



The Mozambican Economy

Expansionary budget to support growth

Real GDP advanced 7.4% in 2014

Economic activity expanded 7% YoY during 4Q14, aided by healthy performances in the financial services, mining and construction sectors. The statistics bureau also revised upwards its growth figures for 3Q14 from 7.4% to 7.6% YoY. Overall, real GDP advanced 7.4% in 2014 (vs. 7.3% in the previous year) with financial services being the fastest growing sector in the period. Mozambique was one of the fastest growing countries in Sub-Saharan Africa in the last decade, witnessing an average annual growth rate of 7.3% (vs. 4.7% in the region) in the period.

Expansionary budget in 2015

The budget for 2015 kicks off the government's five-year program for the period 2015-19. It is centered on five key priorities, namely (1) consolidation of national unity and peace, (2) development of human and social capital, (3) job creation, productivity and competitiveness, (4) development of infrastructures and (5) sustainable and transparent management of natural resources and environment. The government plans to increase its spending by 9.3% YoY, mainly capital expenditures and net lending as both domestic and external financing surge from last year. This should help sustain economic growth at around 7.5%, the government's target for this year. All in all, the local authorities expect the budget deficit (before grants) to increase to 11.1% of GDP and to 7.6% (if including grants).

Mr. Nyusi replaces Mr. Guebuza as Frelimo party leader

Former Mozambican president, Mr. Armando Guebuza, resigned as the Frelimo party president at end-March, a move that surprised many local market participants. Mr. Filipe Nyusi was almost unanimously voted as the new party head and now holds the dual position of being the country's president as well. Mr. Nyusi is part of a post-war generation and is reportedly less resentful of the opposition, namely the leader of Renamo, Mr. Afonso Dhlakama. It will be critical that the two leaders come to a sustained and long-lasting agreement so that the image and credibility that the international community has of the country is not damaged any further.

Final investment decisions in LNG projects due in 2015-16?

The current oil price environment has led oil and gas companies to evaluate and scale back their exploration and development budgets. This may have an impact on Mozambique, which has recently announced the largest natural gas find in Africa, an estimated 200 trillion cubic feet. This is equivalent to 33 billion barrels of oil, or almost as much as Nigeria's proven oil reserves. Anadarko and ENI are planning to make a final investment decision on their LNG projects later this year or in early 2016 with production and export of the first LNG expected after 2020. Anadarko recently announced the selection of a consortium for the initial development of its LNG park in Mozambique. This followed news reports suggesting that the company could simply sell its natural gas assets in the country. Although Anadarko has denied this, we believe this scenario should not be completely ruled out for the time being and the sale could eventually happen at a later stage.

Research

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Economics

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1 – RECENT NEWSFLOW

1.1 – POLITICAL UPDATE

Mr. Armando Guebuza, who was replaced by Mr. Filipe Nyusi as President of Mozambique, announced at the end of March his resignation from the presidency of Frelimo. This sudden decision took almost everyone by surprise because of the timing under which it was taken. However, by taking this decision, Mr. Guebuza ended a crisis that was threatening the unity and stability of the country's ruling party. Indeed, since last October's general elections, there were fears that having Mr. Nyusi as Head of State and Mr. Guebuza as the Frelimo's Leader would have a negative impact on the already troublesome political scene in the country.

Mr. Guebuza steps down as party leader, ending a crisis that was threatening the unity and stability of Frelimo

After the announcement, Frelimo voted almost unanimously for Mr. Nyusi as party leader. As a result, he has now the dual responsibility of being the country's President and the ruling party's leader. Mr. Nyusi is widely considered as more likely to succeed in the ongoing negotiations with Renamo and its leader, Mr. Afonso Dhlakama. We recall that a political crisis emerged when Mr. Dhlakama refused to accept last October's election results placing him second to Mr. Nyusi.

Mr. Nyusi was voted almost unanimously as party leader

Contrary to Mr. Guebuza's strategy, Mr. Nyusi has a more respectful approach towards the opposition leader which could put an end to the conflict that has been affecting the country. The two have met on more than one occasion since last year's elections, but they seem to have yet to resolve their misunderstandings. Mr. Nyusi also seems to be in a better position to promote reconciliation among Mozambicans, as he is part of a post-war generation that is less resentful of the opposition.

Mr. Nyusi has a more respectful approach towards the opposition leader

All in all, it will be critical that the two leaders come to a sustained and long-lasting agreement so that the image and credibility that the international community has of the country is not damaged any further. This is particularly relevant at a time when the outlook for Mozambique seems quite promising namely due to the recent natural gas discoveries and the impact that these could have on the long-term prospects of the country.

A sustained and long-lasting agreement among the party leaders will be crucial for Mozambique's prospects

1.2 – NATURAL GAS SECTOR

The current oil price environment has led oil and gas companies to evaluate and scale back their exploration and development budgets. This may have an impact on Mozambique, which has recently announced the largest natural gas find in Africa, an estimated 200 trillion cubic feet. This is reportedly equivalent to 33 billion barrels of oil, or almost as much as Nigeria's proven oil reserves.

The current oil price environment may have an impact on Mozambique

One of the major issues also affecting Mozambique is that it lacks appropriate infrastructures and so this means that nearly everything required to exploit and transport natural gas has to be built from scratch. The two companies operating in the natural gas sector in the Rovuma and Mozambique basins, Anadarko and ENI, estimate that the total capex required to build the gas liquefaction projects could total US\$ 26 billion. The Mozambican government foresees that this bill could exceed US\$ 30 billion.

The lack of appropriate infrastructures in the country requires significant capex levels

Against this backdrop, there were recent news reports suggesting that Anadarko is studying the possibility of selling its natural gas assets in Mozambique (a 26.5% holding in the Area 1 concession of the Rovuma basin) and that Exxon Mobil and Qatar Petroleum expressed interest in the deal. We note that the group initially had a 36.5% stake in the concession area, but in 2013 it sold 10% to Indian state group Oil and Natural Gas Corporation (ONGC) for US\$ 2.64 billion. These reports add that the success that Exxon Mobil had in starting up its remote Papua New Guinea LNG export plant in 2014 make it a desirable partner for the Mozambican authorities due to the country's lack of infrastructures. As for Qatar Petroleum, the company reportedly needs to expand its operations abroad in order to maintain its top position as LNG producer.

News reports suggest that Anadarko is studying the possibility of selling its natural gas assets in Mozambique

Anadarko denied these news reports soon after their release, saying that it is not interested in divesting from its Mozambican operations. It added that it expects to make a final investment decision on the country by the end of this year or in early 2016. More recently, the company also announced the selection of a consortium consisting of CB&I, Chiyoda Corporation and

The company denied the news reports and announced a JV for its LNG project in the country

Saipem (entitled CCS JV) for the initial development of the onshore LNG park in the country. The company added that the selection of CCS JV is a significant step toward reaching a final investment decision and demonstrates its continued commitment to the Mozambican project. The scope of the work for the onshore LNG park includes two LNG trains, each with a capacity of 6 million tons per annum (MMTPA), which is an increase of 1 MMTPA per train over the original plan. It also includes two LNG storage tanks, each with a capacity of 180,000 cubic meters, condensate storage, multi-berth marine jetty and associated utilities and infrastructure.

In the meantime, Anadarko is going ahead with its contract negotiations for the export of LNG to several countries in Asia, including India, China and Japan. These contracts could be signed in the short-term. However, it would still take several years to produce the first LNG, with its export likely to occur after 2020. Anadarko could export 8 million tons of natural gas per year to customers in these countries. All in all, and despite the latest releases by the company, we believe the possibility of Anadarko eventually selling part (or all) of these assets should not be completely discarded and this scenario could eventually occur at a later stage.

