining on reef in January 2011. KGML is headquartered in Kisumu, Kenya.

MARIS AFRICA FUND COMMITMENT

Investment Date	January 2009
Development Stage	Start-up
Equity cost	\$1,447,576
Shareholders loan	\$502,416
Fair Value at 30th September, 2010	\$6,100,000
Fund equity stake	80%
Fund Board Membership	2 board seats

Financials (US\$000)	2010A	2011A		2011E	2011A	
Revenues	1,436	1,558	9%	2,640	1,558	-41%
EBITDA	89	360	303%	1,225	360	-71%
Net Income	-96	125	n/a	992	125	-87%

Mining operations at Karebe are improving noticeably after the setbacks in production throughout 2011: Q4 2011 was the company's strongest quarter to date. The new mill and the company's on-surface processing plant are performing well; production stood at 400oz gold or 12.5kgs. While well below forecast, revenues for the quarter were \$643,000 and earnings \$273,000, a welcome improvement on the previous quarter.

In addition to improving our underground management and recruiting an on-site geologist in Q1 2012, the company is focused on development underground. While Karebe is now profitable it is important that the company develops sufficient infrastructure and mining development areas to ensure a consistent supply of ore of good grades. Operations are therefore being balanced between generating immediate near term cashflow and developing stopes and handling capacity underground.

The mine is being surveyed underground to provide better geological support to our mining operations. After an independent geological review scheduled for March/April 2012, we will decide whether to deploy further resources away from near term production and towards longer-term stope development. Subject to survey results and ongoing sampling underground, it may be prudent to consider reducing our production focus and to increase operational emphasis on underground development for 3-6 months. Should the board consider this the right course of action, Karebe may look to raise some interim financing to meet cashflow requirements. This would allow the company to raise its ore production from 400tons/month to over 1,200, boosting production by 3-4 times.

The company has spent considerable time negotiating with local land owners for access to the second mine on the license, Rock Cory mine, situated 350m from the existing mine shaft. With the land ownership under local dispute the company has faced a frustrating wait to gain access to the mine. The management is hoping to accomplish this in early 2012, a milestone that would significantly contribute to the ore feed to the mill.

PORTFOLIO COMPANY



NETWORK SUPPORT SERVICES

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Network Support Services Limited, South Sudan, (“NSS”) is the dominant GSM infrastructure construction and maintenance business in South Sudan. Managed by Gary Ensor, the company has a 50% share of the site support and maintenance market. NSS is headquartered in Juba, has regional offices in Wau, Rumbek and Tambura and a support office in Nairobi, Kenya.

MARIS AFRICA FUND COMMITMENT

Transfer Date	September 2009
Fund Ownership	60%
Valuation (cost)	\$1,460,891
Realised gain	\$150,000
Fund Board Membership	1 board seat - C Tryon

Financials (US\$000)	2010A	2011A		2011E	2011A	
Revenues	5,177	7,058	36%	4,554	7,058	55%
EBITDA	770	1,021	33%	1,204	1,021	-15%
Net Income	651	895	38%	1,108	895	-19%

NSS is the strongest performer in the Maris portfolio for the second year running. In April the fund received a \$150,000 dividend from the company representing a 15% cash return on the investment to date.

Results for 2011 are up over 30% on 2010. While this continues the company’s forward momentum the results are marginally below expectations. Both EBITDA and Net Income for 2011 have been slightly depressed as a result of the company’s contracts with Chinese telecoms company Huawei, which services the Zain network. NSS has yet to be recognised within Huawei’s internal accounting system as an “official contractor” and so has outstanding invoices to raise for work completed.

Negotiations with the prospective buyer of a 50% stake in NSS broke down in December: the proposed deal was linked to the creation of a complex new joint venture in South Sudan and we did not agree on terms. We have, however, offered to buy out minority shareholders and increase our stake in the company.

The company is still waiting to sign the final contract with Huawei for site maintenance services, which depends on Huawei concluding contractual negotiations with Zain. In the interim NSS has secured seven new GSM site construction contracts and other installation work and will work to grow GSM sites under management this year. We anticipate bottom line growth of approximately 10% in 2012.

