Lonrho, a company reborn

Price: 10p

Bloomberg code: LONR LN

Buy

Target price: 18p

(until 30 September)	2009e	2010e	2011e	2012e	2013e	2014e
Revenues (£m)	90.8	187.6	284.6	357.0	419.3	503.8
EBITDA (£m)	2.3	5.6	36.4	55.5	69.9	84.6
Net profit (£m)	-5.8	-8.8	11.7	22.4	30.0	37.7
EPS (p)	-0.8	-1.0	1.1	2.1	2.9	3.6
PER	n/a	n/a	9.0	4.7	3.5	2.8

Source: Amstel Securities N.V.

December 2009

Well-positioned play on Sub-Saharan African growth

Lonrho's 63% stake in Luba Freeport on Bioko Island is the most interesting element of Lonrho's asset story. The Luba Freeport is strategically located in the middle of a new oil frontier near the coast of Western Africa. Based on an existing international and reputable customer base, the underlying 25-year concession with Luba Freeport Ltd (with the option to extend for 10 years), the contractual strong support of the Government, the invested capex, the forward-looking EBITDA as well as further growth opportunities, we estimate the value of Lonrho's 63%-stake in Luba Freeport at £125m.

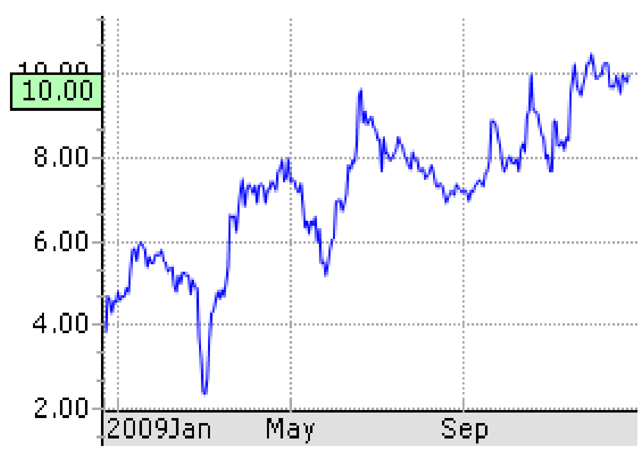
Crown jewel Luba Freeport significantly undervalued

Amstel Securities estimates the value of Lonrho's other assets at £90.1m. Including unused net cash proceeds from recent private placements, which we estimate at £23.9m, Lonrho's value is already £114 m. This is already 10% higher than the total market capitalization of Lonrho. This leads us to conclude, that any investor in Lonrho gets Lonrho's 63% stake in Luba Freeport for free.

Amstel Securities initiates coverage of Lonrho with a Buy and a target price of 18p per share

Based on a mix of sum-of-the-parts and a discounted cash flow valuation, we arrive at a target price of 18p for Lonrho implying 80% upside from current levels. As a reality check we have determined, how Lonrho's EV/EBITDA multiples would look at 18p. We use 2011E as a base year as this is the first year that Lonrho will be free cash flow positive. An 18p target price would imply an EV/EBITDA 2011E multiple of 5x. The recent IPO of African CFAO with much lower growth opportunities than Lonrho was successfully completed at a forward-looking EV/EBIT ratio of 9.

Listing	AIM
Shares in issue	1,051m
Market cap	105.1m
NAV per share	10.4p
High (52 weeks)	10.5p
Low (52 weeks)	2.7p



Authors

Willem Kadijk +31206207606
Head of European Equities willem@amstelsec.nl
Marcel Hooijmaijers +31622490770
Senior Consultant

Investment summary:
Lonrho, a company reborn, well-positioned play on Sub-Saharan African growth

Lonrho Plc is a London AIM-listed conglomerate with a rich history of over 100 years of investing in Africa. Established in 1909 as the London and Rhodesian Mining Company, the company became well known under Tiny Rowland, who led Lonrho for three decades from 1961. Following Rowland's ousting in the mid-1990s, most of Lonrho's assets were sold between 1998 and 2005 and Lonrho's former mining assets were separated and incorporated within Lonmin. New investors took control in late 2005 led by Australian David Lenigas, who decided to maintain the Africa focus and sought to restore some of the wealth and power Lonrho enjoyed during its heydays in the 1980s.

Over a period of 3 years Lonrho has raised over £120 million from institutional investors and bought businesses in Infrastructure (Luba Freeport), Agribusiness (Rollex and John Deere), Aviation (Fly540), Hotels and Support Services (IT and Water). The company now operates in seventeen countries across Sub-Saharan Africa.

From the new start in 2006, revenues for the year ended September 2009 have already reached the 90 million pound sterling level, and are expected to more than double again this financial year. With infrastructure and the agribusiness as the key to rebuilding the Lonrho Empire, Chairman David Lenigas and the chief executive Geoffrey White aim to grow Lonrho to an ambitious US$1 billion in revenues conglomerate within the next five years.

In our view Lonrho's 63% stake in Luba Freeport on Bioko Island is the most interesting element of Lonrho's asset story. Oil & gas exploration in the offshore basin of the Gulf of Guinea offers an excellent alternative to oil from a politically instable Middle East. The Luba Freeport is strategically located in the middle of a new oil frontier near the coast of Western Africa. Luba Freeport is a natural sheltered deep water port that offers more political stability than ports in Nigeria.

We estimate that the construction of oil storage facilities of 1mln cubic meters (about 6.3m barrels of oil equivalent) will require up to about US$200m in investments. Oil storage facilities are very scalable after the necessary pipeline structure has been put in place. To our knowledge there are no large-scale independent oil storage facilities in the Gulf of Guinea, which is a clear manco given the growing importance of Western Africa as a global oil & gas producer. The Luba Freeport offers the best oil storage opportunities given the physical expansion potential beyond the 50 hectares currently in lease. The political climate in the area has become fairly stable and all oil exporting SSA countries are very interested in developing their country into an oil & gas exploration and distribution point. This opportunity enhances the strategic value of Luba Freeport.

Lonrho strongly believes Africa will become the bread basket of the world. Amstel Securities agrees, and also thinks that agribusiness plays a vital role in the African Continent's economic development, contributing a major portion of GDP, employment, and foreign exchange earnings.

Lonrho owns a 51%-stake in Rollex, an agri-processing and logistics company. The company, established in 1989, sources, packs and delivers fresh fruit, vegetable and fish produce from across Africa to its network of high-profile retail clients, including Woolworths in South Africa. In Europe Rollex clients are Marks & Spencer, Tesco, Sainsbury, and World Flowers. In Sub-Saharan Africa is Rollex is the market leader within fresh produce. Chilled perishable produce, mostly fruit and vegetables, are distributed both by air and road freight.

Lonrho controls Fly540, a fast growing airliner for Sub-Saharan Africa. There is an increasing need to transport business people, tourists, officials and cargo across the African Continent. However, many parts of Africa lack a reliable, punctual, efficient, certified domestic and regional airline of international quality to facilitate trade and tourism. West and Central Africa have traditionally been poorly served and travelling from West Africa to East or South Africa has often necessitated departing from one African country, flying to Europe and then returning to an African destination. The investment opportunity for Fly540 is clear: Africa simply requires the development of a safe and reliable regional airline. Fly540's objective is precisely to become this.

Lonrho's hotel business, with a 50% stake in Grand Karavia SARL in the Democratic Republic of Congo as potential crown jewel, is both focused on the business traveler and the flourishing tourism sector.

George Dowden, Director at the Royal African Society, described in his 2008 book "Africa, Altered States, Ordinary Miracles" that modern Sub-Saharan Africa is an area afflicted by poverty, disease and war, but also a place of breathtaking beauty, generosity, and possibility. In the mid 1990s thirty-one out of Africa's fifty-three countries were suffering civil war or serious civil disturbance. But since the year 2000 things have changed and Africa is rising. Although still an issue, aids is under control and seven of the world's twenty fastest growing economies were in Africa in 2006. Not solely due to commodities as almost half of the new growth is in services, in sectors like banking, telecoms and insurance. This leads many observers to believe that this is not a temporary or cyclical gold rush but a permanent change in Africa's fortunes.

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Appendices

1. Lonrho: a company reborn, corporate profile and divisions

Lonrho Plc is a London AIM-listed conglomerate with a rich history of over 100 years of investing in Africa. Established in 1909 as the London and Rhodesian Mining Company, the company became well known under Tiny Rowland, who led Lonrho for three decades from 1961 and was a flamboyant and often controversial supporter of, and investor in, newly-independent African states. Following Rowland's ousting in the mid-1990s, most of Lonrho's assets were sold between 1998 and 2005 and Lonrho's former mining assets were separated and incorporated within Lonmin Plc, the London-listed platinum miner. (See Appendix for a more detailed corporate history).

New investors took control in late 2005 led by Australian David Lenigas, who decided to maintain the Africa focus and sought to restore some of the wealth and power Lonrho enjoyed during its heydays in the 1980s. The Africa focus is very understandable as the African Continent can be very profitable indeed as examples such as Heineken and Diageo have shown.

Lonrho is one of the great brand names on the African Continent; the name alone opens doors in most African states and brings a real commercial benefit to the company. Therefore it is much, easier for the new management of Lonrho to build a business from scratch in Africa than any other company in the world would be able to.

Over a period of 3 years Lonrho has raised over £120 million from institutional investors and bought businesses in Infrastructure (Luba Freeport), Agribusiness (Rollex and John Deere), Aviation (Fly540), Hotels and Support Services (IT and Water). The company now operates in seventeen countries across Sub-Saharan Africa in these five strategic market sectors that are all an integral part of the development of Africa. Lonrho policy is to control its subsidiaries at the Board and Equity level, and to provide a CFO to each business.

From the new start in 2006, revenues for the year ended September 2009 have already reached the 90 million pound sterling level, and are expected to more than double again this financial year. With infrastructure and the agribusiness as the key to rebuilding the Lonrho Empire, Chairman David Lenigas and the chief executive Geoffrey White aim to grow Lonrho to an ambitious US$ 1 billion in revenues conglomerate within the next five years. Amstel Securities forecast is 20% more conservative for the year 2014. Lonrho is currently capitalized at just over £100 million.

By 2006 Lonrho had disposed of all of its assets and was on the verge of selling its last asset, a majority share in Mozambique's Hotel Cardoso, for US$3m. But David Lenigas pulled out of the sale and decided to make further investments in the hotel improving its facilities. This was his first step in rebuilding Lonrho's African business empire.

On 10 May 2007 Lonrho Africa Plc changed its name into Lonrho Plc with the aim to capitalize on the character and strength of the Lonrho brand name. Now Lonrho operates in five business sectors across the whole of Sub-Saharan Africa.

Since 2006 Lonrho acquired specifically green field operations in order to build-up each of the earlier mentioned five corporate divisions. The businesses operate in seventeen Sub-Saharan African countries, the most important ones being Equatorial Guinea, South-Africa, Angola, Democratic Republic of the Congo (DRC), Kenya and Mozambique.

In detail Lonrho's operations are divided over the following subsidiaries:

1. Agribusiness:
    - 51%-stake in Rollex, an agri-processing and logistics company.
    - 51%-stake in the John Deere franchise in Angola (opening February 2010).
    - Lonrho Agribusiness (100% holding).

2. Transport:
    - 100% of Lonrho Aviation, parent company of low-cost air carrier Fly540.

3. Infrastructure:
    - 63%-stake Luba Freeport, a uniquely located deep sea oil services port in the Gulf of Guinea.
    - 62%-stake in Kwikbuild Corporation, a supplier of prefabricated housing, school classrooms, workers camps and hospital units.

4. A hotel portfolio which currently consists of two hotels with Lonrho holding the management contracts as well:
    - 59.04%-stake (+ management contract) in Hotel Cardoso SARL (Mozambique), and
    - 50%-stake (+ management contract) in Grand Karavia SARL (Democratic Republic of Congo).

5. Support Services:
    - Lonrho IT (a 65%-stake in Mozambique-based Bytes and Pieces, a 50%-stake (+ board control) in South Africa-based Computer Enterprise Solutions (CES), a 50%-stake (+ board control) in CES Zambia and finally a 50%-stake in South Africa-based Indit.
    - Mozambique-based Swissta, a 100%-owned water purifying and bottling business, including interests in the Democratic Republic of Congo, South Africa and Angola.

Other relevant Lonrho interests (minority stakes) include:

1. A 24.6% holding in LonZim Plc. LonZim is the only company listed on the London Stock Exchange that focuses solely on investments in Zimbabwe. LonZim currently trades at a 60% discount to its net asset value. The total market capitalization of Lonzim is currently £9.26m.
2. A 25% holding in Lonrho Mining. This company has highly prospective diamond concessions in Angola. Lonrho Mining is quoted in Australia, and has a market cap of AU$10.7m.

2. Lonrho, attractively valued for an African growth story

At its current market price (10p) investors value Lonrho on a PER 2011E of 9.0 and an EV/EBITDA multiple of 3.5 (Amstel Securities estimates). The PER is low for a company in a hyper-growth mode, which conservatively depreciates its Luba Freeport port facilities (warehousing) over the life of the contract, typically 8 years. The large infrastructure spending though (US$85m so far) is depreciated over the life of the concession. EV/EBITDA ratios are distorted because the minorities negatively impact Lonrho's net attributable profit.