Both Anadarko and ENI are negotiating the export of LNG to several Asian countries, something that could happen after 2020

ENI is working on a similar timeframe and expects to make a final investment decision for the LNG export project this year. It includes 2.5 million tons of LNG to be exported every year from its unit in the Rovuma basin to Asia and Europe as well. The company's gas finds in Mozambique could reportedly cover Italy's total needs for the fuel for 30 years.

For example, ENI's gas finds could cover Italy's gas needs for the next 30 years

2 - ECONOMIC DATA

2.1 - REAL GDP

Mozambique’s National Statistics Institute (INE) announced that real GDP expanded 7% in the last three months of 2014 relatively to the same period of the previous year. This resulted mostly from a healthy growth performance in the financial services (30.8%), mining (14.9%) and construction (12.9%) sectors, as these contributed to nearly half of the 7% growth in the quarter. The INE also stated that figures for the third quarter were revised upwards from 7.4% to 7.6% YoY.

Real GDP expanded 7% YoY in 4Q14 boosted by the mining and construction sectors

The manufacturing industry represented the largest share of the GDP structure with 14.1% of the total in 4Q14. It was followed by the retail (11.7%) and the hotels and restaurants (10.3%) segments. Agriculture, which has the biggest weight in the GDP structure in the first three quarters of the year (an average of 27.1% in 2014), accounted for 8.6% of the total GDP in the fourth quarter.

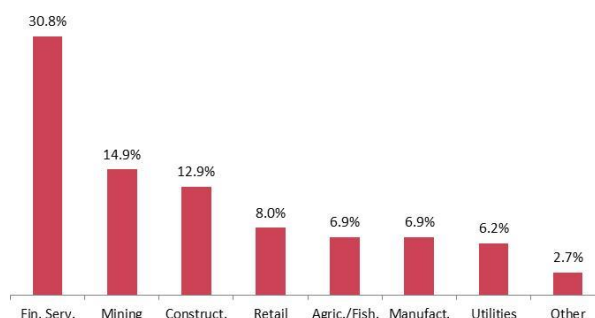
Manufacturing accounted for the largest share of the GDP structure

ANNUAL REAL GDP GROWTH (1Q12 – 4Q14)



Source: National Statistics Institute (INE).

REAL GDP GROWTH BY SECTOR (4Q14)

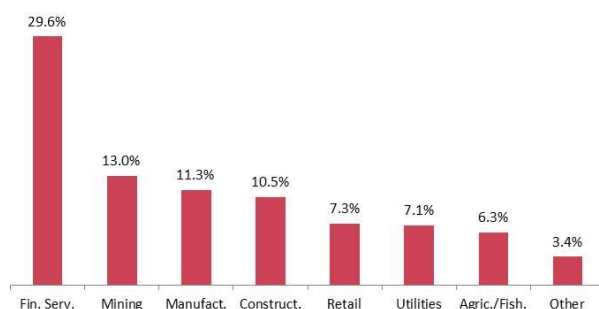


Source: National Statistics Institute (INE).

Preliminary figures from the INE also showed that real GDP likely advanced 7.4% in 2014. This compares with a growth rate of 7.3% in the previous year and 7.5% forecasted by the local authorities. The financial services sector recorded the fastest growth rate (29.6%) in the period. The mining, public administration, manufacturing and construction sectors all recorded double-digit growth rates. In terms of the contribution to real GDP growth, financial services and agriculture and fishing clearly stand out, followed by the manufacturing sector, as depicted in the pie chart below.

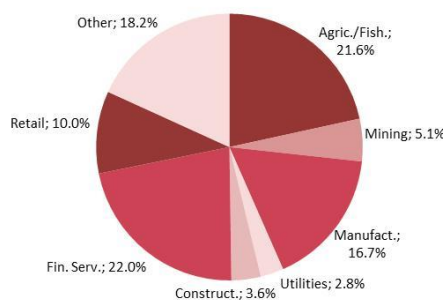
Economic activity expanded at 7.4% in 2014 (vs. 7.3% in the previous year)

REAL GDP GROWTH BY SECTOR (2014)



Source: National Statistics Institute (INE).

REAL GDP GROWTH – CONTRIBUTION BY SECTOR (2014)



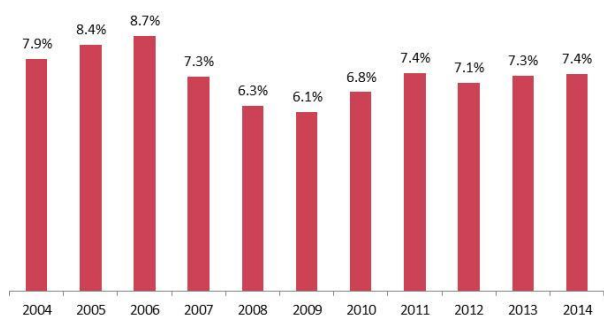
Source: National Statistics Institute (INE).

Meanwhile, Mozambique was one of the fastest growing countries in Sub-Saharan Africa in the last decade, witnessing an average annual growth rate of 7.4%. According to data from the International Monetary Fund (IMF), Ethiopia recorded the strongest reading (10.9%) and was closely followed by Angola which recorded an average annual growth of 10.2%. As previously stated, Mozambique’s recent growth performance reflects a rapid expansion in the extractive

Mozambique was one of the fastest growing countries in Sub-Saharan Africa during the last decade

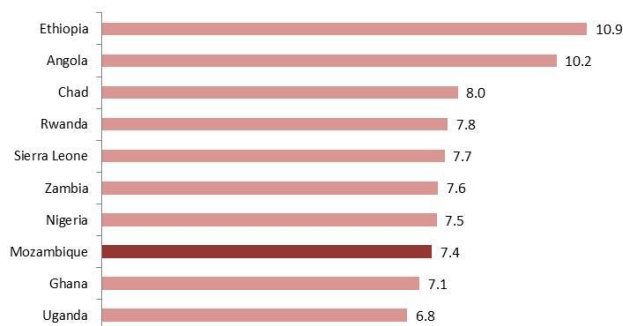
industry, namely coal (one of the country’s main exports) and a more favorable evolution of the global economy after the latest financial crises in 2007-08.

ANNUAL REAL GDP GROWTH (2004-14)



Source: National Statistics Institute (INE).

FASTEST GROWING COUNTRIES IN SSA (2004-14)

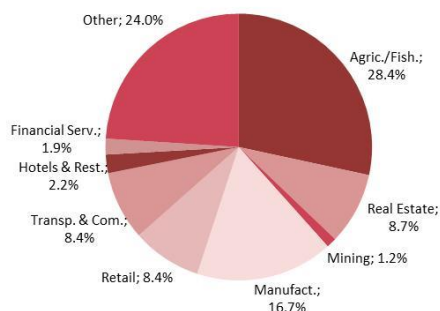


Source: International Monetary Fund (IMF).

A closer look at the GDP structure figures over the last decade shows that the weight of the financial services sector in the country’s GDP has increased markedly during this period (from 1.9% in 2004 to 6.6% last year). This evidences the growth witnessed by the Mozambican financial system in recent years, as the local authorities aim to increase this type of services available to the local population. Also worth noting is the lower weight of the manufacturing sector, which fell from 16.7% to 11.3% of GDP in 2014. The contribution of the extractive industry is still relatively modest (3.1% of GDP), but is expected to gradually increase in the next decade.

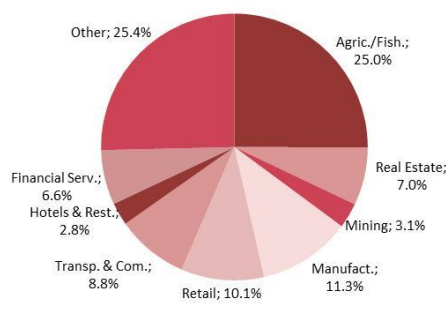
The contribution of the financial services sector to GDP has increased significantly over the last decade while the weight of the manufacturing industry has fallen

GDP STRUCTURE (2004)



Source: National Statistics Institute (INE).