Independence saw a dramatic increase in competition in the GSM maintenance and construction space - many of these smaller operators have wilted under the operating conditions. Given the local currency volatility last year and the chronic diesel shortage, the company has performed extremely well. While we are concerned at the regression in relations between the South Sudanese and their northern neighbours and tribal problems closer to Juba, we remain confident in the future of NSS and look forward to capitalising on our strong position within the telecoms services sector.

PORTFOLIO COMPANY



OPERATIONAL SUPPORT SERVICES

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Operational Support Services Limited, South Sudan, (“OSS”) is a camp services and logistics provider. OSS owns 100% of Acacia Village, a 34-room apart-hotel.

MARIS AFRICA FUND COMMITMENT

Transfer Date	September 2009
Fund Ownership	47%
Unfunded commitment	0
Valuation (cost)	\$1,021,185
Realised gain	\$263,450
Fund Board Membership	2 board seats

1. ACACIA VILLAGE

Financials (US\$000)	2010A	2011A		2011E	2011A	
Revenues	948	1,408	49%	974	1,408	45%
EBITDA	488	551	13%	449	551	23%
Net Income	361	394	9%	296	394	33%

Acacia Village has seen consistent strong growth through 2011 despite the impact of fuel shortages brought about by the blockade of diesel supplies to the south from the northern Sudanese government. Fuel costs at Acacia increased 200% between Q1 and Q4 and amounted to \$200k of costs in 2011. Despite this significant cost rise the company was able to defend its margins.

All scheduled upgrade works in 2011 are complete and except for one new office unit we do not foresee any further modifications to existing rooms in Q1 2012. With occupancy rates running at over 95% (despite a 20% increase in room rates), we may consider constructing more rooms.

Revenues were up 49% on 2010 and exceeded forecasts by 45%. This was achieved through high occupancy, increased room rates and a diesel surcharge in view of the spiralling fuel costs of 2011. Increased costs such as fuel meant that the company could not grow profits by the same amount.

Acacia is still considered Juba’s leading apart-hotel and is home to three European ambassadors. The company declared a second annual dividend in Q4, with the fund receiving a further \$100k from the investment. The company will look to reduce operating costs in 2012 and improve margins. We will also consider taking back our food and beverage services from a third party contractor in an effort to improve profitability and service provision. We anticipate 2012 to be another strong year.

2. OSS TRUCKS AND WORKSHOP

A final wind-down of operations has been completed. A \$70,000 distribution is planned for Q1 2012, approximately \$42,000 of which will be payable to OSS. The company will look to sell the residual trucks for \$75,000 in the coming months.

PORTFOLIO COMPANY



PORTFOLIO COMPANY: AFRITISE

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Afritise Limited, South Sudan (“Afritise”) is the dominant outdoor advertising company in South Sudan with coverage in eleven cities and towns. Afritise is headquartered in Juba, South Sudan and has eleven full-time employees.

MARIS AFRICA FUND COMMITMENT

Transfer Date	September 2009
Fund Ownership	30%
Transfer cost	\$96,000
Additional commitment July 2010	\$39,000
Valuation (cost)	\$135,000
Fund Board Membership	1 board seat - C Tryon

Financials (US\$000)	2010A	2011A		2011E	2011A	
Revenues	329	424	29%	491	424	-14%
EBITDA	68	65	-4%	123	65	-47%
Net Income	68	-61	n/a	83	-61	n/a

Afritise has continued to grow at a reasonable pace through 2011 despite increasing competition. Revenues for the year were 29% ahead of the previous year and earnings were up 11%. This was achieved in a challenging environment: several new regional players entered the market, the country’s currency weakened significantly and the cost of many goods rose.

The company posted a loss of \$61,000 last year: this was due in part to significant repair costs to a large number of billboards as part of a network-wide maintenance plan and more aggressive depreciation charges, accounting for \$195,000 of operating costs for the year. Another contributing factor was the company’s failure to build out its airport contract. Juba Airport’s new international terminal has seen further construction delays and major site works prevent the construction of billboard sites around the airport territory. This has been exacerbated by uncooperative airport authorities in part as a consequence of their own funding pressures.

