



23 June 2017

Independent audit related to
loans contracted by
ProIndicus S.A., EMATUM
S.A. and Mozambique Asset
Management S.A.

Report prepared for
The Office of the Public Prosecutor
of the Republic of Mozambique

Report Status: FINAL

Private and Confidential

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Restricted Use Warning

This report was prepared by Kroll Associates U.K. Limited ("Kroll") who were appointed by the Embassy of Sweden Maputo (the "Client") to conduct an Independent Audit into the activities of ProIndicus S.A., EMATUM S.A. and Mozambique Asset Management S.A. under the direction of the Office of the Public Prosecutor of the Republic of Mozambique (together with the Client and Office of the Public Prosecutor of the Republic of Mozambique the "Authorised Recipients"). Preliminary discovery proceedings are underway in the Office of the Public Prosecutor of the Republic of Mozambique with the main objective of assessing the existence of criminal offenses or other irregularities related to the establishment and financing of procurement contracts and to the operations of ProIndicus S.A., EMATUM S.A. and Mozambique Asset Management S.A.

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Kroll's work performed in producing the Final Report does not constitute a statutory audit of annual financial statements and has not been performed in accordance with international auditing standards. The Independent Audit has been undertaken in accordance with the agreed investigative activities outlined in the Terms of Reference.

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1. Introduction

1.1 Scope of work overview

Kroll was engaged by the Embassy of Sweden in Maputo, Mozambique, to complete an independent audit (the "Independent Audit") of debts in the region of USD 2 billion contracted by three Mozambique Companies, namely ProIndicus S.A. ("ProIndicus"), Empresa Moçambicana de Atum S.A. ("EMATUM") and Mozambique Asset Management S.A. ("MAM"). The Independent Audit has been conducted in the context of preliminary discovery proceedings underway by the Office of the Public Prosecutor of the Republic of Mozambique (the "PGR").

Throughout this report, ProIndicus, EMATUM and MAM are, where relevant, collectively referred to as the "Mozambique Companies." An overview of the legal structure and purpose of each company is provided in the detailed sections of this report.

The main objective of the PGR-led work is to assess the existence of any criminal offenses or other irregularities related to the establishment and financing of procurement contracts and to the operations of the Mozambique Companies.

The lead arrangers of the loan agreements to the Mozambique Companies were as follows:

- Credit Suisse International ("Credit Suisse") for the ProIndicus and EMATUM loans; and,
- VTB Capital PLC ("VTB Capital") for the MAM loan.

The primary suppliers to the Mozambique Companies were as follows:

- Privinvest Shipbuilding S.A.L. Abu Dhabi Branch ("Privinvest Shipbuilding"), for goods and services to ProIndicus;
- Abu Dhabi Mar LLC ("Abu Dhabi Mar"), for goods and services to EMATUM; and,
- Privinvest Shipbuilding Investments LLC ("Privinvest Investments") for goods and services to MAM.
- Privinvest Shipbuilding, Abu Dhabi Mar and Privinvest Shipbuilding Investments are all part of the wider Privinvest Group and are referred to hereafter as the "Contractor."
- ProIndicus, EMATUM and MAM are collectively referred to hereafter as the "Mozambique Companies"; and,
- References to the three projects together are referred to hereafter as the "ProIndicus Project", the "EMATUM Project", and the "MAM Project" or collectively as the "Mozambique Project."

1.2 Interim report overview

On 9 January 2017, Kroll produced an Interim Report which was subsequently reissued with updated information on 30 January 2017 (the "Interim Report"). The Interim Report provided an update on the progress of the Independent Audit and an overview of the preliminary findings and recommendations at the time of the report.

Kroll conducted extensive enquiries following the production of the Interim Report which further developed the understanding of key issues. Where any differences appear between the Interim Report and this Final Report, the information contained in the Final Report should be considered Kroll's final findings.

1.3 Post-publication clarifications

Following publication by the PGR of the Summary Report, dated 23 June 2017, Abu Dhabi Mar and Prinvest, and Palomar Capital Advisors Ltd / Palomar Consultants LLC (together "Palomar") have written to Kroll (via their respective lawyers) regarding the content of certain parts of the Summary Report. Kroll has made the following amendments to the content of the Summary Report:

Section 3.2.8: Expanding role of the Contractor (and related parties)

Section 3.2.8 of the Summary Report has been amended to clarify the distinct and separate roles of Abu Dhabi Mar and Prinvest (i.e., the "Contractor") and Palomar so that it reads as follows:

The Contractor, as well as Palomar, a Prinvest Group company, has had an expanding role in the Mozambique Project.

The Contractor has had a role in: structuring the projects; introducing Credit Suisse as a lender; agreeing the Contractor Fees (to discount the interest rate payable by the Mozambique Companies on the loans); providing funds to the Mozambique Companies to cover operational expenditure and share capital; and funding loan repayments.

Palomar had a role in: arranging the MAM loan agreement alongside VTB Capital; contracting with the Mozambique Companies and the Ministry of Finance to restructure the ProIndicus and EMATUM loan agreement (and receiving fees for doing so); and (for ProIndicus) taking responsibility for generating revenues and contracting to receive a proportion of any future revenues.

Section 3.5.4: Asset verification

The following sentence in the final paragraph in Section 3.5.4 has been removed: *"It is noted that ProIndicus, not the Contractor, appears to have received and paid invoices from [Redacted] for the services delivered."*

Section 3.7.4: Palomar and Legacy Advisors Limited

The following sentence in the first paragraph in Section 3.7.4 has been removed: *"Kroll requested further information from the Contractor for this transaction - at the time of reporting no further information had been provided to Kroll."*

References to the Mozambique Commercial Code

For clarity, Kroll discusses in Section 9 of the full report how the limited invoice documentation gives rise to potential breaches of certain Articles in the Mozambique Commercial Code by the Mozambique Companies (not by Abu Dhabi Mar and Privinvest and/or Palomar).

References to Palomar

Throughout the Independent Audit, Kroll has submitted extensive requests for documentation relating to Palomar's role in the Mozambique Projects from ProIndicus, EMATUM and MAM and the Ministry of Finance. The documentation provided to Kroll by ProIndicus, EMATUM and MAM and the Ministry of Finance has formed the basis of this Summary Report.

Kroll also requested that ProIndicus request relevant documentation from Palomar, on the basis of the contractual relationship between the parties. For clarity, Kroll did not interview Palomar or any employees or directors of Palomar, and nor was Palomar asked to provide documents or other information by Kroll.

Appendix B (of the unpublished full report) references those parties that Kroll met during the Independent Audit. For clarity, Appendix B confirms that Kroll did not meet with any representatives from Palomar.

2. Methodology

2.1 Independent Audit plan

Kroll's original Independent Audit plan as detailed in the proposal dated 21 October 2016 outlined that the first phase of the Independent Audit was focused on the following areas:

- í Obtaining comprehensive debriefs from key stakeholders;
- í Requesting and obtaining relevant information from the Mozambique Companies and relevant Mozambique authorities;
- í Meeting certain individuals deemed appropriate by the PGR; and,
- í An initial review and analysis of documentation and other material relating to the Mozambique Companies.

Throughout the Independent Audit, Kroll made detailed information requests to ProIndicus, EMATUM and MAM covering a broad range of financial data, supporting documentation and other information relating to the operations of the Mozambique Companies.

The Mozambique Companies have provided limited financial data, including incomplete trial balances and bank statements for certain periods, and incomplete supporting documentation, such as loan facility agreements and supplier contracts.

As a result, it became apparent that a significant amount of the information originally envisaged to be held by the Mozambique Companies in Mozambique was not available. This required Kroll to issue additional information requests to several parties, as discussed in more detail in the next section.

2.2 Requesting and obtaining relevant information

In addition to the information requests to the Mozambique Companies, Kroll issued formal letters of request, with the assistance of the PGR, to the following parties:

- í The Contractor;
- í Credit Suisse and VTB Capital;
- í The Bank of Mozambique (and certain local Mozambique Banks);
- í The Mozambique Ministry of Finance; and,

- Other parties, including Ernst & Young (the external auditors to the Mozambique Companies), the Ministry of Defence and the Serviço de Informações e Segurança do Estado ("SISE")¹.

Kroll's pursuit of the information requested has necessitated multiple meetings with the relevant parties in Mozambique, United Arab Emirates and United Kingdom over the course of the Independent Audit. Kroll has worked closely with the PGR, legal advisors to the Contractor and legal advisers to Credit Suisse to address the challenges in sharing confidential information in a proactive and practical manner.

A considerable volume of information, both in English and Portuguese, has been provided in response to Kroll's formal information requests, including: original loan agreements and fee letters from the banks; final versions of supply contracts and appendices, and internal correspondence files from the Contractor; government guarantee documentation from the Ministry of Finance, and; information to support the audited financial statements from Ernst & Young.