The one security Lonrho investors have at 10p is that Lonrho trades on one times book value, whilst Lonrho is net cash. The EV/ Sales ratio of 0.6 is undemanding.

In our view a sum-of-the-parts (SOP) valuation is the most comprehensive and proper measure to value Lonrho given the conglomerate nature of the company. At the same time, the company is undergoing a substantial transformation as a result of acquisitions, significant top-line growth and the imminent plans to acquire a 100% ownership of two core businesses. In the fourth quarter of the financial year 2009, each of Lonrho's major operating businesses became operationally cash positive. Based on this, Amstel Securities believes it is meaningful as well to run a DCF scenario for the company.

2.1 Amstel Securities' SOP for Lonrho points at a value of 22.76p per share

We have taken a number of yardsticks for our SOP valuation. The value of Rollex, Kwikbuild, and Water & IT is calculated on an EV/EBITDA 2010E basis:

Rollex: An EV/EBITDA valuation of 5.6x applies to the acquisition price of the 49%-minority. Part of the net proceeds of the recent private placements will be used to do the buyout of this stake. We value the 51%-stake in Rollex at £20.6m. We conservatively value the Angola John Deere franchise at zero, as these operations still have to start.

Kwikbuild, Water & IT: Lonrho intends to buy out the minority shareholders of Kwikbuild. As a reference multiple we have applied the same 5.6x EV/EBITDA 2010E for Kwikbuild and Water & IT. This results in a value of £6.5m and £3.3m respectively.

Hotels, Lonrho Mining and LonZim: We have valued Lonrho's equity stakes in Hotel Cardoso and Grand Karavia conservatively on the basis of the real estate value only. The combined stakes have a real estate value of£12.2m. Although we estimate revenues of over US$1.5m this year, at this stage we ignore the value of Lonrho's hotel management contracts. The value of stakes in Lonrho Mining and LonZim are based on recent share prices, id est. £3.8m.

Fly540, the airline: Lonrho holds 100% of the aviation arm, BVI-based Lonrho Aviation. This entity holds a direct stake of 49% in Fly540 Kenya, the operational company in Kenya. Lonrho Aviation also holds stakes of 60% in Fly540 Angola, 100% in Fly540 Uganda, 60% in Fly540 Ghana and 90% in Fly540 Tanzania.

Plans are underway to establish other operating companies under the Lonrho Aviation umbrella. Based on the second stage of financing to fund the expansion of the business or a potential IPO or trade sale, we have valued Lonrho Aviation at US$100m. We estimate Lonrho will retain a stake of 70% in the company after such a financing step. This implies the value of Lonrho's interests in Fly540 is £43.7m.

This is consistent with the 4.5x EV/EBITDA 2012E (adjusted for minority interests), which is a reasonable valuation in our view. Fly540 is a start-up company with a partially owned fleet of aircrafts. Lonrho will secure further financing for expansion of this fleet. Up to 90% of the total costs per aircraft can be debt financed according to the CFO of Lonrho Mr. David Armstrong.

Sum-of-the-Parts valuation using various metrics

(In £K)	EBITDA 2010E	EV/EBITDA	Value	Stake	EV
Agribusiness (Rollex)	7,219	5.6	40,426	51.00%	20,617
Aviation (Fly540)				70.00%	43,750
Infrastructure (Luba Freeport)					125,000
Infrastructure (Kwikbuild)	1,876	5.6	10,504	61.97%	6,509
Hotels (Cardoso)			10,000	59.04%	5,904
Hotels (Karavia)			12,500	50.00%	6,250
Support Services (Bytes & Pieces)	596	5.6	3,338	65.00%	2,170
Support Services (CES + CES Zambia)	238	5.6	1,332	50.00%	666
Support Services (Lonrho Springs)	80	5.6	448	100.00%	448
Lonrho Mining Plc			6,173	25.00%	1,543
LonZim Plc			9,260	24.60%	2,278
Enterprise value (after minorities)					**215,135**
Unused cash proceeds private placements					23,869
Value attributable to shareholders					**239,004**
Number of shares (K)					1,050,279
SOP-value per share (p)					**22.76**

Source: Amstel Securities N.V.

The value of Lonrho's assets (excluding Luba Freeport) equals the current market capitalization of approximately £100 million, in our view.

Before we shift our focus to Luba Freeport we calculate a subtotal of the combined value of Lonrho's interests in: Rollex, Kwikbuild, water & IT, the hotels and Fly540, which is £90.1m. Including unused net cash proceeds from recent private placements, which we estimate at £23.9m, Lonrho's value is already £114.m. This is already 10% higher than the total market capitalization of Lonrho. This leads us to conclude, that any investor in Lonrho gets Lonrho's 63% stake in Luba Freeport for free.

2.2 Lonrho's crown jewel Luba Freeport we value at £125m, i.e. 12p per share

In our view Lonrho's 63% stake in Luba Freeport on Bioko Island is the most interesting element of Lonrho's asset story. Oil & gas exploration in the offshore basin of the Gulf of Guinea offers an excellent alternative to oil from a politically instable Middle East. The Luba Freeport is strategically located in the middle of a new oil frontier near the coast of Western Africa.

Luba Freeport is a natural sheltered deep water port that offers more political stability than ports in Nigeria. Furthermore Luba Freeport is a tax free zone and cost effective. With the full consent of the government of Equatorial Guinea, Lonrho acquired 63% of Luba Freeport 3.5 years ago. The cash consideration at that time was US$2m. As part of the acquisition, Lonrho also agreed to acquire secured debt of about US$11.3m from Amerada Hess, one of the pioneers in offshore oil in Western Africa.

US oil major Marathon Oil has also acknowledged the top location of Bioko Island, off the coast of Cameroon. Marathon Oil and Japanese participants (Mitsui & Co. and Marubeni Corporation) have so far invested US$4.5bn in a liquefied natural gas (LNG) facility near Malabo, the northern port of Bioko Island. The first part of the facility (so-called LNG Train 1) shipped its first products in May 2007. Currently, LNG Train 2 is underway. These facilities receive feedstock gas from national and neighboring gas fields.

Marathon Oil LNG facility

Source: Marathon Oil

We strongly believe the commitment of these significant investments combined with the strategic location of Luba Freeport and increasing oil production in the area will attract substantial oil storage investments in the near future, both in crude and finished products. We also believe that Luba Freeport has the potential to attract investments of up to 2-4 million cubic meters in oil storage. In terms of barrels of oil equivalents, the amounts involved are 12.6-25 million.

We estimate that the construction of oil storage facilities of 1mln cubic meters (about 6.3m barrels of oil equivalent) will require up to about US$200m in investments. Oil storage facilities are very scalable after the necessary pipeline structure has been put in place. To our knowledge there are no large-scale independent oil storage facilities in the Gulf of Guinea, which is a clear manco given the growing importance of Western Africa as a global oil & gas producer. The Luba Freeport offers the best oil storage opportunities given the physical expansion potential beyond the 50 hectares currently in lease. The political climate in the area has become fairly stable and all oil exporting SSA countries are very interested in developing their country into an oil & gas exploration and distribution point. This opportunity enhances the strategic value of Luba Freeport.

Mature European infrastructure stocks are valued at EV/EBITDA's 2010E ratio's of 8.5x. The Luba Freeport has a similar set of characteristics in comparison to these companies: high barriers to entry, long contracts as well as assets that are scarce and difficult to replace. So far, Lonrho has invested US$85m in Luba Freeport.

Based on an existing international and reputable customer base, the underlying 25-year concession with Luba Freeport Ltd (with the option to extend for 10 years), the contractual strong support of the Government, the invested capex, the forward-looking EBITDA as well as further growth opportunities, we estimate the value of Lonrho's 63%-stake in Luba Freeport at £125 million.

Until recently Lonrho was responsible for all the capex. Going forward additional capex will be funded pro-rata with Lonrho's partner GEPetrol (63%-37%), the national owned oil company of Equatorial Guinea.

State-owned oil companies have already expressed their interest in Luba Freeport. But the asset is not for sale, if only because of the involvement of state-owned oil company GEPetrol, Lonrho's partner. SONAGAS, the state-owned gas company of Angola, also holds a significant interest in Marathon's LNG facilities. In our view the investments in Luba Freeport will pay-off handsome dividends. The majority of the necessary capex spending has been done, which refers to the basic facilities. Although every new customer will require additional capex, the amounts will be low.

Taking all this into account, we have applied a value of US$200m or £125m for Lonrho's stake in Luba Freeport. We believe this entire amount is not discounted in the current share price. Hence our price target of 18p for Lonrho, which is a 20% discount to our SOP of Lonrho.

2.3 Lonrho's DCF value is at least 20p per share, in our view

Amstel Securities has also run a DCF scenario on Lonrho. Our model is based on revenues, results and cash flow projections of each individual division and existing assets. We believe the start-up phase of Lonrho will be over from 2010 onwards. From the year 2011 onwards, we expect Lonrho to generate positive free cash flows. To determine the levels of the WACC we have used cost of equity and cost of debt consistent with emerging market levels.

DCF calculation (WACC 14.1%; 0% terminal growth rate)

Year end 30 September	2009	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e
Currency	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Sales	90,883	187,569	284,575	357,067	419,285	503,768	554,145	604,018	652,339	698,003	739,883
% change	111.1%	106.4%	51.7%	25.5%	17.4%	20.1%	10.0%	9.0%	8.0%	7.0%	6.0%
EBIT	(5,400)	(4,826)	24,967	43,086	56,488	70,235	78,807	87,494	96,110	104,452	112,303
% margin	-7.4%	-2.6%	8.8%	12.1%	13.5%	13.9%	14.2%	14.5%	14.7%	15.0%	15.2%
% change	-81.3%	-28.3%	-617.3%	72.6%	31.1%	24.3%	10.0%	9.0%	8.0%	7.0%	6.0%
Tax	(1,500)	(1,500)	(6,773)	(12,463)	(16,628)	(20,889)	(23,477)	(26,082)	(28,645)	(31,097)	(33,367)
% tax rate	-27.8%	-18.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%
NOPAT	(6,900)	(6,326)	18,194	30,623	39,859	49,346	55,330	61,411	67,465	73,355	78,936
% margin	-7.6%	-3.4%	6.4%	8.6%	9.5%	9.8%	10.0%	10.2%	10.3%	10.5%	10.7%
% change	n/a	-18.1%	-387.6%	68.3%	30.2%	23.8%	12.1%	11.0%	9.9%	8.7%	7.6%
Depreciation	(4,800)	(10,000)	(11,000)	(12,000)	(13,000)	(14,000)	(15,000)	(16,000)	(17,000)	(18,000)	(19,000)
Amortisation	(400)	(400)	(400)	(400)	(400)	(400)	(400)	(400)	(400)	(400)	(400)
Change in working capital	7,272	(6,575)	(2,443)	(2,534)	(4,292)	(3,379)	(2,015)	(1,995)	(1,933)	(1,827)	(1,675)
CAPEX	(19,100)	(25,000)	(26,000)	(27,000)	(28,000)	(29,000)	(30,000)	(31,000)	(32,000)	(33,000)	(34,000)
Free Cash Flow to Firm	(14,356)	(27,501)	1,151	13,489	20,967	31,367	38,715	44,817	50,932	56,929	62,661
WACC	14.1%	14.1%	14.1%	14.1%	14.1%	14.1%	14.1%	14.1%	14.1%	14.1%	14.1%
Year		0.75	1.75	2.75	3.75	4.75	5.75	6.75	7.75	8.75	9.75
Discount factor		1.10	1.26	1.44	1.64	1.87	2.14	2.44	2.78	3.18	3.62
Present Value Free Cash Flow		(24,907)	913	9,382	12,778	16,751	18,118	18,379	18,303	17,927	17,291
Cumulative present value	104,933										
Present value - forecast FCF	122,477										
Enterprise Value	227,410										
Net debt	(1,626)										
Add: Associates (market value)	3,821										
Minus: Minorities	4,789										
Value attributable to shareholders	228,068										
Shares outstanding (K)	1,050,279										
Value per share (£)	0.22										
Value per share (GBp)	**21.72**										

Source: Amstel Securities N.V.

Lonrho's WACC (based on a cost of equity of 15% and a pre-tax cost of debt of 9.5%) is set at 14.1%. Our base-case scenario (2% terminal growth rate) and a WACC of 14.1% lead to a DCF value per share of 24p. We have included a sensitivity analysis for reference.

Sensitivity analysis

		WACC				
		12.0%	13.0%	14.0%	15.0%	16.0%
	0.0%	0.28	0.25	0.22	0.20	0.18
	0.5%	0.29	0.25	0.23	0.20	0.18
	1.0%	0.30	0.26	0.23	0.20	0.18
Terminal	1.5%	0.31	0.27	0.24	0.21	0.19
growth	2.0%	0.32	0.28	0.24	0.21	0.19
	2.5%	0.33	0.29	0.25	0.22	0.19
	3.0%	0.34	0.30	0.26	0.23	0.20
	3.5%	0.36	0.31	0.27	0.23	0.20
	4.0%	0.37	0.32	0.27	0.24	0.21

Source: Amstel Securities N.V.

