Africa Business Frontier

March 2008

Africa Frontier Advisory
Research & Strategy in and beyond emerging markets

Welcome to the inaugural issue of Africa Business Frontier

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Growth Prospects in Africa remain strong

In 2007 Africa recorded its fifth consecutive year of growth in excess of 5%, outpacing general global growth and shifting international perceptions of the continent. As a result, African markets are receiving considerable attention for the potential returns they offer for long-term investors looking to tap into growth in some of the continent's emerging and frontier economies.

Several factors have underpinned the growth recorded in Sub-Saharan Africa, which has been led by the sub-continent's largest and fastest growing economies – South Africa, Angola, Kenya, Nigeria and the DRC.

Firstly, the continent has seen major improvements in political and economic stability. With the exception of ongoing instability in regions such as the Eastern DRC, Southern Sudan, the Niger Delta and Somalia and recent turmoil in Kenya, the continent is at peace. Macro-economic reforms implemented throughout several of the continent's economies have started to reap genuine rewards. While risks remain high, the ease of doing business in Africa – spearheaded by major gains in countries such as Ghana, Mauritius and Botswana – has greatly improved. Where risks remain high, the potential rewards are even higher. These yields are driving investors into regions previously reserved for companies from the country in questions previous colonial oppressor.

Secondly, favourable global conditions have facilitated Africa's economic resurgence since the turn of the century.

Leading up to the ongoing sub-prime crisis, global investors were graced with huge capital surpluses to plough into risky ventures throughout the global South. Africa became a major recipient of this capital, and continues to provide attractive options for global investors looking to spread risk and diversify their portfolios into country's which have to a large extent avoided the direct effects of the sub-prime crisis.

Thirdly, the global commodities boom kick-started by surging demand from China and India has benefited Africa's resource-rich states. With oil prices soaring from $48 per barrel to $100 per barrel in 2007, oil-rich countries throughout Africa, most notably Angola, Sudan, Eq. Guinea and Nigeria, were left to reap the benefits. China's appetite for minerals such as copper, gold, iron ore and manganese is driving it to tie up strategic assets throughout Africa – thereby raising competition for entrenched Western competitors and increasing the bargaining power of local governments. It is predicted that the commodities boom has only just begun and is in the first stage of a 20 to 30 year cycle – a period which will see Africa becoming of increasing strategic importance on a global scale.

Fourth, huge debt relief programmes have freed up several African governments to spend budget on local infrastructure and job creation. Zambia and Nigeria have benefited greatly from debt relief in this regard, allowing the state to stimulate local industry to better manage the recent wave of growth.

Finally, as mentioned, China has, and will continue to, change the nature of Africa's interaction with the outside world. Chinese interest in Africa since the turn of the century has been unprecedented as the Asian giant looks to Africa to secure vital resources and access the continent's vast and untapped market. Africa is becoming increasingly spoilt for choice regarding potential international government investors as Western powers scramble to counter the effect Beijing is having throughout the continent. If managed well, the benefit for Africa in having more international suitors will be significant.

These developments have meant that firms with global aspirations are being forced to incorporate Africa into their long-term plans. Africa is in many ways the final frontier for global investment, and, while the impact of new and traditional players in the continent's domestic economies needs to be carefully managed so as to ensure local beneficiation, the vastness of the opportunities allows for a multitude of players competing in the same way that they do internationally.