2.3 Company bank account analysis

The Mozambique Companies were unable to provide complete bank account information to Kroll. Consequently, Kroll requested, via the Bank of Mozambique, details of local Mozambique bank accounts held by the Mozambique Companies. These requests included bank statements and, where relevant, supporting documents for certain transactions.

Kroll's key findings in respect of specific transactions in the bank statements provided by the local Mozambique banks is set out in the corresponding company sections of this report.

In analysing the key sources of payments to and from the Mozambique Company bank accounts, Kroll employed a minimum threshold of USD 2,500 (or the MZN equivalent). Transactions below USD 2,500 were excluded from Kroll's analysis.

Transactions were categorised based on the descriptions in the bank statements and other information available, such as company general ledgers. Transactions relating to transfers between company bank accounts were not included in the analysis.

Where transactions could not be categorised based on the transaction description, the following materiality thresholds were applied and designated into one of three categories:

- All transactions below USD 100,000²: not considered further for the Independent Audit;

¹ Translation: State Information and Security Service

² Note: USD value or MZN equivalent.

-
- Round number transactions above USD 100,000 but below USD 250,000³: submitted for further review; and,
 - All transactions above USD 250,000⁴: submitted for further review.

Kroll submitted information requests to local Mozambique banks for those transactions identified for additional review.

Kroll also conducted enquiries with local Mozambique banks, through the Bank of Mozambique, to identify all international transactions involving the Mozambique Companies, the Contractor, and other entities linked to the Contractor.

Kroll had not received responses from all local Mozambique banks at the time of reporting, and issues have been identified regarding the effectiveness of search criteria applied by certain local Mozambique banks. Recommendations for further work in relation to company bank accounts have been made to the PGR. As a result, Kroll cannot rely on the completeness of this information for the purposes of this report. A summary of the requests made to local Mozambique banks, through the Bank of Mozambique, has been provided separately to the PGR.

2.4 Interaction with key stakeholders

The key stakeholders for this Independent Audit were as follows:

- Office of the Public Prosecutor of the Republic of Mozambique ("PGR").
- Embassy of Sweden, Maputo, Mozambique ("Embassy of Sweden"); and,
- International Monetary Fund ("IMF").

Throughout the Independent Audit, Kroll worked with the PGR to request and obtain information from the Mozambique Companies and other parties.

2.5 Meetings

As part of the Independent Audit, Kroll held formal meetings with a wide -ranging group of individuals, including representatives from the Mozambique Companies, the Contractor, Credit Suisse and various Government Officials.

A full listing of interviewees is provided at Appendix B.

³ Note: For example, a transaction of USD 110,000 (or MZN equivalent round number) was flagged for further review. Similarly, if there was a transaction of USD 276,397 (or MZN equivalent) the transaction was flagged for further review.

⁴ Note: USD value or MZN equivalent.

2.6 Currency conversion

Certain financial data and supporting documents reviewed by Kroll were prepared using the Mozambique Metical.

Throughout the report, Kroll has converted Mozambique Metical ("MZN") values to US Dollars ("USD") or Euro ("EUR") values where appropriate.

The MZN transactions in Kroll's analysis were converted using the daily closing spot price obtained from Bloomberg. Where any discrepancies exist between amounts identified in Kroll's analysis and those contained in banking and SWIFT records for international payments, the difference is due to the exchange rate offered by the individual banks on that day, which may differ from the closing spot price quoted by Bloomberg.

2.7 Language

This report and the supporting appendices was translated fully from English into Portuguese using a certified legal translator. Where relevant, references to supporting documentation and/or information sources are provided as footnotes, citing the English language file name. In the event of any inconsistency or discrepancy between the English language version of this report and the Portuguese language version, the English language version shall prevail.

Where relevant, Kroll has abbreviated key terms throughout the report - a summary is provided at Appendix A (Glossary of common names and terms).

3. Executive Summary

3.1 Introduction

3.1.1 Background to the three maritime projects

Kroll was provided with a document entitled the *"Mozambique Maritime Projects Presentation"* (hereafter the "Prinvest Presentation") by the Contractor. The Prinvest Presentation refers to *"three maritime projects"* and states that whilst each project had its own purpose and scope, the three were best understood together as elements of a single project which developed over the course of 2013 and 2014 *"...to furnish Mozambique with the means to assert sovereignty over its Exclusive Economic Zone and exploit the natural resources within it."*

The Prinvest Presentation set out the following objectives for the Mozambique Companies:

ProIndicus: To acquire an Exclusive Economic Zone monitoring and protection solution from the Prinvest Group. ProIndicus signed a supply contract with Prinvest Shipbuilding on 18 January 2013.

EMATUM: To acquire the capability to develop a home-grown and self-sustaining fishing industry in Mozambique, including the supply of a modern fleet of vessels, equipment, associate training services, intellectual property licence and technology transfer. EMATUM signed a supply contract with Abu Dhabi Mar on 2 August 2013.

MAM: To acquire the infrastructure and facilities needed to enable Mozambique to offer fixed and mobile maintenance and repair services to: 1) vessels supplied to ProIndicus and EMATUM, and; 2) other vessels used in connection with the offshore oil and gas industry in Mozambique. The MAM Project *"...also included the licencing of intellectual property rights supported by a transfer of technology to MAM to enable it to assemble and sell the Government vessels to third parties in Mozambique and worldwide."* MAM signed a supply contract with Prinvest Investments on 1 May 2014.

The President of the Administration Board of ProIndicus, EMATUM and MAM is António Carlos do Rosário ("Rosário"), a senior member of the State Information and Security Service ("SISE").

ProIndicus, EMATUM and MAM have all been incorporated as private Sociedade Anónima ("S.A.") companies. However, as the shareholders for each company are either directly or indirectly owned by the Mozambique State, the companies may be considered to be state owned companies rather

than as private companies.⁵ The Prinvest Group, in the Prinvest Presentation, refers to ProIndicus, EMATUM and MAM as being state owned companies.

3.1.2 Limitations of scope

The Independent Audit relied upon Kroll being provided with complete documentation by the representatives of the Mozambique Companies, by the government officials who approved the guarantees for the lending, by the banks that provided the loan agreements, and most recently by the Contractor that provided the assets and services, who were all asked to provide such documentation to Kroll on a voluntary basis. Due to the intended purpose of the Independent Audit, Kroll was not able to agree to keep the information contained in such documentation confidential.

It should also be noted that, in reaching the conclusions set out in this report, Kroll has not had access to full and complete documentation, including internal confidential documents of the parties involved, nor has it met with all key personnel of the parties involved. The main challenge in completing the Independent Audit was the lack of documentation available from the Mozambique Companies. Kroll spent a considerable amount of time requesting and liaising with representatives of the Mozambique Companies to obtain documentation and information that was, in some cases, either ultimately incomplete or not provided at all. Kroll's findings should be considered in this context.

The Mozambique Project is primarily managed by individuals who are either employed by or connected to SISE. Person A and other senior figures were responsible for signing the supply contracts on behalf of the Mozambique Companies. The contractual structure makes it difficult to understand the value attributed to specific assets. Kroll repeatedly requested from Person A the outstanding information that would provide a fuller understanding of expenditure: the response received was that the requested information was "*classified*" and not available.

It was therefore necessary to request and obtain documentation from Credit Suisse and VTB Capital regarding the loan agreements, the Contractor regarding the supply contracts, as well as other various government departments and third parties for other relevant documentation.

⁵ Note: Kroll was informed by the PGR that ProIndicus, EMATUM and MAM are classified as "Companies of the State Entrepreneurial Sector".

3.2 Summary of key findings

The Independent Audit enabled Kroll to confirm the roles of the various parties involved in formulating and implementing the Mozambique Project structure, and the resulting questions and evidential gaps that this has created in understanding the expenditure of the USD 2 billion loan proceeds. Kroll's work has provided clarity on:

- ❖ The structure of the loan agreements between Credit Suisse and VTB Capital and the Mozambique Companies, specifically the categories and amounts of fees paid to the banks, and the actual loan proceeds disbursed to the Contractor;
- ❖ The intended and actual scope of each supply contract, including the current status of delivery of the assets and services to be provided, the significant difficulties in understanding the underlying pricing structure of the supply contracts, the discrepancies in the prices of delivered assets and services, and the challenges encountered by the Contractor in delivering the expected assets and services;
- ❖ The operational and financial standing of the Mozambique Companies, specifically that the companies appear to be inadequately managed, are not fully operational, have generated no meaningful revenues, have no contracts in place to provide future revenues, and that operational expenditure was paid for by the Contractor;
- ❖ The significant and expanding role that the Contractor and certain associated companies have in the Mozambique Project, particularly in providing funds to the Mozambique Companies to cover operational expenditure, in restructuring the loans, and in taking responsibility for generating future revenues; and,
- ❖ The limitations in the process for issuing government guarantees.

