The Mozambican Economy

Moment of Truth

Research
16 May 2014

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Favorable Economic Outlook

A supportive outlook for the international economy and a continued improvement in the domestic market suggest that real GDP growth in Mozambique could surpass 8% this year and average 7.8% in 2015-16F. Growth should be mainly driven by sectors like the extractive industry, namely coal and LNG where Mozambique is expected to become one of the largest exporters in the world before the end of the decade. The financial services, construction and retail sectors are also expected to benefit from structural projects. These projects should have a positive contribution to the balance of payments, fiscal revenues and employment of the country. Inflation is moderate at mid-single digits and should remain contained by vigilant monetary policy from the Central Bank, despite potential climatic risks and the upcoming elections in October.

Priority Spending in Infrastructure and Social Development

The authorities are committed to prioritize public spending toward infrastructure and social development, with two thirds of budgetary spending aimed at priority sectors. Mozambique already has a high rate of public investment (about 15% of GDP), with more than half of this being financed internally. Public wages represent more than 10% of GDP and absorb more than half of current spending. However, spending on the social side is very limited. The aim is to double the budget allocation for social protection to 0.8% of GDP over the medium-term in order to address the high level of poverty as well as the risks faced by the local population from potential economic and climatic shocks.

Many Challenges Ahead

Mozambique remains one of the poorest countries in the world and highly dependent on international donor support (mainly from the EU and World Bank). Combating poverty and achieving inclusive economic growth are therefore at the center of the government´s structural reform agenda, which is endorsed by the IMF. This will require generating more employment and improving human capital while at the same time fostering a better business environment. New risks associated with the political and security environment have also recently emerged and are a serious challenge for the local authorities. These could affect some investment decisions and, as a result, jeopardize the aforementioned growth forecasts. The outcome of these elections present another test as to how the country will end up using the increasing domestic resources for a more equal income distribution to all of its citizens and regions.

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EXECUTIVE SUMMARY

Mozambique has posted high GDP growth rates thanks to mineral resource discoveries that have attracted FDI

Mozambique has gone through many transitions since its independence in 1975, including a civil war and a relatively stable post-war period. Following the war, the country has seen sustained high rates of economic growth thanks to mineral resource discoveries that have attracted foreign investment. It has also benefited from international donor contributions and the government's poverty reduction plan focused on combating poverty and achieving inclusive economic growth. Despite this, income per capital stands at only US$ 600, one of the lowest in the world, while the United Nations ranks the country second-to-last in its latest Human Development Index (2013).

The discovery of coal deposits in Tete and, more recently, off-shore gas fields in the Rovuma basin have brought increased attention to the country

The discovery of coal deposits in the Tete province and the more recent discovery of huge off-shore gas fields in the Rovuma basin have brought increased attention to Mozambique. There are reportedly 32 billion tons of confirmed coal deposits and 180 trillion cubic feet of confirmed gas reserves, with further discoveries of commercial value expected in the near term. Production of liquefied natural gas (LNG) is expected to commence in 2018-20 and exported soon after. These discoveries can make the country a major exporter of both coal and LNG over the medium-term.

The IMF estimates that the megaprojects of the recent past had an impact of 2-4% on GDP growth, but the contribution to fiscal revenues was low

The IMF estimates that historically the so called megaprojects have had a 2-4% impact on GDP growth once production has started. This is based on the impact that projects like Cahora Bassa, Mozal and Sasol had on Mozambique's economic growth. However, the contribution of these megaprojects to fiscal revenues was low in the past (estimated at less than 0.5% of GDP), as the key reason for these projects was to attract foreign investment after the war. Work on a new fiscal regime (this time to create the legal framework for LNG) is reportedly advancing swiftly. The authorities recognize the need to prevent an excessively burdensome fiscal regime that could discourage investment in the sector. A final version is expected to be discussed soon and could be approved before the end of the Parliamentary session in July.

Fiscal revenues from the coal and LNG sectors are expected to become an important source of income

Fiscal revenues from the coal and LNG sectors are expected to become an important source of government income in about a decade. This gradual but steady increase in revenues means that Mozambique has a historic opportunity to reduce its dependency on external assistance and invest in a better standard of living for its population. Areas like health, education, employment, access to clean water and energy are just a few that need to be improved.

Agriculture is a key sector for the country as it accounts for 25% of GDP and employs 75% of the population

A key sector for Mozambique is agriculture, as it accounts for about 25% of GDP and employs nearly 75% of the workforce. The sector currently remains relatively unproductive and consists mostly of subsistence farming where an estimated 85% of rural households are engaged in small and fragmented plots of land. However, its potential is enormous, with several major overseas players reportedly taking advantage of the country's great natural assets such as (i) an extensive undeveloped and fertile farmland, (ii) abundance of water for irrigation and (iii) diverse agro-ecological environments suitable for growing a variety of products.

Low international ranking in terms of business environment and economic competitiveness

Business climate needs improvement too, as Mozambique ranks low on international indicators of business environment and economic competitiveness. Despite the reforms related to business licensing and registration, new business owners still have to go through an extensive bureaucratic process to formally register their business. It also remains challenging to deal with construction permits, employ workers, register property, enforce contracts and trade across borders.

Mozambique enjoys a privileged and strategic location in Southern Africa, but infrastructures need to be improved in order to facilitate regional economic integration

The importance of regional integration is also worth noting. Mozambique enjoys a privileged and strategic location in Southern Africa, being a natural exit to most of its landlocked neighbors, in particular Zimbabwe, Zambia and Malawi. Still, these countries are far from having an efficient and cost-effective trans-boundary infrastructure network that could facilitate regional economic integration. The quality of the roads is relatively poor, as they need to be improved and extended. Railways, as well as seaports, require rehabilitation, upgrading and maintenance in order to meet growing demand from increased cross-border trade and domestic coal production.

The outcome of the forthcoming presidential elections will be a good test on how Mozambique will use its increasing domestic resources to promote inclusive growth

The moment of truth has come for Mozambique. The country faces tremendous challenges ahead on numerous fronts and the international community, which continues to play an important role in its latest development is keeping a close watch. Risks associated with the political and security environment in the country have resurfaced. As a result, the outcome of these elections present yet another test as to how Mozambique will end up using the increasing domestic resources to the promotion of inclusive growth and a more equal distribution to all of its citizens and regions.

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MOZAMBIQUE AT A GLANCE

Language: Portuguese;

Population (2014E): 23.4 million;

Democracy: stable since the first election in 1994;

GDP (2014E): US$ 16.0 billion;

GDP per capita (2014E): US$ 655;

Main GDP contributors: agriculture and services;

Integrated in the SADC: a potential market of 300 million consumers;

Ratings/Outlook/Date: S&P's (B/Stable/Feb-14), Moody's (B1/Stable/Sep-13) and Fitch (B+, Stable/Nov-13);

Vast natural resources: coal, aluminum, titanium, natural gas, hydropower, tantalum and graphite;

Improvements in business climate: 13 days to register a business, which compares with an average of 45.2 days in Sub-Saharan Africa;

Fiscal and customs incentives to private investment: foreign investors continue to enjoy better tax benefits than domestic firms in the mineral and oil sectors;

Capital Markets: stock exchange started operating in October 1999. Current market cap of about US$ 1.2 billion.

ECONOMIC INDICATORS	2010	2011	2012	2013F	2014F	2015F	2016F
National Income							
Nominal GDP (MZM bn)	315	365	408	461	528	598	680
Real GDP growth	7.1%	7.3%	7.2%	7.1%	8.3%	7.9%	7.7%
GDP per Capita (US$)	398	510	567	593	655	711	774
Consumer Prices							
Inflation (period average)	12.7%	10.4%	2.1%	4.2%	5.6%	5.6%	5.6%
Inflation (end of period)	16.6%	5.5%	2.2%	3.0%	6.0%	5.6%	5.6%
Government Budget (% of GDP)							
Total Revenue	19.6%	20.8%	23.3%	27.4%	23.7%	24.4%	24.9%
Expenditures and Net Lending	32.9%	33.7%	32.6%	36.3%	40.1%	35.9%	35.5%
Overall Balance (before Grants)	-13.2%	-13.1%	-9.5%	-8.9%	-16.3%	-11.4%	-10.6%
Grants Received	9.0%	7.8%	5.4%	4.3%	3.8%	3.2%	2.6%
Overall Balance (after Grants)	-4.3%	-5.3%	-4.1%	-4.6%	-12.6%	-8.2%	-7.9%
External Sector (annual % change)							
Exports	8.7%	33.6%	23.6%	3.5%	18.6%	17.4%	21.6%
Imports	2.6%	52.8%	47.2%	9.2%	7.8%	14.4%	4.4%
Balance of Payments (US$ mn)							
Current Account	-1,113	-3,059	-6,426	-6,621	-7,364	-8,252	-8,429
Capital Account Balance	346	432	456	375	396	421	449
Financial Account Balance	1,318	2,933	6,292	6,623	7,166	8,293	8,659
Net Errors and Omissions	58	17	-87	81	0	0	0
Overall Balance of Payments	608	323	236	458	199	462	679
International Reserves (US$ mn)							
Net International Reserves	1,908	2,239	2,605	3,061	3,262	3,725	4,404
Gross International Reserves	2,099	2,428	2,799	3,252	3,449	3,877	4,519
Months of projected imports of goods and nonfactor services	3.3	2.4	2.6	2.7	2.6	2.7	2.7
Months of projected G&S imports (excl. megaproject imports)	4.2	3.0	3.9	4.4	4.7	4.9	5.8
Exchange Rate							
Exchange Rate (period average, MZM/USD)	34.0	29.1	28.4	30.1	-	-	-
Exchange Rate (end of period, MZM/USD)	32.8	27.1	29.7	30.0	-	-	-

Source: Mozambican authorities, World Bank and IMF.

MOZAMBICAN ECONOMY

GROWTH

The Mozambican economy has posted an impressive growth performance in the last decade, with real GDP advancing at an average annual rate of 7.5% during this period. It has largely benefited from international donor contributions and the government's poverty reduction plan. Income per capita has risen 5.3% annually in the same period, but remains at around US$ 600, one of the lowest in the world. More recently, growth has reflected a rapid expansion in the extractive 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. Other areas such as transport and communication and an improving agricultural sector have also driven economic growth.

Real GDP growth in Mozambique has averaged 7.5% in the last decade, but GDP per capita remains one of the lowest in the world

Mozambique faced a particularly adverse economic environment at the start of 2013. Heavy rainfall caused severe flooding, mostly in the south of the country that resulted in major damage to crops, transport infrastructure and electricity transmission lines. Initial estimates by the local authorities suggested that real GDP growth would reach 8.4% last year. However, forecasts were revised downwards to about 7% in 2013 due to the aforementioned flooding impacts.

The start of 2013 was marked by severe floods in the country that hit economic activity

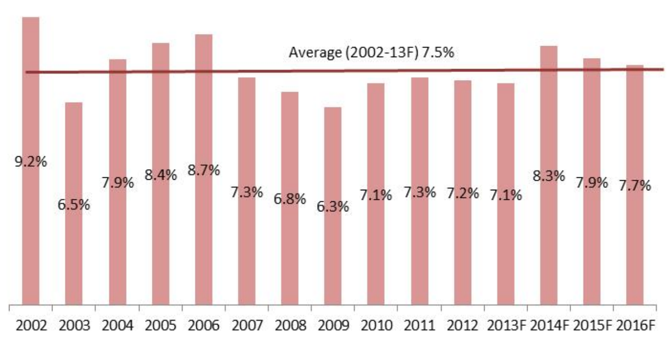
Meanwhile, a supportive outlook for the international economy and a continued improvement in the domestic market suggest that real GDP growth could surpass 8% this year and average 7.8% in 2015-16F. This stronger growth should come mostly on the back of a faster expansion in the (i) extractive industry, (ii) financial services, (iii) education, (iv) construction, (v) healthcare, (vi) retail and (vii) public administration and defense sectors. The outlook for these sectors reflects, in large part, the structural projects (small, medium and large sized) that are foreseen for these economic areas in the future. These projects, which we describe some of them later in this report in the “Megaprojects” and “Sectors” chapters, are expected to have a positive contribution to the country's balance of payments, fiscal revenues and employment, namely for the local population. We note however that the upcoming elections, coupled with the reemergence of security risks in some parts of the country, may delay the execution of some of these projects and, as a result, may jeopardize the growth forecasts previously mentioned.

Following a difficult year in 2013 due to severe floods that affected the country, the Mozambican economy looks set to post a better economic performance in 2014-16F

Overall, the largest sectors of the Mozambican economy in terms of their contribution to GDP this year should remain (i) agriculture and fishing (24.2%), (ii) transport and communication (12.5%), (iii) manufacturing (11.5%) and (iv) retail (11.2%).

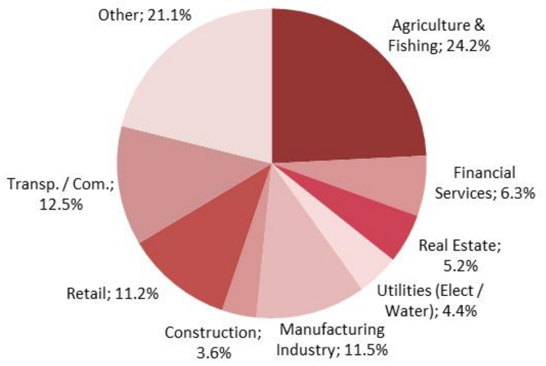
Agriculture and fishing should remain the largest sector in terms of its contribution to GDP

REAL GDP GROWTH (2002-14F)



Source: Mozambican authorities and IMF.

GDP STRUCTURE (2014F)



Source: INE.

INFLATION

Consumer price inflation (CPI) in Mozambique is usually determined by the evolution of prices in the food and non-alcoholic beverages segment. For this reason, the annual performance of the agricultural harvest is rather important to the CPI outlook. A shortage in the supply of fruits and vegetables, for instance, means that Mozambique will have to import these products from its neighboring countries, namely South Africa. As a result, the inflation rate in South Africa and the exchange rate of the Metical against the Rand are key variables for the performance of CPI. The

The food and non-alcoholic beverages segment is the largest contributor to CPI behavior of consumer prices also depends on the evolution of oil prices as well as cereal prices in international markets, as Mozambique is a net importer of wheat and rice.

After a slight increase during the first half of 2013, the inflation rate gradually slowed in the latter months of the year. This evolution resulted mainly from (i) the rise in agricultural production, (ii) the continued fall in food prices and (iii) the impact from the appreciation of the Metical against the South African Rand. All in all, figures from the National Statistics Institute (INE) showed that the CPI stood at 4.4% in December, below the Central Bank's medium-term target of 5-6%.

Inflation gradually slowed in the second part of 2013 due to a rise in agricultural production, a drop in food prices and an appreciation of the Metical

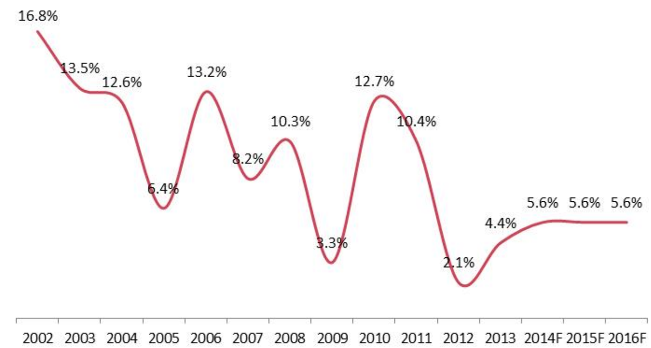
Going forward, consumer prices are expected to remain contained within the aforementioned target at least in the next three years. This is based on the assumption that the inflation rate will benefit from lower import prices, namely oil and food prices in international markets during this period, and that the Central Bank will keep a vigilant monetary policy.

A favorable outlook for oil and food prices in international markets should help keep inflation under control

However, we identify at least two risks on the domestic front that could jeopardize the outlook for inflation. First, the likely increase in public spending leading up to the elections in October of this year could exert some pressure on consumer prices in the short-term. Second, Mozambique is exposed to risks of climate disasters that could hurt the country's harvest season and the supply of food products.

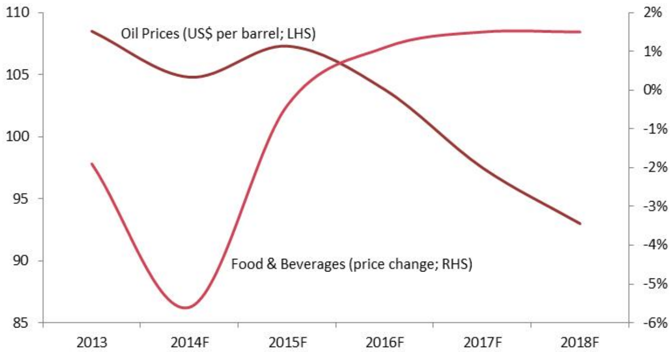
The upcoming elections in October 2014 and risks of climate disasters could jeopardize inflation forecasts

CONSUMER PRICE INFLATION (AVERAGE)



Source: INE.

OUTLOOK ON OIL AND FOOD & BEVERAGE PRICES



Source: EIU.

FISCAL POLICY

The Mozambican authorities are committed to prioritize public spending towards infrastructure and social development, consistent with its poverty reduction strategy. Two thirds of budgetary spending is aimed at priority sectors. The government is also working on several issues related to fiscal policy management described below.

Authorities are committed to prioritize public spending towards infrastructure and social development

Mozambique has a high rate of public investment (about 15% of GDP), with more than half of this being financed internally. The authorities are reportedly working to strengthen their ability to analyze and select projects based on economic profitability and, at the same time, assess the impact that related borrowing would have on public debt.

Mozambique has a high level of public investment (15% of GDP)

Public wages represent more than 10% of GDP and absorb more than half of current spending, considered high by international standards. Most of the wage bill goes to priority sectors such as education and health. The government is reportedly looking to reduce salary increases and limit recruitment in non-priority areas with the aim of containing the wage bill to around 8.5% of GDP in the medium-term.

New hiring in priority sectors like education and health mean that public wages account for more than 10% of GDP

The authorities introduced the Public Enterprises Act (Law 6/2012) requiring the approval of the investment and borrowing plans of state-owned enterprises (SOEs) by the sector ministry and the Ministry of Finance. It will also require the publication of the annual reports of the large SOE. In the medium-term, IGEPE, the government entity that has oversight responsibilities for 117 SOEs, aims to reduce the number of SOEs by about half through liquidation and privatization.

The Public Enterprises Act requires the approval of the investment and borrowing plans of SOEs

The government has strongly increased its budget allocation for social protection in recent years. Although it still accounts for only 0.4% of GDP, the aim is to increase this to 0.8% of GDP over the medium-term. This increase in social protection, which is also in line with the authorities' poverty reduction plan, is aimed at addressing the high level of poverty as well as the risks faced by the local population from potential economic and climatic risks.

The increase in social contribution is aimed at addressing the high level of poverty as well as economic and climatic risks

Meanwhile, regarding the country's public accounts, the latest available data for the 2013 budget showed that revenues amounted to MZM 88 billion in the period up to September, corresponding to an execution rate of 73%. Tax revenues were on target with the budgeted figure, as they were boosted by capital gains taxes related to gas investments. Expenditures fell short of expectations (execution rate of 62%) and stood at MZM 116 billion. This performance resulted from a low execution rate in capital expenditures and is explained by delays caused by the floods early in the year and ongoing problems in the implementation of investment projects, namely those financed from external sources. Net lending operations for the first three quarters of the year amounted to almost the entire budgeted figure for the year due to the start of implementation of large infrastructure projects.