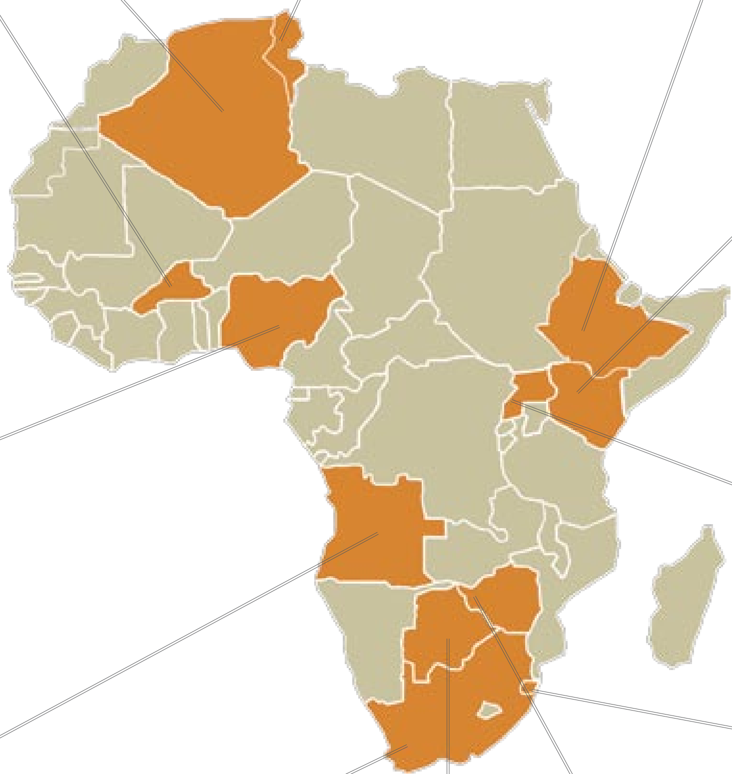
Africa Hotspots

Algeria
Momentum is building for a constitutional amendment to allow President Bouteflika to stand for a third term. Media campaigns spearheaded by the president's advocates have already begun. Select political parties and civil society members have also started jostling to show their support for the amendment.

Tunisia
Export of bio-products to Europe have reached an impressive 9 000 tonnes in the 2006 - 2007 farming season, bringing in 57 million dinars to the country. This is almost treble the amount exported in the 2004 – 2005 season. Stringent compliance to EU standards have been cited as the reason fro the increase in exports.

Ethiopia
The country has won a protracted legal battle with Starbucks Corp. for the trademark rights of its Sidamo coffee in the US. Ethiopia has already secured the rights for Yirgacheffee coffee and is currently pursuing rights for its Harar coffee.

Burkina Faso
The country has been rocked with protests over the rising cost of living. Violent protests took place in Ouagadougou and Bobo-Dioulasso. The government has reacted by suspending customs duties on a number of essential products for three months.



Kenya
A shift in the nature of the power-sharing agreement threatens to derail the post-election reconciliation process. The new power structure announced by the Secretary to the Cabinet suggests that the bulk of executive power will remain in the hands of the President.

Nigeria
The Committee on Power and Steel has opened up an inquiry into the alleged spending of US$ 16 billion on the power sector without corresponding results. Nigeria is facing an acute power shortage. Former President Olusegun Obasanjo's government spent US$ 10 billion with little to show for its expenditure.

Uganda
The country has moved one step closer to signing a peace deal with the Lord's Resistance Army. The signing ceremony is expected to take place in Juba on the 28th of March. The rebels have stated that should anything happen to Kony during the signing ceremony, all peace talks will be cancelled.

Angola
Violence in the Cabinda region has sparked fears of a reduction in oil output. The secessionist group has killed three soldiers and wounded several. Most of Angola's crude oil comes from Cabinda's offshore deposits.

Swaziland
A labour strike has drawn attention to the ineffectiveness of the government's poverty alleviation programme. Protesters were tear gassed and beaten by police as they protested their wages of US$77 per month for a textile worker.

South Africa
Miners have threatened to down tools if the current electricity crisis results in job cuts. This threat comes in light of an announcement by Goldfields that it would have to scale back on jobs because of the 10% power supply reduction imposed by Eskom.

Botswana
The country has scored an impressive 68.6% on the Heritage Foundation, 2008 Index of Economic Freedom assessment. According to this assessment, the Botswana economy ranks second on the continent and 36th in the world.

Zimbabwe
47 regional and sub-regional observers have been invited to monitor the country's March 29 elections. Concerns have been raised about the allocation of polling stations. Rural voters have an average of 2 polling hours to cast their vote while urban voters have 9 seconds.

SA Inc. in Africa

South African companies have been looking beyond their borders for investment opportunities. The rest of Africa presents new and exciting possibilties fo SA Inc. to expand its operations and share best practices across the continent. Africa Frontier Advisory has been tracking these developments.

ABSA Capital, Barclays

Absa Capital and Barclays have organised a commercial debt facility to the value of US$ 867 million for a hydropower project in Uganda. Absa Capital will act as the hedging bank and facility agent for the commercial debt. Industrial Promotion Services and Sithe Global, the deal sponsors, mandated Absa Capital as one of the two lead arrangers for the US$ 115 million commercial debt facility. Bujagali Energy (Uganda) will undertake the construction of a 250 MW hydro-electric station located on the Nile. In order to maximise benefits to the consumer, the five generating units will be commissioned consecutively. The first unit is expected to be commissioned in Q4 2010.