Notable findings in relation to the above points are summarised in more detail below, and in greater detail in separate company specific sections. Kroll has separately provided recommendations for further work to the PGR for each key finding.

3.2.1 Confirmation that fees paid to banks totalled USD 199.7 million

Kroll clarified the structure of the respective loan agreements for the Mozambique Companies. In summary, the Mozambique Companies negotiated loan agreements totalling USD 2 billion with Credit Suisse and VTB Capital.

Table 1 provides a summary of the loans agreements entered into by the Mozambique Companies and the related fees paid to Credit Suisse and VTB Capital:

Table 1 | Summary of the loans agreements entered into by the Mozambique Companies

Description	ProIndicus	EMATUM	MAM	Total
Lead Loan Arranger	Credit Suisse	Credit Suisse	VTB Capital	
Interest Rate	LIBOR + 3.20%	LIBOR + 3.70%	LIBOR + 7.00%	
Final Loan Amount	622,000,000	850,000,000	535,000,000	2,007,000,000
Bank Fees	(10,113,200)	(13,700,000)	(35,000,000)	(58,813,200)
Contractor Fee	(64,423,600)	(76,500,000) ⁶	-	(140,923,600)
Total Paid to Contractor	547,463,200	759,800,000	500,000,000	1,807,263,200

Of the total USD 2 billion loan proceeds, USD 199.7 million was deducted by Credit Suisse and VTB Capital for Arrangement Fees (USD 58.8 million) and Contractor Fees (USD 140.9 million). The Contractor explained that the Contractor Fees (or "Subvention Fees") were introduced to allow the lending banks to achieve a return at an interest rate more accurately reflecting Mozambique's risk profile. Credit Suisse explained that the Contractor Fees were effectively passed on to syndicate loan members or, in the case of EMATUM, to note investors that purchased the debt.

An example of the explanation provided by Credit Suisse is identifiable in transaction documents provided by Moza Banco relating to a USD 20 million tranche of the ProIndicus loan (purchased by Moza Banco). The trade confirmation documentation shows that although Moza Banco purchased USD 20 million of the loan, the bank was only required to pay Credit Suisse USD 18.2 million as they received USD 1.8 million of the Contractor Fees. This equates to a 9 % discount to Moza Banco. As a result, Moza Banco would have increased the yield received on the investment.

The deduction of the Arrangement Fees and Contractor Fees resulted in actual loan proceeds of USD 1.8 billion being directly transferred in several tranches to Contractor bank accounts in the United Arab Emirates.⁷ No loan proceeds were directly transferred to the Mozambique Companies by Credit Suisse or VTB Capital. However, the Contractor has made transfers totalling USD 18.2 million to the Mozambique Companies for operational expenses.

In addition, Kroll identified that "Running Fees" totalling a further USD 57.3 million were agreed as a result of restructuring the terms of the ProIndicus loan agreement in December 2014. The

⁶ Note: This amount does not include a net Contractor Fee Rebate of USD 3,289,118 that documents state was paid by Credit Suisse to the Contractor. Kroll has not confirmed this payment.

⁷ Note: This was broken down as USD 554 million under the ProIndicus contract, USD 763 million under the EMATUM contract and US D 459 million under the MAM contract.

Running Fees are to be paid over the course of the restructured loan agreement to Credit Suisse (USD 23.2 million), VTB Capital (USD 3.5 million) and Palomar⁸ (USD 30.6 million).

3.2.2 Fees paid to advisors in relation to EMATUM loan restructure

The Ministry of Finance provided Kroll with a document summarising all fees paid in relation to the April 2016 EMATUM debt restructuring. The document details payments totalling USD 31.4 million to twelve parties, including:

- USD 17.3 million to a Banco Nacional de Investimento Mozambique (“BNI Mozambique”) and Ernst & Young consortium;
- USD 4.1 million to Credit Suisse
- USD 3.8 million to Palomar
- USD 2.1 million to VTB Capital
- USD 4.1 million to several other parties

The Ministry of Finance informed Kroll that the BNI Mozambique and Ernst & Young Consortium stated it had the support of several entities throughout the restructuring process, and requested payments to these entities.

Further details for each payment are provided at Section 3.4.2.

3.2.3 Inconsistencies in stated purpose of USD 500 million loan proceeds

The Independent Audit has established that there are inconsistencies between explanations provided by Person A, the Ministry of Defence and the Contractor regarding the actual use of USD 500 million of the loan proceeds.

Initially, Kroll was informed by the Ministry of Finance that USD 500 million of the EMATUM loan was integrated into the national budget in 2014.

A document published by the IMF, entitled “Staff Report for the 2015 Article IV Consultation, fifth review under the Policy Support Instrument” states that the Government of Mozambique guaranteed a USD 850 million bond issued in 2013 by EMATUM to finance the purchase of tuna fishing boats and maritime security equipment. The document states that subsequently USD 500 million was incorporated into the State budget for the maritime security equipment, and became public debt under the responsibility of the Treasury.

⁸ Note: Throughout this report, “Palomar” refers to Palomar Capital Advisors Ltd and Palomar Consultants LLC.

The Ministry of Finance has not been able to confirm to Kroll any details of the maritime security equipment that was effectively included in the USD 500 million allocation, nor if the transfer of responsibility has actually been completed.

Separately, Person A stated to Kroll that USD 500 million of the loan proceeds were used to purchase military equipment and provided an unsigned letter purportedly from the Role I to support this statement. Role I refused to sign this letter and denied having any knowledge of the military equipment purchased.

The Contractor has categorically stated to Kroll that the assets delivered to EMATUM were per the agreed supply contract and specifically that no weapons were provided.

In order to verify how the USD 500 million loan proceeds were actually allocated, a framework that preserves the confidentiality of restricted information contained in the relevant documents needs to be agreed, or for those involved to waive the confidentiality of such information. This will enable Kroll to be provided with further documentation from the Contractor explaining the pricing structure of the EMATUM contract, without breaching the terms of the supply contract.

Until the inconsistencies are resolved, and satisfactory documentation is provided, at least USD 500 million of expenditure of a potentially sensitive nature remains unaudited and unexplained.

3.2.4 Discrepancies in the prices of delivered assets and services

The Independent Audit has enabled Kroll to obtain an understanding of the key assets and services to be provided by the Contractor to the Mozambique Companies, including the overall value of each contract. However, gaps remain in understanding how exactly the USD 2 billion was spent, despite considerable efforts to close this gap.

Kroll was not able to undertake any form of reliable valuation of the assets and services to be provided by the Contractor under the three supply contracts with the Mozambique Companies. Instead Kroll, with the support of an independent expert, has sought to estimate the price discrepancy of the assets and services provided under each supply contract.

Kroll has compared the prices in invoices provided by the Contractor for the DV15 Interceptor vessels, HSI32 Interceptor vessels, WP18 Interceptor vessels and Maritime Patrol Aircraft for ProIndicus, and the Ocean Eagle vessels and Longliner vessels for EMATUM. This exercise has been undertaken to give a sense of the discrepancies and differences which Kroll was unable to explain due to the lack of documentation provided to Kroll.

The differences between prices of the aforementioned assets and services outlined in the invoices provided to ProIndicus and EMATUM by the Contractor, compared to the prices estimated by the independent expert total approximately USD 713 million. This difference may be explained in additional documentation from the Contractor that has not been provided to Kroll. However, at the

conclusion of Kroll's Independent Audit the differences remain unexplained and warrant further consideration.

3.2.5 Undisclosed bank account and unexplained USD 53 million payment

Kroll's enquiries identified that EMATUM held a bank account at Moza Banco which was not recorded in the accounting records of EMATUM. The Moza Banco account was used to make two interest payments to Credit Suisse totalling more than USD 51 million in March 2014 and September 2014. The two interest payments were funded by transfers into the Moza Banco bank account from a SISE bank account. The source of the SISE funds was a Bank of Mozambique bank account, opened at the request of the Ministry of Finance.

The process for making the two interest payments contradicts the 2014 audited financial statements for EMATUM ("EMATUM Financial Statements for 2014"), which stated that the Contractor, not SISE, provided EMATUM with an advance for USD 53 million for the interest payments to Credit Suisse. This was supported by a letter from the Contractor to EMATUM which stated that payments of USD 53 million were made directly to EMATUM's lenders, a claim also stated in an audit representation letter signed by Person A. It is possible that details regarding these transactions in the audit representation letter, and thus the EMATUM Financial Statements for 2014, are incorrect.

3.2.6 Confirmation that the Mozambique Companies are not fully operational

Kroll's analysis of the business plans and feasibility studies for the Mozambique Companies indicates that they were expected to generate combined operating revenues of USD 2.3 billion by December 2016. At the time of reporting, negligible revenue has been generated and the Mozambique Companies can only meet debt obligations and operational expenses with the financial support of either shareholders, the Ministry of Finance or the Contractor.