The latest available figures for the 2013 budget execution show that the execution rate of revenues and expenditures stood at 73% and 62%, respectively, in the first three quarters of the year

The 2014 budget was approved in December of last year. Revenues are projected to stand at MZM 147 billion and expenditures at MZM 241 billion. This represents an increase of 22% and 28%, respectively, from 2013. This year's budget is rather expansionary, with total expenditures expected to increase from 40% of GDP in 2013 to 45%. It reflects in large part the allocation of US$ 400 million collected in taxes from capital gains in August 2013 that were kept off last year's budget and are reported as revenues in 2014. These funds will reportedly be used mostly for one-off needs such as organizing the upcoming elections and to incorporate the investment by the Ministry of Defense through the operations of the company EMATUM.

The 2014 budget has an expansionary nature, with total spending representing 45% of GDP (vs. 40% in 2013)

The incorporation of the investment spending with EMATUM goes back to September of 2013 when EMATUM, a public company, issued bonds with a government guarantee worth US$ 850 million. The bonds were reportedly to finance investments and operations in the tuna fishing industry, but a large share of the issue will go to finance the coast guard and maritime security services. These non-commercial activities are reportedly worth US$ 350 million and have been incorporated into the 2014 budget.

The 2014 budget incorporates off-budget defense spending by a public tuna fishing company

The operation raised concerns about transparency and prioritization of public spending, namely in what concerns the government's poverty reduction program, which led to delays in the disbursement of budget support from some of the country's development partners late in 2013. According to the IMF, this will also lead the local authorities to delay the contracting of other non-concessional debt in the pipeline and, as a result, it will cause the delay of projects such as the construction of a new road, the development of a free trade zone and the Moamba Major dam.

The EMATUM operation raised transparency concerns and brought questions about the government's investment priorities

STATE BUDGET	2013				2014		
	Actual Budget (mn MZM)	% of GDP	Budget Executed (Jan-Sep; mn MZM)	Execution Rate (Jan-Sep)	Actual Budget (mn MZM)	% of GDP	YoY Change
Total Revenues	**120,492**	**26%**	**88,303**	**73%**	**147,372**	**28%**	**22%**
Tax Revenues	100,830	22%	75,634	75%	126,558	24%	26%
Other Revenues	19,662	4%	12,669	64%	20,814	4%	6%
Grants	**23,232**	**5%**	**21,443**	**92%**	**30,402**	**6%**	**31%**
Total Expenditures	**188,720**	**40%**	**116,528**	**62%**	**240,891**	**45%**	**28%**
Current Expenditures	100,471	21%	68,016	68%	115,666	22%	15%
Staff Costs	50,546	11%	37,004	73%	56,959	11%	13%
Goods and Services	19,479	4%	13,284	68%	25,018	5%	28%
Debt Payments	5,622	1%	2,862	51%	6,347	1%	13%
Current Transfers	16,046	3%	11,236	70%	18,078	3%	13%
Subsidies	3,372	1%	1,298	38%	2,671	1%	-21%
Other Current Expenditures	5,406	1%	2,332	43%	6,593	1%	22%
Capital Expenditures	79,983	17%	36,397	46%	100,770	19%	26%
Domstically Financed	34,611	7%	18,736	54%	42,490	8%	23%
Externally Financed	45,373	10%	17,662	39%	58,280	11%	28%
Net Lending	8,266	2%	12,114	147%	24,456	5%	196%
Deficit	**44,996**	**5%**	**20,636**	**46%**	**63,118**	**6%**	**40%**
External Financing	41,423	4%	18,783	45%	57,403	5%	39%
Domestic Financing	3,573	1%	1,853	52%	5,715	1%	60%

Source: Ministry of Finance.

EXTERNAL SECTOR

Mozambique's trade balance structure has changed due to the impact of the megaprojects in the country. According to the latest data from INE, exports of aluminum, coal and natural gas accounted for over 50% of the total exports in 2012. Aluminum remains the main export product, representing nearly a third of the total. Coal is the second largest export good and its exports are expected to increase in the medium-term as rail transport and seaport capacity improve.

Exports of aluminum, coal and natural gas accounted for over 50% of total exports in 2012

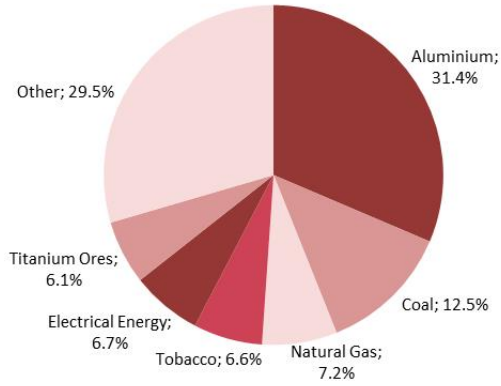
The composition of exports is expected to change more significantly once the country begins to export liquid natural gas (LNG) in 2018-20. It should take at least a couple of years after that to reach full capacity in terms of LNG production, but once that happens the LNG industry is projected to represent nearly 30% of the country's GDP and amount to almost half of its total exports. This would make Mozambique one of the top-five LNG exporters in the world.

The LNG industry is projected to represent 30% of GDP and amount to almost half of Mozambique's total exports in the next decade

Imports have also increased rapidly in recent years because of new megaproject investments. Petroleum oils and machinery are the main products imported by the country. The start of LNG exploration has triggered the import of services, which nearly doubled in 2012. Investments of coal mining companies have also led to the increase of goods imports in the period.

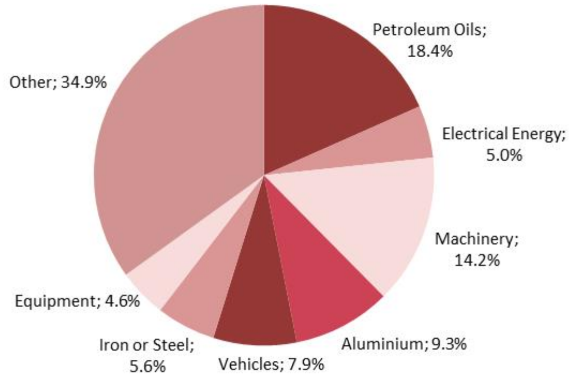
Imports have increased rapidly due to new megaproject investments

MAIN EXPORTS (2012)



Source: INE.

MAIN IMPORTS (2012)

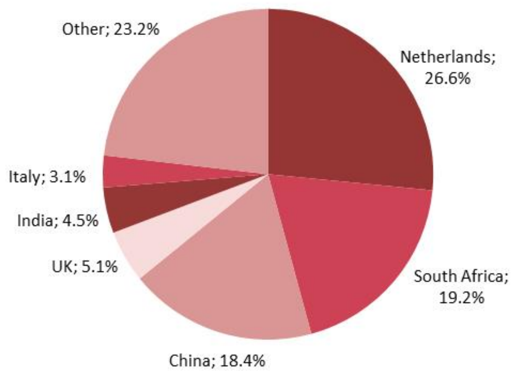


Source: INE.

Mozambique's main exporting partners include the Netherlands, South Africa and China, which accounted for around two-thirds of total exports in 2012. The key product sold to the Netherlands is aluminum while to South Africa it is electrical energy. On the other hand, Mozambique imported nearly a third of its goods and services from South Africa. Imports included electrical energy, vehicles and iron. The Netherlands and the United Arab Emirates are the other two countries that made up the top-three suppliers of Mozambique in 2012.

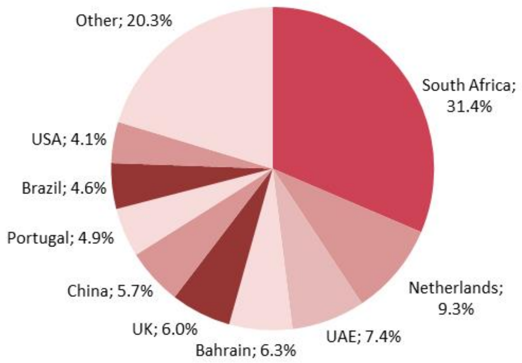
The country's main trading partners include South Africa, the Netherlands and China

MAIN EXPORTING PARTNERS (2012)



Source: INE.

MAIN IMPORTING PARTNERS (2012)



Source: INE.

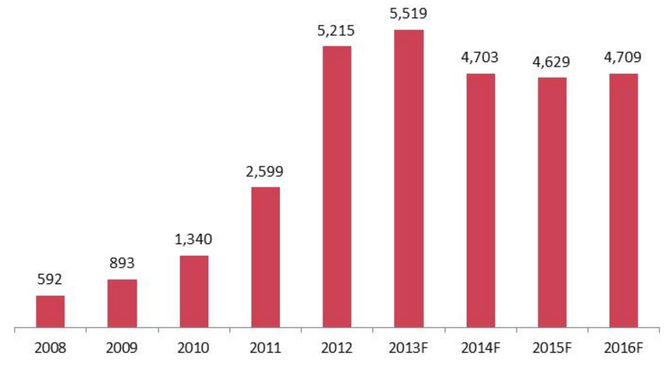
The current account deficit has increased rapidly in recent years, reaching 45% of GDP in 2012 (up from around 12% in 2010). This reflects the strong rise in imports related to megaprojects in coal and natural gas and in infrastructure sectors. The large deficit does not represent a structural imbalance considering that it is mainly driven by large scale capital-intensive investments and since it is financed by foreign direct investment, which has nearly increased ten-fold since 2008.

The current account deficit has increased rapidly in recent years, but does not pose a structural problem since it is financed by FDI

Meanwhile, net international reserves have increased to the tune of nearly 13% per year in the last decade and are projected to have reached US$ 3 billion at the end of 2013. This trend is attributable to the disbursement of donor funds, foreign direct investment and, more recently, to capital gains taxes related to the sale of stakes in gas investments. Reserves represent about 3 months of imports (including megaproject imports).

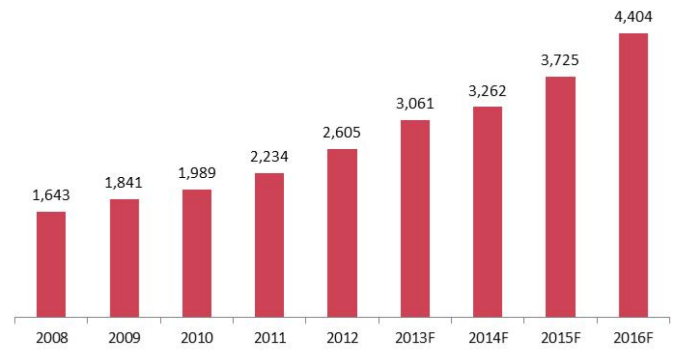
Net international reserves have reached US$ 3 billion and represent 3 months of imports (incl. megaproject imports)

NET FOREIGN DIRECT INVESTMENT (US$ MN)



Source: Mozambican authorities and IMF.

NET INTERNATIONAL RESERVES (US$ MN)



Source: Mozambican authorities and IMF.

EXCHANGE RATE

Mozambique has a flexible exchange rate regime whereby the Central Bank allows the Metical to adjust freely to evolving patterns of trade and financial flows. At the same time, the Central Bank closely monitors the developments in the real effective exchange rate vis-à-vis a broad basket of currencies to ensure external competitiveness and a comfortable level of international reserves.

Mozambique has a flexible exchange rate system

After a period of relative appreciation against the Dollar and the Euro in 2011-12, the Metical has depreciated against both currencies since 2013. This trend in part reflects the effects of the strengthening of both the Dollar and the Euro in international markets. On the other hand, there has been an appreciation of the Metical against the South African Rand.

The Metical has depreciated against both the US$ and the EUR since 2013

We believe continued foreign direct investment (FDI) inflows and a projected increase in exports in the medium-term may put upward pressure on the Metical exchange rate.

FDI inflows and an increase in exports may put pressure on the Metical

EVOLUTION OF FX RATES (VS. METICAL)

Source: Banco de Moçambique.

FX RATES (AVG)	2010	2011	2012	2013	2014*
Metical vs.:					
USD	33.96	29.07	28.37	30.15	31.28
EUR	45.52	40.40	36.34	40.04	42.99
ZAR	4.65	4.02	3.46	3.13	2.91
Variation of Metical** vs.:					
USD	23.4%	-14.4%	-2.4%	6.3%	3.8%
EUR	17.8%	-11.2%	-10.0%	10.2%	7.4%
ZAR	40.3%	-13.5%	-13.9%	-9.5%	-7.2%

* Year-to-date. ** "-" sign means appreciation.

Source: Banco de Moçambique.

MEGAPROJECTS

A megaproject is an extremely large-scale investment project. It is typically defined as costing more than US$ 1 billion and attracting a lot of public attention due to its substantial impacts on communities, environment and budgets. Megaprojects are often foreign-owned and capital intensive activities that rely on extracted resources and/or imported intermediate goods and where most of its production is exported.

Megaprojects are often foreign- owned and capital intensive activities

Mozambique is rich in several mineral resources and has been extracting natural gas and heavy sands for about a decade. The onshore Pande and Temane gas fields have been producing since 2004 and 2010, respectively. Sasol is the operator of these fields and a majority of the gas is exported to South Africa via the Mozambique-South Africa gas pipeline.

Mozambique has been extracting natural gas in the onshore Pande and Temane gas fields

However, it was the discovery of coal deposits in the Tete province and the more recent discovery of huge off-shore gas fields in the Rovuma Basin (south of the border with Tanzania) that has brought increased attention to the country. There are reportedly 32 billion tons of confirmed coal deposits, which could make Mozambique one of the world's leading coal exporters if all of these resources are exploited. Moreover, there are reportedly180 trillion cubic feet of confirmed gas reserves located in the Rovuma Basin, with further discoveries of commercial value expected in the near future. This could also make Mozambique a major exporter of natural gas over the medium-term.

The discovery of coal deposits in Tete and, more recently, the off-shore gas fields in the Rovuma Basin brought increased attention to the country

According to a report published by the IMF in July 2013, there are currently eight megaprojects operating in Mozambique. These projects are described in the table below and include (i) the hydroelectric plant of Cahora Bassa, (ii) the Mozal aluminum smelter, (iii) the Sasol natural gas extraction, (iv) the Kenmare heavy sands project and (v) the coal mine projects of Vale, Rio Tinto, JSPL and Beacon Hill, all located in Tete. There are also other projects currently being considered, most of which relate to natural gas in the Rovuma Basin, that are expected to be operational by 2018-20.

Besides Cahora Bassa and Mozal, there are other megaprojects currently operating in Mozambique, with others planned in the future, namely in natural gas

MOZAMBIQUE - MEGAPROJECTS

	Sector	Location (city, province)	Capacity/Reserves	Construction	Production
Current and extensions under consideration:					
1. Hydroelectrica Cahora Bassa	Electricity generator	Cahora Bassa, Tete			
Hydroelectrica Cahora Bassa			2,075 MW	1995-97	1998
Hydroelectrica Cahora Bassa North			1,240 MW		
2. Mozal	Aluminium	Beluluale Industrial Park, Maputo			
Mozal I	Smelter		245 thousand tons	1998-2000	2000
Mozal II			245 thousand tons	2001-03	2003
Mozal III					
3. Sasol	Natural gas	Pande and Temane gas fields, Inhambane	154 GJ	2002-04	2004
50% expansion			183 GJ	2011	ramp up by 2016
4. Kenmare	Heavy sands	Moma, Nampula	600 thousand tons	2004	2007
50% expansion			300 thousand tons	2011-12	2013
5. Vale (CVRD)	Coal	Moatize mine, Tete	25 million tons per year	2007-11	2011
6. Rio Tinto	Coal	Benga mine, Tete	45 million tons per year	Acquisition in 2011	2012
7. JSPL	Coal	Changara district, Tete	10 million tons per year		2012-2016 ramp up
8. Beacon Hill	Coal	Moatize, Tete	87 million tons of reserve	Acquisition in 2010	2013
Under consideration:					
1. Mphanda Nkuwa	Electricity	Zambesi river, Tete	1,500 MW	2014-18	2018
2. Anadarko (USA)	Natural gas	Rovuma basin	10 million tons per year	2014-19	2018-20
3. ENI (Italy)	Natural gas	Rovuma basin	10 million tons per year	2014-19	2018-20
4. Statoil (Norway)	Natural gas	Rovuma basin			
5. Petronas (Malaysia)	Natural gas	Rovuma basin			
6. Minas de Revuboé	Coal	Revuboe, Tete	5 million tons per year	2013-15	2016
7. Ncondezi (integrated mine and power plant)	Coal and thermal power	Tete	1.2 million tons per year / 300 MW	2015	2016 (mine), 2017
8. Baobab Resources	Iron ore	Tenge/Ruoni deposit, Tete	725 million tons		
9. ENRC					
Coal transport logistics	Rail line	Tete	40 million tons per year	2014-15	2016
Coal mines	Coal	Tete	20 million tons per year	2014-15	2016
10. Corridor Sands	Heavy sands	Chibuto, Gaza province			

Source: Mozambican authorities, project operators and IMF.

The IMF estimates that historically megaprojects have had a 2-4% impact on economic activity once production in the project has started. These conclusions came from the impact that projects like Cahora Bassa, Mozal and Sasol had on GDP growth in Mozambique. However, the

The IMF predicts that the impact of megaprojects on economic activity has historically been of 2-4%

contribution of megaprojects to fiscal revenues was low in the past, as the key reason for these projects was to attract foreign investment after the war and so these projects provided fiscal terms that were attractive to foreign investors. The IMF predicts that on average the impact of these projects to total fiscal revenues was less than 0.5% during 2007-11.

Tax conditions more aligned with international norms after revision of fiscal legislation in 2007

Meanwhile, tax conditions were more aligned with international standards with the revision of the fiscal legislation for the mining and hydrocarbon sectors in 2007 and have applied to contracts signed since then. The Mozambican authorities also planned to re-discuss the tax treatment for older megaprojects when the initial terms expire, which typically happens after 20 years.

A new draft for the fiscal regime (including legal framework for LNG) is expected to be approved before July

Work on the new fiscal regime (this time to create the legal framework for the LNG facilities to be built in Palma) has advanced substantially. The government recognizes the need to prevent an excessively burdensome fiscal regime that could discourage investment in the sector. Tax terms are expected to be more aligned with international best practice and combine the relevant tax issues in a single legal document for easier reference and interpretation. The new draft for the fiscal regime is expected to be discussed in Parliament later in May and approved before the end of the Parliamentary session in July.

The impact of increased coal and LNG production is projected to be much larger than the existing megaprojects

The impact from the increase in coal production and, later, LNG is expected to be much larger than the existing megaprojects. First, the rehabilitation of the Sena Line (575km) connecting Moatize (Tete province) with the Port of Beira that is currently taking place will reportedly allow an increase in the capacity of coal transported (namely to exporting markets) from the current 6.5 million to 20 million tons per year by February 2015. The construction of another railway line totaling 913km that links Moatize to the Port of Nacala (via Malawi) is both a greenfield and an upgrade of an existing line and will reportedly allow the increase in the capacity of coal transported from the current 4 million to 30 million tons per year.

LNG production is expected to start in 2018-20

Second, the construction of a LNG plant that consists of four LNG production units, or “trains”, is scheduled to begin this year. Each train has the capacity to produce 5 million tons of LNG per year, with production (and export) predicted to start in 2018-20. The total cost of the LNG project reportedly amounts to about US$ 40 billion and covers all upstream (natural gas exploration, drilling and pipelines) and midstream (LNG plant) investments. Anadarko (USA) and ENI (Italy) are the two companies involved in this project in the Rovuma Basin. According to the latest press, reports, Anadarko has already sold two thirds of the processing capacity of the future natural gas processing plant in Mozambique to Asian customers and expects to sell the remaining third soon.

