



MONTHLY SHAREHOLDER LETTER // December 2011

- **Portfolio businesses grow strongly and sustainably**
 - **Exit in Zimbabwe near completion – new investment in West Africa in January**
 - **Major shareholder Trafigura expands its position to over 15%**
 - **Capital increase of 10% of the share capital to finance upcoming investments**
 - **Important transaction details concerning the capital increase**
 - **EBIT projection for 2012 and beyond substantially raised due to additional advisory fees**
-

Dear Shareholders, Business Partners & Friends of ADC,

Despite the upcoming holidays there is significant unrest in the financial markets. As before, this only marginally or not at all affects us in Africa. The economy of sub-Saharan Africa is growing unabated and is affected only by regional factors – such as the rising inflation rate in Kenya or the recent elections in the Democratic Republic of Congo (DRC).

The overall economic trend in the ADC markets continues to be impressive. It has become a genuine challenge to get a seat on flights to Zimbabwe because more and more investors are streaming into the country. There were tremendous crowds three weeks ago at the Investor and Industry Conference in Equatorial Guinea, at which ADC Chairman Christian Angermayer spoke as the only private sector representative in front of around 500 participants including the entire government. More and more money, particularly from international donors such as the Gates Foundation is also flowing into Rwanda and this is driving lasting economic development. And the key countries of our BancABC – Zambia, Tanzania, Mozambique, Zimbabwe and Botswana – have long been members of the renowned African Champions. Notable in this regard is that one encounters not European and American investors and business executives in these places – even though the attraction of Africa is also increasing in Europe and the USA – but rather it is business people from China, India and Brazil. We will talk more about this South-South-South axis in later shareholder letters.

We are not only expanding further into these markets, but have also, together with our portfolio companies, continued to put our feelers out into the rapidly growing financial markets of sub-Saharan Africa. Primarily, we reported to you some time ago that we would shortly announce completion of at least one new investment in one of the most important banking markets in West Africa. We are still waiting for one outstanding approval from the regulators for this transaction, which we expect to receive in the first week of January. We are also working on a transaction in Zimbabwe that will most probably be concluded by the end of the year. On the one hand this transaction will further strengthen our market position through a new investment - and on the other hand also make a significant contribution to our year-end results for 2011.



Because of all this there is still no Christmas break for the ADC team at this point, but there is at least a great deal of pre-Christmas joy. We look back on a year that has completely fulfilled our expectations. With the successful and continuing growth in our investments, with our entry as the largest single investor in RHEAL in January and in BancABC in February of this year, and with the investments we are about to complete, we have purposefully and successfully expanded our portfolio. Contrary to market trends, the ADC share price has seen only one direction for months: upwards. In just the past weeks the price has risen even further to around EUR 12.00.

We are particularly pleased and proud to have added as a major shareholder the international commodity trader Trafigura, who brings extensive and long-lasting expertise in Africa, shares our vision of a positive future for the continent, and provides solid support for the ADC business. Trafigura has recently announced that it has already increased its share in ADC to over 15%. We are currently in conversation with other potential strategic investors.

PRIVATE PLACEMENT

In order to be able to sufficiently finance the transactions we will be executing in the coming weeks, we have just launched an increase in authorized capital of up to 764,614 new shares. As current shareholders, we are offering you a voluntary subscription right in a ratio of 10:1. For every 10 "old" shares, one "new" share can be ordered. In addition, in the event that unsubscribed shares remain, current shareholders can apply for more shares than they are entitled to under the subscription right as a supplemental subscription.

The deadline for subscription is Thursday, 22 December 2011.

The subscription price is EUR 12.00.

Unsubscribed shares will be offered first to existing shareholders as a supplemental subscription. Any remaining shares after that, if applicable, will be placed with institutional investors as a private placement. Strategic shareholders of ADC have already expressed their interest in exercising their subscription rights and expanding their participation if possible.

We ask interested NEW shareholders to kindly direct their subscription at the latest by Thursday, 22 December 2011 at 13:00 German time to the attending bank of issue:

Silvia Quandt & Cie. AG (in cooperation with biw Bank)

Mr. Soeren Rose

Tel: +49 69 95 92 90 93 72

Email: rose@silviaquandt.de



DEVELOPMENT OF OUR PORTFOLIO COMPANIES

- **BancABC** (ADC shareholding: 23.1%) is further expanding its strategic position in the key markets of Zimbabwe, Tanzania, Zambia, Mozambique and Botswana. In Botswana the bank is about to broaden its customer base significantly by acquiring the loan portfolio of a competitor. To maintain its high rate of growth, BancABC continues to work on raising capital and is in discussion with international banking partners as well as ADC regarding this. As before, we are interested in further expanding our participation since we regard BancABC as a central element in the ADC portfolio.
- **BANGE** (Banco Nacional de Guinea Ecuatorial, ADC shareholding: 25% + option to acquire additional 25.1%) is somewhat below plan in its FOREX business. However, we still expect a major transaction this year. In the past weeks, management has been engaged in reducing non-performing loans. The first results from the measures instituted should still have a positive effect in this year. BANGE's expansion through new branches and particularly of its corporate business is in full gear.
- **RSwitch (SIMTEL)** (ADC shareholding: 70%). From January until November the number of ATM transactions has quintupled, and the transaction volume has grown six-fold (!). Rwanda now has ca. 180 ATMs. Around 120,000 customers have chip cards and another 600,000 customers should have them by the end of 2012. Rwanda will then be one of the most developed electronic payment countries in sub-Saharan Africa! And RSwitch is to thank for that. The planned expansion with regional partners is the logical next step. Negotiations are close to completion but have been delayed by the market entry of Visa International in Rwanda that wants to introduce new mobile payment services. Visa will cooperate closely with RSwitch. Also, negotiations are continuing for offering electronic payment solutions to other large retailers (e.g. operators of gas stations in sub-Saharan Africa) in addition to the current service offerings for banks.
- **iVeri** (ADC shareholding: 49%) has engaged a head of marketing and sales for the new business segment called evriPay and has commenced with distribution. evriPay gives smaller retailers in South Africa, and later throughout sub-Saharan Africa, access to electronic payments in the form of international credit and debit cards. The core iVeri business continues its steady growth and could get a boost early in the coming year: iVeri is currently in negotiations with major hotel chains about expanding the existing service offering.