The shareholders have made transfers to the Mozambique Companies totalling USD 70 million for interest payments and operational expenses. The source of the shareholders' funds has not yet been fully established as a court order is required to access shareholder bank accounts. The Contractor has made payments totalling USD 18.2 million to the Mozambique Companies for operational expenses. A number of these payments are not supported by agreements between the Contractor and the Mozambique Companies.

It is not known when, or indeed, if, the Mozambique Project will become fully operational, but it appears that this would require considerable financial investment. Even assuming that the Mozambique Project could be operationalised, it is not known when profits might be realised.

3.2.7 Evidence of management failings

The Independent Audit identified what appear to be considerable management failings in meeting contractual obligations and in establishing the local infrastructure required to enable the Contractor

to deliver the intended assets and services, as well as a failure to undertake the required actions necessary to ensure the Mozambique Projects could operate as planned.

The Mozambique Companies lack some of the basic infrastructure to enable operations to commence: ProIndicus does not have an operational satellite package; EMATUM does not currently have permits for the fishing vessels; and MAM has only recently obtained access to a shipyard in Maputo that is undergoing an upgrade to enable the maintenance of vessels.

The Contractor has provided Kroll with several hundred documents including emails and meeting minutes to demonstrate the challenges encountered in delivering the Mozambique Project. The documents show repeated efforts by the Contractor to obtain responses from Person A for project management issues. The documents also provide an insight to the issues faced by the Contractor in delivering the contracted assets and services for the Mozambique Companies.

For example, according to the documentation, for ProIndicus the trainees provided by the company did not have the necessary pre-course skills and qualifications or appropriate technical knowledge to be able to undertake the HSI32 courses; trainees did not have the appropriate clothing for training; representatives for ProIndicus were not present at the handover for the DV15 vessels and employees trained to operate the Control and Command System were subsequently called for military training. For EMATUM, the company has not secured the required land and buildings to equip a coordination centre.

The failure of management to secure an appropriate shipyard base at Maputo in a timely manner (approximately eighteen months later than planned) means that the MAM Project remains a work in progress. It is not possible to establish the stage of completion of the project, nor the funds remaining to be spent from the total contract price of USD 500 million.

The apparent mismanagement by Person A and other senior members of the Mozambique Companies appear to have contributed to significant delays in the delivery of the Mozambique Project. Kroll cannot ascertain the impact of these delays on the overall pricing of the project without further information from the Contractor.

3.2.8 Expanding role of the Contractor (and related parties)

The Contractor, as well as Palomar, a Prinvest Group company, has had an expanding role in the Mozambique Project.

The Contractor has had a role in: structuring the projects; introducing Credit Suisse as a lender; agreeing the Contractor Fees (to discount the interest rate payable by the Mozambique Companies on the loans); providing funds to the Mozambique Companies to cover operational expenditure and share capital; and funding loan repayments.

Palomar had a role in: arranging the MAM loan agreement alongside VTB Capital; contracting with the Mozambique Companies and the Ministry of Finance to restructure the ProIndicus and EMATUM loan agreement (and receiving fees for doing so); and (for ProIndicus) taking responsibility for generating revenues and contracting to receive a proportion of any future revenues.

In December 2014, the ProIndicus loan agreement was restructured to increase the authorised loan amount from USD 622 million to USD 900 million (an increase of USD 278 million). The restructuring of the loan introduced a new repayment plan, however, the rationale for increasing the loan amount is unconfirmed (a request for a government guarantee for the increase indicated that the additional funds would enable debt repayment on the initial loan agreement). The additional loan proceeds of USD 278 million have not been drawn down, and Credit Suisse has confirmed to Kroll that the facility has now expired. The restructure involved an agreement to pay Palomar "Running Fees" totalling at least USD 30.6 million over the course of the loan agreement.

The first instalment of the Running Fees, which was paid by the Ministry of Finance on 21 March 2016, included a USD 7.8 million payment to Palomar (in addition to separate payments to Credit Suisse and VTB Capital).

The documents reviewed by Kroll confirm that Person B, Role B, was involved in the restructuring of the ProIndicus loan agreement (in his/her role at Palomar). Person B was previously employed at [Redacted] and was involved in the initial loan agreements between ProIndicus and Credit Suisse.

3.2.9 Inadequate process for issuing government guarantees

The Independent Audit confirmed that the process for providing government guarantees appears to be inadequate. Specifically, no documentation was provided to evidence that any assessment took place before Role C signed three of the five government guarantees with a combined value of USD 1 billion.

The Role C, Person C, voluntarily admitted to Kroll that he/she knowingly breached agreed budget laws by approving the government guarantees for the Mozambique Companies and explained that SISE officials convinced him/her to approve the government guarantees on the basis of national security.

Additionally, potential conflict of interest issues were identified regarding the process for granting the government guarantees for the Mozambique Companies. Specifically, Person D, the Role D responsible for signing the ProIndicus and MAM government guarantee opinion documents, was appointed to the EMATUM Administration Board on 2 August 2013, approximately one month prior to the EMATUM government guarantee being issued. Person D was paid USD 95,000 for his/her role as a [Redacted] during the period of August 2013 to July 2014 by EMATUM.

3.3 ProIndicus: Key observations

3.3.1 Tendering for the Mozambique Project

The Privinvest Presentation stated that the Government of Mozambique began discussions with "a range of potential suppliers" in 2011, and that after two years the Contractor was selected to supply ProIndicus (and subsequently EMATUM and MAM). Person A has previously informed Kroll that he/she conducted web-based research to identify potential suppliers and that several parties other than the Contractor were considered for the Mozambique Project.

Kroll has also sought to understand what, if any, due diligence was carried out by the Mozambique Companies and the Government of Mozambique in relation to the selection of the Contractor to develop the Mozambique Projects.

Despite repeated requests, Person A has refused to provide any information relating to other suppliers that were considered or what due diligence was undertaken on the Contractor. Person A has stated that this information is maintained by SISE and cannot be provided citing "national security" reasons. Kroll's requests to obtain access to this information directly from SISE have been refused by the Role E, Person E. Further, the Role F, Person F, has informed Kroll that no records relating to the Mozambique Companies were provided to him/her since taking office.

3.3.2 Loan agreement

Table 2 provides a summary of the ProIndicus loan agreement, including the total loan facility drawn down and the fees deducted by Credit Suisse and VTB Capital.

Table 2 | Summary of ProIndicus loan

Details	Amount (USD)	Balance (USD)
Total loan facility drawn down (Credit Suisse)	504,000,000	
Total loan facility drawn down (VTB Capital)	118,000,000	
Total loan facility drawn down		622,000,000
Arrangement Fees paid by ProIndicus to Credit Suisse	(8,225,200)	
Arrangement Fees paid by ProIndicus to VTB Capital	(1,888,000)	
Total "Arrangement Fees"		(10,113,200)
Sub-Total ("Contractor Portion")		611,886,800
Contractor Fee paid by the Contractor to Credit Suisse	(48,824,000)	
Contractor Fee paid by the Contractor to VTB Capital	(15,599,600)	

Total "Contractor Fees"	(64,423,600)
Total payments to Contractor account	547,463,200

On 28 February 2013, ProIndicus and Credit Suisse signed a loan agreement for USD 372 million, which was subsequently amended on two occasions on 14 June 2013 and 17 December 2014, to allow a maximum loan facility limit of USD 900 million.

The original and amended loan agreements were guaranteed by the Government of Mozambique, acting through the Ministry of Finance and represented by Person C. Between 21 March 2013 and 15 November 2013, ProIndicus utilised USD 622 million of the loan facility.

The Contractor, according to the Privinvest Presentation, introduced ProIndicus to Credit Suisse, following a written request from Person C. The Contractor stated that Credit Suisse negotiated the terms of the financing independently with the Government of Mozambique, and that negotiations involving the Contractor were limited to discussions around an *"appropriate subvention fee charged to the contractor"* (further details provided below). It is not known who represented the Government of Mozambique for negotiating the loan agreements.

ProIndicus authorised Credit Suisse and VTB Capital to deduct fees for arranging the loans totalling USD 10.1 million. The utilisation requests also authorised both banks to withhold "Contractor Fees" totalling USD 64.4 million. As a result, the total loan proceeds remaining after the Arrangement Fees and Contractor Fees was USD 547.5 million - this amount was paid to the Contractor's bank account in the United Arab Emirates.