The IMF forecasts that the contributions of coal and natural gas to GDP will average 2p.p.per year between 2013-23

IMF projections suggest that coal and natural gas contributions to GDP growth will average 2 percentage points per year between 2013 and 2023. GDP growth will reach double-digits in the years when some LNG trains become operational. These estimates include only the projects planned by the Mozambican government and the companies operating in these projects. Current reserve estimates suggest that both coal and natural gas reserves could allow for a much larger production capacity than the one currently planned.

Fiscal revenues from coal are not projected to surpass 2% of GDP while income from the LNG sector is not expected before 2020

Fiscal revenue from coal and gas is likely to be small over the medium-term. Income from the coal sector will increase proportionally to coal exports. About half of the revenue is projected to be corporate income taxes while the rest is mostly royalties and other taxes. Total revenue from coal is not expected to surpass 2% of GDP. In the LNG sector, no fiscal revenue is anticipated before the start of production in 2018-20. Income is only likely from possible windfall capital gains taxes from the sale of stakes among investors.

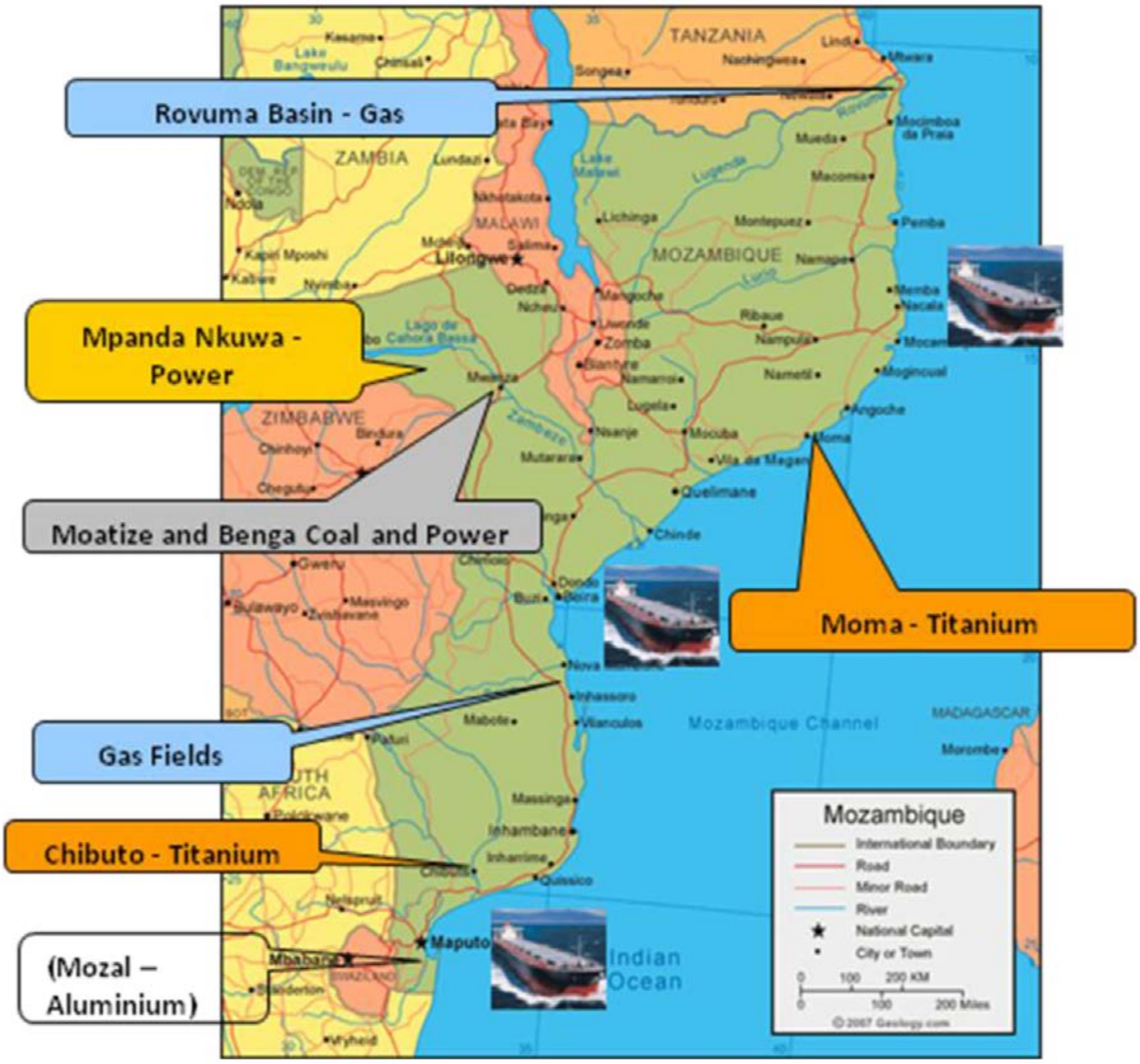
However, local authorities continue to anticipate to receive capital gains taxes from the sale of stakes in these projects

In this regard, the Mozambican authorities recently stated that the country has netted around US$ 1.3 billion (representing about 9% of GDP) since 2012 on five deals involving the sale of mining resources made between foreign groups, including Anadarko and ENI. Moreover, they expect to collect similar taxes amounting to US$ 3 billion by the end of this year on seven international groups who sold either their entire or part of their stakes in coal and natural gas exploration projects in the country.

Fiscal revenues from coal and LNG are expected to become an important source of government income in a decade

Fiscal revenues from the coal and LNG sectors are expected to become an important source of government income in a decade. While LNG production is expected to reach full capacity in the early 2020s, fiscal revenue will increase only gradually in the following years. This is due to the fact that (i) gas companies pay lower corporate income tax in the first 8-10 years of production and (ii) the government’s share in profit gas will rise only gradually due to cost-recovery provisions. According to IMF projections, the combined revenue from coal and LNG is forecasted to reach 9% of non-coal, non-LNG GDP by 2030, or about a quarter of all government revenue.

MEGAPROJECTS IN MOZAMBIQUE



Source: World Bank.

BUSINESS CLIMATE

Local authorities have been committed to improving the business environment in the country

The Mozambican authorities have been committed to improving the country's business climate over the last few years. With this in mind, the government introduced a strategic plan for the period of 2008-12 that aimed to (i) simplify the procedures to start a business, (ii) simplify the requirements and procedures to apply for a business license, (iii) create a supervisory agency for economic activities, (iv) adopt and adjust international standards to the requirements of the country's private sector and (v) simplify the procedures for importing and exporting products.

The first part of a strategic plan to improve business climate was introduced for the period 2008-12 while a second part was introduced for the period 2013-17

More recently, the local authorities announced a second part of this strategic plan, which will last for the period 2013-17. This new plan is looking to consolidate the reforms previously introduced and improve the controlling mechanisms of its implementation and monitoring. The main pillars of the second part of the plan include (i) the national investor as the plan's key focus due to its role in the development of the country, (ii) the creation of an electronic platform and database to improve the procedures to do business in the country and (iii) the introduction of a second stock exchange as an alternative to commercial banks for companies to receive financing.

The plan sets specific targets for improving the business cycle and competitiveness

The strategic plan to improve business climate has set specific targets for improving the business cycle and competitiveness of Mozambican companies. These are listed in the table below.

STRATEGY TO IMPROVE BUSINESS CLIMATE	2012	2013	2014	2015	2016	2017
Improving Business Cycle						
Number of days to get a permit to start a business	13	10	10	10	6	6
Number of days to get a construction permit	377	152	120	115	97	89
Number of procedures to start a business	9	9	9	7	7	5
Improving Competitiveness						
Cost of a permit to start a business (% of income per capita)	19.7%	19.7%	18.0%	15.0%	12.5%	10.0%
Cost to import (US$ per container)	1,545					1,300
Cost to export (US$ per container)	1,100					1,100
Cost of getting construction permit (% of income per capita)	113.3%					100.0%
Number of SMEs registered in a second stock market (BVM)	0	0	2	2	2	8

Source: Mozambican authorities.

Mozambique ranks 139th out of 189 economies in the latest World Bank Doing Business report

Despite the efforts of the Mozambican authorities, the country still ranks low on international indicators of business environment and economic competitiveness. For example, in the 2014 Doing Business report published by the World Bank, Mozambique ranked 139th out of 189 countries. It compares with a ranking of 146th in the previous year. This is despite the reforms related to business licensing and registration for smaller businesses, as new business owners still have to go through an extensive bureaucratic process to formally register their business. It also remains rather costly and/or burdensome to deal with construction permits, employ workers, register property, trade across borders and enforce contracts.

The country's Ease of Doing Business ranking improved in 2014 from the previous year

We present below the Doing Business Indicators for Mozambique in 2014 and compare them with the ones in some other countries in Sub-Saharan Africa. We also include the results of the 2013 report for comparison purposes, as comparing the indicator for an economy in two points in time shows how much the economy's regulatory environment has changed over time. However, the ranking may also change as a result of developments in other economies, as these may have had a greater impact than the ones that were implemented in that country.

DOING BUSINESS INDICATORS	Angola	Botswana	Mozambique 2014	Mozambique 2013	Namibia	Nigeria	South Africa
Ease of Doing Business (rank of 189 countries)	**179**	**56**	**139**	**146**	**98**	**147**	**41**
Starting a Business (rank out of 189 countries)	**178**	**96**	**95**	**96**	**132**	**122**	**64**
Procedures (number)	8	9	9	9	10	8	5
Time (days)	66	60	13	13	66	28	19
Cost (% of income per capita)	130.1	1.2	18.7	19.7	14.7	58.3	0.3
Paid-in Min. Capital % of income per capita)	21.8	0.0	0.0	0.0	0.0	0.0	0.0
Dealing with Construction Permits (rank out of 189 countries)	**65**	**69**	**77**	**135**	**31**	**151**	**26**
Procedures (number)	12	21	12	14	12	18	16
Time (days)	204	111	130	377	123	116	78
Cost (% of income per capita)	690	18	258	113.3	31	3,505	10
Getting Electricity (rank out of 189 countries)	**170**	**107**	**171**	**174**	**72**	**185**	**150**
Procedures (number)	7	5	7	9	6	8	5
Time (days)	145	121	107	117	37	260	226
Cost (% of income per capita)	690	389	2,858	2,395	396	961	1,432
Registering Property (rank out of 189 countries)	**132**	**41**	**152**	**155**	**178**	**185**	**99**
Procedures (number)	7	4	8	8	8	13	7
Time (days)	191	15	39	42	54	77	23
Cost (% of property value)	3.0	5.1	7.7	8.0	13.8	20.8	6.1
Getting Credit (rank out of 189 countries)	**130**	**73**	**130**	**129**	**55**	**13**	**28**
Strength of legal rights index (0-10)	3	6	3	3	7	9	7
Depth of credit information index (0-6)	4	4	4	4	4	5	6
Public registry coverage (% of adults)	2.4	0.0	4.3	4.4	0.0	0.1	0.0
Private bureau coverage (% of adults)	0.0	60.7	0.0	0.0	66.2	4.9	55.6
Protecting Investors (rank out 189 countries)	**80**	**52**	**52**	**49**	**80**	**68**	**10**
Extent of disclosure index (0-10)	4	7	5	5	5	5	8
Extent of director liability index (0-10)	6	8	4	4	5	7	8
Ease of shareholder suits index (0-10)	6	3	9	9	6	5	8
Strength of investor protection index (0-10)	5.3	6.0	6.0	6.0	5.3	5.7	8.0
Paying Taxes (rank out of 189 countries)	**155**	**47**	**129**	**105**	**114**	**170**	**24**
Payments (number per year)	30	34	37	37	37	47	7
Time (hours per year)	282	152	230	230	314	956	200
Total tax rate (% of profit)	52.1	25.4	37.5	34.3	21.8	33.8	30.1
Trading Across Borders (rank out of 189 countries)	**169**	**145**	**131**	**134**	**141**	**158**	**106**
Documents to export (number)	10	6	7	7	8	9	5
Time to export (days)	40	27	21	23	25	22	16
Cost to export (US$ per container)	1,860	3,045	1,100	1,100	1,750	1,380	1,705
Documents to import (number)	9	6	9	10	7	13	6
Time to import (days)	43	35	25	28	20	33	21
Cost to import (US$ per container)	2,700	3,610	1,600	1,545	1,905	1,695	1,980
Enforcing Contracts (rank out of 189 countries)	**187**	**86**	**145**	**132**	**69**	**136**	**80**
Time (days)	1,296	625	950	730	460	447	600
Cost (% of claim)	44.4	39.8	119.0	142.5	35.8	92.0	33.2
Procedures (number)	46	28	30	30	33	40	29
Resolving Insolvency (rank out of 189 countries)	**189**	**34**	**148**	**147**	**85**	**107**	**82**
Time (years)	n.a.	1.7	5.0	5.0	2.5	2.0	2.0
Cost (% of estate)	n.a.	18	9	9	15	22	18
Recovery rate (cents on the dollar)	0.0	61.9	16.6	15.0	34.9	27.9	35.5

Source: World Bank Doing Business Report (2014).

According to the WEF's Global Competitiveness Report, Mozambique ranks 137th out of 148 countries in the GCI

Similarly, the World Economic Forum's Global Competitiveness Report for 2013-14 showed that Mozambique ranked 137th out of 148 countries in the Global Competitiveness Index (GCI). The report states that efforts are required across many areas to lift the Mozambican economy onto a sustainable growth and development path, especially considering its natural resource potential. The country's public institutions received a weak assessment on the basis of low public trust in politicians, significant red tape faced by companies in their business dealings and the perceived wastefulness of government spending. The report also adds that macroeconomic stability (ranked 98th) remains weak, although recent efforts, namely by the Central Bank's monetary policy committee, seem to be bearing some fruits in containing price increases.

Additional reforms are required in order to improve long-term competitiveness

Significant reforms are also required in order to improve long-term competitiveness, including (i) making critical investments in infrastructures (ranked 130th), (ii) establishing a regulatory framework that encourages competition to foster economic diversification and (iii) developing a sound financial market (ranked 132nd). The report states that investments in health and primary education (ranked 138th) and higher education and training (ranked 143rd) are critical as well, particularly bearing in mind the country's rapidly growing population and high unemployment.

GLOBAL COMPETITIVENESS INDEX	Angola	Botswana	Mozambique	Namibia	South Africa	Tanzania	Zambia	Zimbabwe
Global Competitiveness Index 2013-2014 (out of 148 countries)	**142**	**74**	**137**	**90**	**53**	**125**	**93**	**131**
Global Competitiveness Index 2012-2013 (out of 144 countries)	n.a.	79	138	92	52	120	102	132
Global Competitiveness Index 2011-2012 (out of 142 countries)	139	80	133	83	50	120	113	132
Basic requirements (out of 148 countries)	**139**	**66**	**133**	**85**	**95**	**129**	**104**	**124**
Institutions	145	34	120	48	41	97	51	101
Infrastructure	145	94	130	60	66	134	118	126
Macroeconomic environment	54	24	98	70	95	131	81	114
Health and primary education	137	115	138	125	135	114	126	116
Efficiency enhancers (out of 148 countries)	**143**	**93**	**135**	**99**	**34**	**115**	**101**	**138**
Higher education and training	147	99	143	115	89	138	119	124
Goods market efficiency	146	92	125	91	28	118	38	130
Labor market efficiency	134	47	125	59	116	49	93	140
Financial market development	145	53	132	39	3	99	46	109
Technological readiness	138	104	123	90	62	126	115	112
Market size	65	101	104	121	25	75	111	136
Innovation and sophistication factors (out of 148 countries)	**148**	**106**	**131**	**102**	**37**	**109**	**61**	**126**
Business sophistication	143	102	135	99	35	116	66	126
Innovation	147	102	128	94	39	89	60	127

Source: World Economic Forum's Global Competitiveness Report (2013-14).

Improving access to finance is often referred as the major constraint to doing business in the country

All in all, improving the business environment in Mozambique is rather important particularly bearing in mind the impact that it has on SMEs, which comprise about 90% of all private businesses in the country. Supporting these companies necessarily means improving their access to finance, as this is often referred by entrepreneurs as the main constraint to doing business and where the country ranks poorly compared with other countries in Sub-Saharan Africa. This lack of improvement in financial access is mostly due to economy-wide structural impediments to financial intermediation that need to be addressed going forward and limit the number of creditworthy clients and/or increase the costs and risks of offering financial services. These impediments include the lack of competition in the banking sector, the informal nature of the private sector as well as the limited management, financial and technical skills seen at smaller firms. Other factors that need to be addressed include improving the skills of the workforce and also possibly increase the links of SMEs to mega-projects, as this would help businesses transfer from the informal to the formal sector.

FOREIGN INVESTMENT PROCESS

There are no legal obstacles to foreign investment and no government approval is required when investing

Private investment in Mozambique is governed by the Law on Investment nº 3/93, its related regulations and the Tax Benefits Code (Law 4/2009). There are no legal obstacles to foreign investment in Mozambique and no government approval is required when investing. Although it is recommended to have national associates, most industries are open to foreign ownership except for certain restrictions in sectors such as media, fixed-line telecoms and private security.

The Law on Investment grants certain tax and customs benefits

The Law on Investment grants certain tax (corporate income and VAT) and customs benefits depending on the amount, location and activity sector. Investments carried out in the city of Maputo benefit, for a period of five tax years, from a deduction (not to exceed the tax payable in respect of the investment project activity) from corporate income tax that is equal to 5% of the total investment actually realized (10% in the case of projects carried out in other provinces).

There are also specific regimes for other activities

Apart from these benefits, there are other specific regimes for (i) agriculture and fishery, (ii) rural commerce and industry, (iii) manufacturing and assembly industries (iv) creation of basic infrastructures, (v) industrial free zones, (vi) tourism and hotels, (vii) large scale projects, (viii) rapid development zones, (ix) investments under the mining law, (x) investments under the petroleum law, (xi) special economic zones and (xii) science and technology parks.

The minimum foreign direct investment value for transferring profits abroad is 2.5 million Meticais

The minimum value of foreign direct investment (FDI) resulting from the inflow of own capital from foreign investors is set at the equivalent of 2.5 million Meticais for the specific purposes of transferring profits abroad and re-exportable invested capital. The real value of foreign direct investment for registration and eligibility for guarantees and incentives established for this purpose shall consist of the sum of the values of equity, shareholders' loans without interest and/or supplementary capital provided by investors themselves, as well as exportable profits that might have been reinvested in the country.

There are several guarantees included in the legislation

The guarantees envisaged in the legislation in force include (i) legal protection on property and rights, including industrial property rights, (ii) no restriction of borrowing and payment of interest abroad, (iii) transfer of dividends abroad, (iv) arbitration according to the International Centre for Settlement of Investment Disputes (ICSID) or International Chamber of Commerce (ICC) rules for the resolutions of disputes on investments and (v) MIGA and Overseas Private Investment Corporation (OPIC) services on issues related to investment risk insurance.

CPI is the government agency responsible for the promotion, reception, analysis, monitoring and verification of investments carried out in Mozambique

The Investment Promotion Centre (CPI) is the government agency responsible for the promotion, reception, analysis, monitoring and verification of investments carried out in Mozambique with the exception of special economic and industrial free zones, which are governed by GAZEDA. The decision regarding the approval of an investment project received by the CPI shall be made by:

(a) The Governor of the Province, within a maximum period of three business days after the receipt of each proposal, in respect of national investment projects with an investment value not greater than the equivalent of 1.5 billion Meticais;

(b) The General Director of CPI, within a maximum period of three business days after the receipt of each proposal, in respect of foreign and/or national investment projects with an investment value not greater than the equivalent of 2.5 billion Meticais;

(c) The Planning and Development Minister, within a maximum period of three business days after the receipt of each proposal, in respect of foreign and/or national investment projects with an investment value not greater than the equivalent of 13.5 billion Meticais;

(d) The Council of Ministers, within a maximum period of 30 business days after the receipt of each proposal, for projects (i) with an investment value greater than the equivalent of 13.5 billion Meticais, (ii) that require a land area greater than 10,000 hectares, (iii) that require a forestry concession area greater than 100,000 hectares and (iv) that have foreseeable political, social, economic, financial or environmental impacts.