GDP STRUCTURE (2014)



Source: National Statistics Institute (INE).

2.2 - INFLATION

Data from the INE shows that the consumer price index (CPI) for the cities of Maputo, Beira and Nampula (used as a proxy for the inflation in the country) stood relatively flat (+0.06%) in March 2015 when compared with the previous month. Recall that prices saw monthly increases of 1.84% and 1.56% in the first two months of the year, respectively.

Consumer prices were relatively unchanged in March 2015

Moreover, prices were up 3.11% YoY in March while the 12-month average stood at 2.68%. These figures compare with 3% and 4.03%, respectively, in March 2014. The graph below clearly shows that prices are well contained and remain well within the government’s target of around 5% for this year. Also depicted below, we can see that the food and non-alcoholic beverages segment was clearly the strongest contributor to inflation, as it was up 3.08% in the first three months of the year.

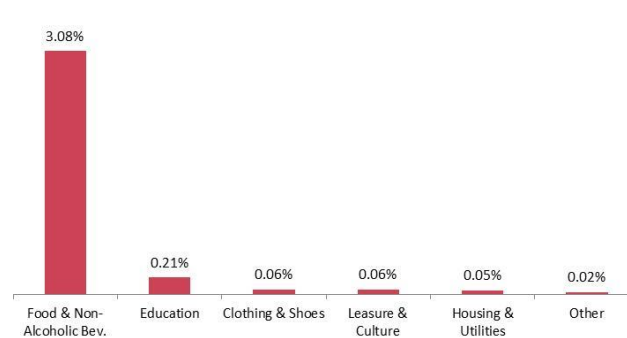
Inflation remains well within the government’s target of around 5% for this year

CONSUMER PRICE INDEX (12-MONTH AVERAGE AND YOY)



Source: National Statistics Institute (INE).

STRONGEST CONTRIBUTORS TO CPI (JAN-MAR 2015)



Source: National Statistics Institute (INE).

Looking at the monthly inflation (0.06%) in each of the three cities, we note that prices were up 0.42% in Beira and 0.23% in Maputo, but were down 0.37% in Nampula. On an accumulated basis in the first three months of the year, all three cities saw price increases, with Nampula seeing the largest increase (4%) followed by Beira (3.77%) and Maputo (3.04%). Finally, YoY inflation for these three cities stood as follows: Nampula (5.89%), Beira (4.58%) and Maputo (0.77%).

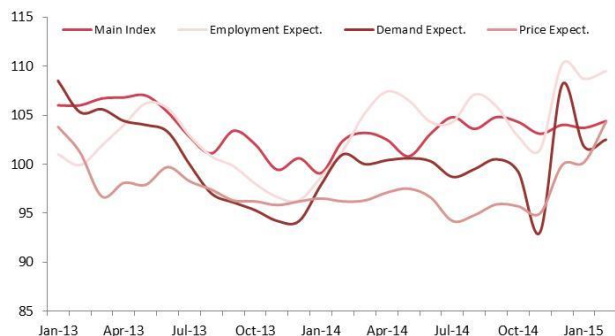
Despite a monthly fall in March, Nampula saw the largest accumulated and annual inflation of the three cities

3 – CONFIDENCE INDICATORS

The latest business confidence indicators released by the INE showed that the overall business climate index has remained relatively stable in the first couple of months of 2015. The survey results also evidenced an improvement in employment, demand and price expectations during this period. The evolution in the main business climate index resulted from a better reading in the transports, retail and construction sectors, which outweighed the poor performance in the other sectors surveyed (industrial, hotels and restaurants, and other non-financial services).

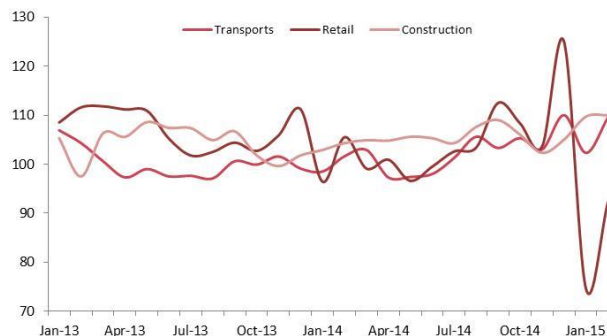
The business climate index has remained stable in the first two months of 2015

BUSINESS CLIMATE INDEX



Source: National Statistics Institute (INE).

BUSINESS CLIMATE INDEX BY SECTOR

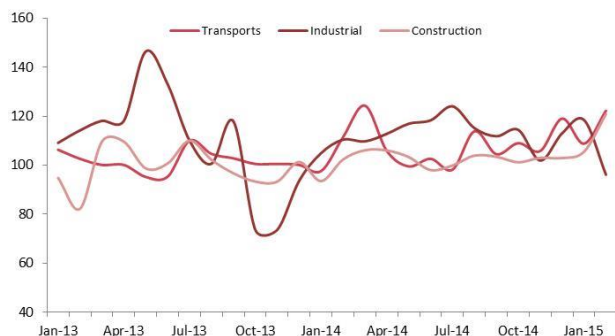


Source: National Statistics Institute (INE).

The employment expectations index posted a slight appreciation in February due to the much better employment perspectives in the transports and construction sectors. This contrasted with the industrial sector where companies significantly downgraded their employment expectations for the foreseeable future. Meanwhile, the demand expectations index saw a very modest recovery, which followed a sharp fall seen in January. This performance came on the back of the improved performances in the transports, industrial and retail sectors. These outweighed the more negative readings in construction, hotels and restaurants, and other non-financial services.

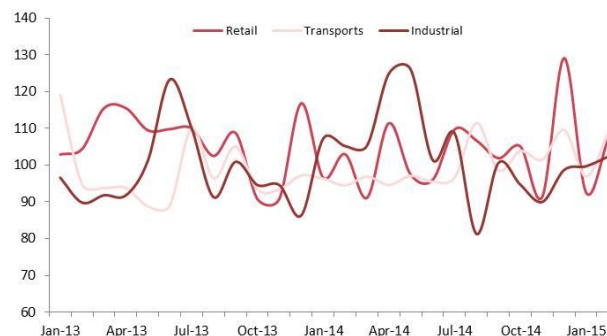
Employment and demand expectations saw a slight improvement

EMPLOYMENT EXPECTATIONS BY SECTOR



Source: National Statistics Institute (INE).

DEMAND EXPECTATIONS BY SECTOR



Source: National Statistics Institute (INE).

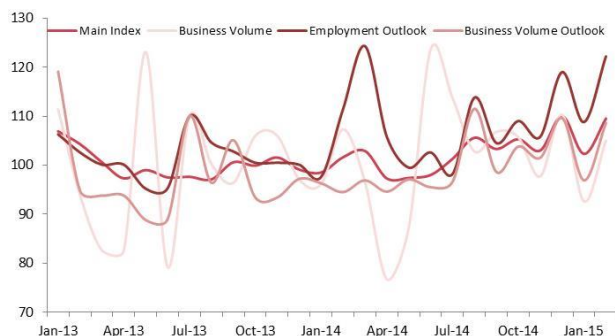
We now look at each individual activity sector and the components that make up the confidence indicators. Starting with transports, we note that the sector saw an improvement in its main index once again in February after a drop in the previous month. This was attributable to a strong increase in all of its components, in particular the outlook for demand and business volume that saw strong monthly increases. The recovery in confidence in the sector was also due to an increase in prices as well as business volume. However, the companies operating in the transports sector state that their business performance continues to be mainly impacted by high operating costs, competition and low demand.