The Contractor explained to Kroll that the Contractor Fees (also termed "Subvention Fees") were introduced by Credit Suisse and the Government of Mozambique because the pricing terms of the loan which the Government of Mozambique was prepared to agree for the purposes of a government guarantee were not commercially acceptable to Credit Suisse and prevented them from syndicating the loan. Credit Suisse explained that the Contractor Fee was *"effectively passed on in an approximately pro rata basis to the amount of loan sold on to syndicate members."*

The Contractor further stated to Kroll that the effect of the fee was to ensure that *"Credit Suisse achieved a return that was equivalent to the return it would have achieved had it advanced funds at a market rate more accurately reflecting Mozambique's risk profile; and the loan could be syndicated."*

The Contractor Fees of USD 64.4 million withheld by Credit Suisse on behalf of the Contractor equate to 10.3% of the total loan value of USD 622 million.

In addition, "Running Fees" totalling USD 57.3 million were agreed as part of the amended loan agreement dated 17 December 2014, payable to Credit Suisse, VTB Capital and Palomar over the course of the loan. Palomar is purportedly owned by the Contractor and Person B, a Role B.

Kroll has not seen documentation to explain the rationale for the agreement to pay Palomar an annual fee of 1.25% of the total loan outstanding, a rate which is greater than that paid to both Credit Suisse (0.95%) and VTB Capital (0.75%).⁹ The role of Palomar as it relates to ProIndicus, EMATUM and MAM is discussed at Section 3.7.

As of 14 March 2017, principal repayments on the loan totalled USD 24.9 million, interest payments totalled USD 71.5 million (together totalling USD 96.4 million), and the balance of the loan outstanding was USD 597.1 million. The first two interest payments made by ProIndicus were funded by the company's shareholders, Monte Binga and GIPS. The first payment was funded by two separate loans obtained by Monte Binga and GIPS from Millennium Banco Internacional de Moçambique S.A. ("BIM Mozambique") and guaranteed by the Ministry of Finance. The second payment was solely funded by GIPS through transfers from SISE to a GIPS BNI Mozambique bank account.

Kroll was informed by the Ministry of Finance that ProIndicus defaulted on the principal and interest payments due on 21 March 2017.

3.3.3 Revenue projections

The ProIndicus Business Plan stated that the company was expected to generate estimated operating revenues of USD 607.8 million by December 2016, which after operating costs of USD 29.5 million, would leave "*cashflow available for debt service*" of USD 556.2 million.

At the time of reporting, ProIndicus has not generated any operating revenues based on information provided to Kroll.

The basis for the revenue projections was split into several categories: protection of infrastructure at sea; protection of vessels on transit; protection of fishing boats; port concession fees; protection of tourist boats; search and rescue and, finally, "*periodical import of arms*." Kroll has not received any documentation to substantiate these estimates or what the "*periodical import of arms*" constitutes.

The primary source of revenue was anticipated to be "*income from protection of infrastructure at sea*", equal to at least 50% of the expected revenue each year, derived from anticipated contracts with foreign gas companies through charging fees for security and protection. Kroll was informed by Person A that no contracts were agreed with foreign gas companies, even in principle, for the

⁹ Note: Following publication of the Summary Report, Palomar provided Kroll with a letter dated 4 December 2014 that sets out their role as financial advisors to ProIndicus for the purposes of refinancing the facility agreement. The letter references that fees payable would be set out in subsequent "Fee Letters".

provision of security services prior to signing the loan agreements, and that none have been signed or agreed at the time of reporting.

3.3.4 Scope of supply

On 18 January 2013, ProIndicus signed a supply contract with the Contractor for the provision of "...the assets of the Exclusive Economic Zone Monitoring and Protection Solution as a turn -key solution" for a total price of USD 366 million.¹⁰ Between April 2013 and June 2013, the contract was amended through four "change orders" to vary the price, quantity and specification of assets and services to be received by ProIndicus. As a result, the original contract price of USD 366 million was increased to USD 616 million.

ProIndicus provided Kroll with a one page undated invoice (hereafter the "ProIndicus Invoice") under a supply contract dated 18 January 2013 (hereafter the "ProIndicus Supply Contract"), which listed the assets and services and their corresponding prices. An extract of the ProIndicus Invoice is provided at Figure 1.

Figure 1 | Extract of ProIndicus Invoice

Re: Contract Signed January 18, 2013 (and change orders)
Confirmation of deliverables

1. Delivered as at December 31, 2014 and invoiced:
 - a. 11 DV15 @ \$ 79,200,000
 - b. 3 WP18 @ \$ 58,200,000
2. Delivered in 2015 and invoiced:
 - a. 4 DV15 @ \$ 28,800,000
3. Items partially delivered/Not delivered and not invoiced:
 - a. 21 DV15 @ 7,200,000 per unit
 - b. 16 Radar Stations @ \$ 118,400,000
 - c. 1 Central Command Center @ \$ 16,400,000
 - d. 4 Infrastructural Equipment @ \$ 2,600,000
 - e. 6 MPA @ \$ 47,400,000
 - f. 3 HSI32 @ \$ 98,100,000
 - g. 1 Training Center @ \$ 1,686,800
 - h. SAT & VSAT Services @ \$ 10,000,000

The scope of supply outlined in the invoice is consistent with the final change order to the ProIndicus Supply Contract.

Kroll was informed by an industry expert that invoices should include a clear and detailed description of all assets and services provided. The invoices provided to Kroll do not provide sufficient detail to gain comfort that the documents accurately reflect the true price of these assets and services, and therefore do not allow accurate accounting records to be maintained by the company. Kroll discusses in Section 9 of this Report how the limited invoice documentation gives

¹⁰ Note: USD 366 million is the amount stated as the contract price – however the original loan was for USD 372 million.

rise to potential breaches of certain Articles in the Mozambique Commercial Code by the Mozambique Companies

Table 3 summarises the scope of supply and corresponding prices.

Table 3 | Summary of scope of supply for ProIndicus

Description	Quantity	Unit Price	Total Price
DV15 Interceptor	36	7,200,000	259,200,000
HSI32 Interceptor	3	32,700,000	98,100,000
WP18 Interceptor	3	19,400,000	58,200,000
Maritime Patrol Aircraft	6	7,900,000	47,400,000
Radars	16	7,400,000	118,400,000
Training Centre	1	1,686,800	1,686,800
Satellite package			10,000,000
Port infrastructures			2,600,000
Command and Control Centre			16,400,000
Total			611,986,800

The principal changes to the scope of supply from the ProIndicus Supply Contract to the final change order to the contract were the removal of Vigilante 400 CL vessels (from 2 to zero), an increase in DV15 Interceptor vessels (from 12 to 36 units), the inclusion of HSI32 Interceptor vessels (from zero to 3), the inclusion of WP18 Interceptor vessels (from zero to 3), and the increase in Maritime Patrol Aircraft (from 2 to 6 units). Additionally, the specification of the Maritime Patrol Aircraft differs significantly from the original contract. The contract price increased from USD 372 million to USD 622 million (an additional USD 250 million).

Kroll's interpretation of the contractual documents provided by ProIndicus is that weapons were, in the ProIndicus Supply Contract, envisaged to be provided and fitted for certain vessels under the original contract for USD 372 million, yet were subsequently removed from the scope of supply through the various changes orders, despite the increase in loan value by USD 250 million to USD 622 million.

The original ProIndicus Supply Contract provided by ProIndicus to Kroll, between the Contractor and ProIndicus,¹¹ stated that the Vigilante 400 CL vessels (which were subsequently removed from

¹¹ Note: Original supply contract provided by ProIndicus, not the Contractor.

the contract) would be fitted with a [Redacted] and [Redacted], and that DV15 Interceptor vessels would be fitted with a [Redacted] designed to accommodate [Redacted].

The final amendment to the supply contract did not include the provision of weapons for any vessel. None of the vessels physically verified by Kroll were fitted with weapons. ProIndicus has not provided any explanation as to why the weapons element of the specifications was removed in the final version of the contract. The Contractor has categorically stated to Kroll that no weapons were provided as part of the contract.

Given the stated nature of the project, i.e. the monitoring and protecting of Mozambique 's Exclusive Economic Zone, it is remarkable that the vessels were not fitted with weapons, as this will undoubtedly restrict the ability of the vessels and their operators to effectively police the Exclusive Economic Zone.

It is not possible to accurately establish the extent of any difference in list price for the Vigilante 400 CL vessels (two removed from contract) compared to the HSI32 Interceptor vessel or WP18 Interceptor vessel (three each added to contract). However, it should be noted that both the HSI32 Interceptor vessel and WP18 Interceptor vessel are significantly smaller vessels and designed for a wholly different purpose compared to the Vigilante 400 CL vessel. Minutes of a meeting dated 25 April 2013 between the Contractor and ProIndicus stated that the scope of supply was amended to replace large assets with "...smaller but faster vessels, which can provide a better... coverage of the EEZ [Exclusive Economic Zone]."

Kroll's analysis in respect of the prices included in invoices provided by the Contractor for assets and services under the ProIndicus Supply Contract is provided at Section 3.6.