2.4 Our target price for Lonrho is 18p per share

Based on a mix of both valuation yardsticks and a discount to these results, we arrive at a target price of 18p for Lonrho implying 80% upside from current levels. As a reality check we have determined, how Lonrho's EV/EBITDA multiples would look at 18p. We use 2011E as a base year as this is the first year that Lonrho will be free cash flow positive. An 18p target price would imply an EV/EBITDA 2011E multiple of 5x.

We believe this is a realistic multiple for a growth company such as Lonrho. The recent IPO of African CFAO with much lower growth opportunities than Lonrho was successfully completed at a forward-looking EV/EBIT ratio of 9. CFAO is a single digit margin distribution company with almost two-thirds of its sales in car distribution, while Africa still has a poor road infrastructure. In that respect, exposure to a no frills airline such as Fly540 offers better investment opportunities.

2.5 Lonrho listing, past stock price performance and new equity issuance

Lonrho considers a listing on a main stock market, either on the LSE or on the Toronto Stock Exchange.

In October 2007 London Evening Standard carried a full-page article for the New Star Heart of Africa Fund. The headline shouted 'Africa. Get ahead of the new investment pack'. After decades of unrest and economic instability, there are signs that Africa is changing. Driven by democracy, debt reduction and the demand for natural resources, Africa now has some of the fastest growing economies in the world'. Africa was hot among investors and as a result Lonrho stock hit an all-time high of 50p. Miles Moreland, the well know founder of Blakeney Management, sold-out at that level.

Of course we know by now that New Star Investment has gone bust, and that in 2009 the African markets are among the world's worst performing markets. But that creates great opportunities for smart contrarian investors for the years ahead. Africa should do well in the coming decades. Hence exposure towards the fast growing Lonrho conglomerate provides an excellent investment opportunity towards that trend, in our view.

Lonrho stock dropped sharply in 2008 to lows of even 2.7 pence as four major stake holders, controlling over 30% of Lonrho, were forced to liquidate. The largest selling share holder was Osprey Capital Partners (Lehman Brothers) that owned 12% of Lonrho.

Over the last 12 months Lonrho has issued a significant number of new shares to fund its rapid expansion. A placing of 309 million shares at 5p took place in December 2008, whilst the latest placing of 250 million shares was done at 10p (market value).

Lonrho management is incentivized by share option programmes. Total number of outstanding share options is equal to just 2.1% of the outstanding shares, a level we think is reasonable.

2.6 Major shareholders

According to the latest filings Lonrho has five shareholders with holdings of more than 5%:

- Mackenzie Cundill Investment: 12.7%
- Capital Research Company: 10.55%
- Capital Group International: 8.78%
- BlackRock Investment Management: 6.56%
- Eton Park Capital Management: 5.01%

3. Revenues and EBITDA forecasts for Lonrho for the period 2010-2014

In November 2009 Lonrho reported unaudited results for the financial year 2009 (September). The company's reported full-year revenues of £90.8m, an increase of 111% YoY. Revenue growth of the company's continuing operations was even higher at +266% YoY. Lonrho Air sold one aircraft for US$4.5m in the year 2009, which figure (£2.8m) is included in the 2009 Lonrho revenues. The company's full-year EBITDA arrived at £2.3m.

Lonrho's management has made various acquisitions in the past few years. The agribusiness division was expanded with the purchase of a 51%-stake in Rollex. This company was consolidated for the full-year and added £46.5m to sales in 2009. Lonrho discontinued its shipping operations (SAILS - SA Independent Liner Services Pty) at the end of 2008. In 2008 SAILS still contributed £18.6m to revenues. T he closure of SAILS caused a loss of £33m in 2008, a substantial event for Lonrho. However, the stand-alone divisional corporate structure of Lonrho means that each division is a separate, isolated investment. Therefore the closure of one division, such as SAILS, has no financial impact on other divisions within the company, which is an important beneficial item in mitigating the risks of investment in Africa.

Agribusiness: For 2010E Amstel Securities expects continued strong growth of the agribusiness division: 107%. Of this growth we expect Rollex to contribute 80%. In 2009 Rollex reported YoY growth of 49%, while like-for-like sales were 65% higher in Q4-2009. The division benefits from the continued development of agriculture for local and export markets in both South Africa and into Europe. New business opportunities have now been exploited into Scandinavia, Europe and the Middle East. For the years thereafter, we have used with more prudent growth rates for Lonrho's agribusiness division: between 14-21% annually in 2011-14E. Between 2010E and 2014E we expect EBITDA margins to increase from 7.5% to 10.5% as we expect Rollex to be successful with its sourcing efforts from and supplying to local markets.

Fly540: Lonrho Aviation recorded revenues of £20.8m revenues in 2009. As a result of the opening of new hubs (Angola and Ghana) and a recovery of Kenya and Tanzania in terms of pricing, we expect revenues to more than double to £41.7m in 2010E. In Q4-2009 revenues were 160% higher. Advance bookings for the peak December period were sold out at full fare by September. Additional peak December flights provided in the quarter, also sold out within a short period of time. Due to start-up costs we expect 2010E will result in a negative EBITDA of £7.2m. We expect Fly540 Angola to be profitable within 12 months given the strong economic growth of the country as a result of a booming oil industry. As a result we expect EBITDA of Lonrho aviation to increase to £7.7m in 2011E and £15m in 2012E.

Infrastructure: With capex spending of US$85m so far, Luba Freeport has completed the most important part of its investment phase. This activity already has a solid customers base, whilst a number of new clients are expected. Contracts are typically 7- 10 years with one-year options to extend. EBITDA margins are ramping up fast. In 2009 we estimate Luba Freeport already to be profitable with an EBITDA of £1.5m (EBITDA margin nearly 19%). For 2010E we expect revenues to nearly double from £8m to £15m with an EBITDA margin of 30%. We expect a further doubling of revenues in 2011E to £37.6m, and EBITDA margins reaching 39%.

Offshore drilling activities in the Gulf of Guinea are increasing strongly on the general belief that this area offers great potential in finding new oil. A good example is a recent Noble Energy contract. The company Noble Energy recently signed a US$1.2bn contract with SBM Offshore for the provision, lease and operation of an FPSO for the development of the Aseng field, which is located offshore Equatorial Guinea.

This FPSO contract is for 15 years. SBM Offshore has entered into a JV with Compania Nacional de Petroleo de Guinea Ecuatorial (GEPetrol), co-share holder of Luba Freeport Ltd covering the ownership and operation of the Aseng unit. Under this agreement, SBM Offshore will own a 60% share of the JV, with GEPetrol holding the remaining 40%. As a result of this contract Noble Energy agreed in October 2009 to establish a logistics facility for Noble Energy at Luba Freeport. This facility will provide a new West African base for Noble Energy.

Kwikbuild is benefitting from strong demand for inexpensive and fast-to-erect buildings. Kwikbuild buildings are more than 10% cheaper than standard housing units. It can be used for clinics, housing and schools. It is a fast growing and profitable business. It costs about US$2m to set up a factory and therefore can be expanded quickly as demand ramps up. We expect revenues to reach £13.4m in 2010E with an EBITDA margin of 14%. We believe this margin is sustainable going forward, while we expect revenues gradually to increase to £67.3m in 2014E.

Hotels: Lonrhro's hotels business will benefit from the imminent opening of Grand Karavia (Lubumbashi) in the mining district of DRC. Amstel Securities expects Grand Karavia to generate much higher revenues than the Cardoso. Lonrho Hotels is also building a portfolio of hotel management contracts with two properties already under management (the Leopard Rock in Zimbabwe and a development project at Beira, Mozambique) and tenders for up to another 10 having been submitted. Overall we expect the combined hotels division to generate £9.3m in revenues in 2010E and an EBITDA of £2.8m.

Including Water & IT, Amstel Securities expect Lonrho to post £187.6m in revenues in 2010E. This implies a growth of 106%. Despite the fast growth and related costs as well as the start-up costs for Fly540 we expect the company to generate positive EBITDA of £5.6m. From 2011E onwards, Lonrho will reap the benefits from past acquisitions and investments. This leads to an expected EBITDA of £36.4m in 2011E with revenues of £284.6m.

Capex: In 2009 Lonrho's capex levels were at £16.8m. We expect this number to grow to £25m in 2010E as a result of expansion capex of the Luba Freeport and aircraft purchases (although the lion's share will be leased). Based on current investment plans Amstel Securities expect Lonrho's capex to increase by £1m annually in 2011 -2014E, leading to an amount of £29m by 2014E.

As a result of a growing profitability, Lonrho will be able to fund additional investments internally. Nevertheless, Lonrho's chairman David Lenigas has expressed an ambition to reach US$1 billion in revenues within the next five years. This amount is 24% higher than Amstel Securities currently forecast: £503.8m (or $807m).

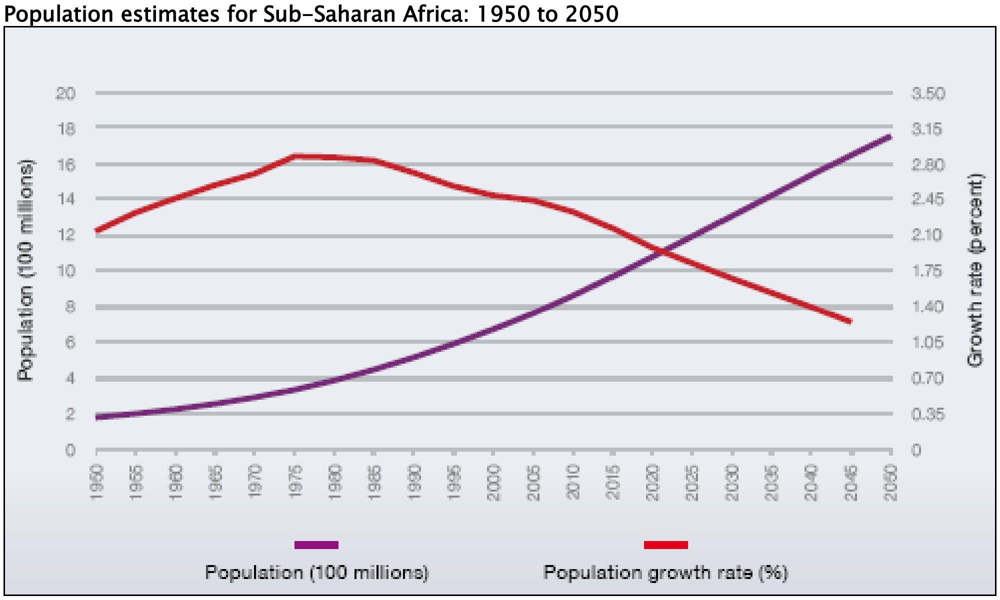
4. The African Continent at a glance, the long-term growth opportunities in GDP clearly outweigh the challenges

4.1 At a glance

George Dowden, Director at the Royal African Society, described in his 2008 book “Africa, Altered States, Ordinary Miracles” that modern Sub-Saharan Africa is an area afflicted by poverty, disease and war, but also a place of breathtaking beauty, generosity, and possibility. In the mid 1990s thirty-one out of Africa’s fifty-three countries were suffering civil war or serious civil disturbance. But since the year 2000 things have changed and Africa is rising. Although still an issue, aids is under control and seven of the world’s twenty fastest growing economies were in Africa in 2006. Not solely due to commodities as almost half of the new growth is in services, in sectors like banking, telecoms and insurance. This leads many observers to believe that this is not a temporary or cyclical gold rush but a permanent change in Africa’s fortunes.

Africa’s population (approximately one billion inhabitants) grows fast with 24 million people a year. Africa represents about 13% of the global world population but with US$1.565bn (2008) it generates only 2.1% of global GDP according to the African Statistical Year Book 2009. Still Africa’s GDP is larger than counties such as Brazil, India or Russia.

Population estimates for Sub-Saharan Africa: 1950 to 2050



Source: UN

Africa has most of the strategic natural resources needed for global industries. For example, BP’s Statistical Review of World Energy 2009 reckons Africa has proven oil reserves of only 125 billion barrels (10% of worldwide oil reserves). Most likely though with Anadarko and Tullow Oil recently discovering a totally new oil frontier off-shore Western Africa, Africa’s ultimate recoverable oil reserves will be double BP’s estimates, in our view. Africa has lots of land, water and cheap labour and therefore has the potential to become the bread basket of the world. For example, three river systems that flow north in the DRC make Angola ideal for growing food. At 1,246 thousand square kilometres Angola is five times the area of the United Kingdom. It is expected that within five years China will not be able to feed its 1.3 billion inhabitants.

Political stability has markedly improved over the past 12 years. The Zimbabwean dollar is now firmly pegged against the US dollar at a rate of 322. Over US$2bn of money stolen earlier has returned to the country and the ZSE Industrial Index has more than doubled in 2009.

An emerging African middle class (400 – 500m people) is driving premium consumption patterns. Nineteen of the top 20 highest population growth countries are in Africa. 41% of Africans are younger than 15 years (versus 16% in Europe). The average age in Africa is only 18 years versus 42 in Germany. By 2050, it is expected that about 30% of worldwide youth will be in Africa. Once living conditions will improve some 100m Africans will return home to capitalize on it. This implies a huge repatriation of human capital.