Business confidence in the transports sector improved after a strong increase in all of its components

The main index for the construction sector stabilized in February as the strong improvement in the employment outlook component offset the drop in construction orders and business volume outlook. According to the surveys produced by the INE, low demand is still the main barrier to do business for the companies operating in this sector.

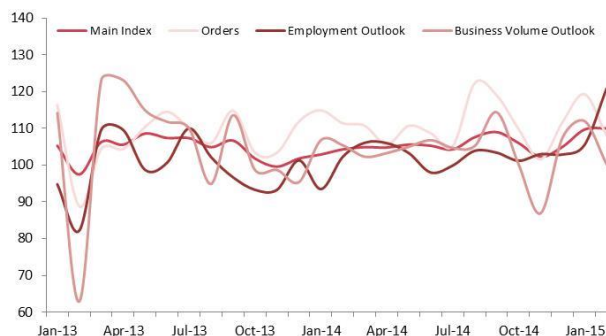
Confidence levels of the construction companies stabilized

TRANSPORTS



Source: National Statistics Institute (INE).

CONSTRUCTION



Source: National Statistics Institute (INE).

The main confidence index for the hotels and restaurants sector fell for the second consecutive month in February, as all of its components posted a weaker monthly performance. This was particularly felt in the business volume component, which registered its worse reading of the last four months. The current demand, demand outlook and price outlook indices all saw a monthly decline due to seasonal factors, namely related to the rainy season at this time of the year. The main reasons that affected the companies operating in the sector reportedly included low demand, competition and lack of water and electricity.

The confidence levels of the companies operating in the hotels and restaurants sector fell once again in February

After two months of consecutive increases, the confidence levels of industrial companies fell in February. This performance reflects the negative monthly readings in the current activity and employment outlook components, which contrasted with an improvement in demand outlook. The companies operating in this sector reported that competition and lack of raw materials were the main constraints to their business activity.

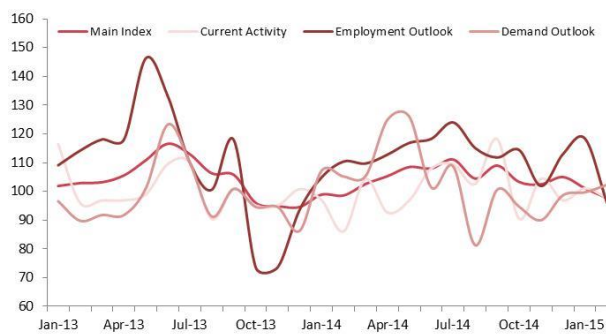
Industrial companies were also less confident

HOTELS AND RESTAURANTS



Source: National Statistics Institute (INE).

INDUSTRIAL



Source: National Statistics Institute (INE).

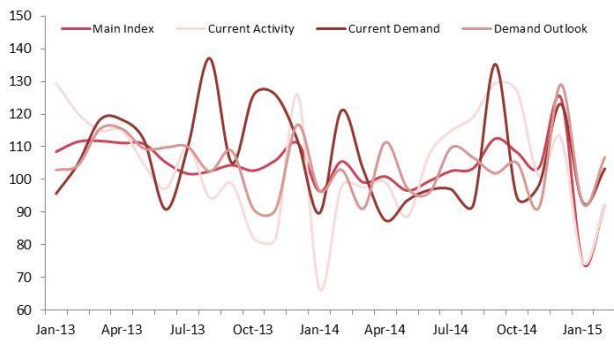
The confidence levels of the companies operating in the retail sector recovered slightly, as all of the components (current activity, current demand and demand outlook) saw an improvement from the previous month. Competition and low demand were mentioned by the players in this sector as the main constraints to their activity.

Confidence levels in the retail sector recovered slightly

Companies operating in other non-financial services reported that their confidence levels fell once again in February, maintaining intact the downward trend of the past few months. Each of the components posted a mixed performance though. The outlook for demand and business volume continued to fall while the current activity component saw a recovery in the period. According to the survey results, business activity was mostly impacted by competition and low demand.

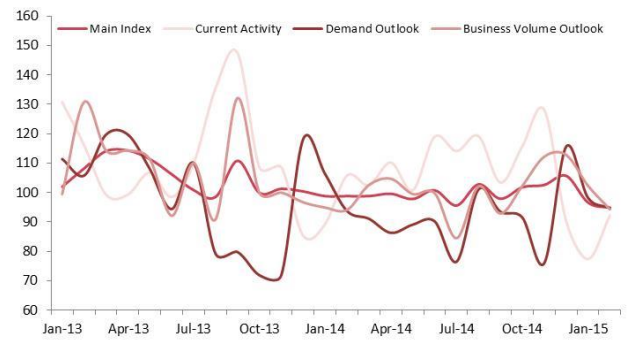
Companies operating in other non-financial services continue to be less optimistic about the outlook on demand and business volume

RETAIL



Source: National Statistics Institute (INE).

OTHER NON-FINANCIAL SERVICES



Source: National Statistics Institute (INE).

4 - FISCAL DATA

4.1 - BUDGET EXECUTION (2014)

The Mozambican government’s budget execution report for 2014 showed that total revenues amounted to MZM 156,244 million in the period, representing a 23.7% YoY increase. As in the previous year, revenues slightly exceeded the government’s target for the year, with an execution rate of 102.1% (vs. 104.8% in 2013). Total revenues represented 29.7% of GDP last year, which is slightly higher than the 27.4% in 2013. Both tax and non-tax revenues posted a healthy performance in the year while capital revenues were down 20.4% YoY.

The government recently disclosed its budget execution report for 2014

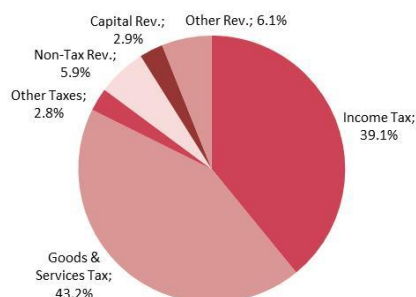
REVENUES Million MZM	2013		2014		YoY Chg	% of GDP	
	Executed Amount	Execution Rate	Executed Amount	Execution Rate		Executed Amount (2013)	Executed Amount (2014)
Total Revenues	126,319	104.8%	156,244	102.1%	23.7%	27.4%	29.7%
Tax Revenues	107,543	106.7%	135,006	102.1%	25.5%	23.3%	25.7%
Income Tax	49,386	126.3%	63,202	106.5%	28.0%	10.7%	12.0%
Goods & Services Tax	54,613	96.3%	67,661	100.1%	23.9%	11.8%	12.9%
VAT	38,704	97.1%	48,740	101.7%	25.9%	8.4%	9.3%
Other	15,910	94.4%	18,921	96.3%	18.9%	3.5%	3.6%
Other Taxes	3,544	70.6%	4,143	77.2%	16.9%	0.8%	0.8%
Non-Tax Revenues	7,487	81.3%	9,655	102.7%	29.0%	1.6%	1.8%
Capital Revenues	3,624	128.6%	2,885	90.5%	-20.4%	0.8%	0.5%
Other Revenues	7,664	100.4%	8,698	105.8%	13.5%	1.7%	1.7%

Sources: Ministry of Finance and Eaglestone Securities.

A closer look at the revenue breakdown shows that the large majority of government receipts came from fiscal revenues, namely income tax (40.5% of total revenues) with the capital gains from the megaprojects related to the extractive industry playing an important role, as detailed below. Taxes on goods and services continued to show a healthy improvement and also accounted for a large share of total revenues (43.3%), particularly VAT. Overall, tax revenues represented 86.4% of total revenues and 25.7% of GDP in the period (vs. 85.1% and 23.3%, respectively, in 2013).