Phil Taylor, the capable new manager continues to make progress where our previous management were less successful and has engaged both existing and new clients to increase revenue streams. He has made good progress with the airport and local authorities. While these problems are by no means solved, we are taking action to remedy them.

In comparison to its competitors, Afritise maintains a strong presence throughout the country and a much higher billboard occupancy. We believe the two most significant competitors, Aptin and Mag-nate, have occupancy rates of less than 60% versus Afritise’s 80%. This reflects well on our strategy for small, more accessible signs for our clients. Negotiations are ongoing with two major African outdoor advertising companies looking to acquire a significant stake in Afritise. Both parties recognize the complexities of working in South Sudan and the need to acquire a footprint in the market through the acquisition of an experienced local operator. With 2012 forecasts looking encouraging and our airport roll-out finally underway, we hope to partially exit the investment and partner with one of these companies.



PORTFOLIO COMPANY: UNTU HOLDINGS LTD

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Untu Holdings Limited, Zimbabwe, is a microfinance institution that was founded in 2009 by Clive Msipha to meet the growing demand for credit from small business and entrepreneurs. Untu offers loans, savings and insurance products from its branches in Harare and in four towns across southern Zimbabwe.

MARIS AFRICA FUND COMMITMENT

Transaction Date	April 2011
Development Stage	Early stage
Fund Ownership	19%
Investment cost	\$512,000
Additional commitment 2012	\$500,000
Valuation	\$512,000
Fund Board Membership	C Ferguson

Financials (US\$000)	2010A	2011A		2011E	2011A	
Operating income	597	1,037	74%	1,753	1,037	-41%
Operating expenses	372	732	97%	953	732	-23%
Impairment provisions	107	262	144%	318	262	-18%
Net income	162	24	-85%	349	24	-93%

Untu had an improved final quarter of 2011, ending the year on a positive note after a weak mid-year period. Untu now has a full staff complement across its Harare, Gweru and Bulawayo branches, and IT and lending processes are improving every month. Untu is now looking to control costs while it grows its lending book. The team is seeking to lodge its microfinance banking license application to the Reserve Bank of Zimbabwe in the next quarter, following improved performance.

CEO Clive Msipha has focussed on tightening processes and improving credit quality, in particular by ensuring stronger securitisation of Untu's SME loans - a recommendation of the board. Liquidity across the banking sector in Zimbabwe remains highly constrained, and a more conservative approach to securitisation was a sensible response to the counterparty risk that Untu faces with its larger loans. December saw a slow down in disbursements in the run-up to Christmas, based on past experience of credit quality in the festive period.

Political volatility has continued in Zimbabwe and the banking environment is unlikely to recover in the near term. While the turbulence continues Untu has been looking to expand into offering new financial products to government employees and diversifying its risk.

In the last quarter Untu applied for technical assistance from the Maris Africa Fund's technical assistance facility with Limited Partner Proparco. This will support the company's partnership with a Kenyan MFI consultancy to enhance the company's credit process and improve its IT operations. Already in January 2012 disbursements were up significantly on December and we look forward to Untu consolidating its position and improving performance.

NEW INVESTMENT: OSS MOCAMBIQUE

OSS – Moçambique, S.A is a start-up mining support services venture. Phase 1 includes an industrial park and serviced offices in Tete; phase 2 will expand into serviced accommodation. Tete is undergoing rapid growth due to investments in the coal mining sector by VALE and Rio Tinto, which are anticipated to transform Mozambique into the world’s second-biggest coking coal export region after Queensland, Australia.

MARIS AFRICA FUND COMMITMENT

Transaction Date	May 2011
Development Stage	Start-up
Fund Ownership	50%
Investment cost	
Phase 1	\$600,000
Phase 2	\$1,250,000
Fund Board Membership	Andrew Fimister

OSS–Moçambique is progressing well: following delays one of the warehousing units will be ready for rental at the beginning of March 2012. One foreign customer is already signed up for a two year lease at a premium rate for both the warehouse and office units. The second building will be completed in the middle of April. Delays were caused by the building contractor’s problems sourcing material. Much of the material supplied since then has been sourced by OSS–Moçambique itself, which has eased the problem. The buildings will be coming in over budget due in part to the appreciation of the metical (incidentally one of the world’s strongest performing currencies in 2011) and due in part to the scarcity of various materials, which has had a significant inflationary effect on local prices.