515 projects were approved in 2013, a 47% increase from the previous year

Meanwhile, according to the CPI, there were 515 projects approved in Mozambique during 2013, representing a total investment of US$ 4.2 billion that included US$ 1.4 billion in foreign direct investment (FDI). This compares with 350 projects approved in the previous year with an investment of US$ 3.2 billion (FDI of US$ 0.7 billion). This means an increase in the number of projects approved and total investment of 47.1% and 31.5%, respectively. Moreover, the total number of jobs expected to be created in the last two years amounted to nearly 59,000, as described in the table below.

APPROVED INVESTMENTS	2012	2013	Total	% YoY
Number of projects	350	515	865	47.1%
Jobs created	23,338	35,627	58,965	52.7%
Foreign direct investment (US$ mn)	726	1,363	2,089	87.8%
Total investment (US$ mn)	3,212	4,224	7,436	31.5%

(1) Figures do not include minerals and hydrocarbon related projects as well as projects approved by GAZEDA.
Source: Investment Promotion Centre (CPI).

Most of the projects approved were in the services, industry and transport & communication sectors

Data from the CPI also showed that the number of projects in the services (152), industry (138) and transport and communication (73) sectors represented more than 70% of the total projects approved last year. Projects approved in the agricultural sector stood at a modest 10% of the total. Regarding investment, we note that the industry, agriculture and transport and communication sectors occupied the top-three places, with their combined investment accounting for nearly three-fourths of total investment in 2013. Most of the jobs created with these projects were in the agriculture, services and industry sectors.

APPROVED INVESTMENTS	Projects		Investment (US$ mn)					Employment	
SECTOR	Number	% of Total	FDI	Domestic	Loans	Total	% of Total	Number	% of Total
Agriculture	54	10.5%	279	189	410	878	20.8%	9,395	26.4%
Fishing	3	0.6%	3	0	0	3	0.1%	103	0.3%
Construction & Public Works	38	7.4%	163	25	90	278	6.6%	5,142	14.4%
Industry	138	26.8%	426	157	1,030	1,613	38.2%	7,502	21.1%
Transport & Communication	73	14.2%	60	61	469	590	14.0%	1,593	4.5%
Tourism & Lodging	57	11.1%	222	120	28	370	8.8%	2,851	8.0%
Services	152	29.5%	211	18	263	492	11.6%	9,041	25.4%
Total	**515**	**100.0%**	**1,363**	**570**	**2,291**	**4,224**	**100.0%**	**35,627**	**100.0%**

Source: Investment Promotion Centre (CPI).

More than 2/3 of the number of projects were done in the city and province of Maputo

Moreover, the table below depicts the breakdown of investment projects by province. It shows that the city of Maputo had 177 of the 515 projects done in 2013. The province of Maputo had 170 projects while Cabo Delgado had 31 projects. In what concerns investment, the city of Maputo had 31% of the total, Inhambane had 25.6% and Gaza had 20.7%. More jobs were created in the city of Maputo, the province of Maputo and Zambézia last year.

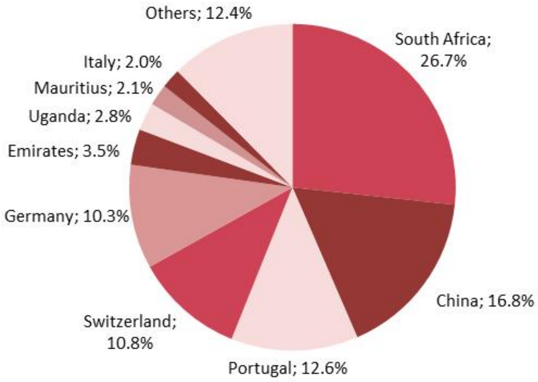
APPROVED INVESTMENTS	Projects		Investment (US$ mn)					Employment	
PROVINCE	Number	% of Total	FDI	Domestic	Loans	Total	% of Total	Number	% of Total
Cabo Delgado	31	6.0%	48	10	16	74	1.8%	916	2.6%
Niassa	5	1.0%	5	8	1	14	0.3%	254	0.7%
Nampula	30	5.8%	144	39	21	205	4.8%	1,455	4.1%
Zambézia	12	2.3%	62	5	86	153	3.6%	6,933	19.5%
Tete	20	3.9%	14	5	56	75	1.8%	1,278	3.6%
Manica	13	2.5%	13	4	10	27	0.7%	703	2.0%
Sofala	28	5.4%	25	8	48	82	1.9%	1,491	4.2%
Inhambane	12	2.3%	289	73	718	1,080	25.6%	538	1.5%
Gaza	17	3.3%	193	184	495	872	20.7%	2,129	6.0%
Maputo City	177	34.4%	461	150	703	1,314	31.1%	12,962	36.4%
Maputo	170	33.0%	108	83	137	328	7.8%	6,968	19.6%
Total	**515**	**100.0%**	**1,363**	**570**	**2,291**	**4,224**	**100.0%**	**35,627**	**100.0%**

Source: Investment Promotion Centre (CPI).

South Africa was the largest investor while Portugal had the most number of projects

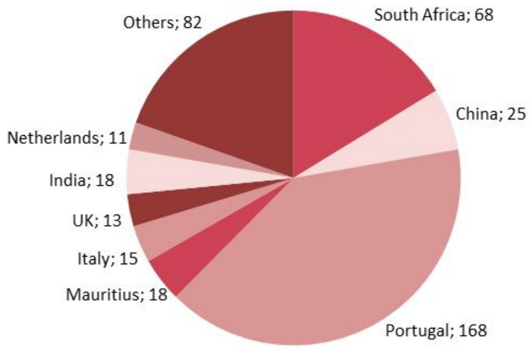
South Africa was the largest foreign direct investor in Mozambique with US$ 364 million (26.7% of the total FDI) in 2013. China, Portugal, Switzerland and Germany all had investments that surpassed US$ 100 million. Portugal had by far the largest number of FDI projects with 168 last year while South Africa and China had 68 and 25, respectively.

FDI BY COUNTRY (US$ 1.36 BILLION)



Source: Investment Promotion Centre (CPI).

FDI BY COUNTRY (NUMBER OF PROJECTS)



Source: Investment Promotion Centre (CPI).

Some of the projects recently approved by the Mozambican authorities include:

1. **MOPETCO – Mozambique Petrochemical Company**: total investment of US$ 1.1 billion in the province of Inhambane with the aim of installing and exploring a petrochemical complex for the production of fertilizers, namely ammonium, granulated urea, melamine and methanol. It also aims to produce gasoline using natural gas as an input to be sold domestically and overseas;

2. **Massingir Agro-Industrial**: total investment of US$ 740 million in the province of Gaza expected to create 1,500 jobs for the local population. This project aims use sugar cane for the production of sugar, ethanol and electric energy;

3. **Maputo Port Development Company**: total investment of US$ 539 million expected to create 228 jobs. It aims to finance, manage, explore, maintain and optimize the operations of the Port of Maputo;

4. **Joaquim Chissano Conference Centre:** total investment of US$ 250 million that is expected to employ 800 people. This project includes building a tourism complex with a five-star hotel;

5. **Deco Construction:** total investment of US$ 80 million for a real estate project in the city of Maputo expected to employ 89 Mozambicans;

6. **Quelimane High Titanium Slag**: total investment of US$ 80 million that aims to transform mineral projects from titanium slag. This project is located in the province of Zambézia and expects to employ 845 workers.

Average of at least 30 projects expected to be approved every month in 2014

The CPI expects foreign direct investment in Mozambique to continue to grow at a healthy pace in 2014 and sees at least 30 new projects being approved every month throughout the year. The month of January was particularly strong as more than 45 projects had been reportedly approved by the investment agency.

SECTORS

1 - INDUSTRY SERVICES

1.1 – FINANCIALS

Underdeveloped financial system, with domestic credit standing below 30% of GDP

The Mozambican financial system remains underdeveloped when compared with other countries in Sub-Saharan Africa. Domestic credit to the private sector stands below 30% of GDP while the percentage of adults with an account at a formal financial institution is only about 20%, which is half of the average of the region. Access to credit remains limited and a major concern when doing business, particularly for SMEs that account for the large majority of the companies in the country. Interest rates remain high, although on a declining trend. Overall, credit remains mostly available for middle-income individuals and large corporates at the expense of productive sectors like agriculture and industry.

The financial system has witnessed a strong expansion

The sector has nevertheless witnessed a significant expansion in recent years and, as of end-2013, included 18 banks, eight micro-banks, eight credit unions, 22 foreign exchange houses, 11 saving and credit associations and about 200 microcredit operators.

FINANCIAL SECTOR

Type of Institution	2008	2009	2010	2011	2012	2013
Banks	14	14	16	18	18	18
Microbanks	1	3	6	8	8	8
Credit Unions	6	6	7	7	7	8
Leasing Companies	1	1	0	0	0	1
Investment Companies	1	1	1	1	1	1
Credit Card Companies	0	1	1	1	1	1
Electronic Money Institutions	0	0	0	1	1	1
Venture Capital Companies	1	1	1	1	1	1
Group-Purchasing Management Company	1	1	1	1	1	1
Foreign Exchange House	22	20	21	21	19	22
Saving and Credit Associations	4	9	10	10	11	11
Microcredit Operators	72	95	118	166	199	n.a.

Source: Banco de Moçambique.

It consists of 18 banks (the four largest hold 80% of total assets)

The 18 banks registered at Banco de Moçambique (the country's Central Bank) represent about 95% of total financial assets of the system. Moreover, close to 80% of the total assets, loans and deposits are held by the four largest banks, which are foreign-owned (Portuguese and South African investors). Most of the other banks in the system are also held by investors from other countries, as detailed in the table below.

BANKING SYSTEM - 2012

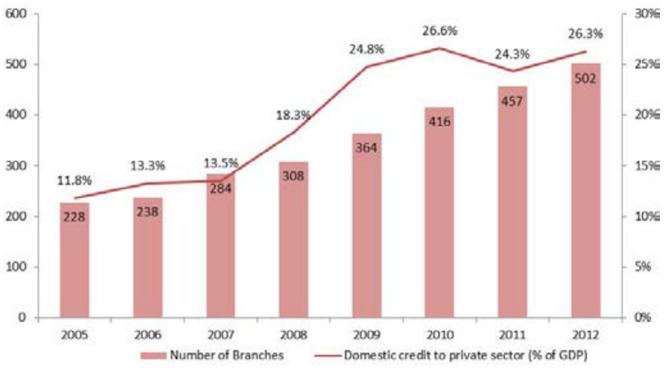
	Start of Operations	Majority Shareholder	Assets (mn US$)	Rank by Assets	Loans (mn US$)	Deposits (mn US$)	Net Profit (mn US$)	Branches
Banco Internacional de Moçambique	1995	Millenniumbcp (Portugal)	2,462.8	1	1,383.0	1,815.4	107.0	151
Standard Bank Mozambique	1996	Standard Bank (South Africa)	1,426.3	3	513.4	1,182.4	41.9	34
BCI - Fomento	1996	Parbanca SGPS (Portugal)	2,296.0	2	1,263.1	1,870.9	43.6	128
Socremo - Banca de Microfinanças	1998	AfriCap Microfinance Investment Company (Mauritius)	33.8	13	26.3	22.2	0.9	n.a.
Banco Tchuma	1998	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Mauritius Commercial Bank (Moçambique)	1999	Mauritius Commercial Bank Limited (Mauritius)	84.1	10	35.7	54.5	1.9	1
African Banking Corporation (Moçambique)	1999	BancABC (Botswana)	211.6	7	118.2	145.4	2.2	8
Banco ProCredit	2000	ProCredit Holding (Germany)	50.2	12	26.8	32.7	-2.8	14
Banco Mercantil e de Investimentos	2001	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Banco Oportunidade de Moçambique	2005	Opportunity Transformation Investments Inc. (USA)	12.4	16	7.8	4.8	-0.6	n.a.
Barclays Bank Moçambique	2005	Absa Group (South Africa)	546.6	4	244.6	371.2	-24.7	58
FNB Mozambique	2007	First Rand Group (South Africa)	195.5	8	102.4	168.6	-3.1	15
Moza Banco	2007	Moçambique Capitais (Mozambique)	293.7	5	172.3	218.9	-1.9	32
Banco Terra	2008	Rabobank (Netherlands)	62.1	11	38.6	26.3	-9.8	8
United Bank for Africa Mozambique	2010	UBA (Nigeria)	31.1	14	17.3	27.8	-0.4	n.a.
Banco Nacional de Investimento	2011	IGEPE (Mozambique)	94.8	9	3.4	0.0	2.2	n.a.
Banco Único	2011	Corticeira Amorim and VisaBeira Group (Portugal)	231.6	6	103.4	186.6	-9.4	13
International Commercial Bank	n.a.	ICB Financial Group Holdings (Switzerland)	29.3	15	12.9	22.3	0.2	n.a.

Note: data in shaded color relates to 2011.
Source: Annual Reports and Eaglestone Securities.

Bank branch network has doubled in the period 2005-12 and is mostly located in urban areas

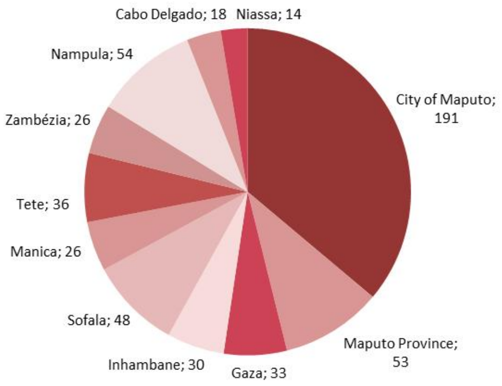
The increase in financial deepening that has taken place in recent years has been a result of the fast expansion of the banking sector's branch network, which has seen the number of agencies increase from 228 to 502 in the period 2005-12. We note that almost 80% of the bank branches are located in urban areas, including half of the network located in the capital city of Maputo and the Maputo Province. Moreover, the number of ATMs and point-of-sale terminals (POSs) has increased by 8 and 58 fold, respectively, in the same period.

BRANCHES AND DOMESTIC CREDIT (% OF GDP)



Source: Banco de Moçambique and World Bank.

BRANCH DISTRIBUTION BY PROVINCE (2012)



Source: Banco de Moçambique.

Mozambican banks are well capitalized and highly profitable, despite a recent drop in ROE levels

Despite its strong expansion, the size of the banking sector remains relatively modest, with total deposits and credit standing at just US$5.6 billion and US$3.9 billion, respectively, in 2012. This means that the loans-to-deposits ratio stood at only 70.5% in the period, below the levels in developed countries. Mozambican banks are well capitalized and highly profitable. According to the latest data provided by the Central Bank, capital adequacy levels stood at 15.1% in July 2013, well above the regulatory minimum of 8%. On the other hand, the sector posted a return on equity (ROE) of 22.4% in the same period while asset quality levels remain subdued at about 3%.

BANKING SECTOR INDICATORS

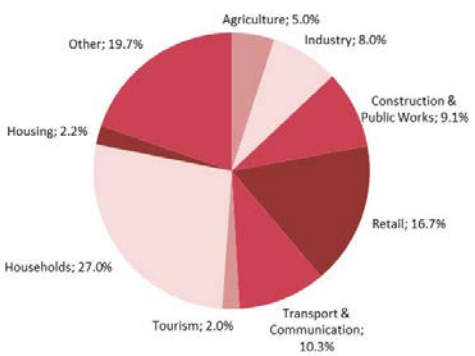
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	July 2013
Capital adequacy											
Regulatory capital (% of RWA)	16.5%	18.0%	13.4%	12.5%	14.2%	13.9%	15.1%	14.4%	17.1%	17.9%	15.1%
Regulatory Tier 1 capital (% of RWA)	14.7%	16.0%	13.6%	10.7%	12.1%	12.4%	13.0%	13.7%	16.1%	16.9%	14.4%
Capital (net worth) to assets	7.4%	7.4%	6.6%	6.3%	7.2%	7.5%	7.7%	8.0%	9.0%	9.5%	8.7%
Asset composition and quality											
Foreign exchange loans (% of total loans)	60.8%	62.0%	51.4%	33.2%	28.5%	32.8%	32.4%	29.5%	25.1%	28.1%	27.8%
Non-performing loans (% of gross loans) (1)	13.8%	5.9%	3.5%	3.1%	2.6%	1.9%	1.8%	1.9%	2.6%	3.2%	3.0%
Non-performing loans net of provisions to capital (1)	8.8%	3.8%	1.9%	3.6%	0.5%	2.5%	5.9%	5.6%	6.6%	6.8%	7.2%
Earnings and profitability											
Return on assets (ROA)	1.4%	1.5%	1.9%	4.0%	3.8%	3.5%	3.0%	2.6%	2.5%	1.9%	2.0%
Return on equity (ROE)	18.6%	20.6%	26.9%	60.8%	50.7%	44.7%	36.6%	32.9%	26.5%	19.6%	22.4%
Net interest income (% of total revenues)	62.1%	65.8%	63.6%	67.4%	70.2%	58.8%	55.7%	59.4%	64.9%	58.9%	56.1%
Non interest expenses (% of total revenues)	81.9%	81.6%	75.2%	60.2%	60.8%	58.7%	58.4%	59.7%	61.3%	66.1%	64.5%
Staff costs (% non interest expenses)	42.4%	43.1%	43.5%	42.6%	46.3%	45.1%	45.9%	45.5%	47.1%	49.1%	49.5%
Trading and fee income (% of total revenues)	37.9%	34.2%	36.4%	32.6%	29.5%	40.5%	44.3%	23.8%	17.2%	19.5%	n.a.
Funding and liquidity											
Liquid assets (% of total assets) (2)	45.2%	38.3%	31.1%	33.9%	36.0%	36.2%	27.9%	22.4%	27.8%	33.4%	28.4%
Customer deposits (% of total non-interbank loans)	193.6%	205.0%	177.6%	169.5%	184.9%	165.7%	138.2%	131.2%	131.6%	143.8%	136.6%

(1) NPLs are defined according to Mozambican accounting standards (they include only part of the past-due loans); (2) Includes deposits at parent banks.
Source: Bank of Mozambique and IMF.

Loans were granted mostly to households as well as the retail, transport & communication and construction & public works sectors

In 2012, the largest share of the loan portfolio was attributed to the households segment (27%), but also to the retail (16.7%), transport & communication (10.3%) and construction & public works (9.1%) sectors. Loans to the agriculture and industry sectors accounted for a combined 13% of total loans. Figures from the Banco de Moçambique also show that three-fourths of the loans provided by the banking sector were done in Meticais. We note that the share of loans done in the local currency has increased in the period 2009-12. This partly reflects the impact of legislation introduced in 2009 stating that financial institutions will have to make a specific provision of 50% of the loan value for those loans done in foreign currency.

LOAN BREAKDOWN – SECTOR (2012)



Source: Banco de Moçambique.

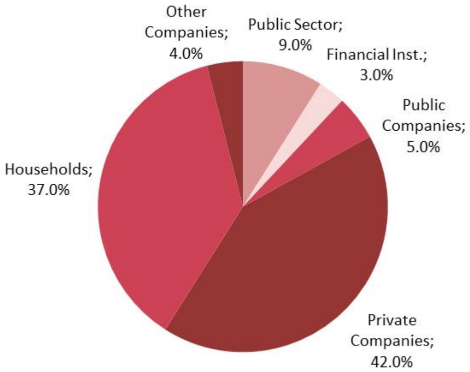
LOAN BREAKDOWN – CURRENCY (2009-12)

Source: Banco de Moçambique.