3.3.5 Asset verification

Kroll visited several sites in Mozambique to verify the existence of the assets delivered by the Contractor to ProIndicus per the terms of the final supply contract. Kroll has established that the majority of the assets listed in the ProIndicus contract exist and are physically located in Mozambique.

The assets procured are either moored in Pemba harbour, or in dry storage in Pemba Naval Base or Maputo Sea Port. It appears that the assets are not yet operational for a variety of reasons including i) a lack of trained crew for vessels, and ii) the absence of a satellite contract to enable the communication systems to function (refer to Section 3.3.7).

3.3.6 Payments to fund share capital and support operations

On 18 January 2013 the Contractor sent a letter to ProIndicus which stated that "...within the spirit of cooperation and partnership" between the two companies, the Contractor was irrevocably committed to providing USD 13 million to ProIndicus.

The letter, signed by Person G on behalf of the Contractor, was sent on the same date as the signing of the original ProIndicus Supply Contract. The letter did not specify the purpose for the funds transfer, but stated that *"Prinvest Shipbuilding SAL is confident that its partnership with ProIndicus SA will lead to more ventures which will in the future make up for this contribution."*

Kroll's analysis of bank records confirms that on 25 March 2013, four days after the first loan payment to the Contractor, a Banco Comercial de Investimentos Mozambique ("BCI Mozambique") bank account held by ProIndicus received an amount of USD 12,999,958 from a bank account in the United Arab Emirates held by the Contractor.

The notes to the ProIndicus audited financial statements for 2013 (ProIndicus Financial Statements for 2013) state *"...on 23 October 2013, ¹² ProIndicus received USD 13 million"* and that USD 500,000 would be allocated to paid-up share capital with the remaining USD 12.5 million *"...utilized to support the start of the operations related to the protection and security services."¹³*

It is possible that the payment was made without the knowledge of Credit Suisse. Clause 3.1 of the original loan agreement stated that *"...the Borrower shall apply all amounts borrowed by it under the Facility towards the financing of the Project."*

Further, the Contractor stated that Credit Suisse insisted *"...no funds raised pursuant to the ProIndicus financing were paid into banks or accounts in Mozambique."*

Kroll's review of bank records has confirmed that no funds were contributed as share capital by the ProIndicus shareholders, Monte Binga and GIPS, prior to the USD 13 million payment. The application of USD 500,000 of the USD 13 million payment to fund share capital therefore appears to be designed to allow Monte Binga and GIPS, both state owned enterprises, to contribute capital to ProIndicus.

3.3.7 Issues encountered by Contractor in delivering the supply contract

The Prinvest Presentation stated that the Contractor had encountered *"...numerous challenges in delivering the Exclusive Economic Zone Project."*

A summary of the challenges that the Contractor stated it encountered are set out verbatim below:

1. ***"Insufficient assistance from the project companies:*** *The delivery of the project depended on the project companies performing their contractual obligation to assist and cooperate with the Contractors - for example, by providing in-country transportation, arranging for the provision of a local workforce, and procuring access to sites. The project companies frequently did not provide the required assistance, and this delayed and impeded delivery.*

¹² Note: The reason for the payment being described as received on 23 October 2013 is possibly due to the bank payment confirmation having that date at the top of the document, however this cannot be confirmed.

¹³ Document Reference: 2013-12-31 ProIndicus 2013 Financial Statements (PT) (Note 14, page 26).

2. **Uncooperative public authorities:** Transporting access to and providing services in Mozambique involves cooperation from numerous public authorities, whether in order to obtain the documentation necessary to import assets or receive visa for staff. This was often not forthcoming, and performance suffered as a result.
3. **Security and environmental issues:** the security issues affecting Mozambique since 2013 and, at times, extreme weather conditions, have made implementation a challenge.
4. **Operational expenditure:** the Mozambique government did not provide the project companies with any support for initial operational expenditure which would be expected in a project of this nature."

The Contractor provided Kroll with several files of email correspondence to support the issues encountered, which are summarised in the main body of this report.

3.4 EMATUM: Key observations

3.4.1 Loan agreement

Table 4 provides a summary of the EMATUM loan agreement, including the total loan facility drawn down and the fees deducted by Credit Suisse and VTB Capital.

Table 4 | Summary of EMATUM loan

Details	Amount (USD)	Balance (USD)
Total loan facility drawn down (Credit Suisse)	500,000,000	
Total loan facility drawn down (VTB Capital)	350,000,000	
Total loan facility drawn down		850,000,000
Arrangement Fees paid by EMATUM to Credit Suisse	(8,100,000)	
Arrangement Fees paid by EMATUM to VTB Capital	(5,600,000)	
Total "Arrangement Fees"		(13,700,000)
<i>Sub-Total ("Contractor Portion")</i>		<i>836,300,000</i>
Contractor Fee paid by the Contractor to Credit Suisse	(45,000,000)	
Contractor Fee paid by the Contractor to VTB Capital	(31,500,000)	
Total "Contractor Fees"		(76,500,000)
Total payments to the Contractor account		759,800,000

On 30 August 2013, EMATUM signed a loan agreement with Credit Suisse with a maximum limit of USD 850 million and a maturity period of seven years. The loan agreement was guaranteed by the Government of Mozambique, acting through the Ministry of Finance and Person C.

The loan proceeds were utilised in two tranches on 5 September 2013 and 30 September 2013: the first tranche of USD 500 million was raised by Credit Suisse with the second tranche of USD 350 million raised by VTB Capital.

EMATUM authorised Credit Suisse and VTB Capital to deduct fees totalling USD 13.7 million for arranging the loans. EMATUM also authorised Credit Suisse¹⁴ to withhold "Contractor Fees" totalling USD 76.5 million. As a result, the total loan proceeds remaining after the deduction of Arrangement Fees and Contractor Fees was USD 759.8 million - this amount was paid to the Contractor's bank account in the United Arab Emirates.

Kroll was informed that the purpose of the Contractor Fees was the same as that for the ProIndicus loan agreements (refer to Section 3.3.2 above).

Credit Suisse stated to Kroll that as the bank did not retain any of the debt, "...virtually the entirety of the subvention fee was effectively passed on to note investors that purchased the debt" and that this was passed on to investors through the price at which the loan was sold to investors.

The Contractor Fees of USD 76.5 million withheld by Credit Suisse were reduced by a "Contractor Fee Rebate" from Credit Suisse to the Contractor for USD 3.3 million (net). The Contractor Fee Rebate of USD 4 million (gross) was calculated using a formula based on the average sale price Credit Suisse achieved on the EMATUM loan notes, reduced by USD 748,500 due to a subsidy the Contractor provided to a purchaser of USD 24.9 million of loan notes. Kroll has requested details of the purchaser of these notes from the Contractor - no information has been provided at the time of reporting.

3.4.2 Fees paid to advisors in relation to EMATUM loan restructure

The Ministry of Finance provided Kroll with a document summarising all fees paid in relation to the April 2016 EMATUM debt restructuring. The document details payments totalling USD 31.4 million to twelve parties, including USD 17.3 million to a BNI Mozambique and Ernst & Young consortium (the "Consortium"). The Ministry of Finance provided Kroll with evidence that it paid USD 31.4 million to the Consortium. Kroll has not received any evidence to show that the proceeds were distributed, as stated in the document, by the Consortium to the twelve parties.

Table 5 summarises the payments made by the Ministry of Finance and the role of each party in the restructuring, as indicated in the document provided by the Ministry of Finance:

¹⁴ Note: Credit Suisse assigned the Contractor Fees payable under the second tranche to VTB Capital.

Table 5 | Summary of fees paid in relation to the restructuring of EMATUM's debt

Ref.	Advisor	Role	Amount (USD) ¹⁵
1	Consortium (BNI and Ernst & Young)	Local advisor to the government	17,317,264
2	Credit Suisse	Arranger	4,141,505
3	Palomar	External advisor to the government	3,767,757
4	Euroclear Bank & Clearstream	EMATUM accrued interests	3,165,383
5	VTB Capital	Arranger	2,052,322
6	Latham & Watkins	External legal advisor to the government	792,841
7	Pimenta	Local legal advisor to the government	57,610
8	Lucid	Exchange and information agent services	28,237
9	Clifford Chance	Legal services	20,498
10	[Redacted]	Listing invoice	15,086
11	Transperfect	Translation of documents	11,192
12	TMF Group	Consent solicitation and exchange offer	6,089
	Total		31,375,784

Further details for each payment are provided below:

N° 1: A payment totalling USD 17,317,264 was made by the Ministry of Finance to the Consortium. Kroll was provided with an undated copy of a Mandate Letter naming the Consortium as advisor to the Ministry of Finance for the restructuring of the EMATUM loan. The document sets out the terms for the provision of services and states that pursuant to these services, the Ministry of Finance agreed to pay the following success fees for the:

- í Amount debt raised (2%);
- í Number of notes exchanged (2%); and,
- í Amount of equity if raised (2%).