- **Ecobank Zimbabwe** (ADC shareholding: 13.5%) is currently implementing the capital increase for the purpose of participation by local investors. Local investors will increase their existing shares (around 14% of Ecobank shares) to 36%. The new capital offering has a price 26% above the entry price and 214% above the previous capital increase (Ecobank entry, end of 2010). Operationally, the bank is growing faster than the market. A new flagship branch in the centre of Harare opens in January and new metrics for customer service are being set.
- **RHEAL Insurance** (ADC shareholding: 25.1%), our health insurance company in Kenya, is about to receive an extension to its current license in order to further expand. RHEAL has the potential to become the leading health insurer in Kenya in the coming year. The management has an excellent reputation in the market and with customers. Nevertheless, the market environment in the past month has left some faint signs. The rapid depreciation of the Kenyan shilling against the Euro and US dollar and the rising inflation rate in Kenya has put pressure on sales figures. Although management has handled the situation very well, it is possible that the total figures for the year will be about 10% below the very ambitious budget projection for 2011. For ADC, however, even a slightly reduced performance target means a significant increase in value and write up of the investment of at least 30%.

CURRENCY RISK

In the past weeks we have received an increasing number of inquiries from you on the subject of currency fluctuation and dependence on the Euro. Although our financial statements are presented in Euros and our shares are denominated in Euros, our portfolio is structured far more on the US dollar. The bulk of our investments are in USD or currencies that are closely tied to the USD. Only the shares of BANGE in Equatorial Guinea must be viewed as a Euro investment since the exchange rate of the CFA (Franc de la Coopération Financière en Afrique Centrale) has a fixed parity to the Euro. Because of the diversification of underlying currencies in our portfolio, we do not engage in hedging, but we observe currency fluctuations on a daily basis and are prepared to secure coverage in the event we detect signs of unusually strong and lasting changes.

FINANCIAL OUTLOOK AND OUR MERCHANT BANK STRATEGY

The valuation method, which views ADC as a pure holding company and calculates fair value as "sum of the parts", does in our view not at all reflect the true value of ADC since many core elements such as our unique expertise, exclusive access to markets, the quality of the ADC team, the networks, brand name, and above all, the strategic significance and potential for our investments remain unaccounted for in this methodology.



In meetings with investors we sometimes hear the argument that these factors cannot be quantified and reflected in cash flow. But this is wrong. ADC is on the best path not only to become the most successful investor in Africa, but also to become a trusted partner that builds bridges between Africa and Europe or the USA, and it is therefore considered the "Gateway to Africa". We are in the process of building up the new business segment of merchant banking and will be offering our network and expertise in the future to international businesses that are looking for access to African markets, and also to African businesses who strive for the European or American markets. This business segment is a logical extension of our current business model and not only enables ADC to participate directly in the success of our portfolio businesses, but also provides an additional source of income beyond investment banking and advisory services.

Concerning our projection for the full year 2011, we are on plan to meet or exceed our earnings goal for 2011. We had projected an EBIT for 2011 of at least EUR 6.6 million. For the next year we expect an even more robust increase in earnings than earlier planned since, in addition to the growth and earnings of our portfolio businesses, we now also expect direct income in the form of investment banking and advisory fees at the holding company level in the future. For 2012 this should be additional income of EUR 3.0 - 5.0 million. At the beginning of the New Year, we will present you with an EBIT projection for the full year 2012, which I can already tell you will be well above EUR 10.0 million.

“TECHNICAL DATA”

With our rising share price and the present increase in capital, we are developing the quantitative data for ADC in a very positive way. After the capital increase, market capitalization stands at around EUR 100 million. Daily liquidity is about EUR 200,000. Thus, in terms of both market capitalization as well as liquidity we are ranked 110th in the list for inclusion in the SDAX. At a rank of 110 a company is qualified for inclusion into the index consisting of 100 securities of the comprehensive German second-line corporates. Since we assume rising prices due to strong operating trends, inclusion in the SDAX in 2012 is possible. This would bring additional attention and buyer groups.

If you have further questions about ADC, Olaf Meier (meier@african-development.com) and our colleagues in Frankfurt would be pleased to assist you.

Dear Shareholders, Business Partners and Friends, my colleagues and I wish you a happy and blessed Christmas and a good start to a great new year.

With best regards,

Dirk Harbecke
CEO