Nearly 80% of the deposits held at local banks were from private companies and individuals. We also note that the deposit base consisted mainly of sight deposits (65-70%) rather than term deposits in the period 2009-12. The fact that most of the local population remains relatively poor provides little propensity to invest the little savings that it has in time deposits, choosing instead to have that money readily available in a sight deposit at a bank.

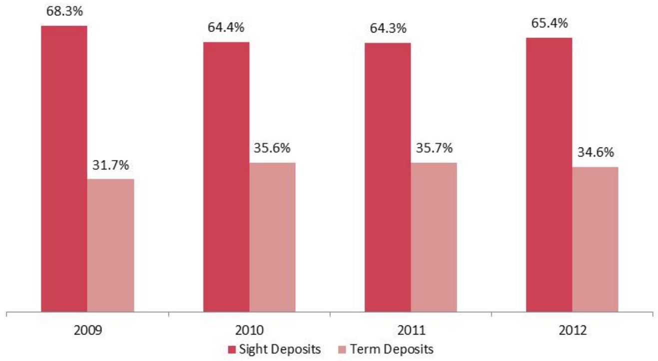
Most of the deposits at local banks are from the private sector

DEPOSIT BREAKDOWN- SECTOR (2012)



Source: Banco de Moçambique.

DEPOSIT BREAKDOWN – MATURITY (2009-12)



Source: Banco de Moçambique.

Meanwhile, in April 2013, the Mozambican government approved the country's Financial Sector Development Strategy (FSDS) for 2013-22 that includes three key objectives. First, maintain financial sector stability through the improvement of fiscal and monetary policies and deepen the government debt market, strengthen the bank supervision and regulation and the financial sector safety nets and develop the insurance and pension sectors. Second, increase access to financial services by eliminating structural impediments in the economy in general and specifically in financial intermediation, particularly those that limit access to credit and increase the costs and risks of providing credit and financial services. And third, increase the supply of private capital to support private sector development by improving the mobilization and investment of long-term funds, including PPPs, and supporting the development of the domestic capital market and the role and capacity of the Mozambique Stock Exchange.

The government approved the Financial Sector Development Strategy 2013-22

The FSDS also aims to (i) establish private credit registry bureaus, (ii) promote mobile banking, (iii) encourage banking competition, namely by (a) introducing laws and regulations that address anti-competitive practices, (b) encouraging transparent pricing for financial services to allow clients to compare costs and (c) introducing low-cost online access to credit files, (iii) strengthen the insolvency framework by the creation of an insolvency bill and (iv) establish a collateral framework.

Among other things, the FSDS aims to establish private credit registry bureaus and promote mobile banking

1.2 – INSURANCE

The insurance sector has gone through profound changes since the early 1990s after the end of the state monopoly

Mozambique's insurance sector has gone through profound changes since the early 1990s after this period marked the end of the state monopoly in the industry and the creation of space for the re-emergence of private sector insurance companies and the unbanning of insurance brokerage services. This period also meant that the duties of supervision of the insurance sector were shifted to the Ministry of Finance. In 1999, the local government passed a piece of legislation that paved the way for the creation of an insurance regulatory body, the General Insurance Supervisor (IGS). However, in the latest sector reform, the mandate of the regulatory body was broadened and the regulator renamed Mozambique's Insurance Supervisory Institute (ISSM).

The sector remains relatively small with penetration rates standing at 1.45% in 2012

Despite growing at a fast pace in recent years, the insurance sector remains relatively small with penetration rates standing at 1.45% in 2012. The industry comprises eight insurance companies: three composite insurers, four non-life insurers and one life insurance company. Millennium SIM is a subsidiary of Millennium BIM and is the largest player with about 30% market share in gross premiums. The second player is EMOSE, which was partially privatized last year, remains mostly owned by the Mozambican state (70% stake). The other competitors are mostly foreign (Portuguese or South African).

Insurance for third-party vehicle accidents and for work-related accidents are compulsory

There are two principal classes of compulsory insurance in Mozambique. First, it is compulsory to insure with a locally registered insurance company for motor third-party liability for any vehicle intending to circulate on the national roads, whether the vehicle has a local or foreign registration. And second, all businesses and organizations are required to have workman's compensation insurance to cover their employees in the case of a work-related accident. There are other forms of insurance that are rising, namely health insurance, funeral insurance and life insurance. Micro-insurance is another type of insurance and is mostly available to low-income groups such as farming communities. This helps farmers insure their crops against natural hazards such as flooding.

Sector growth should remain supported by continued infrastructure investments, export of mineral resources and healthcare expenditure

We believe growth in the insurance sector should remain supported by (1) ongoing infrastructure investments in Mozambique, (2) further exports of mineral resources and (3) increased healthcare expenditure. Other sources of growth for the sector should include (1) increasing competition mainly from foreign players, (2) new product developments, (3) technical skills development, (4) improved regulation of the sector and (5) increased financial literacy among the local population.

1.3 – TELECOMMUNICATIONS

The Mozambican telecoms market remains relatively underpenetrated when compared with other SSA countries

Mozambique, like most of its African peers, is a country characterized by the success of mobile telecommunications and insufficient fixed infrastructures. According to the regulator, National Communications Institute (INCM), the penetration rate of fixed telephony and broadband was of 0.35% and 0.08%, respectively, in 2012 and only 4.85% of individuals used internet on a regular basis. Even in terms of mobile, despite the existence of three players, Mozambique is relatively underpenetrated when compared with its Sub-Saharan Africa peers, with just 33 subscribers per 100 inhabitants.

COMMUNICATION	Angola	Botswana	Mozambique	Namibia	South Africa	Tanzania	Zambia	Zimbabwe
Telephone								
Fixed telephone lines	303,000	160,488	88,140	171,249	4,031,000	176,367	82,542	301,650
Fixed telephone lines (per 100 people)	1.5	7.8	0.4	7.2	7.9	0.4	0.6	2.3
Mobile phones	12,465,078	3,081,726	8,108,480	2,435,442	68,394,000	27,219,283	10,524,676	12,613,935
Mobile cellular subscriptions (per 100 people)	64	150	33	103	135	57	76	97
Internet								
Internet users	3,526,416	230,450	1,222,138	292,397	20,987,616	6,250,174	1,895,662	2,345,596
Internet users (per 100 people)	16.9	11.5	4.8	12.9	41.0	13.1	13.5	17.1
Fixed broadband internet subscribers	31,300	16,054	20,484	65,719	1,107,200	3,900	14,794	71,445
Fixed broadband internet subscribers (per 100 people)	0.16	0.78	0.08	2.78	2.18	0.01	0.11	0.55
Secure internet servers	72	23	38	45	4,287	36	33	41
Secure internet servers (per 1 million people)	3.5	11.5	1.5	19.9	83.7	0.8	2.3	3.0

Source: World Bank.

The telecoms market is fully liberalized and includes four players

The telecommunications market is totally liberalized and is composed of four players, including one fixed (TDM) and three mobile (mCel, Vodacom and Movitel). mCel was established in 1997, Vodacom started operating in 2002 and Movitel in 2012, after the government's decision to launch a third license in April 2010 due to poor service quality and limited coverage of the existing two networks.

TDM is the incumbent operator

Telecomunicações de Moçambique (TDM) is the incumbent operator, providing fixed voice and broadband. Despite the fixed market liberalization in 2007, TDM remains without a competitor. It owns 74.0% of mCel and in 2002 it became a public limited-liability company.

mCel is a mobile operator founded in 1997

MCel was founded in 1997 as Telecomunicações Móveis de Moçambique (TMM) by a consortium between TDM (74.0%) and DETECON GmbH (26.0%). In 2002 TMM was renamed mCel and the 26% owned by DETECON went to Instituto de Gestão das Participações do Estado (IGEPE) and in 2003 the assets of TDM and mCel were separated.

Vodacom has about 4 million subscribers in Mozambique

Vodacom, controlled by Vodafone (65%) and the second biggest operator in Sub Saharan Africa, entered the market in 2001. Vodacom had about 4 million subscribers at the end of 2013.

Movitel is owned by Viettel, SPI and Ivespar and mainly focuses on the low-income population

Movitel, owned by the Vietnamese company Viettel (70%), SPI (20%) and Ivespar (10%), entered the market in 2012. According to company statements, when it started operating it already had 415,000 customers. It invested US$ 117 million (on top of license costs), had 1,800 mobile base stations and 12,600 km of fiber-optic cable, covering 105 of the country's 128 districts and c. 43% of the country's population. In May 2013, the company announced that it had more than 2 million customers while, in February 2014, it said that it had ended the year of 2013 with more than 3 million customers. Movitel's success seems to be driven by its focus on the low-income population and its investments to expand network coverage. Indeed, it has more than 20,000km of fiber-optic cable deployed and it covers 80% of the population.

A new ICT policy framework is needed while a more active role by the regulator is also necessary to boost the fixed and broadband segments

There is still a long road ahead for Mozambique in terms of Information and Communication Technology (ICT). Despite the fact that the telecommunications market is already fully liberalized, a new national ICT policy framework is needed given that the current one dates back to 2004. A draft revision of that document is currently under public consultation. The new revised version aims to develop the ICT sector by promoting (i) competition, (ii) a more efficient use of the telecommunications infrastructure by assuring the interconnection and interoperability between all networks and (iii) infrastructure sharing. For this purpose, the government should define the strategic guidelines for the sector, reinforce the powers and means of the national regulatory authority (INCM), and assure the universal access to telecommunication services.

Mozambique is ranked 133th out of 144 countries in the World Economic Forum's Network Readiness Index

We note that Mozambique ranked 133th out of 144 countries in the World Economic Forum's Network Readiness Index (NRI) for 2013. This index measures the degree to which economies across the world leverage on ICT for enhanced competitiveness. In the last decade, this index has been helping policymakers and relevant stakeholders to track their economies' strengths and weaknesses as well as their progress over time. Moreover, it has identified best practices in networked readiness and designed roadmaps and strategies for establishing optimal ICT diffusion to boost competitiveness.

The NRI is composed of four sub-indexes

The structure of the NRI is composed of four sub-indexes, namely (i) environment, (ii) readiness, (iii) usage and (iv) impact. We provide in the table below more detail about this structure and, in particular, the ranking of Mozambique compared with the ranking of other Sub-Saharan African countries.

ICT INDICATORS*	Botswana	Mozambique	Namibia	South Africa	Tanzania	Zambia	Zimbabwe
Networked Readiness Index (out of 144 countries)	**96**	**133**	**111**	**70**	**127**	**115**	**116**
Environment Subindex (out of 144 countries)	**56**	**120**	**58**	**33**	**108**	**61**	**132**
Political and regulatory environment	39	105	37	21	76	64	120
Business and innovation environment	103	124	112	55	128	65	135
Readiness Subindex (out of 144 countries)	**107**	**143**	**115**	**95**	**135**	**129**	**87**
Infrastructure and digital content	100	135	102	59	124	133	129
Affordability	109	132	117	104	130	127	9
Skills	86	140	111	102	132	104	98
Usage Subindex (out of 144 countries)	**99**	**128**	**101**	**72**	**120**	**109**	**125**
Individual usage	98	141	99	81	127	122	114
Business usage	96	125	76	33	102	80	115
Government usage	91	106	116	102	99	79	132
Impact Subindex (out of 144 countries)	**105**	**117**	**122**	**92**	**127**	**112**	**128**
Economic impacts	114	116	117	51	136	115	119
Social impacts	103	117	121	112	119	110	132

* Survey data was not collected for Angola. Source: World Economic Forum (2013).

1.4 - RETAIL

The Mozambican retail market is still at an early stage of development

The Mozambican retail market is still at an early stage of development when compared with other countries in Sub-Saharan Africa. The informal retail market remains sizeable and mainly refers to the traditional formats of low-cost retailing like local shops managed by the shop-owner and street vendors. It is estimated that only about 2-3% of total retail sales in the country are done through a formal retailer. This trend is gradually changing though as more and more shoppers use organized retail channels.

Most of the real estate projects in Maputo were targeted at hotels, housing and offices and not so much the retail segment

Although the first supermarkets began operating in the early 1990s, the first hypermarkets were only introduced in recent years while only very recently did Maputo see the first shopping malls. This is due to the fact that most of the real estate development projects that occurred in the city in recent years were targeted at the hotel, housing and office segments and not so much at retail.

Mozambique presents tremendous opportunities in the retail sector

Mozambique presents massive opportunities in the retail segment for several reasons including (i) a sizeable internal market, (ii) a fast-growing economy, (iii) an increase in the middle-class and (iv) a higher purchasing power of the local population. Moreover, an increasing expatriate community in the country is raising added interest in the sector.

The retail offering in Maputo consists of shopping centers, commercial shopping areas, retail parks and stand-alone units

In particular, Maputo is where national and foreign companies want to be present. The retail offering is largely composed of shopping centers, commercial shopping areas, retail parks and stand-alone units. There are also street vendors that are mostly spread throughout the city. The largest shopping center is the Maputo Shopping Center located in downtown Maputo. It has a sales area of approximately 10,000 square-meters for 106 stores. Marés Shopping Center is the most recent mall in Maputo and it has a sales area of 9,000 square-meters. Polana Shopping, Centro Comercial Rovuma and Galerias Interfranca are all commercial shopping areas.

There is a strong presence of South African retail groups

Meanwhile, the food retail market is largely characterized by two types of retailers. On one hand, there are the smaller supermarkets and shops that are mostly owned by Asian families. On the other, there is a strong presence of South African retail groups such as Shoprite, Pick n Pay, Woolworths, Game, Pep and Spar.

Shoprite was the first to open a store in the country back in 1997

Shoprite was the first to enter Mozambique when it opened a store in Maputo in 1997. The group currently has five stores in the country, with two of them located in province of Maputo and the others in Chimoyo, Beira and Nampula. Pick n Pay opened its first (and only) store in Maputo in June 2011. Woolworths has two stores in Maputo while Game only has one store. Pep has stores located in several parts of the country and Spar has three stores in Maputo.

2 – AGRICULTURE

Agriculture accounts for about 25% of GDP and employs 75% of Mozambique's workforce

Agriculture plays an important role in Mozambique's economy. The sector accounts for about 25% of its GDP and employs nearly 75% of the country's workforce. While annual growth in the sector has averaged about 7% in the last decade and has been a relevant contributor to overall economic growth, it has been mainly driven by the expansion in labor that followed the post-war resettlement of refugees in rural areas and the increase in land under cultivation (with increased area planted to staples such as maize, rice and cassava) and of concession agriculture (for sugarcane, bananas and other crops).

The sector remains relatively unproductive and consists mostly of subsistence farming

Today, the agricultural sector remains relatively unproductive and consists mostly of subsistence farming where an estimated 85% of rural households are engaged in small and fragmented plots of land. Farmers use mostly outdated seeds, plants, tools and techniques, which result in low yields relatively to neighboring countries with similar agricultural potential. Limited access to rural finance and a land law inefficiently enforced have also hindered small farmers from becoming agricultural entrepreneurs. As a result, the product mix of the sector has witnessed little change since colonial times while few investments in agribusiness have occurred apart from sugar plantations and cashew, maize and tobacco processing.

GEOGRAPHY AND AGRICULTURE

	Angola	Botswana	Dem. Rep. Congo	Mozambique	Namibia	South Africa	Tanzania	Zambia	Zimbabwe
Area									
Surface area (sq. km)	1,246,700	581,730	2,344,860	799,380	824,290	1,219,090	947,300	752,610	390,760
Land area (sq. km)	1,246,700	566,730	2,267,050	786,380	823,290	1,213,090	885,800	743,390	386,850
Agricultural Area									
Agricultural area (sq. km)	583,900	258,610	257,550	494,000	388,090	963,740	373,000	234,350	163,200
Agricultural area (% of land area)	46.8	45.6	11.4	62.8	47.1	79.4	42.1	31.5	42.2
Arable land (hectares)	4,100,000	259,000	6,800,000	5,200,000	800,000	12,033,000	11,600,000	3,400,000	4,100,000
Arable land (% of land area)	3.3	0.5	3.0	6.6	1.0	9.9	13.1	4.6	10.6
Arable land (hectares per person)	0.20	0.13	0.10	0.22	0.34	0.24	0.25	0.25	0.32
Permanent cropland (% of land area)	0.2	0.0	0.3	0.3	0.0	0.3	1.9	0.0	0.3
Agriculture Productivity									
Agriculture value added per worker (constant 2005 US$)	867	762	285	301	2,219	5,967	302	592	239
Cereal production (metric tons)	498,214	53,800	1,840,450	1,763,590	138,500	14,809,240	8,107,149	3,192,526	1,232,450
Cereal yield (kg per hectare)	617	359	799	694	460	3,650	1,314	2,693	855
Crop production index (2004-2006 = 100)	209.1	101.2	111.6	167.8	118.2	103.8	137.3	172.4	105.6
Food production index (2004-2006 = 100)	188.7	142.0	111.6	163.8	90.9	115.6	129.8	158.4	100.6
Land under cereal production (hectares)	807,909	149,800	2,304,100	2,542,009	301,000	4,057,850	6,169,134	1,185,476	1,441,245
Livestock production index (2004-2006 = 100)	124.5	150.6	117.3	116.8	80.9	130.0	108.5	117.3	99.3

Source: World Bank and FAOSTAT.

Mozambique is self-sufficient in several crops

Mozambique is self-sufficient in some crops like maize, cassava, sweet potatoes, sorghum and groundnuts, yet highly deficient in rice and a major importer of wheat. Certain regions of the country remain food insecure, with much of the southern provinces (Gaza, Inhambane) and central provinces (Manica, Sofala) subject to droughts. Irrigation in these provinces also remains limited and the frequency and distribution of rainfall are sometimes inadequate. Flooding is also an issue for the sector, as it disrupts agricultural production in some years.

The long distance from north to south makes shipment of grains costly

Moreover, the long distance from north to south of Mozambique also make shipment of grains costly, which means that the surplus of crops produced in the more productive provinces of the north of the country cannot economically supply the population in southern Mozambique that is closely linked to nearby South Africa.

Despite its many challenges, Mozambique provides agribusiness investors with great natural assets in the sector

Having said that, Mozambique provides agribusiness investors with great natural assets such as (i) an extensive undeveloped and fertile farmland, (ii) abundance of water for irrigation and (iii) diverse agro-ecological environments suitable for growing a variety of products. Nevertheless, the World Bank states that several key challenges persist for the sector. These are to ensure that (i) surplus food reaches food-insecure homes, (ii) smallholders access inputs at a reasonable cost and increase productivity, (iii) farms are linked more tightly and efficiently to markets and (iv) diversification of small and medium-scale holding enables farmers to produce a mix of staple food crops (for own consumption and sale) and cash crops with strong and growing domestic and international market opportunities. This strategy should be coupled with an increase in irrigated crop area, improvement in road and rail infrastructure and an expansion in electrification.

3 – ENERGY

Mozambique relies essentially on the energy produced by the Cahora Bassa hydro power plant

Mozambique has one of the highest hydroelectric potentials in Africa. It is also where one of the largest hydro dams in the continent is located, the Cahora Bassa Dam (HCB), with an installed capacity of 2,075 MW. It produces electricity for Mozambique, South Africa, Zimbabwe, Botswana and the Southern African Power Pool. HCB plays an important role in Mozambique's economy as a source of foreign revenue, particularly after the local authorities acquired most of the remaining interests in the plant from the Portuguese government in 2012.