¹⁵ Note: The amounts are equivalent to the totals indicated in the table provided by the Ministry of Finance, which is comprised by: "fees, expenses and interests due and associated expenses."

Kroll has requested further information about the services provided by the Consortium and payments from the Ministry of Finance - no information was provided at the time of reporting.

N° 2 and N°5: Credit Suisse and VTB Capital received payments totalling USD 6,193,827, due to their role as arrangers in restructuring the EMATUM loan.

A "Dealer Management" agreement, dated 9 March 2016, named Credit Suisse Securities and VTB Capital as joint dealers on the sovereign bond offering. The Dealer Management agreement stated that Credit Suisse would receive USD 3 million and VTB Capital would receive USD 2 million in fees as dealer managers, as well as payment for other costs and expenses up to a maximum of USD 580,000.

There is a USD 613,827 difference between the amount paid to Credit Suisse and VTB Capital and the amount indicated in the Dealer Management agreement. The reason for this difference is unknown and Kroll has not been provided with any evidence to support the payments to Credit Suisse and VTB Capital.

N° 3: It appears that Palomar was paid USD 3,767,757 by the Ministry of Finance due to its role as external advisor in the restructuring of the EMATUM debt.

The rationale for the payment to Palomar is unknown and Kroll has not been provided with any evidence of an agreement between Palomar and the Consortium or the Ministry of Finance. The role of Palomar is discussed in more detail at Section 3.7.

N° 4 and N° 6 through to N° 12: These payments appear to be for other services provided in relation to the EMATUM loan restructuring, such as legal advisory.

The Ministry of Finance informed Kroll that the Consortium stated it had the support of several entities throughout the restructuring process, and requested payments to these entities. Kroll has not been provided with any further details in relation to these payments.

3.4.3 Revenue projections

According to a "*Mozambique Fishing Feasibility Study*" prepared in July 2013, EMATUM was expected to generate estimated annual operating revenues from fishing of USD 224 million by December 2016, which after operating costs of USD 32.1 million would leave "*cashflow available for debt service*" of USD 192 million.

Based on the EMATUM Financial Statements for 2014, EMATUM only generated MZN 460,541 (USD 14,268) in fishing revenues in 2014, and the fish was sold at a substantial loss. The fishing vessels are not currently operational for several reasons, discussed in further detail in the body of this report.

3.4.4 Payments from Logistics International to EMATUM

On 19 September 2013 and 2 December 2014, two payments totalling USD 4.2 million were received into EMATUM accounts in Mozambique from bank accounts in the United Arab Emirates in the name of Logistics International, ¹⁶ a Prinvest Group company. The 2013 and 2014 audited financial statements for EMATUM stated that these payments were provided by the Contractor to meet operational expenses until the fishing vessels were generating revenue.

Kroll has requested further details of written agreements between EM ATUM and the Contractor to support these payments, however no documentation has been provided at the time of reporting.

3.4.5 Payments to EMATUM for interest payments

In 2014, the first two interest payments totalling USD 51.8 million were due to Credit Suisse. On 21 February 2014, Credit Suisse sent an interest payment notice to EMATUM advising that USD 25 million was due for payment. On 18 August 2014, a further interest payment notice was sent to EMATUM advising that USD 26.8 million was due for payment.

Kroll identified an undisclosed Moza Banco account held by EMATUM, which was not recorded in the accounting records of EMATUM for the period 2013 to 2016. Kroll 's analysis of the Moza Banco account identified two transfers received from a SISE bank account, which were subsequently used to make the two interest payments (totalling USD 51.8 million) directly to Credit Suisse in 2014.

On 22 March 2015, the Contractor sent a signed letter to EMATUM which stated "*Abu Dhabi Mar hereby confirms that it has made total payments to EMATUM's lenders in excess of USD\$ 53,000,000 (USD Dollars Fifty Three million).*" The 22 March 2015 letter, which was provided to Ernst & Young as part of their audit, implies that the Contractor made direct payments to Credit Suisse and VTB Capital totalling in excess of USD 53 million.

On 23 March 2015, the Directors of EMATUM signed an audit representation letter to Ernst & Young as part of their 2014 audit in which they stated that "*the supplier Abu Dhabi Mar LLC made an advancement of USD 53,000,000 through [...] the direct payment to Credit Suisse of USD 51,753,542 direct payment*" to fund the interest payments due which comprised USD 31.5 million owed by EMATUM and USD 20.2 million "*that was assumed by the State shareholder.*" The letter stated that the remaining funds, USD 1.2 million, were used for a payment to "*another entity.*"

On 25 March 2015, the EMATUM Financial Statements for 2014 were finalised and recorded a liability to the Contractor of MZN 1.8 billion (USD 53 million) which "*...relates to an advancement of USD 53 million provided to EMATUM for the payment of the first interest due in March and September 2014.*"

¹⁶ Note: Logistics International refers to Logistics International SAL (Offshore) and Logistics International Investments.

The audit representation letter and audited financial statement notes imply that USD 53 million was paid directly by the Contractor to Credit Suisse to settle the first interest payments due in March 2014 and September 2014. However, this contradicts banking records provided to Kroll that show the interest payments were made from the EMATUM Moza Banco bank account, and were funded by transfers from SISE. The source of the SISE funds was a Bank of Mozambique bank account, opened at the request of the Ministry of Finance. It is possible that the representations made by the directors of EMATUM in the audit representation letter regarding the mechanism to settle the first interest payments are incorrect.

Kroll has requested an explanation from Person A in relation to this discrepancy. Person A, in a letter to Kroll dated 8 March 2017, stated that *"We are still trying to understand along with the supplier the objectives of this amount."* Kroll has requested information from EMATUM and the Contractor to evidence any agreements in relation to the USD 53 million payment, however no information has been provided. No documentation has been provided to identify the entity which received the USD 1.2 million payment, nor the rationale for the payment.

Kroll was informed by the Ministry of Finance that EMATUM defaulted on the latest interest payment due on 18 January 2017 (USD 119.4 million).

3.4.6 Scope of supply

On 2 August 2013 EMATUM signed a USD 785.4 million supply contract (hereafter the "EMATUM Supply Contract") with the Contractor for the supply of twenty four fishing vessels, three Ocean Eagle vessels, equipment for a Land Operations Coordination Centre, training, intellectual property and support to enable the company to construct the ordered vessels in the future.

On 26 September 2013, the Contractor and EMATUM agreed to increase the total price of the supply contract by USD 51 million to USD 836.4 million. The amendment to the supply contract does not specify any changes to the scope or supply or terms of the initial contract. Kroll has not been provided with an explanation for this significant price increase.

The supply contract only required the Contractor to provide an invoice for the full price of the contract and did not require them to provide detailed invoices listing the price of each asset and service provided. At the request of EMATUM, the Contractor provided a one page document (hereafter the "EMATUM Invoice") dated 25 March 2015 which set out the assets still to be delivered as of 31 December 2014. An extract of the EMATUM Invoice is provided at Figure 2.

Figure 2 | Extract of EMATUM Invoice

Remaining boats to be delivered as at December 31, 2014

1. 12 Longliners
2. 3 Trawlers
3. 3 Ocean Eagle 43

For a total value of US\$ 554,760,000

Other items as per contract:

1. Equipment Center
2. Intellectual Property (delivered not invoiced)
3. Spare parts and Training

For a total value of US\$ 80,822,000

The Contractor has stated that the EMATUM Invoice is the only document required to be provided for the total value of the contract. The EMATUM Invoice differs from a similar invoice provided to Ernst & Young for the 31 December 2014 statutory audit that included three HSI32 Interceptor vessels, which are not part of the EMATUM Supply Contract.

Kroll was informed by an industry expert that invoices should include a clear and detailed description of all assets and services provided. The invoices provided to Kroll do not provide sufficient detail to gain comfort that the documents accurately reflect the true price of these assets and services, and therefore do not allow accurate accounting records to be maintained by the company.

Kroll discusses in Section 9 of this Report how the limited invoice documentation gives rise to potential breaches of certain Articles in the Mozambique Commercial Code by the Mozambique Companies.

Kroll has compiled the following asset and service price list based on invoices provided by the Contractor to EMATUM as well as invoices prepared for customs purposes:

Table 6 | Summary of scope of supply for EMATUM

Details	Stated price per unit (USD)	Units provided	Total Price
Longliner fishing vessels	22,302,000	21	468,342,000
Bait Trawler fishing vessels	22,302,000	3	66,906,000
<i>Ocean Eagle vessels¹⁷</i>	<i>Est. 73,410,000</i>	3	<i>Est. 220,230,000</i>
Equipment Centre	Unstated	1	80,822,000

¹⁷ Note: EMATUM provided Kroll with invoices for the twenty-four fishing vessels, each for USD 22.3 million (i.e. a total of USD 535.2 million). The USD 535.2 million total, added to USD 80.8 million for the *Equipment Centre, Intellectual property and Spare parts and training*, leaves a balance of USD 220.2 million from the USD 836.3 million contract value.