Altech Enters Kenyan Market

Altech has acquired a controlling interest in the three subsidiaries of Sameer ICT group (Kenya). The deal is worth US$ 85.2 million. From the 1st of March 2008, Altech will have a 51% controlling interest in Kenya Data Networks (KDN), Swift Global (Kenya) and Infocom. KDN has a strong infrastructure network consisting of 1 000 km fibre line from Mombassa to Nairobi as well as 450 km of fibre in Nairobi. It has a fibre link to Uganda and currently has over 450 WiFi spots. Swift Global (Kenya) is an internet provider in Kenya and Tanzania that can provide corporate virtual private networks and wireless solutions throught KDN's infrastructure network. Infocom, a previous division of Celtel, offers broadband, internet

Delta Mining Consolidated in

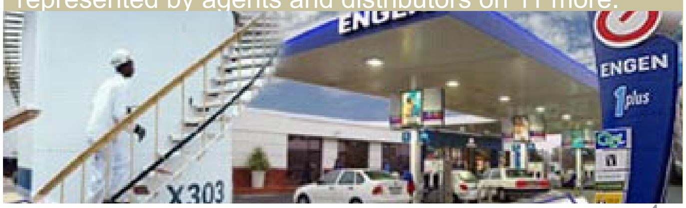
President Ellen Johnson Sirleaf made an announcement in her speech to the legislature that the development of the Western Cluster Iron ore Deposit had been awarded to Delta Mining Consolidated (DMC). DMC was one seven companies that bid for the project. The company is awaiting a written confirmation from the Liberian government after which it will activate the Special Purpose Vehicle to fund the initial phases of the development.

Blue Financial Services

Blue Financial Services is set to expand operations into seven African countries in the next three years. It is currently operating in nine countries and has received regulatory approvals to expand into the Rwandan and Cameroonian markets. Nigeria, Ghana, Angola, Mozambique and Swaziland are all up for consideration in the near future. This expansion is in line with the company's plans to bolster its revenues through the acquisition of African assets. In the near future, the microlender would like to see the majority of its income to be generated in Africa as opposed to South Africa. Blue has gained a competitive advantage through the use of its virtual private network (VPN) which allows for real time monitoring from the country and group head office.

Engen Confirms African Focus

Engel Petroleum Ltd. has made a pledge to only operate in the continent. The company wants to double its market share from 8% to 16% in 2016. In line with this goal is the intention to be the second largest marketer of downstream (refined) petroleum products. An indication of this commitment is the Engen buy out of Shell in the Democratic Republic of Congo. While Shell has negative experiences in the less profitable downstream business, Engen continues to have positive experiences from its African ventures. The disinvestment of major oil companies on the continent is changing the landscape. It is creating space for new investors such as Oil , Reliance, ESSAR and Engen. Engen currently has 14 offices in Africa and is represented by agents and distributors on 11 more.



SA Inc. in Africa cont.

TWP Consulting looking to Central Africa

TWP Consulting is looking to Central Africa as a destination for its expansion plans. Zambia, Tanzania, Botswana, Namibia and the Democratic Republic of Congo have been cited as possible locations. The expansion strategy rides on the back of the success the company has experienced in South Africa. The company is looking to capitalise on its previous projects and use the expertise gained to add on to their current successes on the continent. The construction of a new concentrator for the Bindura Nickel Corporation in Zimbabwe, involvement in the Tati nickel project in Botswana as well as the joint execution of the second phase of Metorex's copper/cobalt project in the DRC indicate TWP's commitment to its expansion strategy in Africa. It is already in negotiations for several other projects.

Celcom Ventures into the Ugandan Market

The Celcom Group has obtained a 50.5% stake in Nilecom (Uganda) for roughly R9,4 million. The Celcom Group has the option to increase its stake by an additional 15% in 2009. Nilecom is one of MTN's largest dealerships in Uganda. With 5 million users to date out of a population of 32 million, Uganda can be used as a springboard into the region. The number of cell phone users is expected to grow five-fold by 2015. Most users are only taking advantage of voicemail and SMS which presents an excellent opportunity to introduce new products such as 3G and GPRS.