Installed electricity capacity is also a mixture of smaller hydro and liquid fuelled power plants owned by EDM

Installed electricity capacity in Mozambique is also a mixture of smaller hydroelectric and liquid fuelled power plants owned by Electricidade de Moçambique (EDM), a state-owned company. EDM is a vertically integrated electricity utility that is also responsible for transmission and distribution and operates the national dispatch center. However, whilst it owns the national grid, EDM does not control all of the domestic transmission and distribution networks as smaller regional grids are controlled by the Ministry of Energy through district government bodies.

One of the key priorities of the government is to diversify its energy sources

Mozambique is endowed with significant renewable energy sources (hydro, biomass, solar and wind) and fossil fuels (coal and natural gas). Yet, most of the energy sector expertise is still largely concentrated in hydropower sources, which provide most of the electricity production. Also, the country's national grid only serves about 24% of the population, well below the average of 35% for Sub-Saharan Africa. Intensifying the electrification efforts, particularly in rural areas by expanding the national network/transportation grid, and creating the conditions for better access to alternative energy sources are key priorities of the government.

ENERGY INDICATORS

	Angola	Botswana	Dem. Rep. Congo	Mozambique	Namibia	South Africa	Tanzania	Zambia	Zimbabwe	Sub-Saharan Africa
Access to electricity (% of population)	37.8	45.7	9.0	24.1	60.0	84.7	15.0	22.0	37.2	34.9
Alternative and nuclear energy (% of total energy use)	2.5	0.0	2.8	14.2	7.7	2.7	1.1	11.6	6.1	2.7
Combustible renewables and waste (% of total energy)	58.2	22.3	93.1	79.2	13.3	10.3	88.2	80.2	64.2	57.6
Electric power consumption (kWh per capita)	248	1,603	105	447	1,549	4,604	92	599	757	535
Electricity production (TWh)	5.7	0.4	7.9	16.8	1.4	259.6	5.3	11.5	8.9	447.7
Electricity production (% of total)										
Coal	0.0	100.0	0.0	0.0	1.4	93.8	1.1	0.0	25.3	62.3
Hydroelectric	70.9	0.0	99.6	99.9	98.2	0.8	49.3	99.7	73.6	22.5
Natural gas	0.0	0.0	0.4	0.1	0.0	0.0	48.8	0.0	0.0	7.2
Nuclear	0.0	0.0	0.0	0.0	0.0	5.2	0.0	0.0	0.0	3.4
Oil	29.1	0.0	0.1	0.0	0.4	0.1	0.8	0.3	0.3	3.9
Renewable sources, excluding hydroelectric	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.8	0.6
Energy imports, net (% of energy use)	-579	56	-1	-25	79	-15	7	8	8	-59
Energy production (kt of oil equivalent)	92,160	979	24,751	12,774	334	162,577	19,265	7,770	8,608	833,003
Energy use (kg of oil equivalent per capita)	673	1,115	383	415	717	2,741	448	621	697	681
Energy use (kt of oil equivalent)	13,576	2,215	24,497	10,202	1,589	141,372	20,747	8,462	9,312	511,880
Fossil fuel energy consumption (% of total)	39.3	65.4	4.2	9.5	66.0	87.2	10.7	8.8	28.3	39.6

Source: World Bank.

The local authorities have been pushing for a reform of the energy sector

The local authorities have been pushing ahead with an energy sector reform for more than two decades. The reform has included the privatization of EDM and the introduction of the Electricity Law, which increased competition by opening the electricity sector to new entrants. It also required the setting up of a regulator (CNELEC) and the creation of a fund for rural electrification (FUNAE).

The Electricity Law says that the Mozambican state will ensure private sector participation in the electricity sector

The Electricity Law says that the Mozambican state will ensure the participation of the private sector in the electricity sector, guaranteeing the use of energy resources whilst protecting the interests of the state. The construction and operation of power plants and the production of electricity in the country can only be done under a concession granted by the government. The granting of concessions is subject to public procurement and approval of the Council of Ministers is required for plants with a power output of more than 100 MVA.

This Law also establishes the key provisions to be included in concession contracts

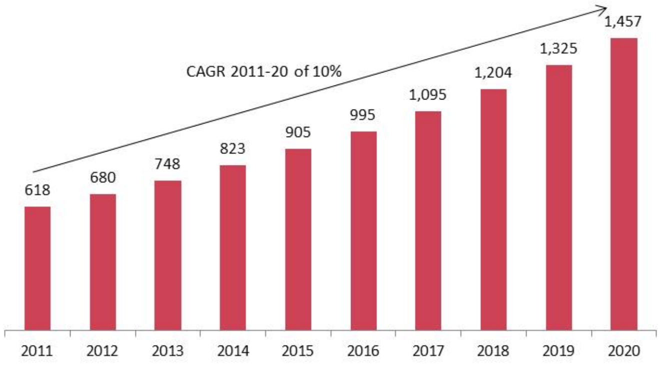
Moreover, this Law also establishes the key provisions to be included in concession contracts that are awarded for the development of power projects. The initial term of a concession is limited to 50 years for hydro projects and 25 years in all other cases. Extensions are allowed so that developers can recover additional investments in the project assets, provided that the concessionaire has complied with its obligations under the concession contract and has submitted an acceptable plan for the continued operation of the assets.

A renewable energy plan has been introduced to encourage investment in other energy

Meanwhile, the Mozambican government issued its Renewable Energy Policy in 2011. This 15-year plan elaborated by the Ministry of Energy is aimed at encouraging investment in solar, wind, small-scale hydro, biofuels and biomass power capacity. However, there are still no fiscal incentives offered to renewable energy developers and no specific legislative framework exists for renewable energy projects. More recently, in April 2014, the local authorities announced that a renewable energy atlas had been concluded and that its final details would soon be disclosed. This will hopefully shed some light about the future of the renewables sector and serve as a roadmap toward the implementation of the government's objective to implement alternative energy sources in the country.

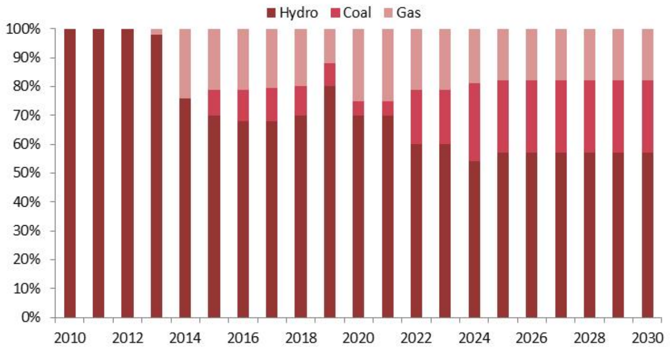
sources like solar and wind

MOZAMBIQUE – ENERGY DEMAND FORECAST (MW)



Source: Ministry of Energy.

MOZAMBIQUE – ENERGY MATRIX (2010-30)



Source: Ministry of Energy.

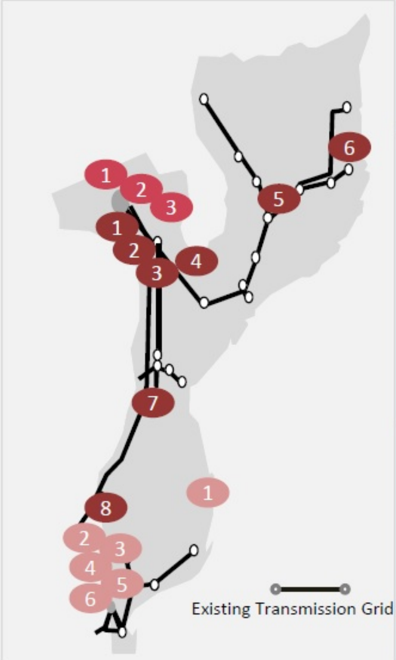
Mozambique has been under the spotlight in recent years due to several important discoveries in the energy sector. In 2012, four of the five largest oil and gas discoveries were made offshore Mozambique. The country's reportedly estimated gas reserves of 180 trillion cubic feet mean that is has the fourth largest gas reserves in the world, behind only Russia, Iran and Qatar. One consortium led by Anadarko is developing offshore area 1 while another consortium led by ENI is developing offshore area 4. It is reported that Mozambique will be able to export LNG by 2018-20. All of the investments in the LNG sector are likely to result in a significant expansion of the Mozambican economy, which will drive further increases in power demand in the country.

Mozambique has one of the largest natural gas reserves in the world and expects to export LNG by 2018-20

The prospects for coal-fired power are also strong. Mozambique has three large coal deposits at Moatize-Minjova, Senangoe and Mucanha-Vuzi in the Tete province. Several mining companies are developing mining projects mainly aimed at selling power to overseas markets, namely to South Africa. Ncondezi Coal plans to construct a 1,800MW coal-fired plant in the Tete province while Vale and Rio Tinto are also planning separate plants with about 2,000MW at Moatize and Benga, respectively.

The country is also rich in coal, with several mining companies developing projects mainly aimed at selling power to overseas markets

MOZAMBIQUE – MAIN ENERGY PROJECTS



Rationale	New Energy Generation Projects (Coal, Hydro and Natural Gas)	
Coal: Resulting from abundant reserves of coal in the Moatize coal basin in addition to the energy needs to supply the mining sector, several thermal coal projects are being developed with an estimated investment of over US$ 2.8 billion.	Coal	1. Ncodezi: 1,800 MW 2. Benga: 2,000 MW 3. Moatize: 2,400 MW
Hydro: The untapped hydro potential in Mozambique may represent an average annual production of 60,000 GWh. Currently, there are about 3,870 MW projects in the pipeline in hydro-power generation, with an estimated investment of over US$ 4.2 billion.	Hydro Power	1. M. Nkuwa: 1,500 MW 2. C. Bassa North: 1,245MW 3. Boroma: 210 MW 4. Lupata: 600 MW 5. Alto-Malema: 50 MW 6. Lurio: 180 MW 7. Mavuzi 2 & 3: 60 MW 8. Massingir: 27.5 MW
Natural Gas: Various projects are being developed with a view to taking advantage of the vast natural gas resources in exploration and production. The estimated investment is US$ 900 million for approximately 465MW (excl. the 160MW of Ressano Garcia), which will enable the growth in production capacity, both for domestic consumption and for export.	Natural Gas	1. Temane: 50 MW 2. Gigawatt: 100 MW 3. Aggreko: 100 MW 4. Kuvaninga: 40 MW 5. CTRG: 175 MW 6. Ressano Garcia: 160 MW

Source: Electricidade de Moçambique (EDM) and Eaglestone Securities.

The key players in Mozambique's energy sector include:

1. **Council of Ministers** – takes the major decisions related to energy, especially on-grid electricity;

2. **Ministry of Energy** – sets policy objectives approved by the Council of Ministers and regulates the energy sector;

3. **National Fund for Rural Electrification (FUNAE)** – an autonomous government agency responsible for providing access to modern energy services and implementing off-grid electrification in rural and isolated communities;

4. **Electricidade de Moçambique (EDM)** – the state-owned utility responsible for the majority of electricity transmission, generation and distribution;

5. **National Electricity Council (CNELEC)** – has an advisory and arbitration role as it leads consultation on regulatory issues and the performance of EDM;

6. **Mozambican Transmission Company (MOTRACO)** – formed by ESKOM, EDM and the Swaziland Electricity Board (33% each) to supply electricity from South Africa to Swaziland and Maputo;

7. **Cahora Bassa Hydroelectric Company (HCB)** –owned by Mozambique (92.5%) and Portugal's REN (7.5%) and is responsible for operating the Cahora Bassa dam; and

8. **Petróleos de Moçambique (PETROMOC)** – the state-owned liquid fuels company responsible for the purchasing, transport and distribution of petroleum products.

4 – INFRASTRUCTURE

Mozambique enjoys a privileged and strategic location in Southern Africa

Mozambique enjoys a privileged and strategic location in Southern Africa, being a natural exit to most of its landlocked neighbors, in particular Zimbabwe, Zambia and Malawi. The transport infrastructure of central Mozambique extends east to west, from the Port of Beira to Zimbabwe, and marginally to Malawi and Zambia. The southern transport network links the Port of Maputo to the northeastern part of South Africa, Swaziland and Zimbabwe. These two "transport clusters" are multimodal and are mostly functional. They connect mining and agricultural clusters inside Mozambique and in neighboring countries to exit ports.

The country's infrastructure needs to be improved in order to facilitate regional integration

Despite the potential that exists, Mozambique and its neighboring countries are far from having an efficient, seamless and cost-effective trans-boundary infrastructure network that could significantly facilitate regional economic integration. The quality of the road network is relatively poor, as it needs to be improved and extended. Moreover, it must connect the east-west transport corridors to one another. Railways require rehabilitation, upgrading and maintenance in order to meet growing demand from increased cross-border trade and domestic coal production.

The Global Competitiveness Report ranked Mozambique in 126th position (out of 148 countries) in terms of the quality of its overall infrastructure

The latest Global Competitiveness Report (2013-14) from the World Economic Forum provides clear evidence about the poor infrastructure quality existing in Mozambique and its neighboring countries. Mozambique was ranked in 126th position out of 148 countries in terms of the quality of its overall infrastructure in this report. Zimbabwe and Malawi also ranked poorly in this category. According to the same report, Mozambique had a relatively better ranking in what concerns the quality of its railways. However, this was not the case when it comes to its road infrastructure.

INFRASTRUCTURE (RANK/148)	Angola	Botswana	Malawi	Mozambique	South Africa	Swaziland	Tanzania	Zambia	Zimbabwe
Quality of overall infrastructure	148	78	121	126	63	71	124	94	122
Quality of roads	139	59	96	142	41	43	109	94	100
Quality of railroad infrastructure	107	59	97	88	48	38	93	87	84
Quality of port infrastructure	125	102	118	107	51	66	120	108	76
Quality of air transport infrastructure	118	94	137	109	11	98	134	114	120
Available airline seat km/week, millions	78	141	142	110	25	147	86	104	134

Source: World Economic Forum (Global Competitiveness Report 2013-14).

Mozambique currently has four major seaport, five international airports and three main railway lines

Mozambique has four major seaports (Maputo, Beira, Nacala and Pemba), five international airports (Maputo, Beira, Tete, Nampula and Pemba) and three main railway lines (Maputo, Limpopo and Sena). The government remains committed to improving transport infrastructure in the country with major investments including (i) the ring road around Maputo, (ii) the Beira to Machipanda road, (iii) the railway line from Moatize via Malawi to Nacala, (iv) the deep water port in Nacala and (v) the Nacala international airport.

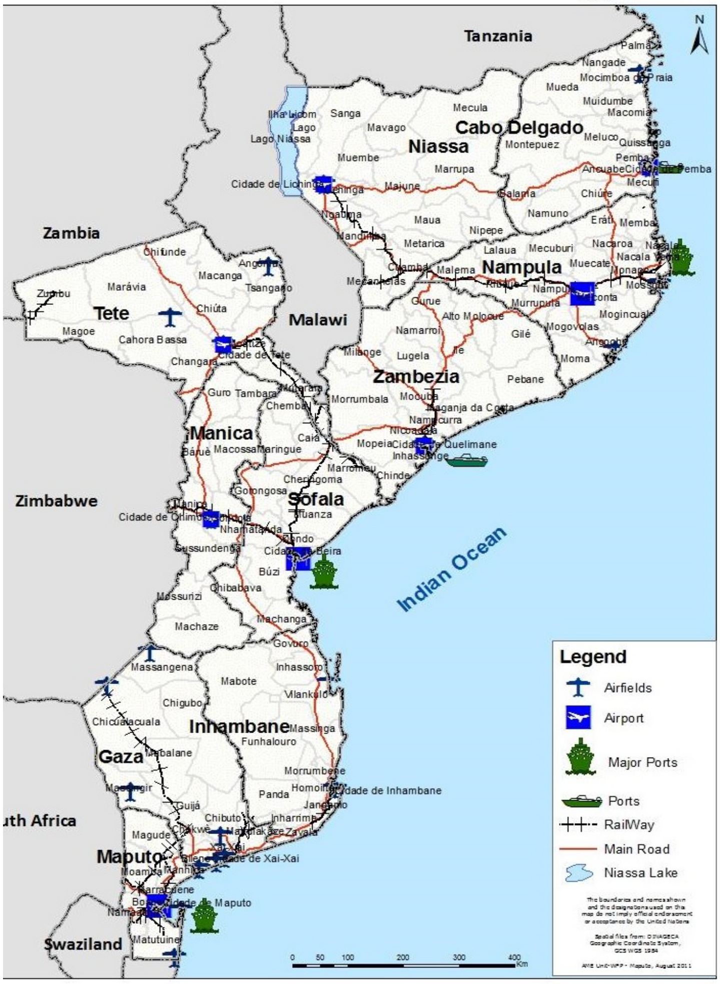
The government is seeking to increase private sector participation in the development of infrastructure

The government is also promoting the participation of the private sector in order to carry out investment opportunities so as to increase the development of infrastructures focusing on the logistics of the import-export markets as well as general transportation. In particular, the Mozambican authorities (both public and private), including Caminhos de Ferro de Moçambique (CFM), the Ministry of Transport and Aeroportos de Moçambique (ADM) consider as a pillar for the development strategy of the country the construction of airports.

The use of PPPs is due to the large capital requirement of infrastructure investments and the lack of technical capacity in the government to manage those investments

The idea of using Public-Private Partnerships (PPPs) to rehabilitate the country's infrastructure is largely due to the significant capital requirement of infrastructure investment and the lack of technical capacity in the government to manage investments. Yet the results have not been as expected. While some PPPs were carried out (TRAC, the ports of Maputo, Beira and Nacala, and the Ressano Garcia, Sena and Machipanda, and Nacala railways), this PPP program was not accompanied or structured within an established legal PPP framework, so that each project had its own rules and there was little continuity and learning. Several institutional weaknesses that undermined the earlier privatization process of the late 1990s remain and, therefore, should be addressed before beginning a full-fledged PPP program. We note that in 2011 the Mozambican government passed a general PPP law that should help bring greater contractual uniformity and lead to a new wave of PPP projects in infrastructure.

EXISTING INFRASTRUCTURE IN MOZAMBIQUE



Source: World Bank.

4.1 - ROAD TRANSPORT

Mozambique's road network surpasses 32,500km

Mozambique's road network surpasses 32,500km. The classified network, with over 22,500km in length, consists of primary and secondary networks with less than 5,000km each, and a tertiary network of about 12,700km. The unclassified network is estimated to be about 7,000km long and the urban network 3,300km.

Investment in the road infrastructure of the country has increased in recent years in order to improve the connectivity amongst the more populated areas

Road conditions can be an important bottleneck to the development of a country, as they can hinder trade and the utilization of port infrastructures to move goods to neighboring countries. The road network also requires expansion to keep pace with a country's high growth rate. In this regard, Mozambique has seen some improvement in investment and rehabilitation of its roads in recent years. Today, the connectivity between the more populated areas of the country and the quality of the roads along these transport corridors is relatively good. The main problems facing the road system at the moment relate to overloading and the lack of maintenance and repair.

Road corridors have been developed around the three main logistics corridors of Maputo, Beira and Nacala

Road corridors have been developed around the three main logistics corridors of Maputo, Beira and Nacala that serve coal exports and link to hinterland countries. The Maputo Development Corridor connects Maputo with South Africa's Gauteng province and provides access to South Africa, Swaziland and Zimbabwe. Connectivity between urban and economic clusters is quite limited, as are the linkages that connect parallel corridors to each other. With the exception of the north-south National Road, there is virtually no (or only very limited) connections between the several east-west corridors.

Major road projects developed include the upgrade of the Great East Road, which is part of the Nacala Development Corridor, linking central and eastern Zambia to Mozambique's northern provinces and the Unity Bridge across the Ruvuma River between Mozambique and Tanzania that was opened in 2010.