Africa has limitless potential for infrastructure spending in roads, railways, power plants, electric grids, renewable energy projects (e.g., the ambitious €400bn DESSERTEC project in North Africa), schools, hospitals and housing. All this future infrastructure spending requires foreign workers. Five million Chinese are already working in Africa, mostly in construction.

In telecom, in 2008 the total African mobile subscriber base was roughly 280m people. This number is expected to reach 561 million (53% penetration) by 2012 according to Blycraft Ltd. The mobile penetration in South Africa is 84%. Amongst others, in Africa SMS is being used in innovative ways such as pricing information for agricultural products and mobile banking in more developed regions. In Burkina Faso, one of the poorest countries, 70% of the students have both an e-mail address and a mobile phone.

African air traffic is still its infancy, representing only 2% of global air traffic. This is expected to dramatically change with growth rates of 5.8% over the coming years.

4.2 China, the imperial power in Africa

China entered Africa in earnest over ten years ago and is currently desperately hunting for oil and minerals. In November 2008 it pledged US$10bn in loans to Africa. China's multi-billion China-Africa Development Fund due to get funding of US$5bn is seeking investments in Africa via joint ventures. Chinese construction companies so far have dominated the construction of Africa's infrastructure. Via joint ventures China hopes to counter criticism it is exploiting Africa.

China is not only interested in Africa as a future major export market but it is also taking stakes in some of the major African banks. For example in late 2008, The Industrial and Commercial Bank of China (ICBC), the world largest bank, took a 20% stake to become a strategic partner of Standard Bank Plc, one of South Africa's big four banks, with a market capitalization of US$20bn. This was the biggest ever Chinese foreign direct investment at the time. This year, Standard Bank has been awarded the prestigious Bank of the Year for Africa award, and intends to become the leading emerging markets financial services organization in Africa.

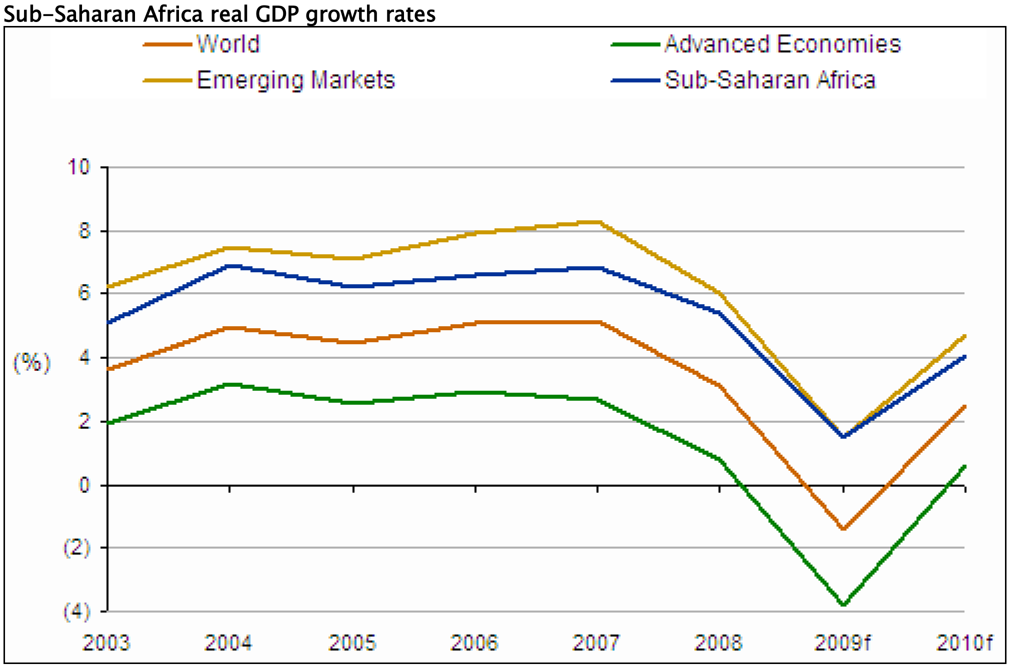
Belatedly Japan has woken up and now intends to enter talks with Angola and other major African nations by early 2010 in an effort to sign bilateral investment treaties.

4.3 SSA is weathering the storm and offers strong growth prospects

All of Lonrho's business interests are located in Sub-Saharan Africa (SSA), also known as Black Africa. The growth of GDP per capita in this region is mostly driven by higher commodity prices. According to the IMF between 2002 and 2007 Sub-Saharan Africa output grew by some 6.5% annually outpacing worldwide growth. This was the highest rate in more than 30 years. Especially Angola, with a daily oil production of 1.9m barrels boomed in the years 2007 and 2008 realizing GDP growth rates of 18.6% and 21.1% respectively. Very few people know, but in terms of GDP per capita Equatorial Guinea is more than four times as rich as South Africa, US$27,200 versus US$6,000. Although improving strongly recently, Zimbabwe remains the poorest SSA country with a GDP per capita of only US$200.

In the year 2008 Africa has been impacted to a lesser extent by the current international crisis avoiding most of the major macro-economic instabilities seen in the rest of the world. GDP growth was still a respectable 5% despite that Africa was also hit by a drop in demand for commodities and scarcity of finance. Compared to previous crises prudent macroeconomic policies in recent years have given many countries some policy space to counter the effects of the slowdown. Macroeconomists have become more positive about the economic outlook for the African continent since the global economic recovery began to speed up in the second half of 2009.

Sub-Saharan Africa real GDP growth rates



Source: IMF

In December 2009 the president of the African Development Bank Group (AFDB) revised up its GDP growth forecast for 2009 from 3.5% to around 4% (The IMF assumes only 1.7%, but is often seen as a contrarian). For the year 2010 the AFDB is now much more optimistic than before expecting Africa's GDP to grow between 5.5% and 6%. Demand for commodity exports has revived and investment flows have picked up. Per capita income is expected to rise by 3.5% to 4%.

The IMF is somewhat more pessimistic on growth prospects in its October 2009 Sub-Saharan Africa Regional Economic Outlook titled "Weathering the Storm". The IMF estimates 4% growth for SSA economies, with the economies there-after returning to long-term trend growth of over 5%. The current account balance of SSA was fairly strong in 2008, and international reserves were relatively high. From this position, most countries were able to survive the sharp declines in foreign exchange inflows caused by the global crisis.

Selected African countries: Real GDP growth and consumer prices

	Real GDP				Consumer Prices			
	2007	2008	2009	2010	2007	2008	2009	2010
Africa	6.3%	5.2%	1.7%	4.0%	6.0%	10.3%	9.0%	6.5%
Maghreb	3.5%	4.1%	3.2%	3.6%	3.0%	4.4%	3.9%	3.2%
Sub-Saharan Africa	7.0%	5.5%	1.3%	4.1%	6.8%	11.9%	10.5%	7.3%
Horn of Africa	10.4%	8.7%	5.4%	6.0%	11.2%	18.7%	21.0%	7.4%
Ethiopia	11.5%	11.6%	7.5%	7.0%	15.8%	25.3%	36.4%	5.1%
Sudan	10.2%	6.8%	4.0%	5.5%	8.0%	14.3%	11.0%	9.0%
Great Lakes	7.3%	5.8%	4.3%	5.1%	9.1%	11.9%	14.9%	8.2%
DRC	6.3%	6.2%	2.7%	5.4%	16.7%	18.0%	39.2%	14.6%
Kenya	7.1%	1.7%	2.5%	4.0%	9.8%	13.1%	12.0%	7.8%
Tanzania	7.1%	7.4%	5.0%	5.6%	7.0%	10.3%	10.6%	4.9%
Uganda	8.4%	9.0%	7.0%	6.0%	6.8%	7.3%	14.2%	10.8%
Southern Africa	11.6%	8.5%	0.0%	6.1%	7.6%	12.6%	11.0%	10.8%
Angola	20.3%	13.2%	0.2%	9.3%	12.2%	12.5%	14.0%	15.4%
Zimbabwe	-6.9%	-14.1%	3.7%	6.0%	-72.7%	156.2%	9.0%	12.0%
West and Central Africa	5.8%	5.3%	2.6%	4.4%	4.5%	10.1%	8.8%	6.6%
Ghana	5.7%	7.3%	4.5%	5.0%	10.7%	16.5%	18.5%	10.2%
Nigeria	7.0%	6.0%	2.9%	5.0%	5.4%	11.6%	12.0%	8.8%
South Africa	5.1%	3.1%	-2.2%	1.7%	7.1%	11.5%	7.2%	6.2%

Source: World Bank

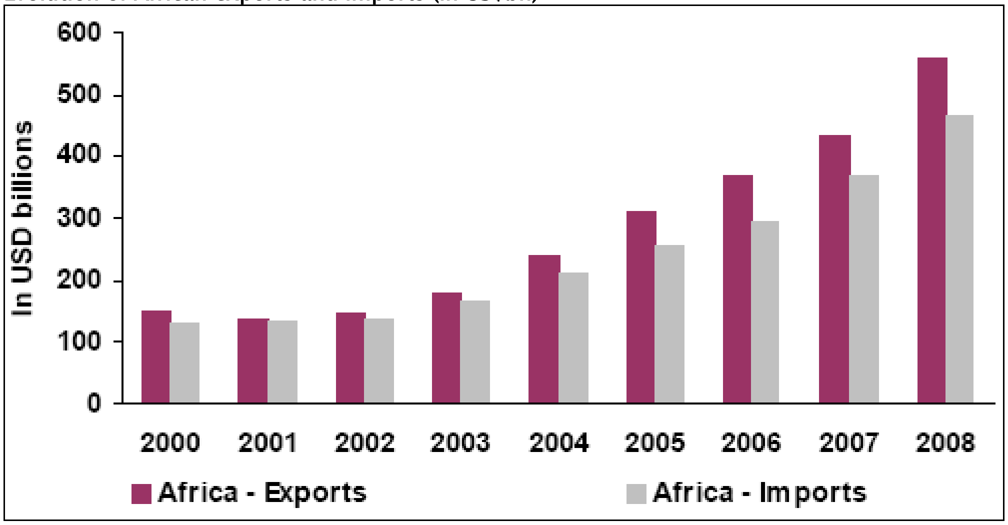
4.4 BRICs and Africa, tectonic shifts tie the BRICs and Africa's economic destinies

In October 2009 Standard Bank issued an interesting 24 page study. The study highlighted the tectonic shifts, which currently are going on between the BRIC and the Africa's economies.

Today, the BRICs account for around 15% of world GDP. BRICs are making an enormous economic effort towards Africa. All four countries, Brazil, Russia, India and China strongly realize the importance of solid strategic and commercial ties with Africa in order to ensure their own domestic growth plans can be maintained. Indicatively, Standard Bank calculates that BRIC-Africa trade as a proportion of Africa-world trade grew from just 4.6% in 1993 to over 19% in 2008.

BRIC-Africa trade has increased hugely from US$22bn in 2000 to US$166bn in 2007, up almost 8-fold. China is now Africa's second most prodigious trade partner behind the US. In total, almost 20 African countries include China in their list of top five export destinations and nearly 32 African countries list China as a top-5 source of imports. And Africa is in the driving seat running a US$20bn trade-surplus with the BRICs. Sub-Saharan Africa's importance for the BRICs has even increased more accounting for 77% of BRIC-Africa trade in 2008. In 1980 this percentage was only 53%.

Evolution of African exports and imports (in US$bn)



Source: IMF

Foreign Direct Investments from the BRICs to Africa follows and facilitates trade. The amounts involved are large. Between 2003 and 2009, India invested a total of US$25bn; trailing China (US$28.7bn), but leading Brazil (US$10bn) and Russia (US$9.3bn).The BRICs use cheap loans, and interestingly diplomacy, as a beachhead into the African markets. Since coming to power in 2003, Brazil's President Lula has paid more official visits to Africa, covering more countries than any other BRIC head of state. China has engaged in 18 high-level visits to Africa, more than any other BRIC nation. Angola and Nigeria are the most significant partners for the BRICs. As an indication for this, Angola's oil exports accounts for 20% of all BRIC-Africa trade.

Investors should realize that these seismic shifts in the BRIC-Africa relationship strongly implicate that from now on it is the BRICs AND Africa, rather than the BRICs IN Africa. Both parties need each other. Africa now has the opportunity to foster formidable commercial and strategic alliances. Unburdened by the duties and conditions with its Western partners Africa can reverse its marginalized position in world trade.

In May 2000 nine years ago The Economist labelled Africa "The Hopeless Continent". For the BRICs, The African Continent could not be more different. Africa has 53 states with abundant natural resources and promising consumer market markets. The African continent will provide the BRICs with the wonderful opportunity to gain strong footholds in countries that are likely to spend the next two decades growing at rates far in excess of the global average. Moreover, the BRICs face very few political obstacles to do acquisitions in Africa.

Africa's agricultural potential will become an increasingly potent driver of BRICs commercial engagement. BRICs massive populations are strongly correlated with Africa's vast and untapped agricultural potential. China has only 7% of the word's arable land, whilst it accounts for 22% of global population.