The outlook for the business is strong. Tete will be experiencing significant growth in 2012 as both the Rio Tinto and Vale coal mines come on line, and the next phases of production commence. Tete is reportedly the fastest growing city in Africa, and is attracting large mining and steel manufacturing groups such as ENRC, Posco, Tata Steel, Jindal Steel & Power and Nippon Steel. Running parallel to the development of the open-cast coal mines, which will turn the region into one of the world biggest producers of coking coal, is a significant upgrade of the transport infrastructure. Currently all the coal produced is being shipped down the Sena line across the Dona Ana bridge into Beira port and the newly constructed coal terminal there. This will not be sufficient for all the coal produced however and Vale has started construction on a rail line to join the Cuamba to Nacala rail line, in order to ship the coal through Nacala port, further north. Along with the construction of the new transport routes, there are plans for two thermal power stations and a second dam across the Zambezi at Mpanda Nkuwa. Already a second bridge is being constructed across the Zambezi river by a consortium of Portuguese companies. All of the above translates into growth that OSS plans to capitalise on.





NEW INVESTMENT: MTA

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MTA (Máquinas e Tratores de Angola) has a dealership license to sell JCB machines, spare parts and after-sales service within Angola. The company is a joint venture between Maris Capital, Muscat Overseas Group (owner of multiple machinery dealerships across the region) and Portuguese construction company Soares da Costa.

MARIS AFRICA FUND COMMITMENT

Transaction Date	July 2011
Development Stage	Development capital
Fund Ownership	33%
Investment cost	\$1,600,000 (includes \$1m bank guarantee)
Fund Board Membership	Andrew Fimister

Following a lengthy period of delay to get stock into the country, MTA finally managed to import the five backhoe loader machines from Portugal, which have since all been sold; the business also commenced spare part sales last quarter. The final quarter of 2011 was a fairly slow period, with November and December traditionally being sluggish months in Angola in the run up to Christmas. There was also the factor of new management taking control of a largely defunct and non-performing company and having to concentrate heavily on cutting unsustainable overheads. A new sales manager has been recruited as well as a new spare parts store-man, a new technician and an accountant.

To break even the business must sell two machines per month or one machine plus US\$30K worth of spare parts, targets which are achievable in the current environment. Year one of operations was budgeted at 40 machine sales in the year. Although Q4 2011 was slow, 2012 has already witnessed a level of sales of machines that will surpass budget, although there continue to be supply delays due in part to the Japanese tsunami that impeded production within JCB. MTA managed to renegotiate its machine prices from JCB following a worrying trend that saw JCB machines being imported into Angola from other geographies at a lower price than MTA could offer. This has been remedied thanks to the renegotiated prices, but we will have to maintain a close eye on the situation as European dealers are tempted to dump dead stock onto high growth developing markets. Angola's fundamentals remain strong if oil prices continue, and heavy investment in infrastructure continues. Indeed, one of the partners within MTA, the large Portuguese construction group Soares da Costa already had a full order book for 2012. This bodes well for the business.



MTA machine display park, Viana, Luanda, Angola

MARKET OVERVIEWS

SOUTH SUDAN

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The most contentious issue affecting north-south relations remains the revenue sharing agreement over the 490,000 barrels of oil produced per day. Following independence South Sudan gained control of 75% of this output, which is then transported via pipeline through the north and then shipped abroad. There is not yet any other pipeline out of landlocked South Sudan. The crude is pumped mainly by China National Petroleum Corp. (CNPZ), Malaysia's Petroliam Nasional Bhd. and India's ONGC Videsh Ltd. North Sudan recently seized oil worth \$815 million claiming that it was recovering unpaid fees from South Sudan. Currently, North Sudan is asking \$36 per barrel to pipe the crude out of South Sudan, while the latter is reported to be unwilling to pay more than \$1 per barrel. In response to the seizure South Sudan is in the process of shutting down its oil fields. South Sudanese negotiators say they will not resume drilling until the north returns the full value of the seized oil. It is difficult to gauge how long the dispute is likely to last, even taking into account both governments' heavy reliance on oil revenue. China is North and South Sudan's largest economic partner: it imports 60% of its oil and holds a 40% share of its oil projects and has been drawn into the negotiations, sending an envoy to mediate in December. Their importance has made them targets: in January 2012 29 Chinese workers were seized by an independence movement in the southern area of North Sudan, and later released.