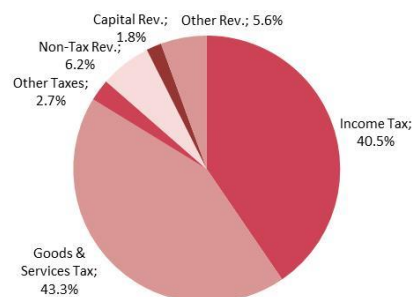
Fiscal revenues (income and goods & services taxes) account for the most part of government receipts (86.4% in 2014)

TOTAL REVENUE BREAKDOWN (2013)



Source: Ministry of Finance.

TOTAL REVENUE BREAKDOWN (2014)



Source: Ministry of Finance.

The contribution from megaprojects to total revenues (excluding capital gains) reached MZM 10,536 million (+36.2% YoY) and accounted for 6.7% of total revenues (6.1% in 2013). The strongest improvement was seen in oil exploration (56.6% YoY), ahead of energy production (+52.9% YoY). Receipts in oil exploration came mostly from the VAT charged following the start of the sale of gas in the domestic market while, in terms of energy production, revenues were boosted by extraordinary taxes charged on the services provided by non-residents.

Contribution from megaprojects (excluding capital gains) improved 36.2% YoY and accounted for 6.7% of total revenues

On the other hand, the revenues from the mineral resources exploration sector were down 2.6% YoY due to the fall in coal prices in international markets. We note that if including the capital gains of the companies operating in the oil sector (MZM 18,054 million), the contribution from megaprojects would reach MZM 28,590 million, or 18.3% of total revenues in the period (vs. 15.7% in 2013).

If including capital gains, the contribution from megaprojects would account for 18.3% of total revenues

MEGAPROJECTS Million MZM	Contribution			2013			2014		
	2013	2014	Change	% of Total	% of Total with Capital Gains	% of Total Revenues	% of Total	% of Total with Capital Gains	% of Total Revenues
Energy Production	1,350	2,065	52.9%	17.5%	6.8%	1.1%	19.6%	7.2%	1.3%
Oil Exploration	3,546	5,554	56.6%	45.8%	17.8%	2.8%	52.7%	19.4%	3.6%
Mineral Resources Exploration	2,332	2,271	-2.6%	30.2%	11.7%	1.8%	21.6%	7.9%	1.5%
Other	506	646	27.7%	6.5%	2.5%	0.4%	6.1%	2.3%	0.4%
Total	7,734	10,536	36.2%	100.0%	38.9%	6.1%	100.0%	36.9%	6.7%
Capital Gains	12,157	18,054	48.5%		61.1%	9.6%		63.1%	11.6%
Total with Capital Gains	19,892	28,590	43.7%		100.0%	15.7%		100.0%	18.3%
Total Revenues	126,319	156,244	23.7%			100.0%			100.0%

Sources: Ministry of Finance and Eaglestone Securities.

Regarding expenditures, the amount of total spending, including net lending, reached MZM 207,213 million, rising 13.7% YoY and accounting for 39.4% of GDP. However, it stood at just 83.2% of the government's target for the year (vs. 92.8% in 2013). This was due to weak execution rates in capital expenditures (72.4%) and net lending (63.1%). The execution rate of capital expenditures was impacted by the floods that occurred in the country from the end of 2013 until the first quarter of last year as well as the late disbursement of funds from some international partners (reflected in the execution rate of 54.3% in the external component).

Total expenditures were up 13.7% YoY, representing 39.4% of GDP

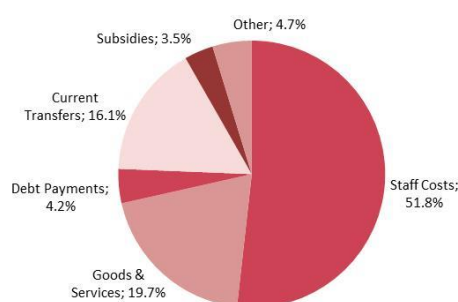
EXPENDITURES Million MZM	2013		2014		YoY Chg	% of GDP	
	Executed Amount	Execution Rate	Executed Amount	Execution Rate		Executed Amount (2013)	Executed Amount (2014)
Total Expenditures	182,191	92.8%	207,213	83.2%	13.7%	39.5%	39.4%
Current Expenditures	95,655	94.8%	116,782	96.3%	22.1%	20.7%	22.2%
Staff Costs	49,521	97.6%	59,831	98.4%	20.8%	10.7%	11.4%
Goods and Services	18,859	94.6%	25,108	93.4%	33.1%	4.1%	4.8%
Debt Payments	3,970	70.6%	5,231	86.2%	31.8%	0.9%	1.0%
Current Transfers	15,398	96.0%	18,355	97.8%	19.2%	3.3%	3.5%
Subsidies	3,371	100.0%	2,671	100.0%	-20.8%	0.7%	0.5%
Other Current Expenditures	4,536	88.1%	5,585	93.4%	23.1%	1.0%	1.1%
Capital Expenditures	72,301	89.3%	75,703	72.4%	4.7%	15.7%	14.4%
Domestically Financed	34,013	95.5%	44,032	95.2%	29.5%	7.4%	8.4%
Externally Financed	38,288	84.4%	31,670	54.3%	-17.3%	8.3%	6.0%
Net Lending	14,235	98.2%	14,729	63.1%	3.5%	3.1%	2.8%

Sources: Ministry of Finance and Eaglestone Securities.

Current expenditures were 56.4% of total spending and were up 22.1% YoY mostly due to higher spending on goods and services, namely in activities related to the preparations of the October elections. In terms of the breakdown of current expenditures, we note that more than half of the spending relates to staff costs and a fifth was for goods and services. These were up 20.8% YoY and 33.1% YoY, respectively.

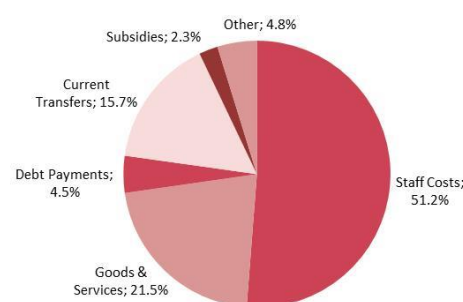
Nearly 3/4 of current expenditures relates to staff costs and spending on goods & services

CURRENT EXPENDITURES BREAKDOWN (2013)



Source: Ministry of Finance.

CURRENT EXPENDITURES BREAKDOWN (2014)



Source: Ministry of Finance.

In sum, the budget deficit (before grants) for the year stood at MZM 50,969 million, which is 8.8% lower than in the previous year and 53.1% of the amount budgeted by the government. If including grants, the deficit would stand at MZM 29,851 million, or 16.4% higher than the year before (representing an execution rate of 45.5%). If analyzing these figures as a percentage of GDP, the deficits would stand at 9.7% (before grants) and 5.7% (after grants).

The budget deficit (before grants) stood at 9.5% of GDP (5.6% if including grants)

STATE BUDGET Million MZM	2013		2014		YoY Chg	% of GDP	
	Executed Amount	Execution Rate	Executed Amount	Execution Rate		Executed Amount (2013)	Executed Amount (2014)
Total Revenues and Grants	156,552	108.9%	177,362	96.7%	13.3%	34.0%	33.7%
Total Revenues	126,319	104.8%	156,244	102.1%	23.7%	27.4%	29.7%
Grants	30,233	130.1%	21,118	69.5%	-30.2%	6.6%	4.0%
Total Expenditures	182,191	92.8%	207,213	83.2%	13.7%	39.5%	39.4%
Current Expenditures	95,655	94.8%	116,782	96.3%	22.1%	20.7%	22.2%
Capital Expenditures	72,301	89.3%	75,703	72.4%	4.7%	15.7%	14.4%
Net Lending	14,235	98.2%	14,729	63.1%	3.5%	3.1%	2.8%
Deficit (before Grants)	-55,872	73.6%	-50,969	53.1%	-8.8%	-12.1%	-9.7%
Deficit (after Grants)	-25,638	48.7%	-29,851	45.5%	16.4%	-5.6%	-5.7%

Sources: Ministry of Finance and Eaglestone Securities.