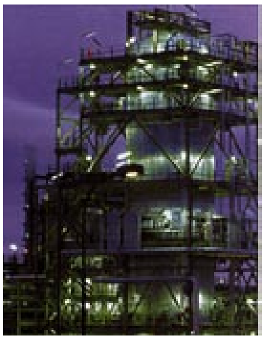
Liberty Group Expands into East Africa

The Liberty Group has expressed a firm interest in East Africa. It is already in talks to buy stakes in Nigerian and Kenyan financial services companies with the aim of increasing income from the rest of the continent. Kenya has been targeted as the hub for its east African regional expansion in spite of the current political tensions in the country. Liberty's actions come on the back of a similar strategy employed by Standard Bank which currently has 18 branches in Africa and has plans to increase this to 20 by the end of the year.

Petroline in SA-Mozambique Pipeline Deal

Petroline has plans to build a petro-products pipeline from Mozambique to South Africa. It has already signed long-term petro-storage and transport agreements with customers. It is envisaged that the pipeline will run from Maputo to Nelspruit, with product supplies beginning in 2010. Pipeline has been granted a license to build the first ever private pipeline by the National Energy Regulator of South Africa in 2007.

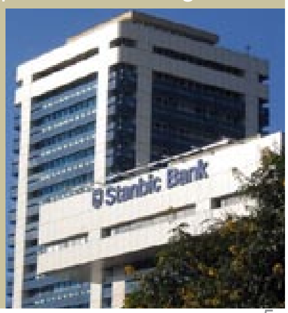
Sasol to Build R1.1 billion Compression Station in Mozambique

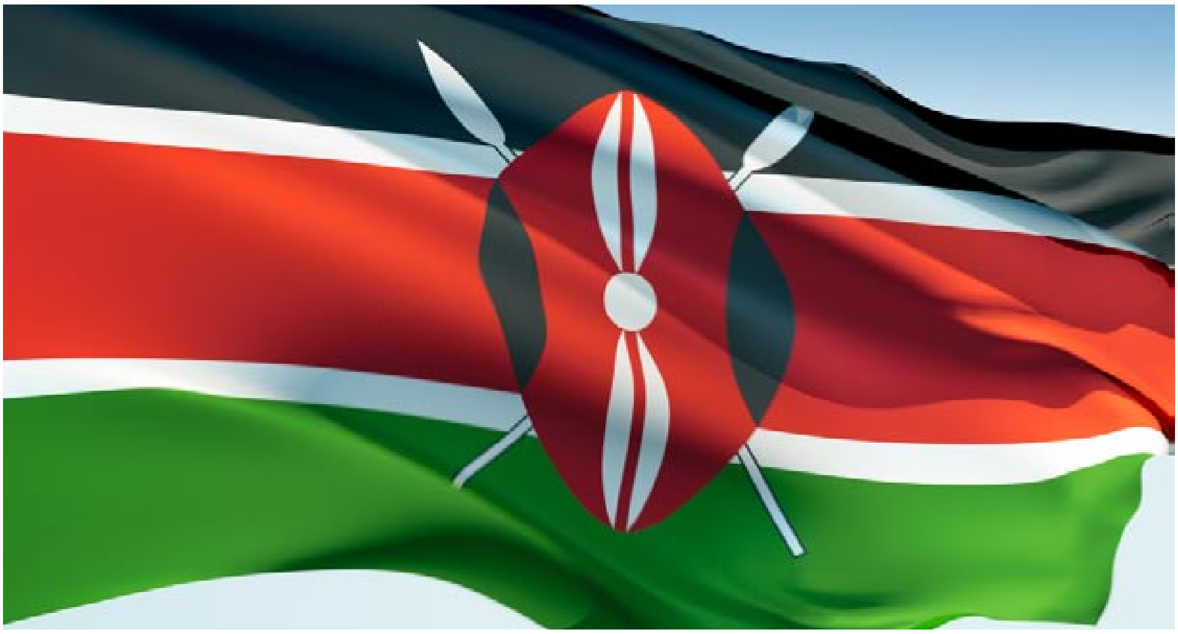


Sasol,in a joint venture with iGas and Compania Mozambicana de Gasuduto will build a gas compression station valued at R1.1 billion. This JV will be conducted under the Republic of Mozambique Pipeline Investment Company (Rompco). This station will enable a 20% increase in the delivery of natural gas from Mozambique to South Africa by the end of 2009. This will be an increase of 27 million gigajoule to bring the total to 147 million gigajoules per annum. Construction will begin in mid-2008.