The last quarter saw continued fighting in the border areas of South Kordofan, Blue Nile and Jonglei between the Luo Nuer and Murle tribes. UN figures place casualties at 1,000 in 2011 from cattle rustling attacks and the conflict is creating a refugee situation locally. At the same time French company Total, which holds a 32.5% stake in South Sudan's oil Block B, covering most of Jonglei state, announced that it plans to resume exploration work there. Total signed an exploration and production-sharing agreement with the Sudan government in 1980 before suspending exploration in 1985 because of the civil war; the vice president of Total recently visited Juba for discussions on unexploited oil blocks.

Despite the north-south stand-off a good deal of investors seems confident that South Sudan will remain broadly stable, or even improve its political outlook. Oil company Royal Dutch Shell is rumoured to be considering an entry into the country, while speculation remains that Total may be looking to build a pipeline south via Uganda. The newly born South Sudanese Pound (SSP), managed by the new Central Bank, has stabilised to 3.5 from a high of 4.1 against the US dollar in 2011.



Karebe Gold Mining Limited, Kisumu, Kenya



Acacia Village, Juba, South Sudan

MARKET OVERVIEWS

KENYA

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In a recent decision by the High Court, Kenyan elections have been postponed from August 2012 to March 2013. This pushes out the inevitable question: can the upcoming set of elections avoid the violence that marred the previous elections in 2007? The risk is that many potential investors awaiting the outcome of the previously planned August 2012 elections will continue to delay projects until after March 2013.

Another pressing issue is Kenyan efforts to suppress the Al-Shabaab movement in Somalia. In practical terms this has had little impact on the wider economy, except for the tourist industry, but a number of terrorist attacks and kidnappings have heightened security concerns.

The past 12 months have proven a turbulent period for the Kenyan economy. Following a sharp depreciation, the Kenyan Shilling has recovered somewhat – recent strength in the currency was driven by aggressive and arguably late policy action from the central bank. In response to the elevated levels of inflation in the economy, currently c20%, the central bank violently hiked rates to 18% and raised the reserve requirements for commercial banks. Previous real GDP growth estimates of 6.1% in 2012, up from 5.3% in 2011 now look unlikely to be achieved. Revised consensus estimates for 2012 are now probably around 4%.

Nevertheless, the increasing integration of the East African Community (EAC) seems to be progressing well and export/regional opportunities for Kenyan firms are moderating damper growth at home. Exporters, particularly in the tea and coffee sector, continue to see strong foreign receipts, while there remain interesting opportunities for growth in the natural resource sector, with substantial mineral deposits potentially untapped. Several oil and gas companies, including BP, Tullow, Apache, and several Chinese firms, are actively undertaking exploration activities.

ZIMBABWE

The power sharing deal between Robert Mugabe and Morgan Tsvangirai is heading to an uneasy conclusion. The Government of National Unity (GNU) set up in 2009, after the violence that followed the 2008 elections, has succeeded to a certain extent in pulling the country out of a deep political and economical crisis. However, sustained gains in the political arena have been less impressive than the economic recovery and speculation continues to surround potential timing and outcome of the next set of elections.

Despite this, economic growth for Zimbabwe is expected to have increased from 8.1% in 2010 to 9.1% in 2011. Much of this growth has been driven by the agricultural and mining sectors as both output and prices have risen. In 2012 the economy is estimated to grow by c9% supported by increasing production of gold, coal, platinum, tobacco and maize. A compromise agreement allowing the sale of Marange Field diamonds under the Kimberley Process Certification scheme should also add \$600m to mining sector receipts. Nevertheless, uncertainty over the scope and timing of indigenisation policies continues to cause nervousness within the ranks of big and medium foreign mining companies. They remain reluctant to invest in new projects or even scale up existing ones, given the uncertainty surrounding indigenisation.