All in all, total resources used by the government reached MZM 212,019 million, or 85.1% of the budgeted amount. The local authorities used mostly domestic receipts (namely revenues, which were slightly above expected) to finance expenditures in the period, as external receipts (grants and external financing) stood at only 57% of the budget forecasts. We note that grants fell by nearly a third in 2014 and represented only 69.5% of the full-year target while external financing was down only slightly, but stood at half of what the government had foreseen in the budget. The government has also taken advantage of a much lower execution rate in terms of capital expenditures (72.4% of the yearly target) and was able to save MZM 4,806 million (although this figure is materially less than the one recorded in the previous year).

The government mostly used domestic receipts (namely tax revenues) to finance its expenditures

RECEIPTS/EXPENDITURES Million MZM	2013			2014			YoY Chg	% of GDP	
	Executed Amount	% of Total	Execution Rate	Executed Amount	% of Total	Execution Rate		Executed Amount (2013)	Executed Amount (2014)
Receipts:									
Domestic Receipts	131,031	68.8%	104.3%	161,959	76.4%	100.4%	23.6%	28.4%	30.8%
Revenues	126,319	66.3%	104.8%	156,244	73.7%	102.1%	23.7%	27.4%	29.7%
Transferred Balance	1,554	0.8%	100.0%	0	0.0%	0.0%	n.m.	0.3%	0.0%
Domestic Financing	3,158	1.7%	88.4%	5,715	2.7%	100.0%	81.0%	0.7%	1.1%
External Receipts	59,533	31.2%	84.1%	50,060	23.6%	57.0%	-15.9%	12.9%	9.5%
Grants	30,233	15.9%	130.1%	21,118	10.0%	69.5%	-30.2%	6.6%	4.0%
External Financing	29,300	15.4%	61.7%	28,942	13.7%	50.4%	-1.2%	6.4%	5.5%
Total Receipts	190,564	100.0%	97.0%	212,019	100.0%	85.1%	11.3%	41.3%	40.3%
Expenditures:									
Current Expenditures	95,655	52.5%	94.8%	116,782	56.4%	96.3%	22.1%	20.7%	22.2%
Capital Expenditures	72,301	39.7%	89.3%	75,703	36.5%	72.4%	4.7%	15.7%	14.4%
Domestic	34,013	18.7%	95.5%	44,032	21.2%	95.2%	29.5%	7.4%	8.4%
External	38,288	21.0%	84.4%	31,670	15.3%	54.3%	-17.3%	8.3%	6.0%
Net Lending	14,235	7.8%	98.2%	14,729	7.1%	63.1%	3.5%	3.1%	2.8%
Total Expenditures	182,191	100.0%	92.8%	207,213	100.0%	83.2%	13.7%	39.5%	39.4%
Change in the Balance	8,373		n.m.	4,806		n.m.	-42.6%	1.8%	0.9%
Total Receipts & Expenditures	190,564		97.0%	212,019		85.1%	11.3%	41.3%	40.3%

Sources: Ministry of Finance and Eaglestone Securities.

4.2 - BUDGET PROPOSAL (2015)

The Mozambican government recently presented its budget proposal for 2015 to the National Parliament, kicking-off the implementation of its five-year plan for the period 2015-19. The budget proposal is yet to be approved, but we believe this should occur in the short-term. The government stated that its fiscal policy for 2015 is centered on five key priorities, namely (1) consolidation of national unity and peace, (2) development of human and social capital, (3) job creation, productivity and competitiveness, (4) development of economic and social infrastructures and (5) sustainable and transparent management of natural resources and environment.

The government's fiscal policy for 2015 is centered on five key priorities

The local authorities also highlighted that this year's budgeted figures for expenditures and receipts are not entirely comparable to the ones of 2014 due to one-off effects last year. In particular, there was additional spending related to the October general elections as well as on defense to secure the peace agreement. On the other hand, the government secured extraordinary capital gains receipts amounting to MZM 18,054 million (or US\$ 587 million) from the sale of equity stakes of foreign companies operating in the extractive industry.

Budget figures are not entirely comparable to the previous year due to one-off effects in 2014

Moreover, the government noted that the budget proposal includes the following assumptions: (1) real GDP growth of 7.5%, (2) average inflation will stand at 5.1% and (3) the exchange rate policy will continue to promote the competitiveness of Mozambican exports.

The budget assumes real GDP growth of 7.5% this year

The 2015 budget proposal forecasts total revenues of MZM 160,708 million this year, nearly 3% higher than the executed amount for 2014. This represents 27% of GDP, down from 29.7% last year. However, revenues are expected to increase 13.1% YoY (and account for 26.3% of GDP, the same level as in 2014) if excluding extraordinary capital gains. We note that these are estimated to fall 75% YoY to MZM 4,453 million this year. Overall, the government forecasts tax revenues to represent 22.3% of GDP, non-tax revenues 1.9%, capital revenues 0.5% and other revenues 2.2%, as depicted below.

Revenues are expected to represent 27% of GDP (vs. 29.7% last year)

REVENUES Million MZM	2013	2014			2015	% Change			% of GDP		
	Executed Amount	Initial Budget (1)	Revised Budget (2)	Executed Amount (3)	Initial Budget (4)	(4) / (1)	(4) / (2)	(4) / (3)	Executed Amount (2013)	Executed Amount (2014)	Initial Budget (2015)
Tax Revenues	107,543	126,558	132,262	135,006	133,009	5.1%	0.6%	-1.5%	23.3%	25.7%	22.3%
Income Tax	49,386	53,537	59,240	63,202	58,390	9.1%	-1.4%	-7.6%	10.7%	12.0%	9.8%
Tax on Goods & Services	54,613	67,343	67,343	67,661	67,967	0.9%	0.9%	0.5%	11.8%	12.9%	11.4%
Other Tax Revenues	3,544	5,678	5,678	4,143	6,652	17.2%	17.2%	60.6%	0.8%	0.8%	1.1%
Non-Tax Revenues	7,487	9,405	9,405	9,655	11,360	20.8%	20.8%	17.7%	1.6%	1.8%	1.9%
Capital Revenues	3,624	3,187	3,187	2,885	3,187	0.0%	0.0%	10.5%	0.8%	0.5%	0.5%
Other Revenues	7,664	8,221	8,221	8,698	13,151	60.0%	60.0%	51.2%	1.7%	1.7%	2.2%
Total Revenues	126,319	147,372	153,075	156,244	160,708	9.0%	5.0%	2.9%	27.4%	29.7%	27.0%
Capital Gains	12,157	12,480	5,704	18,054	4,453	-64.3%	-21.9%	-75.3%	2.6%	3.4%	0.7%
Revenues (ex Capital Gains)	114,161	134,892	147,372	138,190	156,255	15.8%	6.0%	13.1%	24.8%	26.3%	26.3%

Sources: Ministry of Finance and Eaglestone Securities.

Revenues are also anticipated to represent 88.7% of total government receipts (if excluding domestic and external financing) and grants to account for just 11.3%. This is not much different from last year's figures (88.1% and 11.9%, respectively). However, looking further back to 2009, for instance, one can see that the weight of grants as a percentage of receipts (excluding financing) has gradually decreased from 34.9% of the total to the current 11.3% expected. This is also clearly evident when looking at this indicator as a percentage of GDP (grants are seen falling from 8.6% of GDP in 2009 to 3.4% in 2015).