Standard Bank, highlighting the tectonic shifts going on between the BRICs and Africa, estimates that on the back of the rising ties with Africa, by 2030 the BRIC-Africa trade will exceed US$4 trillion, the equivalent to 10% of BRIC-world trade. Assuming Standard Bank's bullish estimate is correct, the prediction of the Economist nine years ago was hopelessly wrong.

4.5 Africa faces three major challenges, bureaucracy, corruption and inflation

Already for decades Africa faces a large bureaucracy, which often causes project delays of up to 3-6 months. In addition, Africa still experiences high levels of corruption. In the Corruption Perceptions Index (CPI) released in November 2009 Nigeria obtained a score of 2.5 out of a possible 10 marks, and emerged 27th out of the surveyed 47 nations in Sub-Saharan Africa, and 33rd out of the 53 countries in Africa. Fortunately Lonrho refuses to invest in Nigeria.

High Inflation levels: inflation on average has between 6-7% over the past eight years. In 2008 a surge in food and oil prices led almost half of the African countries to record double digit inflation rates. The average inflation rate on the Continent jumped from 7.5% to 11.6% in 2008. As a consequence most African currencies depreciated over 25 % versus the US dollar in 2008.

Of late, exchange rates of SSA countries have been firming up against the US$. In addition in most SSA countries inflation is trending lower, this after a sharp disinflationary drop in agricultural commodity prices.

5. Agribusiness, a key growth sector for Sub-Saharan Africa

Lonrho strongly believes Africa will become the bread basket of the world. Amstel Securities agrees, and also thinks that agribusiness plays a vital role in the African Continent's economic development, contributing a major portion of GDP, employment, and foreign exchange earnings. This is particularly true in the SSA territory, where many countries still have low per capita incomes. In Tanzania, for example, agriculture still accounts for 45% of GDP and 65% of employment.

Despite its importance, SSA's agribusiness sector faces a number of challenges. Perhaps the greatest challenge large-scale agribusiness faces is future economic climate change. Investment in the agricultural sector remains low and in many countries, most crops are produced by small-sized farms with limited mechanization and capacity, leading to poor yields. Fragmented markets, price controls, and poor infrastructure also hamper production, while the current pressure on natural resources such as land and water is too strong to be sustainable. And many of the agricultural products produced in the region, such as maize, rice, and palm oil, are not competitive globally or have low profit margins. This means that SSA is still ill-equipped to meet its food requirements, which are set to double within the next 30 years or earlier. As well as increasing revenues from agricultural production, agribusiness is seen as a potential tool for increasing overall agricultural productivity in Africa. It is expected to promote better practices, improve inputs and create a more efficient infrastructure linking the rural sector more effectively into global markets. An important part of Lonrho's business portfolio is focused on this area.

5.1 Lonrho's agribusiness activity Rollex

On 4 April 2008 Lonrho acquired a 51%-stake in Rollex, an agri-processing and logistics company from founder and owner Paul de Robillard for an amount of ZAR120m-£9.6m-US$15.8m. Rollex was in strong need of cash to fund its fast-growing business as Rollex business model is all about scaling-up. The rationale for Lonrho's recent private placements for a total of £25m is to buy-out De Robillard's remaining 49%-stake for an earlier agreed 5.6x EBITDA multiple by March 2010. In the year September 2009, the first full year under the wings of Lonrho, Rollex recorded revenues of £46.5m and an estimated EBITDA of more than £3m.

Rollex founder Paul de Robillard has been really the driving force behind Rollex's current success. The company, established in 1989, sources, packs and delivers fresh fruit, vegetable and fish produce from across Africa to its network of high-profile retail clients, including Woolworths in South Africa. In Europe Rollex clients are Marks & Spencer, Tesco, Sainsbury, World Flowers, TFC Holland and Univeg. In sub-Saharan Africa is Rollex is the market leader within fresh produce. Chilled perishable produce, mostly fruit and vegetables, are distributed both by air and road freight.

5.2 Rollex operations, a specialist in fresh food produce

Rollex operates from a three hectare site, and is strategically positioned with international airport access to the O.R. Tambo Airport in Johannesburg (South Africa). Rollex operations include 4500m² of cooled warehouse (2 °C), cold room facilities for perishable produce and 1500m² for general storage warehousing. It is a great advantage for Rollex that the finished fresh produce is already custom cleared as the cooled warehouse is located within the customs area. Therefore the fresh produce can be shelves of a Tesco or Sainsbury within 72 hours after harvesting. Another competitive edge of Rollex is that it can guarantee a steady supply over the full year in seasonal tropical fruit and vegetables.

Rollex uses a modern fleet of 50 refrigerated trucks (leased). These collect the produce from southern Africa and deliver to the Rollex facility at Johannesburg. Motorised containers distribute airside to the aircraft. For all its clients Rollex develops and packs tailor-made combinations and pre-prepared vegetable and fruit packs.

In the year 2009 Rollex established the infrastructure and export logistics capability to export fish and meat from Namibia to Europe. Fresh tuna from Namibia is now flown into Gatwick and Hamburg Airport. Recently Lonrho started exports of tuna into Scandinavia.

5.3 Rollex is vertically integrating the Sub-Sahara African agricultural market

Lonrho aims to start new farming operations in Angola, Malawi and Mali. Agronomists have studied the market opportunities. Over the next two to three years Lonrho intends to bring 350,000 hectares of latent agricultural land into production to support Rolex processing operations. Lonrho leases the land and provides farmer with farm tools, seeds and fertilizers. Growth can be exponential as Angola and Malawi projects still have to start up. Angola will primarily produce for the home market given the increasing purchasing power of the local population. The Malawi operations are meant for export. As the capacity utilization in the Johannesburg site (600 workers) is only 50%, there is ample scope to grow. Further cold storage and agriculture processing facilities are planned in Angola, Malawi and Zimbabwe.

In our view Rollex has great export opportunities targeting new markets such as China, the Middle East and the USA. Lonrho has a similar view and exports into the Middle East have already started, whilst within 6 months exports will start to China and the USA.

5.4 Lonrho’s John Deere franchise is set to benefit from oil-rich Angola

The Angolan Government has announced significant financial incentives to stimulate the agricultural sector in Angola. As a result Lonrho has been developing its John Deere franchise for tractors and agricultural equipment for Angola. The franchise is expected to be operational by February 2010. The aim is to become be one of the largest John Deere operations in Africa. The John Deere business will incorporate a training centre for agricultural mechanics and contain a comprehensive maintenance and spare parts facility. Lonrho plans for expansion outside Angola are still at a very early stage.

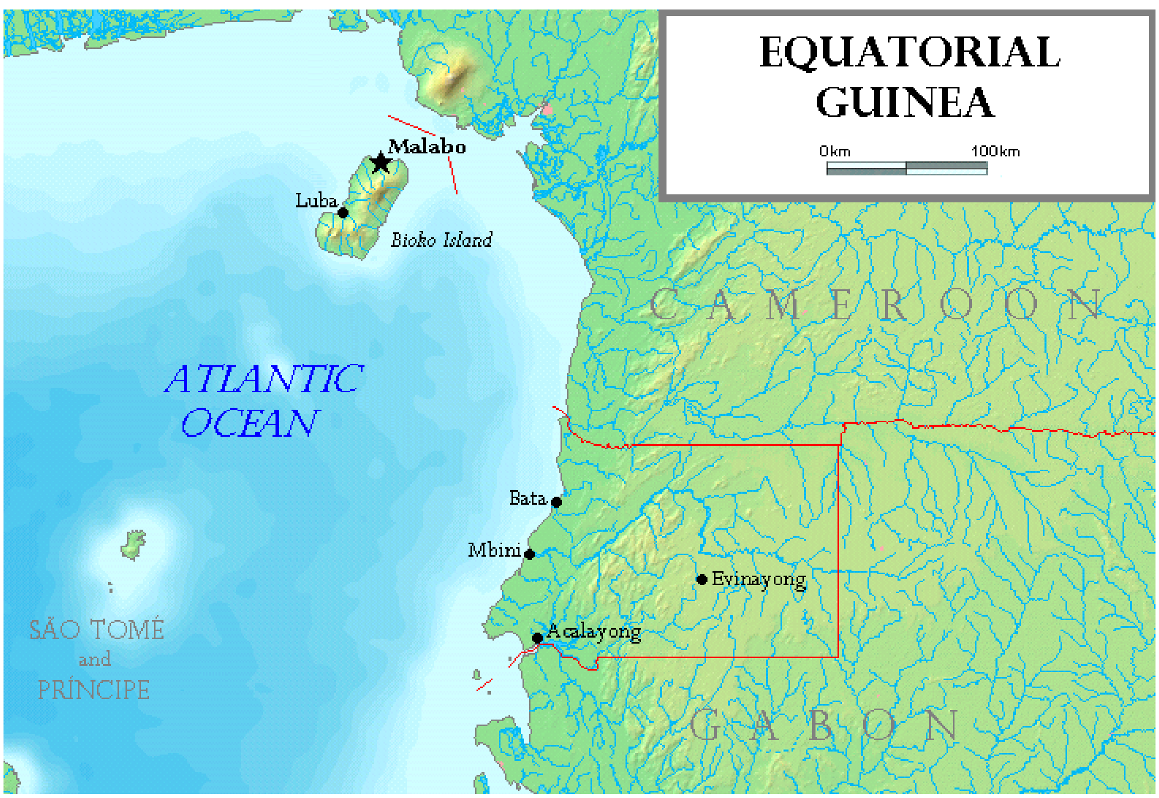
The Angolan Agricultural Department intends to place sizeable orders for agricultural equipment in the coming years with an estimated budget of US$350m. Lonrho expects John Deere to be the pre-eminent supplier to the market. The franchise investment only requires US$3m in equity and US$3m debt. Targeted margins are 20%. Pay-back time investment is expected to be several weeks.

6. Luba Freeport, Lonrho's crown jewel is worth 12p per share, in our view

While the ports of Bata (mainland port) and Malabo (on the island of Bioko) were able to serve the import and export needs of Equatorial Guinea until the late 1990s, strong growth in the offshore oil sector quickly highlighted the need for more national port capacity. Therefore the Equatorial Guinea Government decided to build a new deepwater port at Luba, located about 40 kilometres to the south west of Malabo. Luba Freeport's hinterland site has also been set aside for the provision of oil services facilities, such as storage, bunkering and industrial development. The port's natural deepwater harbour provides access for large draught vessels and rigs. Water depth at Luba Freeport is up to 30 metres. This is deep enough for even the largest crude oil super tankers (ULCCs), which are capable of transporting two million barrels of oil.

In July 1999, the Government of Equatorial Guinea granted a 25-year concession to Luba Freeport as well as 50 hectares of land for the development of a Freeport and Oil Service Centre. The Freeport concession enabled the joint venture to operate the port and the surrounding concession area as an "Autonomous Free Zone for the import/export of materials to and from Equatorial Guinea, and transit cargo for other destinations outside the Republic".

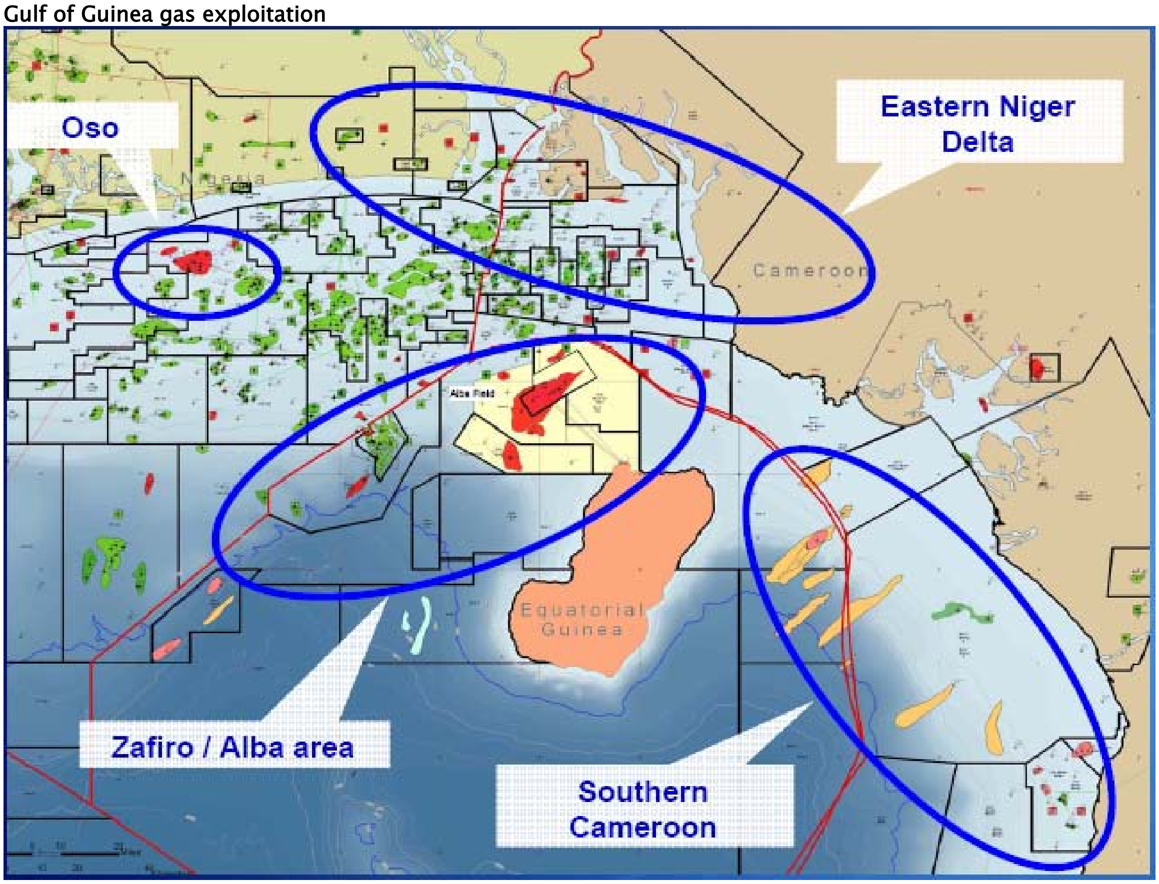
The port's "Freeport Status" provides it with an autonomous duty free zone including its own customs and immigration facilities. A duty free zone is of course a great advantage for the future expansion of Luba Freeport as import and export duties in Africa generally range from 5-15%.