The rest of the economy presents a more mixed picture. The industrial sector continues to suffer as it makes the necessary painful adjustments required for a post hyperinflation environment and the banking sector remains vulnerable with many banks incurring excessively high cost bases. Restructuring operating costs has been difficult, particularly in the face of strong wage demands. In addition, the banking sector as a whole remains undercapitalised and continues to be hampered by high interbank lending rates. Meanwhile, the true state of non-performing loans on balance sheets most likely remains underreported. On the other hand, the retail and FMCG sectors continue to perform well, driven by increasing consumer disposable income among small-scale farmers and salaried employees.

Encouragingly, Zimbabwe retains a key focus amongst foreign investors. A recent Economist Intelligence

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Unit (EIU) report surveying 158 investing institutions places Zimbabwe 3rd in Africa for likelihood of investment.

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MOZAMBIQUE

Mozambique's impressive capacity for attracting foreign direct investment was once again confirmed in 2011 and is set to increase further in 2012. Large scale coal projects in the Tete region continue and estimates are that the Tete region alone could be producing up to 10-15% of the world's coking coal by 2015.

Offshore explorations have also shown very promising results. ENI, the Italian oil and gas super-major, upgraded its initial gas discovery and is now estimating potential reserves of between 15 to 30 trillion cubic feet of natural gas. Planned investment from ENI alone could be as much as \$50 billion over the lifetime of the fields. Petronas, the Malaysian state operator, and Statoil are also conducting explorations in the area. In addition, Anadarko has set out plans to start pumping gas in its Rovuma Basin offshore concession by 2018. Anadarko's project is to initially build two Liquefied Natural Gas (LNG) Trains with an initial processing capacity of 5 million tons a year, scalable to a potential 30 million tons per year.

Low tariff hydroelectric power, together with the readily accessible coal has also attracted world leading steel producers. Amongst others, Nippon Steel, Jindal Steel, and Tata Steel have all established bases in Tete. These power intensive industries are spurring projects to expand the capacity of the local hydroelectric dams by a further 2,800 megawatts bringing total capacity in excess of 4,000 megawatts. Construction should start as soon as 2015.

Land connections to the country's ports remain the weakest link in the chain, limiting the capacity for export, and ultimately for production, of the mining establishments. However, the government is investing heavily in expanding the rail network.

Nevertheless, the risk remains that growing disillusionment with the current regime of strong but circumscribed economic growth (7.2% Real GDP growth in 2011 and a projected 7.5% in 2012) could spur similar popular unrest as the 2010 food riots. Encouragingly, inflation rates - the main cause of the riots - have dropped from their 2010 high of 12.7%, to 9.2% in 2011 and are estimated to decrease further to 7.3% in 2012.

ANGOLA

Angola staged a modest recovery in 2011 after a trying few years. In politics Oliman Vicente, former CEO of Angolan oil behemoth Sonangol, has been appointed to the Ministry of Economical Coordination. There is speculation that this is a move orchestrated by President Jose Eduardo dos Santos - the second longest serving president of Africa, boasting 32 years in office - to groom a potential successor to the Presidency. Dos Santos is nearing the age of 70. Vicente is certainly a capable technocrat. Appointed CEO in 1999, he oversaw Sonangol's spectacular performance. By 2010, oil profit collected from Sonangol accounted for two thirds of Angola's total oil revenue and half of its tax revenue, according to IMF figures.

Angolan real GDP grew by 3.4% in 2011, mostly due to oil production problems and government arrears, which were in turn caused by Sonangol's delay in transferring oil revenue to the treasury. Inflation stabilised at 11.4% by year-end, but is set to increase to 12.1% in 2012. The economy and the Government's budget remains strongly dependant on oil revenue. A strong recovery is forecasted for 2012, with real GDP growth forecast to reach 10.8%.