Major road projects developed include the Great East Road and the Unity Bridge

Meanwhile, the Mozambican authorities are currently undertaking other major investments in the country's road network that include (i) the pavement of 930km of national and regional roads, (ii) the construction of roughly 1,300km of new roads in all of the provinces, (iii) the conservation of 19,000km of roads through routine maintenance and (iv) the construction of five new bridges, namely the construction of a second bridge across the Zambezi River in Tete, which is expected to be completed later this year.

Mozambican authorities are also undertaking other major investments in the road network

4.2 - RAIL TRANSPORT

As with the road network, Mozambique's railway system comprises three disconnected networks located in the northern, central and southern parts of the country. They are structured and managed around three major corridors:

Mozambique's railway system has three major corridors, namely Nacala, Beira and Maputo

- The Nacala Corridor includes the Port of Nacala and the Nacala Railroad, which connects the Port of Nacala to Malawi's Central East African Railway (CEAR). The railway system has been operated since 2005 (and for a period of 15 years) by Corredor de Desenvolvimento do Norte (CDN), a partnership between Caminhos de Ferro de Mozambique (CFM) and Sociedade de Desenvolvimento do Corredor de Nacala;

- The Beira Corridor comprises the Port of Beira, the Machipanda from Beira to Harare, Zimbabwe, and the Sena Line connecting the port with the coal fields of Moatize. These two lines constitute the Beira Railroad. The entire corridor was given in concession to the consortium made up of Rail India Technical and Economic Services (RITES) and IRCON International in December 2004;

- The Maputo Corridor includes the Port of Maputo, the Ressano Garcia line connecting Maputo to South Africa, the Limpopo line going from the Port of Maputo to Zimbabwe and the Goba line connecting Maputo to Swazi Rail.

Mozambique's railway system has rail lines that are of strategic importance for the region. The Maputo line is part of one of the most successful Spatial Development Initiatives (SDI) in Africa, the Maputo Corridor. The Machipanda Line is crucial for transporting cotton from Malawi and agricultural and mineral products from Zimbabwe. Also, the rehabilitation of the Sena Line (575km) connecting Moatize (Tete province) with the Port of Beira that is currently taking place will reportedly allow an increase in the capacity of coal transported (namely to exporting markets) from the current 6.5 million to 20 million tons per year by February 2015.

The system has rail lines that are of strategic importance for the region

One of them is the Sena Line connecting Moatize with the Port of Beira

Another major railway project in the country involves Brazil's Vale, which is investing US$ 4.5 billion in the construction of a railway line totaling 913km that links Moatize to the Port of Nacala (via Malawi). This project is both a greenfield and an upgrade of an existing line and will reportedly allow the increase in the capacity of coal transported from the current 4 million to 30 million tons per year.

Vale has a major project of 913km linking Moatize to the Port of Nacala (via Malawi)

Meanwhile, local authorities are also moving ahead with two greenfield projects in the railway sector. First, the Macuse railway is 525km long and links Tete to a greenfield port in Macuse, located in the province of Zambésia. This project costs an estimated US$ 3.5 billion. Second, the Techobanine railway has a distance of approximately 1,100km and links Techobanine to Botswana, via Mozambique and Zimbabwe. The estimated cost is US$ 7 billion.

There are two greenfield projects in the sector: Macuse and Techobanine

Finally, there are six additional projects that are currently being studied and analyzed in the country. All of the main railway projects are described below.

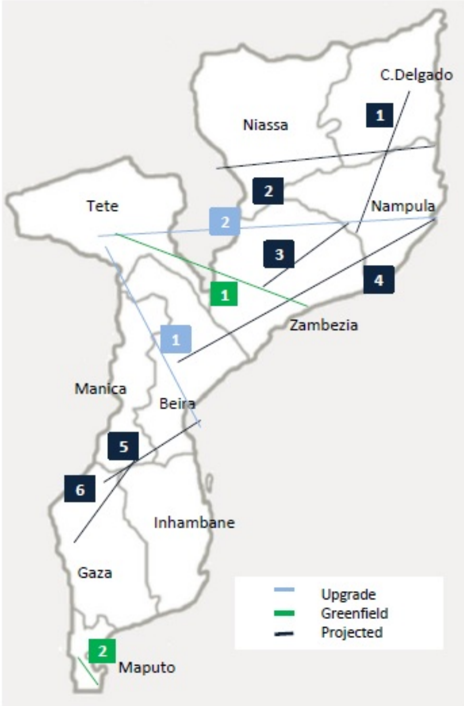
Other projects are still being studied

MOZAMBIQUE – KEY RAILWAYS PROJECTS

1. Sena (upgraded): 575km long that links Tete to Beira, coal transport capacity increased from 3.5Mtpa to 6.5Mtpa.
2. Nacala (under construction, greenfield/upgrade): 912km developed by Vale to link Tete to Nacala via Malawi.

1. Macuse railway (greenfield): 525km long, estimated to cost US$ 3.5 billion, linking Tete to a greenfield port in Macuse, Zambézia.
2. Techobanine railway (greenfield): 1,100 km long, estimated to cost US$ 7 billion, linking Techobanine to Botswana, via Mozambique and Zimbabwe.

1. Mueda corridor: feasibility studies are being conducted.
2. Lichinga railway: no feasibility studies yet.
3. Mutuali corridor: extends between the north to Tanzania, with a capacity of approximately 25Mtpa to link Sena.
4. Zambezia corridor: feasibility studies are being conducted.
5. Dondo corridor: no feasibility studies yet.
6. Massangena corridor: no feasibility studies yet.



Source: Ministry of Transport and Communications - MTC

4.3 - SEA TRANSPORT

Mozambique has three main ports. Maputo is the busiest port in the country

Mozambique's major seaports (Maputo, Nacala and Beira) all have functioning linkages to the hinterland and neighboring countries via the rail network as well as some adequate road linkages. The Port of Maputo is the busiest seaport. It has several terminals, with some of them having a sub-concession. The main cargos handled by this port include bulk minerals, vehicles, containers, sugar, coal (terminal of Matola) and vegetable oils.

The Port of Nacala is well suited for the export of coal

The Port of Nacala is well suited for the export of coal and heavy-bulk products. Work to modernize this port is due to begin in April and cost US$ 300 million. This work will focus on the north quay, paving of the container parking area, installing equipment to modernize fuel handling, widening gateways and construction of a rail terminal. The Port of Nacala will also be the final station on the rail line being built by Vale from Moatize (and that passes through Malawi) to transport coal.

The Port of Beira currently faces some physical limitations that make it inefficient for the export of coal

The Port of Beira currently faces some physical limitations that make it inefficient for the export of coal. We recall that the new Sena Line linking Moatize to this port is expected to allow the amount of coal transported by rail to increase from the current 6.5 tons to 20 tons per year by February 2015. However, the capacity of the Port of Beira is currently capped at only about 5.6 million tons per year, which means that it is rather insufficient to accommodate the increase in the amount of coal that will be able to reach the port by rail. In other words, there is still a significant time lag between the increase in demand and the development of port infrastructures to meet that demand.

Port infrastructures are being rehabilitated and upgraded in order to meet the increased demand for natural resources, namely coal

Meanwhile, apart from the upgrade of several infrastructures, at least three new ports are on the agenda of the local authorities. First, the development of a port terminal in Palma (Cabo Delgado) is justified by the close proximity to the off-shore gas concessions in the Rovuma Basin. Second, a new deep water port in Macuse (Zambésia) will serve the railway link that will transport coal from Tete for exporting markets. And third, a new cargo port in Techobanine (Maputo) is expected to be built for the handling of 100 million tons of cargo per year within Mozambique, Botswana, Zimbabwe and South Africa.

Several projects could also be developed in the future

There are also other projects that could be developed in the future, namely the ports of Savana (Sofala), Xai-Xai (Gaza) and Zambézia, as detailed below.

MOZAMBIQUE – KEY PORT PROJECTS

1. Pemba (upgrade): potential expansion of the current port to cope with the increase in the oil and natural gas companies operating in the Rovuma basin. This expansion would be operated under a PPP scheme.
2. Nacala (upgrade): work to modernise this port is due to begin in April and last until 2017 at a cost of around US$ 300 million. This port is the final station on the rail line being built by Vale from Moatize (Tete province) to carry coal to export markets.
3. Angoche (upgrade): will be able to receive vessels with more than 5,000 feet for disposal of ores.

1. Palma (greenfield): development of a greenfield port terminal in Palma is justified by the close proximity to the off-shore gas concessions in the Rovuma Basin.
2. Macuse (greenfield): new deep water port to serve railway link and transport coal from Tete to export markets. Project estimated to cost US$ 5 billion.
3. Techobanine (greenfield): cargo port estimated to handle 100Mtpa of cargo within Mozambique, Botswana, Zimbabwe and South Africa.

1. Savana Port (greenfield): could be developed in the future.
2. Xai- Xai Port (greenfield): could be developed in the future.
3. Zambézia Port (greenfield): could be developed in the future.

Source: Ministry of Transport and Communications - MTC

4.4 - AIR TRANSPORT

Investment in airport infrastructure has been subdued in recent years and sometimes insufficient to meet the strong growth in air travel during this period. It also means that the quality of the airports in Mozambique remains relatively low by global standards. Overall, apart from Maputo International Airport, the country's airports service either tourist or economic destinations, such as mining hubs. Flights within the country remain limited.

Investment in airport infrastructure has been limited in recent years

Aeroportos de Moçambique (ADM) is the state company that, under the guidance of the Ministry of Transports, is responsible for the management of the airports in Mozambique. In recent years, ADM has seen increased pressure to develop the northern coastal part of the country in terms of airport infrastructure so that it meets the increased tourism demand as well as higher commercial activity in the mining sector in this part of the country. The cities of Pemba and Nacala have been identified as priority locations to improve the airport infrastructure of Mozambique.

Pemba and Nacala have been identified as priority locations to improve airport infrastructure in Mozambique

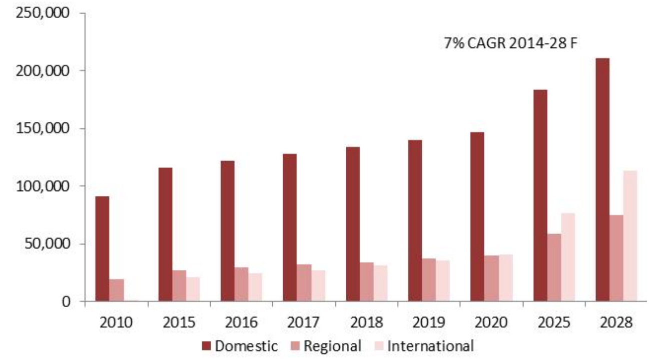
Pemba has a regional airport located approximately 3km outside of the city. However, its existing facilities do not offer sufficient conditions to accommodate current demand and the rapid growth of passenger traffic volumes (CAGR 2014-28F of 7% for total passengers). The airport's current runway of 1,800 meters is also not enough to accommodate larger aircraft and long-haul flights. ADM plans to construct a new international airport in Pemba with an estimated cost of more than US$ 300 million.

There are plans for a new international airport in Pemba with an estimated cost of US$ 300 million

Nacala has an airfield that is part of a military airbase operated by the Mozambican Air Force. Although it is used sporadically for non-commercial purposes, this airfield is very well located and equipped with a runway of 2,500 meters. Brazil's construction company Norberto Odebrecht is in charge of the rehabilitation of the Nacala airport, which consists of expanding the runway up to 3,400 meters and preparing the airport facilities to receive long-haul flights and large aircraft. We note that traffic projections for this airport point toward double-digit growth rates in the total number of passengers. The project has an approximate cost of about US$ 200 million and is funded by the governments of Mozambique and Brazil as well as ADM itself.

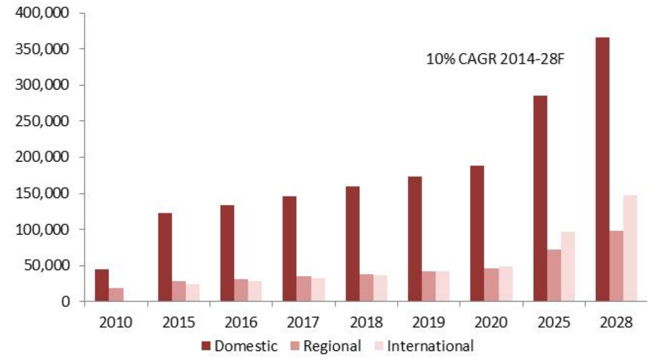
Nacala's airport is being upgraded and expanded so that it accommodates long-haul flights and large aircraft

PEMBA AIRPORT TRAFFIC PROJECTIONS



Source: AAROTEC Infrastructure Group.

NACALA AIRPORT TRAFFIC PROJECTIONS



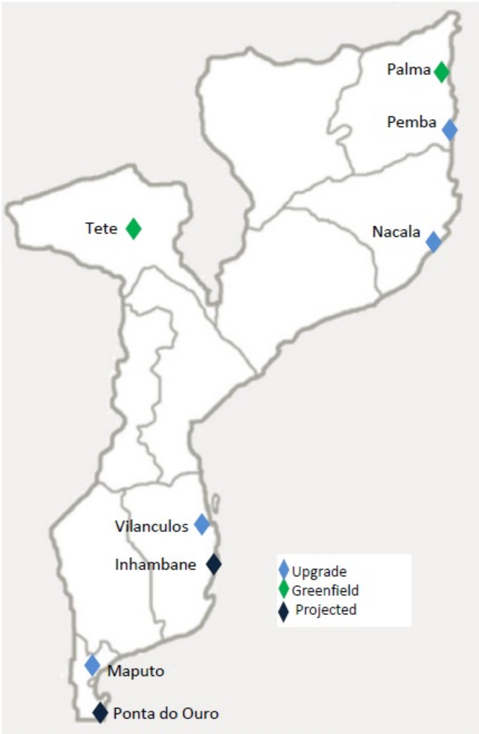
Source: AAROTEC Infrastructure Group.

MOZAMBIQUE – KEY AIRPORT PROJECTS

1. Pemba (upgrade): expansion and modernisation of the airport in the largest city in the gas province of Cabo Delgado.
2. Nacala (upgrade): expected to become an international hub for 500,000 passengers per year.
3. Vilanculos (upgrade): capacity increase to 200,000 passengers/year.
4. Maputo (upgrade): recent expansion and modernisation completed in 2012.

1. Palma (greenfield): new airport to support the oil & gas industry operating in the Rovuma Basin.
2. Tete (greenfield): new airport to support major mining region.

1. Ponta do Ouro (greenfield): is under feasibility studies phase.
2. Inhambane (greenfield): is under feasibility studies phase.



Source: Ministry of Transport and Communications - MTC

5 - REAL ESTATE

The real estate sector is one of the most important in Mozambique and enjoys incentives from the State. Access to land is crucial to investment in the sector. Land in the country is property of the State and, as a result, it cannot be sold, mortgaged or charged, apart from being occupied. The only means the law provides for access to land are the right to use and benefit from land (*Direito de Uso e Aproveitamento da Terra*, or DUAT) or Special Licenses. The latter are only granted for certain economic activities in areas in the public domain (with partial or full protection). The DUAT is granted outside of areas in the public domain to domestic and foreign individuals and companies taking into account the social or economic objective.

The real estate sector is one of the most important in Mozambique and enjoys incentives from the State

The fast-growing Mozambican economy is having a significant impact on the country's property market. On one hand, there is a growing middle-class population with higher purchasing power while on the other Mozambique is witnessing the arrival of new expatriates, namely on the back of the megaprojects in the country. Overall, the existing supply of real estate is not able to meet this new demand, which means that the real estate sector provides strong growth potential in all market segments.

A growing middle-class with higher purchasing power and the arrival of new expatriates are have an impact on the real estate market

Investors are also looking to other geographical areas outside of the capital Maputo, which served as the exclusive focus location of the property market in Mozambique, as attractive destinations for investment and property development. Areas such as Tete, Pemba or Inhassoro are very rich in terms of natural resources and present a still unexploited tourism potential. These parts of the country are being targeted for infrastructures, accessibilities and transportation improvements.

Investors are looking to other geographical areas outside of Maputo

5.1 – RESIDENTIAL

The supply of residential homes in Maputo is mostly focused on the mid/high-end of the market and also expatriates. The stock of houses is located in the most important avenues of Polana Cimento A and B, Costa do Sol and Sommerschield areas. Julius Nyerere Avenue stands out as the most important location in terms of prime residential valuations. The rental market is now relatively more active than the home sales market. This is due to the (i) existing restrictions in accessing mortgage financing, (ii) higher number of middle-class families that look for a home in a more central location in the city and (iii) increasing number of expatriates that tend to privilege a rented home considering the shorter duration (1-5 years) of their stay. However, the real estate sector should see a further boost once the banking sector provides additional housing credit.

Residential homes in Maputo are mostly focused on the mid/high-end of the market and expatriates

Average home prices stand at about US$ 2,600 per square-meter, although in the prime location of Polana Cimento A it can reach US$ 3,100 per square-meter.

Average home prices stand at about US$ 2,600 per square-meter

RESIDENTIAL MARKET VALUES		Apartments			
Location		One Bedroom	Two Bedrooms	Three Bedrooms	Four Bedrooms
Polana Cimento A	Average Prices (US$)	257,500	352,793	561,368	795,584
	Average Area (sq. meter)	78	115	186	257
	Average Price (US$ per sq. meter)	3,323	3,068	3,014	3,100
Polana Cimento B	Average Prices (US$)		334,697	421,919	
	Average Area (sq. meter)		128	172	
	Average Price (US$ per sq. meter)		2,615	2,449	
Sommerschield	Average Prices (US$)			802,717	1,122,076
	Average Area (sq. meter)			271	423
	Average Price (US$ per sq. meter)			2,963	2,653
Coop	Average Prices (US$)	153,000	270,000	378,000	
	Average Area (sq. meter)	68	120	180	
	Average Price (US$ per sq. meter)	2,250	2,250	2,100	
Costa do Sol	Average Prices (US$)		290,000	390,000	
	Average Area (sq. meter)		130	160	
	Average Price (US$ per sq. meter)		2,231	2,438	

Source: Prime Yield (2013).

5.2 – OFFICES

Mozambique, namely its capital city of Maputo, is increasingly becoming an attractive location for international companies. The most important office buildings are located in the downtown

The 25 de Setembro Avenue is the prime location for office

area of Maputo, mainly the 25 de Setembro Avenue. Office prices in the 24 de Julho Avenue are slightly lower when compared with the aforementioned location, but are still above the market average. There are several new office buildings at the President Carmona Avenue, namely the buildings of JAT 5.2 and 5.3, while the JAT VI project is being developed and includes three office buildings, one hotel and one residential building.

space in Maputo

The high demand for office space from both national and foreign players has meant that vacancy rates are currently very low. However, the new office supply in construction and in the pipeline is expected to meet this increased demand. The average office market value stands at about US$ 2,400 per square-meter, which represents a prime rent value of US$ 30 per square meter.

Although vacancy rates are currently very low, there is new office supply in construction

OFFICE MARKET VALUES (US$ per sq. meter)	Average Price	Unit Rent
Location		
Bairro Central C	2,500	30
Bairro Central B	2,000	22
Polana Cimento B	2,000	22
Polana Cimento A	2,200	25
Sommerschield	3,200	28

Source: Prime Yield (2013).

5.3 – HOTELS

Tourism is considered one of the strategic sectors in the country by the Mozambican government. The recent increase in hotel demand in Maputo is linked with business travelers since leisure tourism in the capital city is usually for a short duration and for transition to other locations of the country. Tourists mainly come to Mozambique from South Africa, Portugal and Brazil.