Source: Wikipedia

The initial 50 hectares of Luba Freeport offers great potential for further expansion as the surrounding area of the port is still pure jungle, contrary to many other ports in Africa which have restricted opportunity to grow as they are ‘city locked’. In January 2002 Luba Freeport signed a contract with its launch customer Amerada Hess. Amerada Hess earlier had acquired Triton Energy, which had successfully made some large oil discoveries in the Gulf of Guinea. Through this acquisition Amerada Hess made the successful bet, that the Gulf of Guinea would become a world-class oil and gas basin.

Gulf of Guinea gas exploitation



Source: Marathon Oil

6.1 Luba Freeport, a prime oil services port for the fast growing African offshore industry

Amstel Securities strongly believes that Luba Freeport will become a major oil sector services centre as well as a large import and export hub for much of the wider Gulf of Guinea region. The minimum 10 metre water depth at the jetty allows the port to handle both ocean going ships and oil field supply vessels.

Luba Freeport services include repair and maintenance facilities, fabrication provisions and an oil field logistics base. Many of the facilities on the site have been developed under public-private partnerships (PPPs) between the government and oil majors. Luba Freeport is able to offer a one stop shop’ facility with vessels coming to the quay, receiving their fuel, bulk chemicals, water and any other cargoes without the need to change berths. This speeds up the turnaround times, making port calls more efficient.

In July 2002 construction of the Amerada Hess facility started, including 50,000 m² secure lay down area, 1,250m² warehouse and offices, a pipe yard for use in the oil industry and 110 metres of quay with a dedicated berthing for Amerada Hess. The first vessel was serviced at the port in April 2003.In June 2003 a new concession was signed between the Government of Equatorial Guinea, GEPetrol (the state owned oil company), and Luba Freeport Limited confirming:

- The grant of 50 hectares of land for 25 years (with the option to extend the lease for another 10 years from date of signing;
- The status of a tax free zone in respect of customs duties on all imported items; and
- Strong support of the Government of Equatorial Guinea.

In March 2004 a 15,000m² fenced transit area was established, consisting of a 1,000m² covered transit shed, an 800m² chemical bund and 13,200m² of multi-user open storage. This transit area has been attracting a great deal of interest as a regional hub for West Africa. Current customers include BJ Services, SBM Offshore, Baker Hughes, Schlumberger, Techniques International Safmarine, Maersk, AMT/Getma and Transportation & Logistics Consulting.

Two years later in 2006 Lonrho Plc acquired its 63%-stake in Jersey-based Luba Freeport Limited. Lonrho bought its interest via Amerada Hess. New tenants have been attracted to be based at the port including ExxonMobil, Noble Energy, CNOOC; and others.

6.2 Background Equatorial Guinea

Equatorial Guinea, the number 3 oil producer in Sub-Saharan Africa, has become the centre of one of the most promising new oil frontiers in Western Africa. Equatorial Guinea, currently known as the 'Qatar of Africa' has the long-term ambition to really be 'Singapore of Africa'. By definition this means the necessity of a large capacity, high quality, and deep sea port.

Equatorial Guinea lies just above the equator and adjacent to the rich deep water Gulf of Guinea, the area where Angola and Nigeria produce most of their oil. Equatorial Guinea became independent from Spain on 12 October 1968 and is the third smallest country in continental Africa with only 680,000 inhabitants. But the sizeable oil reserves have gradually altered the economic and political status of Equatorial Guinea. The country has a sad record of corruption and cruelty, but is nowadays being courted by many oil and gas companies. The US recently re-opened its embassy in Equatorial Guinea.

According to BP Statistical Review of World Energy 2009 Equatorial Guinea's proven oil reserves increased from 600 million barrels year-end 1998 to 1.7 billion barrels year-end 2008. In the same period the country's average daily oil production increased from 83 thousand barrels in 1998 to 361 thousand barrels in 2008. This makes Equatorial Guinea the third largest sub-Saharan African oil producer after Angola and Nigeria.

As a result of this oil wealth, Guinea's GDP grew to US$18.5bn in 2008. With a GDP per capita of US$27,200 the country ranks higher than many countries in the European Union. Equatorial Guinea's wealth distribution though is very unequal. According to the African Development Bank some 70% of the population lives in poverty, while medical coverage is poor, power distribution unreliable and water supply and sanitation systems are very basic. However it appears that some wealth is now beginning to filter through to the people.

For investors trying to assess the true value of Luba Freeport, it is be important to make a judgement about the future political stability of Equatorial Guinea. On 3 August 1979 President Macías was overthrown by the current president, Teodoro Obiang Nguema Mbasogo. In 2003 the president took full control over the national treasury. Although other parties were legalized in 1991, Equatorial Guinea is basically a single-party state.

On 29 November 2009, Obiang again won the presidential elections with nearly 97% of the votes. For years the health of the 67-year old president has been questioned. A few years ago it was said he was suffering from terminal prostate cancer. His son Teodoro Nguema Obiang Mangue, currently minister of Forestry and Agriculture, is waiting to succeed him. The second son, Gabriel Obiang Nquema Mbasogo, the vice-minister of Minister of Mining, Industry and Energy, represents GEPetrol on the board of Luba Freeport. This should assure investors there is little risk for Luba Freeport to be nationalized. GEPetrol simply needs Lonrho in the coming decade to further develop Luba Freeport into a successful oil service and storage port facility.

7. Fly540, a fast growing airliner for Sub-Saharan Africa

There is an increasing need to transport business people, tourists, officials and cargo across the African Continent. However, many parts of Africa lack a reliable, punctual, efficient, certified domestic and regional airline of international quality to facilitate trade and tourism. West and Central Africa have traditionally been poorly served and travelling from West Africa to East or South Africa has often necessitated departing from one African country, flying to Europe and then returning to an African destination. The investment opportunity is clear: Africa simply requires the development of a safe and reliable regional airline .Fly540's objective is precisely to become this.

Source: www.fly540.com

7.1 Fly540's corporate structure

In all cases, Lonrho Aviation controls each FLY540 subsidiary through Board and financial control. In most cases Lonrho Aviation has equity control in each subsidiary. Lonrho Plc fully owns Lonrho Aviation, a BVI registered company. Lonrho Aviation, 100%-owned by Lonrho Plc, is the holding company that ultimately holds the equity stake in a FLY540 subsidiary. It also holds the aircraft owning entities of Lonrho Air. As an offshore company (British Virgin Islands), Lonrho Aviation provides a simple, single, corporate structure. In the future it can be independently listed, attract joint venture partners or be exited.

Lonrho Aviation (BVI) Ltd holds:

1. 100% in Lonrho Air Africa, a holding company of:
    - 100% in Lonrho Air (BVI) which holds 60% in Fly540 Angola, the operational entity in Angola,
    - 100% in Fly540 Uganda,
    - 100% in Fly540 Services, which is responsible for international ticket sales and offshore billing,
    - 100% in Fly540 Mauritius, a dormant entity,
    - 60% in Fly540 Ghana (minority is held by a local partner), and
    - 90% in Fly540 Tanzania (minority is held by a local partner).
2. 100% in Five Forty Africa (BVI) Ltd, a holding structure (license and management agreements).
3. 49% in Fly540 Kenya (51% is held by Fly540 management team).
4. 100% in Lonrho Air (2): fleet ownership.
5. 100% in Lonrho Air (3): fleet ownership.

The key value drivers of the FLY540 model are:

1. **Lack of scheduled, quality services offered at a regional level**: Africa is still hampered by its lack of connectivity between economic centers. Fly540 aims to connect key hubs with a concentration on ports, mining areas and other key growth areas.
2. **Need for regional distribution**: Large international carriers flying to Africa need a reliable regional airline to distribute their passengers out of the major African hubs.
3. **High yields**: Net yields are high in Africa. With persistent barriers to entry, high start up costs, and rapid growth in air travel demand for key hubs and, the underserved networks around them, Amstel Securities expects net yields to remain high. Break-even load factors are low with 43%.
4. **Low cost of operation**: Fly540's major competitors are either operators using old aircrafts or national carriers. These are hindered by their inability to make timely decisions and have significant overheads. Fly540 has deliberately established a low cost model, fuel efficient and not weighed down by high overheads.

Average load factors fell from 2007 to 2008 as Fly540 expanded its route networks and as more aircrafts were brought into operation. Whilst increases in the oil price do impact Fly540's operational costs, Fly540 remains more competitive than its competitors. Fly540 simply passes on fuel price increases to customers through a transparent fuel surcharge.

7.2 Turboprops, ideal for regional distribution in Africa

To support the regional aviation business, Fly540 has chosen turboprops as its preferred aircraft type. These have proven to be the right aircraft in terms of capacity and fuel efficiency. This decision follows the company's experience in Kenya of successfully deploying the ATR42-320 aircraft. Turboprops are widely recognized as the most profitable way to transport passengers on regional routes. The ATR 72 is extremely fuel efficient with the lowest seat-mile costs within its class, and the ATR 72 is ideally suited for the regional nature of Fly540's operations. Fly540 claims to have break-even load factors as low as 43%. Lonrho Air has paid a 10% equity deposit for 4 new ATR 72-500 aircraft and has secured cheap financing for the remaining 90%. The cost of one new ATR is a low $18m. Fly540 will deploy these new aircrafts into its network. Lonrho Aviation already owns 2 older ATR 42-320 aircrafts.

7.3 Fly540 Kenya, Tanzania and Uganda

Fly540 has already successfully established its first regional hub operation in Kenya, focusing on servicing East Africa including Tanzania and Uganda. Fly540 is in an advanced stage to open two more hubs in Angola and Ghana with the ultimate goal of becoming a pan-African operator. Fly540's aim to become a pan-African operator will position the airline as the ideal regional partner for international carriers (such as British Airways, Emirates, Air France-KLM, Delta and Etihad) who are seeking better ways how to distribute their passengers across the African Continent. Fly540 will become a member of the global Galileo Reservation System early 2010.

Lonrho Plc invested in the start-up Fly540 operation in Kenya in October 2006, providing financial and strategic backing to Neil Steffen and Don Smith, who had previously held senior executive positions at British Airways and the BA Kenya franchise respectively. Fly540's first flight was in November 2006 and already by September 2009 Fly50 carried more than 20,000 passengers a month, becoming the second largest airline in Kenya. The airline forecasts passenger growth to 600,000 by 2010 and 1.2m by the year 2011 as it consolidates its position in East Africa and commences regional operations in Angola and Ghana. Fly540 had revenues of US$26.9m in 2009 and is expected to deliver a positive EBITDA and Net Income by the year 2011.

Within two years of the start of operations in 2006, Fly540 Kenya became the second largest airline in the country and turned profitable on an EBITDA level. The airline hit its targets, including timely expansion, load factors and profitability proving the success of the chosen model as well as the management's ability to deliver. Fly540 currently operates a fleet of 8 passenger and 2 cargo turboprops on 21 domestic routes. Since 2008 it also operates on international routes in Kenya, Tanzania and Uganda and Burundi. The main market remains Kenya, and Nairobi is also home to Fly540's maintenance facility. In 2009-2010 higher yielding routes and the introduction of business class in the Angola sectors are expected to lead to higher average prices.

Based on Boeing's latest market outlook, Africa's airline transportation, measured in revenue passenger kilometers (RPK), will grow at a factor of 1.2 times GDP growth in the period of 2009E-2029E. With many parts of the continent lacking any road or railway transportation infrastructure, airlines represent the only viable means of transportation. Air traffic in Sub-Saharan Africa, measured by the number of seats, grew by 9.87% a year between 2004 and 2007. In the same period, domestic traffic grew by over 12% a year. Intercontinental travel represents about 80% of Africa's total air travel with Europe remaining the largest market (67% of intercontinental service). This creates significant opportunities for distribution of inbound/outbound traffic from and to major African cities around the continent. Based on airline route and fleet data, Kenya, Angola, Djibouti, Ghana, Tanzania and Uganda alone are calculated to generate about 10.1 million passengers of international inbound traffic per year.