Grants have gradually declined throughout the years as a percentage of total government receipts

The breakdown of revenues shows that taxes on goods and services are expected to represent 42.3% of the total revenues of the government. This is slightly lower than last year (43.3%) and, in part, is due to the implementation of the new net VAT policy, which is expected to begin this year. Income tax is expected at 36.3% of the total, much lower than the 40.5% in 2014, as it falls 7.6% YoY.

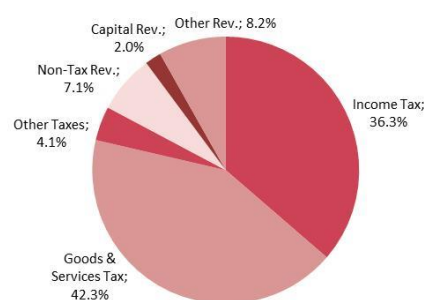
Taxes on goods and services are likely to continue to have the largest share of total revenues

EVOLUTION OF GRANTS (2012-15E)



Source: Ministry of Finance and Eaglestone Securities.

TOTAL REVENUE BREAKDOWN (2015E)



Source: Ministry of Finance.

Meanwhile, the budget proposal foresees total expenditures standing at MZM 226,425 million this year and to represent 38% of GDP (vs. 39.4% in 2014). We note that this is an expected increase of 9.3% YoY, which comes on top of the non-recurrent expenses incurred last year (this amount was not disclosed by the government) related to the general elections and defense measures aforementioned. From the table below, we can see that current expenditures are anticipated to represent 20.2% of GDP, capital expenditures 14% and net lending 3.8%.

Total expenditures to account for 38% of GDP (vs. 39.4% in 2014)

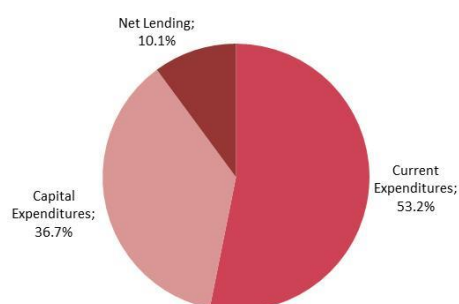
EXPENDITURES Million MZM	2013	2014			2015	% Change			% of GDP		
	Executed Amount	Initial Budget (1)	Revised Budget (2)	Executed Amount (3)	Initial Budget (4)	(4) / (1)	(4) / (2)	(4) / (3)	Executed Amount (2013)	Executed Amount (2014)	Initial Budget (2015)
Current Expenditures	95,655	115,666	121,207	116,782	120,352	4.1%	-0.7%	3.1%	20.7%	22.2%	20.2%
Staff Costs	49,521	56,959	60,827	59,831	64,441	13.1%	5.9%	7.7%	10.7%	11.4%	10.8%
Goods and Services	18,859	25,018	26,888	25,108	24,495	-2.1%	-8.9%	-2.4%	4.1%	4.8%	4.1%
Debt Payments	3,970	6,347	6,069	5,231	6,923	9.1%	14.1%	32.3%	0.9%	1.0%	1.2%
Current Transfers	15,398	18,078	18,770	18,355	19,280	6.7%	2.7%	5.0%	3.3%	3.5%	3.2%
Subsidies	3,371	2,671	2,671	2,671	3,157	18.2%	18.2%	18.2%	0.7%	0.5%	0.5%
Other Current Expenditures	4,536	6,593	5,982	5,585	2,055	-68.8%	-65.6%	-63.2%	1.0%	1.1%	0.3%
Capital Expenditures	72,301	100,770	104,540	75,703	83,180	-17.5%	-20.4%	9.9%	15.7%	14.4%	14.0%
Domestically Financed	34,013	42,490	46,260	44,032	44,881	5.6%	-3.0%	1.9%	7.4%	8.4%	7.5%
Externally Financed	38,288	58,280	58,280	31,670	38,298	-34.3%	-34.3%	20.9%	8.3%	6.0%	6.4%
Net Lending	14,235	24,456	23,347	14,729	22,894	-6.4%	-1.9%	55.4%	3.1%	2.8%	3.8%
Total Expenditures	182,191	240,891	249,094	207,213	226,425	-6.0%	-9.1%	9.3%	39.5%	39.4%	38.0%

Sources: Ministry of Finance and Eaglestone Securities.

Current expenditures are expected to take up 53.2% of total government spending this year and capital expenditures 36.7%, with both forecasted to increase from the previous year (3.1% and 9.9%, respectively). Net lending is expected to surge 55.4% YoY. In terms of the breakdown of current expenditures, we note that salaries are still likely to account for more than half of this type of spending. The government forecasts a 7.7% YoY increase, as it plans to hire an additional 11,019 public workers mainly for the education and health sectors in order to improve the quality of public services. Spending on goods and services is expected to fall due to the one-off impact of the expenditures with last year's general election. Current transfers are anticipated to rise 5% YoY, with 77% of the amount being allocated to the Mozambican families (pensions and social protection programs).

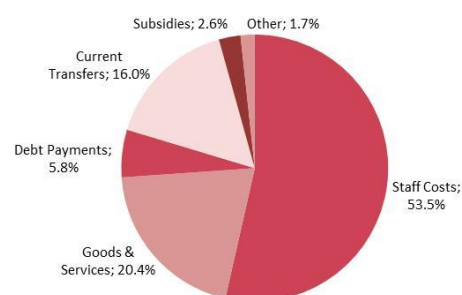
More than half of government spending is for current expenditures, namely salaries and goods and services

TOTAL EXPENDITURES BREAKDOWN (2015E)



Source: Ministry of Finance.

CURRENT EXPENDITURES BREAKDOWN (2015E)



Source: Ministry of Finance.

Capital expenditures are aimed at (1) improving the supply and quality of public services like education, health, water supply, energy, social protection, public administration and justice, (2) building and expanding key infrastructures to support production activity, (3) consolidating public administration (at national, provincial and local levels), (4) expanding access to the justice system and (5) reinforcing international cooperation. For 2015, the government plans to go ahead with the new and existing projects described in the table below.

The government plans to go ahead with several new and existing projects in 2015

INTEGRATED INVESTMENT PROGRAM - MAIN PROJECTS (2015)		
Sector / Project		Thousand MZM
Infrastructures		
Design and construction of the Moamba Major Dam		765,499
Design and construction of the Mapai Dam		4,470
Continuation of the construction of the Circular Road		94,933
Construction of the Maputo Ka-Tembe Bridge		100,000
Rehabilitation of roads		1,773,913
Energy		
Electrification of new District Headquarters		308,653
Small scale mining projects		215,227
Health		
Continuation of the construction of the Quelimane Hospital		60,000
Construction of hospitals (Macia, Massinha, Mocimba da Praia, Mopeia, Pebane, Montepuez)		768,500
Education		
Construction and rehabilitation of schools and classrooms		2,975,806
School tables		141,999
Secondary school		1,998,822

Source: Ministry of Finance.

Moreover, the Mozambican government plans to spend MZM 124,875 million in economic and social sectors. This is an increase of 26.6% from the reported figure in 2014 and represents 63.5% (vs. 52.7% in 2014) of total expenditures if excluding debt payments and net lending. The local authorities expect to allocate more funds to all activities, with education remaining the largest beneficiary with 22.8% of total spending followed by infrastructure (15.8%) and health (10.2%). This compares with 19.8%, 12.1% and 9.1%, respectively of total expenditures in 2014.