Tourism is one of the strategic sectors for the Mozambican government, but tourism in Maputo is usually associated to business travelers

The most important hotels in Maputo are located in the Julius Nyerere Avenue. There are five 5-star hotels, six 4-star hotels and several 3-star hotels. Occupancy rates are on average close to 75-85%. The average prices in existing hotels range from US$ 144 per night in a 3-star hotel to US$ 312 in a 5-star hotel.

5-star and 4-star hotels in Maputo usually have an occupancy rate above 75%

HOTEL ROOMS	Average Price (US$)
Type	
3-star hotel	144
4-star hotel	242
5-star hotel	312

Source: Prime Yield (2013).

5.4 – RETAIL

The supply and quality of large retail outlets in Maputo remains limited, namely when compared with international standards, and, as a result, many opportunities currently exist to develop this market. Street vending is still very common in several areas of the city. Maputo has a total of 11 retail outlets in several formats, namely four shopping centers, four retail parks and three smaller retail complexes. The number of retail outlets is highly likely to increase in the capital city on the back of (i) a favorable economic outlook, (ii) the growth in the local population (including number of expatriates) and (iii) stronger purchasing power of the population.

The supply and quality of large retail outlets in Maputo remains limited

RETAIL OUTLET Type	**Unit Rent (US$/sqm)**
Shopping Center	40
Retail Park	20
High Street Retail	30

Source: Prime Yield (2013).

We present below the main real estate projects recently developed (or under development) in the city of Maputo. These are mostly located in the Julius Nyerere and 24 de Julho Avenues or in the downtown area of the 25 de Setembro and Desportistas Avenues.

Most of the main projects are located in the Julius Nyerere and 24 de Julho Avenues or in the downtown area

MAPUTO – MAIN REAL ESTATE PROJECTS

	Projects	Location	Type	Target	Completion Year
	Building 24	Av. 24 de Julho	Mixed	Medium to High	2012
	The Palm	Av. Julius Nyerere	Residential	High	2013
	Complex Xiluva	Av. Julius Nyerere	Residential	High	2013
	Deco Residence	Av. Eduardo Mondlane	Residential	Medium to High	2013
	Imoinveste Building	Av. Julius Nyerere	Residential	Medium to High	2013
	Maputo Bay Water front	Av. 25 de Setembro	Mixed	High	-
	Tiweni	Av. 24 de Julho	Residential and Retail	Medium	2014
	Platinum	Av. Julius Nyerere	Mixed	Medium to High	2015
	Central Bank Building	Av. 25 de Setembro	Offices	High	2014
	Jat Complex Buildings	Av. dos Desportistas	Offices	Medium to High	2014
	Maputo Polana Towers	Av. Julius Nyerere	Mixed	Medium to High	2016

Source: Worx and Eaglestone Securities.

Meanwhile, the main players in the Mozambican real estate segment include some of Portugal's largest construction companies and others with local shareholders:

- **Visabeira** has operated in the country since 1993 in areas such as property management, brokerage and building rehabilitation;

- **Mota-Engil** has 65 years' experience in a wide range of activities related to engineering and construction. The company operates in the construction business in Mozambique through its subsidiary EMOCIL;

- **Epsilon Holdings SA** is a Mozambican company focused on the promotion of real estate development. It is currently involved in important building projects in Maputo, namely located in the 24 de Julho Avenue;

- **Teixeira Duarte** started its activity in Mozambique in 1982. After consolidating its position in the construction sector, the company diversified to other businesses that include three hotel units (Avenida and Tivoli hotels in Maputo and Tivoli in Beira);

- **Promovalor** is involved in several large real estate projects such as the Platinum building located in the Julius Nyerere Avenue;

- **JAT Constroi** has a significant portfolio of projects already developed in Maputo such as the JAT complex that includes more than five buildings.

ANNEX I – TAX SYSTEM

The Mozambican tax system includes two sub-systems: national and municipal. According to the classification adopted by article 56 and Law nº 15/2002 dated 26th June the aforementioned sub-systems are in their turn subdivided in several taxes as per the classification to be adopted. We present below a brief explanation of the object, tax rates and contributions of the Mozambican Tax System.

The Mozambican tax system includes national and municipal taxes

1 - NATIONAL TAX SYSTEM

The National Tax System includes two fractions, namely direct and indirect taxes. Residually, there is another fraction of other taxes in which mining and oil & gas activity specific taxes are included.

The National Tax System includes direct and indirect taxes

1.1- DIRECT TAXATION OF INCOME AND WEALTH

A **Corporate Income Tax (IRPC)** is applicable to the income obtained by corporate taxpayers, which include the following:

Corporate income is subject to a general tax rate of 32%in the case of resident taxpayers or established foreign companies

Non-resident entities are taxed by means of withholding tax rate of 20% as final tax

- Commercial companies or civil companies adopting the commercial form, co-operatives, public companies and all public and private law corporate entities with head offices or effective management in Mozambique;
- Entities without own legal personality with head offices or effective management in the Mozambican territory;
- Entities with or without legal personality without head offices or effective management in Mozambique;
- While resident taxpayers or permanently established foreign companies in Mozambique are taxed at the general rate of 32%, non-resident entities without permanent establishment are taxed by means of withholding tax rate of 20% as final tax.

Dividends shall be included in the taxable basis for corporate income taxation purposes. If such dividends are paid in connection with a minimum participation of 25%, held for at least 2 years, such dividends are excluded from the taxable basis (participation exemption). Capital gains are also included in the taxable basis for corporate income taxation purposes, being such gains taxed as business income. Moreover, interest and royalties are considered ordinary income of a company. The employer is also subject to social security contributions at a rate of 4% over the salary of each employee.

Dividends, capital gains and interest and royalties are all considered ordinary corporate income and subject to IRPC

An **Individual Income Tax (IRPS)** is applicable to the annual income of an individual according to the following income categories:

There are five income categories for the Individual Income Tax

- 1st Category – employment income;
- 2nd Category – entrepreneurial and professional income;
- 3rd Category – capital and capital gains income;
- 4th Category – property income;
- 5th Category – other income.

The IRPS is due by resident individuals and by non-resident individuals who earn income in Mozambique. The general annual tax rates for tax residents vary from 10% to 32%, as per the amount of taxable income, while non-residents are taxed by means of a 20% withholding tax as final tax.

The general IRPS rates vary from 10% to 32% depending on the taxable income

1.2- INDIRECT TAXATION OF EXPENSES

The **Value Added Tax (VAT)** rate is 17% and is applicable on the transfer of goods and services for a consideration, occurred within the Mozambican territory, by a taxpayer acting as such, as

VAT rate of 17%

well as on the importation of goods.

A **Special Consumption Tax (ICE)** is applicable to certain goods, namely tobacco, alcohol, locally manufactured or imported vehicles. This is a one-off tax applicable on the producer or importer. The ICE tax rate is *ad valorem* or specific or even a combination of the two, taking into consideration the nature of the goods to be taxed, as well as the social, economic or general or specific prevention objectives to follow in each case.

A Special Consumption Tax is applicable to certain goods

Import duties are applicable to imported goods in the customs territory as per the customs manual. The rates vary from 2.5% to 20%. Products imported from SADC countries benefit for a couple of years from a gradual reduction of customs duties.

Import duties vary from 2.5% to 20%

A **Stamp duty** is applicable on all documents, contracts, books, papers and acts. There are several stamp duty rates. A 10% tax rate is the maximum stamp duty rate (a 50% rate is applied to acts and documents related to gambling activities). In certain situations, the stamp duty assessment is based on fixed and predetermined amounts. Stamp duty taxpayers are the entities with economic interest supported by documents. In the case of common interest from different entities the tax burden is shared proportionally by all of the entities.

A Stamp Duty is applicable on all documents, contracts, books, papers and acts

An **Inheritance and Donations Tax** is applicable to the transfer of ownership rights over movable or immovable property, whatever is the denomination or form of the title. The tax is assessed as per the rates in force at the moment of the transfer, ranging from 2% and 10%.

The Inheritance and Donations tax ranges from 2% and 10%

The **National Reconstruction Tax (IRN)** represents a minimum contribution by each citizen for public spending and is applicable, as per specific rates, to all individuals resident in the national territory, even in foreigners, provided the requirements are met, namely age, occupation and ability to work. The tax rate is set annually by the Ministry of Finance based on a proposal from the Provincial Government in accordance with the level of development and social-economic conditions in each district or region.

The National Reconstruction Tax represents a minimum contribution by each citizen for public spending

Small Taxpayers Simplified Tax (ISPC) is due by individual or corporate entities that undertake agricultural, industrial or commercial activities, such as agriculture trading, itinerant commerce, gross and retail trading, as well as transformation industry and rendering of services. One of the conditions to register under this regime is that annual turnover does not exceed 2.5 million Meticais. ISPC taxpayers pay the tax on a quarterly basis and the same corresponds to 3% of turnover or an annual amount of 75,000 Meticais divided in quarterly installments.

Small Taxpayers Simplified Tax is due by individual or companies that operate in activities with annual turnover that does not exceed 2.5 million Meticais

2 - MUNICIPAL TAX SYSTEM

The Municipal Tax System includes taxes and service fees. Some of the taxes used to be part of the National Tax System and were recently transferred to the Municipalities' jurisdiction.

The Municipal Tax System includes taxes and service fees

A **Vehicles Tax (ISV)** is applicable to the use and fruition of (i) light passenger vehicles, light multi-purpose vehicles with weight up to 2,500kg, heavy trucks and passenger motorcycles with or without a car, (ii) private use aircrafts and (iii) private recreational boats. The applicable tax rates are set according to the fuel used, number of cylinders, horse power, voltage, age and maximum weight authorized.

A Vehicles Tax is applicable for (i) light passenger vehicles, (ii) private use aircrafts and (iii) private recreational boats

A **Property Transfer Tax (SISA)** is applicable to the onerous transfer of ownership rights or part of such rights over immovable property and it is due by individuals or corporate entities acquiring ownership. The SISA rate is 2% of the value of the immovable property being transferred.

The Property Transfer Tax (SISA) rate is 2% of the value of the immovable property being transferred

A **Personal Municipal Tax** is applicable to all individuals, national or foreign, resident in the respective municipality between the ages of 18 and 60 years. The Personal Municipal Tax rates in force in each year and in each municipality are set according to the municipality and the national minimum wage:

A Personal Municipal Tax is applicable to individuals resident in that municipality

- 4% for level A Municipalities;
- 3% for level B Municipalities;
- 2% for level C Municipalities;
- 1% for level D settlements and villages.

A **Municipal Real Estate Tax** is levied upon the tax value of urban real estate located in the respective municipality, or in its absence, upon the value declared by the real estate owner(s). This tax is levied on the owners of the real estate on 31 of December of the preceding year.

A Municipal Real Estate Tax (0.4% for housing and 0.7% for commercial purposes) is levied upon the value of urban

Individuals who are registered as the owners for tax purposes or individuals in possession of the real estate are deemed to be the relevant taxpayer. The Municipal Real Estate Tax rates are as follows: (i) 0.4% for buildings with residential purposes and (ii) 0.7% for real estate with commercial or industrial activity or for the development of independent professional activities, as well as for other purposes. This tax shall be paid in two equal installments due in January and June. The instalments cannot be less than 200 Meticais. If the tax due is equal to or lower than 400 Meticais, it should be paid in a single payment during the month of January.

real estate located in the municipality

3 – TAXES IN THE EXTRACTIVE INDUSTRY

Laws 11/2007 and 12/2007, both dated June 28, established the taxes levied on the mining and petroleum sectors.

3.1- MINING SECTOR

A **Surface Tax (IS)** is applicable to individuals and companies holding reconnaissance licenses, prospecting and research licenses, mining concessions or mining certificates. This tax is due annually and is applicable to the area subject to the aforementioned activities measured in square kilometers or in hectares and, in the case of mineral water, applicable to each mining title.

A Surface Fee is due annually and applicable to the area subject to mining activities

A **Mining Production Tax** is applicable to the value of the quantity of the mining product extracted from the soil as a result of the mining activity performed in Mozambique under a mining title or not, irrespective of the sale, exportation or other form of disposal of the mining product. The tax rate varies according to the extracted mineral as follows: (i) 10% for diamonds; (ii) 10% for precious metals (gold, silver and platinum) and precious stones; (iii) 6% for semi-precious stones; (iv) 5% for basic minerals and (v) 3% for coal and the remaining mining products.

A Mining Production Tax is applicable to the value of the quantity of the mining product extracted from the soil

3.1- OIL & GAS SECTOR

A **Petroleum Production Tax** is applicable to oil produced in the Mozambican territory from the area of development and production. This tax is usually paid in cash, although the State may choose to receive it partially or in full in kind. The tax rate varies between 6% and 10% depending on the hydrocarbon. Natural gas is subject to 6% while crude oil to 10%.

A Petroleum Production Tax is applicable to oil produced in Mozambique

ANNEX II – ECONOMIC INDICATORS

ECONOMIC INDICATORS	2010	2011	2012	2013F	2014F	2015F	2016F
National Income							
Nominal GDP (MZM bn)	315	365	408	461	528	598	680
Nominal GDP growth	18.3%	15.8%	11.8%	13.0%	14.4%	13.4%	13.7%
Real GDP growth	7.1%	7.3%	7.2%	7.1%	8.3%	7.9%	7.7%
GDP per Capita (US$)	398	510	567	593	655	711	774
GDP Deflator	10.5%	7.9%	4.3%	5.5%	5.6%	5.1%	5.6%
Consumer Prices							
Inflation (period average)	12.7%	10.4%	2.1%	4.2%	5.6%	5.6%	5.6%
Inflation (end of period)	16.6%	5.5%	2.2%	3.0%	6.0%	5.6%	5.6%
Investment and Saving (% of GDP)							
Gross Domestic Investment	19.5%	37.0%	48.2%	48.8%	51.9%	53.1%	54.7%
Government	14.5%	14.9%	13.4%	15.6%	17.2%	15.4%	15.3%
Other Sectors	5.0%	22.1%	34.7%	33.2%	34.6%	37.7%	39.3%
Gross Domestic Savings (excluding Grants)	0.9%	5.7%	-1.2%	3.0%	5.4%	6.9%	12.6%
Government	1.2%	2.0%	4.1%	6.7%	0.9%	4.0%	4.8%
Other Sectors	-0.2%	3.7%	-5.3%	-3.7%	4.4%	2.9%	7.8%
External Current Account (before Grants)	-18.5%	-31.3%	-49.4%	-45.8%	-46.5%	-46.2%	-42.1%
External Current Account (after Grants)	-11.7%	-24.4%	-45.6%	-41.9%	-42.8%	-43.2%	-39.3%
Government Budget (% of GDP)							
Total Revenue	19.6%	20.8%	23.3%	27.4%	23.7%	24.4%	24.9%
Tax Revenues	17.0%	18.1%	19.8%	23.5%	19.8%	20.5%	21.0%
Non-tax Revenues	2.5%	2.6%	3.4%	3.9%	3.9%	3.9%	3.9%
Expenditures and Net Lending	32.9%	33.7%	32.6%	36.3%	40.1%	35.9%	35.5%
Current Expenditures	18.4%	18.8%	19.2%	20.7%	22.8%	20.4%	20.2%
Wages	9.2%	9.8%	10.2%	11.0%	10.8%	10.6%	10.3%
Goods and Services	3.4%	3.3%	3.7%	4.6%	6.9%	4.5%	4.4%
Interest on Public Debt	0.8%	1.0%	1.0%	0.9%	1.2%	1.3%	1.5%
Transfers	4.9%	4.7%	4.3%	4.2%	3.9%	4.0%	4.0%
Capital Expenditure	13.9%	13.9%	12.3%	13.5%	15.0%	12.8%	12.6%
Net Lending	1.0%	1.0%	1.1%	2.1%	2.3%	2.7%	2.8%
Overall Balance (before Grants)	-13.2%	-13.1%	-9.5%	-8.9%	-16.3%	-11.4%	-10.6%
Grants Received	9.0%	7.8%	5.4%	4.3%	3.8%	3.2%	2.6%
Project	5.4%	4.5%	3.3%	2.3%	2.3%	1.9%	1.6%
Budget Support	3.6%	3.4%	2.1%	2.0%	1.5%	1.2%	1.0%
Overall Balance (after Grants)	-4.3%	-5.3%	-4.1%	-4.6%	-12.6%	-8.2%	-7.9%
External Sector (annual % change)							
Exports	8.7%	33.6%	23.6%	3.5%	18.6%	17.4%	21.6%
Exports (excl. Megaprojects)	-20.5%	65.8%	48.4%	9.9%	6.9%	9.2%	11.2%
Imports	2.6%	52.8%	47.2%	9.2%	7.8%	14.4%	4.4%
Imports (excl. Megaprojects)	-0.7%	46.2%	50.8%	3.3%	6.1%	2.9%	9.7%
Terms of Trade	10.4%	2.3%	-4.9%	-9.1%	-1.4%	0.4%	0.4%
Balance of Payments (US$ mn)							
Current Account	-1,113	-3,059	-6,426	-6,621	-7,364	-8,252	-8,429
Trade Balance	-1,179	-2,249	-4,048	-4,640	-4,570	-5,088	-4,356
Exports, f.o.b.	2,333	3,118	3,856	3,989	4,729	5,554	6,756
Megaprojects	1,668	2,015	2,219	1,149	2,807	3,454	4,420
Other	665	1,103	1,637	1,741	1,922	2,100	2,336
Imports, f.o.b.	-3,512	-5,368	-7,903	-8,629	-9,299	-10,642	-11,112
Megaprojects	-900	-1,547	-2,143	-2,435	-2,779	-3,769	-3,626
Other	-2,613	-3,820	-5,760	-6,194	-6,520	-6,873	-7,487
Services Balance	-506	-1,482	-3,273	-3,201	-3,688	-3,959	-4,318
Income Balance	-85	-190	-35	-6	-176	-310	-891
Of which: dividend payments by megaprojects	0	-157	0	-6	-159	-210	-652
Transfers Balance	657	863	929	1,226	1,070	1,105	1,136
Of which: external grants	605	785	538	541	519	487	453
Capital Account Balance	346	432	456	375	396	421	449
Financial Account Balance	1,318	2,933	6,292	6,623	7,166	8,293	8,659
Net Foreign Direct Investment	1,340	2,599	5,215	5,519	4,703	4,629	4,709
Net Foreign Borrowing by the General Government	468	531	546	1,095	1,414	1,306	1,351
Net Foreign Borrowing by the Nonfin Private Sector	-348	-39	516	-274	751	2,043	2,266
Other	-142	-159	14	284	298	315	333
Net Errors and Omissions	58	17	-87	81	0	0	0
Overall Balance of Payments	608	323	236	458	199	462	679

Source: Mozambican authorities, World Bank and IMF.

ANNEX II – ECONOMIC INDICATORS (cont.)

ECONOMIC INDICATORS (cont.)	2010	2011	2012	2013F	2014F	2015F	2016F
International Reserves (US$ mn)							
Net International Reserves	1,908	2,239	2,605	3,061	3,262	3,725	4,404
Gross International Reserves	2,099	2,428	2,799	3,252	3,449	3,877	4,519
Months of projected imports of goods and nonfactor services	3.3	2.4	2.6	2.7	2.6	2.7	2.7
Months of projected G&S imports (excl. megaproject imports)	4.2	3.0	3.9	4.4	4.7	4.9	5.8
Exchange Rate							
Exchange Rate (period average, MZM/USD)	34.0	29.1	28.4	30.1	-	-	-
Exchange Rate (end of period, MZM/USD)	32.8	27.1	29.7	30.0	-	-	-

Source: Mozambican authorities, World Bank and IMF.

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

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