Standard Bank Ready for Angola

Standard Bank plans to invest US$25 million in Angola to set up a commercial and investment bank. An application has been made to convert the local representative office into a bank. The recent visit by a Standard Bank business delegation including Cyril Ramaposa, returned with plans of creating a universal bank in Angola. The Angolan market presents a plethora of opportunities because of the large numbers of unbanked people coupled with the unsophisticated banking industry.





Kenya - Looming challenges for the Coalition Government

Simon Freemantle, Senior Manager — Africa Frontier Advisory

While the recently agreed power sharing deal signed between President Kibaki and his ODM opposition leader Raila Odinga is to be celebrated, it introduces several major challenges for Kenya as it aims to improve on recent economic gains and increase its contribution to the regional and international market.

The first challenge has to do with decision-making. With Kibaki as President and Odinga as Prime-Minister and backed by an evenly-split parliament, major decisions which require parliamentary backing will be extremely hard to come by. In a developing country facing significant capacity and infrastructural challenges, this impediment to the decision-making process will undoubtedly hinder economic growth going forward.

This relates to the issue of the fulfilment of campaign promises. Both Kibaki and Odinga made lofty campaign pledges and will be faced with major challenges in fulfilling even the most basic of them. Odinga will be pressurised to increase the participation of towns and cities in the western region of the country in the domestic economy. Road and rail networks linking Western towns, many of which have seen the worst violence since the December elections, and the drastic improvement of service delivery into these same areas is of paramount importance should the coalition hope to rule with relative peace and stability for the next five years.

For his part, Kibaki will have to balance the interests of the ODM with his economic reforms and the focus on the private sector as an engine of growth for the economy as a whole. Maintaining the status quo in Nairobi and the greater Central Province will be Kibaki's major challenge as pressure mounts to spread the benefits of Kenya's growing wealth to the large sections of the country's rural majority.

There are two salient areas of synergy in terms of electoral promises which could provide examples of successful collaboration between Kibaki and Odinga.

The first is the common promise to improve Kenya's general transport infrastructure and boost trade routes with the country's

landlocked neighbours in Uganda, Rwanda, southern Sudan and the eastern DRC. Due to a lack of local capacity to tackle the size of the proposed projects, foreign involvement in the construction industry will undoubtedly increase – led by competition between traditional market players from South Africa and the EU and the rising involvement of Chinese firms in the sector.

The other potential commonality is the promise made by both camps to provide free education to Kenyan primary and secondary school pupils. For Kibaki this is a continuation of his policy implemented in 2002 to provide free primary education for all. Expanding on this, Kibaki promised leading up to the elections to subsidise education for learners in Grade 8 and 9 - with a total government contribution of Sh4.3 bn.

Odinga promised free primary and secondary education – a promise which has been heavily criticised for being unrealistic due to the annual government bill of Sh40 bn that would be required to fulfil it. Either way, both Kibaki and Odinga at least agree on the need for improved access to education and the need to boost Kenyan links with the regional and global community. This should be used as a point of departure for the coalition government.

Considering the likely structure of the coalition, there seems little chance that Odinga will have the room or mandate to force an economic shift in Kenya towards a more socialist model of development. The private sector will continue to expand, aided by both political camps and the economy as a whole, with the exception of the damaged tourism industry, will recover from the political crisis fairly rapidly – perhaps even experiencing a mild boom in foreign direct investment from the international allies which gave their backing to the successful mediation mission by Kofi Annan.

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ABOUT US

Frontier Advisory (Pty) Ltd is a research and strategy company that assists clients to enter and operate in emerging market economies. We have worked with an array of multinational firms, small & medium enterprises as well as public sector clients and have assisted them to analyse, formulate and execute their business strategies in these new markets.

Frontier and emerging economies offer new investment opportunities for companies and are fast providing new markets for traditional market capital, technology and management expertise. These economies not only pose new challenges to business but also greater commercial potential. Our firm's professional services serve to offset the risk that is inherent in these countries – whether in the BRIC countries or second or third tier emerging markets.

Within the firm, there are four dedicated business units that include China Frontier Advisory, India Frontier Advisory, Africa Frontier Advisory and Latin America Frontier Advisory. Our diverse and international team is well positioned to serve clients' needs based upon their knowledge and operational experience and emerging markets.

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