The local authorities plan to allocate more funds to all economic and social activities, with education being the largest beneficiary

EXPEND. BY ACTIVITY Million MZM	2013		2014				2015		% Change		
	Executed Amount	% Total Expend.	Initial Budget (1)	Revised Budget (2)	Executed Amount (3)	% Total Expend.	Initial Budget (4)	% Total Expend.	(4) / (1)	(4) / (2)	(4) / (3)
Education	31,703	19.3%	37,941	40,449	37,123	19.8%	44,745	22.8%	17.9%	10.6%	20.5%
Health	20,869	12.7%	19,073	18,506	17,125	9.1%	20,132	10.2%	5.6%	8.8%	17.6%
Infrastructure	26,220	16.0%	31,143	32,937	22,681	12.1%	31,055	15.8%	-0.3%	-5.7%	36.9%
Roads	17,180	10.5%	19,938	22,389	17,269	9.2%	17,965	9.1%	-9.9%	-19.8%	4.0%
Water and Public Works	7,686	4.7%	8,406	7,669	3,597	1.9%	10,133	5.2%	20.5%	32.1%	181.7%
Mineral Resources and Energy	1,353	0.8%	2,799	2,879	1,815	1.0%	2,956	1.5%	5.6%	2.7%	62.9%
Agricultural and Rural Development	13,548	8.3%	21,964	19,006	11,639	6.2%	17,854	9.1%	-18.7%	-6.1%	53.4%
Judicial System	2,841	1.7%	3,052	3,661	3,526	1.9%	4,002	2.0%	31.1%	9.3%	13.5%
Social works	5,272	3.2%	7,307	6,874	6,510	3.5%	7,088	3.6%	-3.0%	3.1%	8.9%
Total Expenditures by Activity	100,453	61.3%	120,480	121,433	98,603	52.7%	124,875	63.5%	3.6%	2.8%	26.6%
Total Expenditures*	163,986	100.0%	210,088	219,678	187,253	100.0%	196,608	100.0%	-6.4%	-10.5%	5.0%

* Excluding debt payments and net lending. Sources: Ministry of Finance and Eaglestone Securities.

All in all, the estimated budget deficit (before grants) is set at 11.1% of GDP this year, above the reported 9.7% in 2014 after an expected increase of 28.9% YoY. If including grants, the budget deficit estimate stands at 7.6% of GDP (vs. 5.7% last year).

Estimated budget deficit (after grants) for this year is set at 7.6% of GDP

STATE BUDGET Million MZM	2013	2014			2015	% Change		
	Executed Amount	Initial Budget (1)	Revised Budget (2)	Executed Amount (3)	Initial Budget (4)	(4) / (1)	(4) / (2)	(4) / (3)
Total Revenues and Grants	156,552	177,774	183,477	177,362	181,172	1.9%	-1.3%	2.1%
% of GDP	34.0%	33.8%	34.9%	33.7%	30.4%			
Total Revenues	126,319	147,372	153,075	156,244	160,708	9.0%	5.0%	2.9%
Grants	30,233	30,402	30,402	21,118	20,464	-32.7%	-32.7%	-3.1%
Total Expenditures	182,191	240,891	249,094	207,213	226,425	-6.0%	-9.1%	9.3%
% of GDP	39.5%	45.8%	47.3%	39.4%	38.0%			
Current Expenditures	95,655	115,666	121,207	116,782	120,352	4.1%	-0.7%	3.1%
Capital Expenditures	72,301	100,770	104,540	75,703	83,180	-17.5%	-20.4%	9.9%
Net Lending	14,235	24,456	23,347	14,729	22,894	-6.4%	-1.9%	55.4%
Deficit (before Grants)	-55,872	-93,520	-96,019	-50,969	-65,717	-29.7%	-31.6%	28.9%
% of GDP	-12.1%	-17.8%	-18.3%	-9.7%	-11.1%			
Deficit (after Grants)	-25,638	-63,118	-65,617	-29,851	-45,253	-28.3%	-31.0%	51.6%
% of GDP	-5.6%	-12.0%	-12.5%	-5.7%	-7.6%			

Sources: Ministry of Finance and Eaglestone Securities.

The table below describes how the Mozambican government plans to finance this year's budget deficit. We note that grants are expected to fall by 3.1% from last year to MZM 20,464 million. This is expected to be compensated by much higher financing, both domestic (60.7% YoY) and

Higher financing (both domestic and external) to offset lower grants in 2015

external (24.6% YoY), which are forecasted to represent 1.5% and 6.1% of GDP, respectively.

The total forecasted expenditures of MZM 226,425 million for this year are expected to be 75% financed by domestic receipts and 25% by external receipts. These figures compare with 76.4% and 23.6%, respectively, in 2014. Government revenues should represent the bulk of its financing needs, with 71% of the total, followed by external financing (15.9%), grants (9%) and domestic financing (4.1%).

Government revenues will represent the bulk of its financing needs (71% of the total)

RECEIPTS / EXPENDITURES	2013	2014	2015	(2) / (1)	% of Total			% of GDP		
	Executed Amount	Executed Amount (1)	Initial Budget (2)		Executed Amount (2013)	Executed Amount (2014)	Initial Budget (2015)	Executed Amount (2013)	Executed Amount (2014)	Initial Budget (2015)
Receipts:										
Domestic Receipts	131,031	161,959	169,890	4.9%	68.8%	76.4%	75.0%	28.4%	30.8%	28.5%
Revenues	126,319	156,244	160,708	2.9%	66.3%	73.7%	71.0%	27.4%	29.7%	27.0%
Transferred Balance	1,554	0	0	n.m.	0.8%	0.0%	0.0%	0.3%	0.0%	0.0%
Domestic Financing	3,158	5,715	9,183	60.7%	1.7%	2.7%	4.1%	0.7%	1.1%	1.5%
External Receipts	59,533	50,060	56,535	12.9%	31.2%	23.6%	25.0%	12.9%	9.5%	9.5%
Grants	30,233	21,118	20,464	-3.1%	15.9%	10.0%	9.0%	6.6%	4.0%	3.4%
External Financing	29,300	28,942	36,071	24.6%	15.4%	13.7%	15.9%	6.4%	5.5%	6.1%
Total Receipts	190,564	212,019	226,425	6.8%	100.0%	100.0%	100.0%	41.3%	40.3%	38.0%
Expenditures:										
Current Expenditures	95,655	116,782	120,352	3.1%	52.5%	56.4%	53.2%	20.7%	22.2%	20.2%
Capital Expenditures	72,301	75,703	83,180	9.9%	39.7%	36.5%	36.7%	15.7%	14.4%	14.0%
Domestic	34,013	44,032	44,881	1.9%	18.7%	21.2%	19.8%	7.4%	8.4%	7.5%
External	38,288	31,670	38,298	20.9%	21.0%	15.3%	16.9%	8.3%	6.0%	6.4%
Net Lending	14,235	14,729	22,894	55.4%	7.8%	7.1%	10.1%	3.1%	2.8%	3.8%
Total Expenditures	182,191	207,213	226,425	9.3%	100.0%	100.0%	100.0%	39.5%	39.4%	38.0%
Change in the Balance	8,373	4,806	0	n.m.				1.8%	0.9%	n.m.
Total Receipts & Expenditures	190,564	212,019	226,425	6.8%				41.3%	40.3%	38.0%

Sources: Ministry of Finance and Eaglestone Securities.

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Disclosures

Eaglestone was founded in December 2011 with the aim to be a committed partner for the development of businesses located primarily in Sub-Saharan Africa and to support the development of renewable energy projects on a global basis.

The company has three business activities - financial advisory services, asset management and brokerage - and currently has offices in Amsterdam, Cape Town London, Lisbon, Luanda and Maputo

Eaglestone is committed to operating and behaving according to the highest standards of corporate governance. Its subsidiary in the United Kingdom is authorized and regulated by the Financial Services Authority. The first of its six Luxembourg based funds has received approval from la Commission de Surveillance du Secteur Financier.

Eaglestone operates with a clear vision and mission to act on behalf of and in the best interests of all its stakeholders, whether they are investors, employees or users of its services.

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