There are a large number of airlines operating in Africa: 24 scheduled and charter players operate in Kenya, Ghana, Angola, Tanzania, Uganda and Djibouti. However, only one airline has full IATA membership, with the majority of the players operating fleets of 2-5 aircraft aged 20-30 years, often compromising on safety and/or service quality. Whilst there are a number of small competitors, the key players in the regions in which Fly540 operates and plans to operate include Kenya Airways and TAAG Angola Airlines. Both carriers operate fleets with a mix of young and old mid and long-range Boeing aircrafts, catering mainly for international traffic in and out of Africa. Fly540 will only be operating on intra-African domestic and regional routes and will therefore not be in direct competition with these larger players.

7.4 Fly540 Angola

To build on Fly540's success and experience in Kenya, the next two hubs will be in Angola and Ghana. Angola will service a domestic market and South West Africa and likewise Ghana will service a domestic market and West Africa. This growth is scheduled to be completed in 2010. Fly540 Angola has been issued with an Air Service License (ASL) on 28 April 2009 and is working towards converting the ASL into an Air Operators Certificate (AOC). Fly540 Angola is expected to commence operations by late January 2010. Fly540 Ghana is currently processing its ASL and AOC application with the Civil Aviation Authority in Ghana.

Following the issue of the AOC, the operations of Fly540 Angola will be centered out of Cabinda, (the centre of the oil industry) and Luanda. Initial destinations will be Soyo, Benguela, Huambo and Malanje. Lonrho will initially deploy two new ATR72 aircraft to Angola to establish these primary routes, and in the second half of the year traffic volumes will likely justify a further two new aircrafts and an expansion to fifteen destinations across the country. The aircraft are configured with two classes, providing a business class to cater for the growing number of corporate passengers travelling in Angola.

Phase 1: Establish Key Hubs

Phase 2: Expand Regional Service

Phase 3: Connect Hubs

7.5 Fly540's strategic planning

Fly540 will create a series of regional "hub and spoke" models, distributing passengers on 2 hour or shorter flights from key hubs such as Nairobi, Accra and Luanda. The group has a three phase expansion plan:

1. The first phase is to set up key hubs in Kenya, Angola and Ghana. As indicated Kenya has already been established; the Angola ASL has already been received; and Ghana will be next.
2. The second phase is to service the region beyond the borders of the hub country. For example, Kenya is already serving Uganda and Tanzania and East Africa. Fly540 Zimbabwe franchise is expected to start later in the year 2010.
3. The final phase is to connect these hubs with regular flights across Africa. Fly540 only flies within Africa; code share deals with intercontinental airlines will allow Fly540 to connect to international routes.

Lonrho Aviation will set up separate and distinct airlines in different African countries but all will be branded "Fly540" and will operate according to the same strict quality and operational systems and guidelines. This will achieve a neutrally branded and truly pan-African airline. For the company's success and attraction of international (business) travelers complying with international quality and safety standards is an important part of Fly540's operating procedures. Similar to Fly540 Kenya, each new Fly540 airline will have a local "in-country" partner. Lonrho Aviation maintains board and financial control of each subsidiary.

Importantly, Fly540 is a neutral brand and does not represent, nor is associated with, any specific country or national carrier. This makes Fly540 'politically' acceptable in each new country of operation and circumvents the 'reciprocal fly rights' argument that restricts the growth of international standard aviation in Africa. The airline offers a simplified fare structure, supported by low ticket distribution costs through the use of internet, e-tickets, call centers and dedicated sales offices.

8. Lonrho Hotels, a 50% stake in Grand Karavia SARL is a potential crown jewel

Lonrho's hotel business is both focused on the business traveler and the flourishing tourism sector. The quality of Africa's resource endowment for tourism is exceptional, but most countries have barely developed their tourism potential. The continent receives about 4% of all international travelers worldwide and tourism receipts, but tourism is "significant" (>2% GDP and >5% exports) in about half of SSA countries. African tourism statistics include business visitors which is the main market driver for both hotels.

Tourism is the fastest developing industry in Africa and currently one of the continent's major investment opportunities, given its 6% growth rate for the last decennium. The tourism industry in Africa grew by an estimated 8.4% in 2007 and 3.6% in 2008 with an estimated 46.6 million tourists visiting Africa, up from 45 million in 2007. Lonrho will be part of this landmark growth in the African tourism and leisure sectors through its investments and acquisitions of hotels across the African Continent. Currently, Lonrho has two five-star hotels in its portfolio as well as a management organisation:

- 59.04%-stake in Hotel Cardoso SARL (Mozambique). + Lonrho Hotels Management Contract. This landmark hotel has undergone an impressive refurbishment between 2007 and 2009. Meanwhile, the hotel has seen its revenues triple between 2005 and 2009. The hotel has occupancy rates of over 80% with an average room rate exceeding US$100.
- 50%-stake in Grand Karavia SARL (DRC) + Lonrho Hotels Management Contract. This hotel is located in the city Lubumbashi, (2.7 million inhabitants) in the heart of Democratic Republic of Congo's copper and cobalt mining area in the Katanga Province. Grand Karavia will be open for business early 2010 and with 206 rooms & 12 suites it will be the only 5-star international hotel in the area. Contrary to Hotel Cardoso the hotel Grand Karavia will especially attract business people Occupancy rates are expected to be close to 100%, while the average room rate will be a high US$350. Suites will even cost US$ 600. DRC has attracted over £6bn in foreign investments, mainly in copper related projects. The Development Bank of South Africa (DBSA) provided US$10m in cheap debt funding (LIBOR +4%) for the refurbishment project. The hotel is expected to generate revenue twice as high as Cardoso.
- Hotel management contracts are a third source of income for Lonrho. The company has management contracts in place for its sister company LonZim: The Leopard Rock Hotel in Zimbabwe and the historic Don Carlos and the Estoril hotel are located on a 300,000m² plot of land, including 1.5 km of beach front, in central Beira on the Mozambique coast. Longer-term Lonrho aims to establish a hotel portfolio of 10 hotels throughout SSA, of which some 80% should be held through management contracts.

9. Support Services, IT services and water bottling

Lonrho Support Services represent 10% of Lonrho's total revenues. In 2007 Lonrho acquired 100% of Swissta Holding Ltd, which owns a water bottling plant in Maputo, Mozambique Since then the Swissta brand has become one of the market leaders of bottled water in Maputo selling wholesale water for 40 US$ cents per liter. Swissta also has a 21.4% stake in a water bottling plant in the DRC. Lonrho Springs was established in April 2007 with the aim to develop water bottling plants across the African Continent, and will become the brand name for Lonrho's bottled water operations providing Africa with efficient, modular, international standard water filtration and bottling plants.

New bottling plants are under development in Angola, South Africa, and in Lubumbashi in the Democratic Republic of Congo. Each plant is scaled to meet demand forecasts for the respective markets, and plants range from producing 500,000 liters to 5 million liters per month. The roll out of Lonrho Springs technology will continue across Africa and is forecast to reach eight countries in the near future.

Bytes & Pieces (65% holding) is an IT services company in Mozambique. Bytes and Pieces is the larger part of Lonrho Support Services and accounts for 80% of divisional revenues. In Q4-2009 revenues grew by an impressive 28% compared with the same period last year. Bytes and Pieces business model is free cash flow generative with target EBIT margins of 25%.

In 2007 Lonrho purchased 65% of the shares of Bytes & Pieces on the understanding that the former owner and director Vijay Thadanit (remains 35% holder) would replicate the successful Mozambique business model across Africa. Bytes & Pieces is now expanding outside Mozambique under the brand name of Complete Enterprise Solutions ("CES").Lonrho has a 50% holding in CES and board control. CES has established operational offices and a sales force in Johannesburg. The company has a Dell master license, and also distributes Microsoft and HP software products to large corporations as well as government entities.

CES Zambia (50% holding and board control), started trading in Q3-2009 and is on track to achieve US$1mln turnover in the first 12 months of operation. Lonrho has plans to take CES into Malawi and the Angolan market, where the company can utilize its in-house Portuguese workforce to gain a competitive advantage.

Appendix I:

The African conglomerate Lonrho, a rich colourful 100-year old corporate history

Lonrho Plc began operating in Africa in 1909 as the London and Rhodesian Mining Company. After “Tiny” Rowland took the helm of Lonrho in 1962, the company expanded out of its origins in mining and became a true global conglomerate, dealing in agriculture, newspapers, hotels, distribution, and textiles, and many other lines of business. During its heydays in late 1980s Lonrho employed over one million people and generated profits in excess of £270m, up from a mere £158,000 in 1961, the year before Tiny Rowland joined Lonrho.

Twenty years ago, Lonrho also heavily relied on Africa. At the time this continent still accounted for over 75% of Lonrho’s profit. Many investors had difficulties in valuing Lonrho, a true conglomerate with assets ranging from sugar plantations in Kenya to the British newspaper “The Observer”. Lonrho also operated platinum and coal mines in South Africa as well as gold mines in Ghana (a 45%-stake in Ashanti Goldfields, acquired in 1968). Most of these interests were significantly undervalued on the company's balance sheet. This caused Lonrho shares to trade at significant discounts to its net asset value. Continuing political instability in many African countries, however, made those assets particularly difficult to value.

In early 1992 Rowland’s slide from power began, the moment that he sold one-third of Lonrho's Metropole Hotels Group to Libya for an amount of £178m. In the same period Lonrho’s profits deteriorated and the dividend was cut several times. This propelled increasing criticism from investors, that Tiny Rowland was running Lonrho like his personal toy. Decades of business dealings in Africa had put Tiny Rowland on a first-name basis with national leaders from Kenya to South Africa. However, in October 1993, the then 75-year old Rowland was confronted with a second boardroom coup, the other one having been twenty years earlier. This time Tiny Rowland was demoted before he eventually stepped down in early 1995. Two years before his death on 26 July 1998 Tiny Rowland was awarded the Order of Good Hope, the highest South African honour, by Nelson Mandela.

By 1995, Lonrho's African non-mining businesses had expanded into 15 sub-Saharan African countries with approximately 90 operating subsidiaries. These were involved in a wide range of activities. The businesses were mainly operated on a geographical basis, with each country being managed on a local basis and reporting directly to the Lonrho head office in London. Tiny Rowland was succeeded by Sir John Leahy, a former British ambassador to South Africa. Nevertheless, it turned out to be difficult to regain the confidence of the majority of institutional investors. Therefore the board of Lonrho decided to restructure its African non-mining businesses. Lonrho’s African non-mining businesses were demerged in 1998 and a new company, Lonrho Africa, was created. The original Lonrho name with the mining assets was changed into Lonmin Plc in 1999. Today, Lonmin Plc is a major mining company with a market capitalization of £3.5bn. Lonmin produces mainly platinum, palladium and rhodium.

Management then reviewed Lonrho’s remaining non-mining assets. This resulted in a focus on just five core activities (agribusiness, distribution, hotels, motors and property & construction). Eleven years later Lonrho Africa had exited all of its business interests across the continent (except the hotel Cardoso) and planned to liquidate the company. At the end of 2005, at the behest of a group of small shareholders who purchased control of the business, Lonrho was reborn with the current chairman David Lenigas aiming for revenues of over US$1 billion by the year 2015.

Appendix II

Directors & Senior Management

David Lenigas, Executive Chairman

David Lenigas, 48, has 24 years of experience in the gold, diamond, coal and base metals industries. David is a Mining Engineer with a Bachelor of Applied Science (Mining Engineering - with distinction). He is Chairman of Leni Gas & Oil Plc and Templar Minerals Ltd and is also a non-executive director of Global Coal Management Plc.

Geoffrey White, Director & Chief Executive Officer

Geoffrey White, 48, holds a BSc in Economics and Management Science. He joined Lonrho Plc in May 2007 as COO, becoming CEO and a Director at the end of September 2007. During his 25 year career he has held senior management roles with Thomas Tilling Plc, BTR Plc, Dee Corporation Plc, and Asda Plc and latterly worked for five years for a private investment fund based in London.

He has been responsible for the planning, financing, development and management of a range of projects in the leisure, industrial and natural resource sectors. These projects include establishing joint ventures with international corporations such as Hilton Hotels International, Ford Motors (PAG), Praton International GmbH, FFS Refiners (pty) Ltd.

David Armstrong, Finance Director

David Armstrong (FCA), 45, brings with him extensive experience of operating across Africa having been, until October 2004, the Commercial Director of Diageo Africa with combined functional responsibility for finance, information systems, and strategy and business development. David contributed to the successful deployment of Diageo's pan-African growth strategy, encompassing over 50 countries. He also held African roles with Pepsi and the Compass Group. More recently, he has been the COO of McArtherGlen in the UK and Europe.

Emma Priestley, Executive Director

Emma Priestley 36, joined Lonrho Plc from Ambrian Partners, the investment bank specialising in natural resources, where she has worked since 2004 as a corporate broker and adviser. Prior to that, Emma worked for VSA Resources in their research and equity sales departments. While her background is in mining engineering and mineral surveying, she made the transition to mining research in 2001 when she joined Credit Suisse First Boston, as a mining analyst.

Previously she was with IMC Mackay & Schnellmann, where she gained on-site experience working on major mining projects for the World Bank, European Union and various private sector organisations. Emma is a graduate of the Camborne School of Mines, with a BEng in Mineral Surveying and Resources Management.

Jean Ellis, Non-Executive Director

Jean Ellis, 38, is a Chartered Accountant and Chartered Tax Advisor, and holds an Insolvency Practitioner's license. Jean is a partner in the regional firm of Chartered Accountants, Duncan Sheard Glass, and a role she has held since 2002. Prior to this, she was Group Financial Controller and Tax Manager with the Company and holds a number of directorships for its subsidiary companies. Jean has a Bachelor of Arts Degree in Pure Mathematics from Liverpool University.

Donald Strang, Non-Executive Director

Donald Strang, 39, is a Chartered Accountant with over 15 years experience in financial management predominantly within the natural resources sector. He has previously held financial positions with several publicly listed mining companies (including Global Coal Management Plc, Macraes Mining Company Limited and Perilya Mines Limited), Ernst & Young and in the investment banking sector.

Ambassador Frances Cook, Non-Executive Director

A former U.S. ambassador to Burundi, to Cameroon and to the Sultanate of Oman, Ambassador Cook also held numerous senior positions in the Department of State, including Deputy Assistant Secretary of State for Refugee Programs, and Deputy Assistant Secretary of State for Political-Military Affairs, Consul General in Alexandria, Egypt, and Director for West Africa. She transitioned to the private sector in May 1999, where she runs an international business consulting firm; The Ballard Group loc. Cook currently serves on the boards of Alliant Techsystems (NYSE) and Global Options Group (NASDAQ), and the Corporate Council on Africa. She is a Senior Fellow at the Centre for Naval Analyses, and a member of the Council on Foreign Relations. She was educated at the Universities of Virginia and Harvard, and resides in Washington, D.C.

Senior Management

Rob Scott – Country Manager South Africa

Over 15 years of finance experience, Auditor with Deloitte & Touche and former Director of Privest Group Limited, African Mining – Investments Limited, Uramin as General Manger for South Africa and then CFO – Africa.

Luiz Lopes da Silva – Country Manager Angola

30 years of experience at SONAE distribution, Senior Consultant of MARCONI; Founder, Chairman and CEO of Interlog, Apple Computer IMC for Portugal, and senior consultant with Porto Editora, the largest Portuguese publishing company.

Mark Havercroft – Business Development Director, Hotels Division

22 years experience in the Hotel and Tourism industry, Operations Director for the biggest Safari Operator in Southern Africa Managed Hotels and Safari Lodges extensively in Southern Africa.

Michael Bennett – Lonrho General Counsel

Extensive legal experience in Africa. Qualified as a legal practitioner in Zimbabwe and qualified as an English solicitor.

Paul de Robillard – Lonrho Agriculture

Worked for Coopers and Lybrand Johannesburg. Currently Managing director of Rollex (Pty) Ltd.

Howard J. McDowall Director & General Manager, Luba Freeport

Over 35 years of shipping, logistics and port management experience. Working in Africa and the Middle East.

John Elliott – General Manager and Director, Hotel Cardoso

24 years International Hotel Management experience including London, Switzerland, West Africa and Southern Africa. Employed by Lonrho since 1991 having joined at Labadi Beach Hotel, Accra Ghana.

Don Smith – Joint CEO, Fly540

Chartered Accountant with 12 years experience in aviation in Africa. Considerable experience as a Finance Director.

Neil Steffen – Joint CEO, Fly 540

Former British Airways Area General Manager for North and East Africa and the Indian Ocean based in Nairobi, responsible for British Airways in 24 countries. Worked for British Airways for 25 years starting with BOAC then British Caledonian Airways in South America, the USA, Europe and Africa.

Vijay Thadani – Director, Bytes and Pieces

Degrees in Civil and Environmental Engineering. Director of Bytes & Pieces, Complete Enterprise Solutions (CES) SA.

Jon Buxton – Managing Director, Kwikbuild

Previously Engineer with SA telecoms. Started up e-Kwikbuild Housing in December 2002 and Managing Director of e- Kwikbuild in Cape Town.

Profit & Loss (Year-end 30 September 2009) (in £m)	**2009e**	**2010e**	**2011e**	**2012e**	**2013e**	**2014e**
Revenues breakdown						
Agribusiness	46.5	96.3	109.5	127.4	151.9	184.1
Aviation	20.8	41.7	85.1	107.5	117.9	131.0
Hotels	3.4	9.3	15.0	19.6	23.5	28.8
Infrastructure	9.3	28.4	58.7	81.6	97.9	121.1
Support Services	8.6	11.4	15.8	20.3	27.2	37.7
Other	1.0	0.5	0.6	0.7	0.9	1.0
Total from continuing operations	89.7	187.6	284.6	357.1	419.3	503.8
Discontinued operations	1.2	0.0	0.0	0.0	0.0	0.0
Group revenues	**90.9**	**187.6**	**284.6**	**357.1**	**419.3**	**503.8**
% change	111.1%	106.4%	51.7%	25.5%	17.4%	20.1%
Cost of sales	-71.9	-137.5	-198.6	-248.4	-290.0	-348.5
% change	31.7%	93.8%	44.4%	25.1%	16.8%	20.2%
Gross profit	**19.0**	**50.1**	**86.0**	**108.7**	**129.3**	**155.2**
% change	-283.6%	151.4%	71.7%	26.4%	19.0%	20.1%
EBITDA	**2.3**	**5.6**	**36.4**	**55.5**	**69.9**	**84.6**
% margin	2.5%	3.0%	12.8%	15.5%	16.7%	16.8%
% change	-95.3%	-464.8%	552.4%	52.6%	26.0%	21.1%
EBITA	**-5.0**	**-4.4**	**25.4**	**43.5**	**56.9**	**70.6**
% margin	-5.5%	-2.4%	8.9%	12.2%	13.6%	14.0%
% change	-82.3%	-30.1%	-673.1%	71.4%	30.8%	24.2%
Operating profit	**-5.4**	**-4.8**	**25.0**	**43.1**	**56.5**	**70.2**
% margin	-5.9%	-2.6%	8.8%	12.1%	13.5%	13.9%
% change	-81.3%	-28.3%	-617.3%	72.6%	31.1%	24.3%
Profit before tax (normalised)	**-5.9**	**-8.3**	**21.2**	**38.9**	**52.0**	**65.3**
Tax	-1.0	-1.5	-6.8	-12.5	-16.6	-20.9
% effective rate	-13.8%	-18.0%	32.0%	32.0%	32.0%	32.0%
Profit after tax (normalised)	-6.9	-9.8	14.4	26.5	35.3	44.4
Minority interests	-1.6	-1.0	2.7	4.1	5.3	6.7
Net income (normalised)	**-5.8**	**-8.8**	**11.7**	**22.4**	**30.0**	**37.7**
% margin	-6.3%	--4.7%	4.1%	6.3%	7.2%	7.5%
% change	-79.1%	32.7%	-231.8%	91.9%	34.2%	26.6%
Dividends	**0.0**	**0.0**	**0.0**	**2.2**	**3.0**	**3.8**
% change	n/a	n/a	n/a	n/a	34.2%	25.6%
Retained profit	-5.8	-8.8	11.7	20.1	27.0	34.0
Average number of shares (m)	781.9	925.1	1,050.3	1,050.3	1,050.3	1,050.3
EPS - normalised (GBp)	**-0.75**	**-0.96**	**1.11**	**2.13**	**2.86**	**3.59**
Dividend per share (GBp)	0.00	0.00	0.00	0.21	0.29	0.36
Payout ratio	0.0%	0.0%	0.0%	10.0%	10.0%	10.0%

Source: Amstel Securities N.V.

Cash flow statement (Year-end 30 September 2009) (in £m)	**2009e**	**2010e**	**2011e**	**2012e**	**2013e**	**2014e**
Cash Flow from Operations (pre WC)	-2.1	4.0	30.2	43.7	54.1	64.6
Change in Working Capital	7.3	-6.6	-2.4	-2.5	-4.3	-3.4
Cash Flow from Operations	**5.1**	**-2.6**	**27.8**	**41.2**	**49.8**	**61.3**
Capex	-19.1	-25.0	-26.0	-27.0	-28.0	-29.0
Other	-7.5	-16.6	-1.5	-1.8	-2.1	-2.4
Cash Flow from Investments	**-26.6**	**-41.6**	**-27.5**	**-28.8**	**-30.1**	**-31.4**
Borrowing increase (decrease)	5.0	15.0	5.0	5.0	5.0	5.0
Increase in capital	15.6	25.1	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	-2.6	-3.5
Cash Flow from Financing	**20.6**	**40.1**	**5.0**	**5.0**	**2.4**	**1.5**
Change in Cash	**-0.9**	**-4.1**	**5.2**	**17.4**	**22.1**	**31.4**
Opening cash	9.5	8.7	4.6	9.8	27.2	49.2
Closing cash	8.7	4.6	9.8	27.2	49.2	80.6

Source: Amstel Securities N.V.

Balance sheet (Year-end 30 September 2009) (in £m)	2009e	2010e	2011e	2012e	2013e	2014e
Tangible assets	80	110.7	125.3	139.9	154.5	169.1
Intangible assets	1.5	1.4	1.4	1.4	1.4	1.4
Goodwill	11.7	11.7	11.7	11.7	11.7	11.7
Investments	9.5	9.5	9.5	9.5	9.5	9.5
Total fixed assets	**102.7**	**133.3**	**147.9**	**162.5**	**177.1**	**191.7**
Accounts receivable, net	31.3	41.7	63.2	79.3	93.2	111.9
Inventory	4.5	7.5	11.4	14.3	16.8	20.2
Cash	8.7	4.6	9.8	27.2	49.2	80.6
Total current assets	**44.5**	**53.7**	**84.4**	**120.8**	**159.2**	**212.7**
TOTAL ASSETS	**147.2**	**187.0**	**232.3**	**283.3**	**336.3**	**404.4**
Long-term debt	5.2	20.2	25.2	30.2	35.2	40.2
Other	15.7	0	0	0	0	0
Total long term liabilities	**20.9**	**20.2**	**25.2**	**30.2**	**35.2**	**40.2**
Accounts payable	35.0	41.7	64.7	81.2	93.2	111.9
Short-term debt	5.2	5.2	5.2	5.2	5.2	5.2
Other	0.0	0.0	0.0	2.6	3.5	4.3
Total current liabilities	**40.1**	**46.8**	**69.8**	**88.9**	**101.8**	**121.4**
Minority interests	4.8	10.8	12.4	14.8	17.9	21.9
Shareholder equity	81.5	109.3	125.0	149.5	181.4	221.0
Net assets	**86.3**	**120.1**	**137.3**	**164.3**	**199.4**	**242.8**
TOTAL LIABILITIES	**147.2**	**187.0**	**232.3**	**283.3**	**336.3**	**404.4**
Total outstanding shares year-end (m)	800.0	1050.3	1050.3	1050.3	1050.3	1050.3
NAV (p)	**10.19**	**10.40**	**11.90**	**14.23**	**17.27**	**21.04**

Source: Amstel Securities N.V.

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Key figures	2009e	2010e	2011e	2012e	2013e	2014e
Revenues (£m)	90.9	187.6	284.6	357.1	419.3	503.8
EBITDA (£m)	2.3	5.6	36.4	55.5	69.9	84.6
Net income (£)	5.8	-8.8	11.7	22.4	30.0	37.7
EPS (p)	-0.75	-0.96	1.11	2.13	2.86	3.59
Shareholders Funds	81.5	109.3	125.0	149.5	181.4	221.0
Minorities	4.8	10.8	12.4	14.8	17.9	21.9
Book value per share	10.2	10.4	11.9	14.2	17.3	21.0
EV/Sales	0.9	0.6	0.4	0.3	0.2	0.2
EV/EBITDA	34.1	20.9	3.5	2.2	1.5	1.0
EV/EBITA	15.7	-26.3	5.0	2.7	1.8	1.2
Price/Book	1.0	1.0	0.8	0.7	0.6	0.5
Price/Earnings	-13.3	-10.5	9.0	4.7	3.5	2.8
Price/Cash Flow	15.6	-40.4	3.8	2.5	2.1	1.7
ROE	-0.1	-0.1	0.1	0.1	0.2	0.2
Gearing	0.1	0.2	0.2	0.2	0.2	0.2
Interest Cover	-1.7	1.4	8.3	11.5	13.1	14.5

Company details	Principal shareholders	%
Lonrho is a diversified conglomerate with structured investments in Sub-Saharan Africa. The company operates in five key growth areas in 17 countries: agribusiness, hotels, infrastructure, support services and transportation.	Mackenzie Cundill Investment	12.70%
	Capital Research Company	10.55%
	Capital Group International	8.78%
	BlackRock Investment Mngt.	6.56%
	Eton Park Capital Management	5.01%
		43.60%

Source: Amstel Securities N.V.