Intellectual property	Unstated	1	
Spare parts and training	Unstated	1	
Total			836,300,000

3.4.7 Asset verification

Kroll visited several locations in Mozambique to verify the existence of the assets to be delivered per the EMATUM Supply Contract, and confirmed the existence of twenty-one Longliner vessels and three Trawlers in Maputo and three Ocean Eagle vessels in Pemba. Similar to the ProIndicus contract, none of the assets are fully operational for several reasons, including a lack of trained crew to operate the vessels, and the limitation on available working capital.

Kroll has not verified the existence of i) a secured site for the Land Operations Coordination Centre or ii) the equipment for the centre. The Prinvest Presentation stated that this equipment was delivered, but that the installation and commissioning of the equipment had not occurred due to the failure of EMATUM to procure a site for the Coordination Centre, or to provide personnel to undertake the necessary training.

Further, the Contractor stated in the Mozambique Presentation that two of the three Camcopter drones, due to be supplied with the Ocean Eagle vessels, were not delivered due to failures by EMATUM to provide appropriate staff for training as required under the contract. Kroll has not received any further details from EMATUM regarding the location of the remaining Camcopter drone which was purportedly delivered to Mozambique in September 2014. The price of each Camcopter drone is not known.

3.4.8 Discrepancies in explanation of USD 500 million expenditure

The Independent Audit has established that there are inconsistencies between explanations provided by Person A, the Ministry of Finance, the Ministry of Defence and the Contractor regarding the actual use of USD 500 million of the loan proceeds.

Kroll was informed by the Ministry of Finance that USD 500 million of the EMATUM loan was integrated into the national budget in 2014. The Role H, Person H, informed Kroll that the transfer occurred in 2013 during discussions regarding the budget proposal for 2014. Initially, only USD 350 million of the loan was transferred, with an additional USD 150 million allocated at a later date.

A document published by the IMF, entitled "Staff Report for the 2015 Article IV Consultation, fifth review under the Policy Support Instrument" states that the Government of Mozambique guaranteed a USD 850 million bond issued in 2013 by EMATUM to finance the purchase of tuna fishing boats and maritime security equipment. The document states that subsequently USD 500

million was incorporated into the State budget for the maritime security equipment, and became public debt under the responsibility of the Treasury.

The Ministry of Finance has not been able to confirm to Kroll any details of the maritime security equipment that were effectively included in the USD 500 million allocation, nor if the USD 500 million integration into the national budget has actually been completed.

Separately, Person A stated to Kroll that USD 500 million of the loan proceeds were used to purchase military equipment. Kroll has raised the question of how the loan proceeds were used by the Ministry of Defence with Person A on several occasions, who in turn has stated that financial information and documentation supporting any confidential military expenditure is outside the scope of the Independent Audit. Person A has further stated that this is classified information held by SISE.

Person A, in further support of this statement, provided Kroll with an unsigned draft letter dated 5 December 2016 purportedly from Person I, the Role I. The letter stated:

"For all legal and consequent effects, we confirm that the Ministry of Defence of the Republic of Mozambique received, in the scope of the "EMATUM project", military equipment in the total amount equal to USD 500,000.00 [sic] (five hundred million US dollar), aiming to boost the capacities for the protection of national sovereignty, territorial integrity, and the inviolability of national borders."¹⁸

Kroll met with Role I to discuss the draft letter. Role I explained to Kroll that he/she was aware of the draft letter, but refused to sign the letter as he/she was unaware of what, if any, military equipment was provided to the Ministry of Defence.

The Contractor has categorically stated to Kroll that the assets delivered to EMATUM were per the agreed supply contract and specifically that no weapons were provided.

Kroll has requested that both the Role E, Person E and the Role F, Person F, provide further details on what military equipment was procured for the Ministry of Defence. Person E stated that SISE was unable to provide any information to Kroll. Person F has informed Kroll that no records relating to the Mozambique Companies have been provided to him/her since he/she took office.

In order to verify how the USD 500 million loan proceeds were actually allocated, a framework that preserves the confidentiality of relevant information needs to be established or the relevant parties need to waive confidentiality. This will enable Kroll to be provided with further documentation from the Contractor explaining the pricing structure of the EMATUM Supply Contract, without breaching the terms of the contract.

¹⁸ Note: The reference to "USD 500,000.00 (five hundred million US dollar)" is quoted verbatim.

3.4.9 Issues encountered by Contractor in delivering the supply contract

The Contractor provided Kroll with a comprehensive overview, along with supporting documentation, of contract obligations not fulfilled by EMATUM management in respect of the EMATUM Supply Contract. These issues are stated to have impacted on the Contractor's ability to fulfil its contractual obligations and to have caused delays to the delivery of the EMATUM Project.

The Privinvest Presentation stated that the key issues include i) non-completion of crew training for the Ocean Eagle vessels and Camcopter drones, and ii) the non-provision of a site for the Land Operations Coordination Centre.

Further, correspondence provided by the Contractor to Kroll indicates that EMATUM i) had not established an onshore storage facility that would enable the company to store fish at the correct temperature, ii) had not maintained the vessels supplied as advised by the Contractor, and iii) had made alterations to the vessels which impacted the ability to claim under the contractual warranty.

On the basis of the evidence provided, it appears that the absence of a Land Operations Coordination Centre and the shortage of properly trained crew is a result of inaction and failures by management of the Mozambique Companies to perform their duties, and that these failings have contributed to, and continue to impact, EMATUM's inability to generate operational revenues.

3.4.10 Intellectual property and transfer of technology

The supply contract also references the transfer of an intellectual property licence to EMATUM. The EMATUM Supply Contract stated that this licence would enable EMATUM to have the capability to build fishing vessels and Ocean Eagle vessels at an agreed site within Mozambique. Further, the contract stated that EMATUM required the prior consent of the Contractor to supply these vessels to countries other than the Republic of Mozambique.

Kroll was not provided with any further details of the intellectual property licence, including the value apportioned to the licence as part of the overall contract. The accounting records provided to Kroll do not show intellectual property recognised as an asset - this is potentially a breach of Article 42 of the Commercial Code (please refer to Section 9).

3.5 MAM: Key observations

3.5.1 Loan agreement

Table 7 provides a summary of the MAM loan agreement, including the total loan facility drawn down and the fees deducted by VTB Capital.

Table 7 | Summary of MAM loan fees

Details	Fees (USD)	Amount (USD)
Total loan facility drawn down (VTB Capital)		535,000,000
Arrangement Fees paid by MAM to VTB Capital	(35,000,000)	
Total payments to the Contractor account		500,000,000

On 20 May 2014, MAM signed a loan agreement with a limit of USD 540 million with VTB Capital. The MAM Loan Agreement was arranged by Palomar and VTB Capital, and was facilitated by VTB Capital. The loan agreement was guaranteed for the full amount by the Government of Mozambique, acting through the Ministry of Finance and Person C.

On 23 May 2014 and 11 June 2014, USD 535 million of the loan facility was utilised in tranches of USD 435 million and USD 100 million, with all of the funds provided by VTB Capital.

MAM agreed arrangement fees of USD 35 million with VTB Capital. As a result, the total loan proceeds remaining after the deduction of arrangement fees was USD 500 million - this amount was paid to the Contractor's bank account in the United Arab Emirates.

An Arrangement Fee letter dated 23 May 2014 stated that no other annual or periodic fees were payable in relation to the loan agreement. Unlike the ProIndicus and EMATUM loan agreements, no Contractor Fees were payable by the Contractor. However, the Prinvest Presentation stated that the Ministry of Finance requested the Contractor "...to subsidise the cost of the MAM financing by undertaking to fund the first year of interest of the MAM loan" which the Contractor stated it did at its own cost. The MAM loan agreement showed that the interest rate was higher than the interest rates charged on the ProIndicus and EMATUM loans.

On 27 May 2015, following a request from Person A, Palomar made an interest payment of USD 40.8 million to VTB Capital on behalf of MAM. Kroll has not been provided with any documentation to evidence an agreement by the Contractor to pay the first year's interest on behalf of MAM.

Kroll was informed by the Ministry of Finance that MAM defaulted on principal and interest payments totalling USD 175.5 million due on 23 May 2016.

3.5.2 Revenue projections

The MAM Business Plan stated that the company was expected to generate estimated operating revenues of USD 63.7 million at the end of Year 1, and that, after loan interest of USD 48.6 million was deducted, "cashflow available for debt service" would be USD 15.9 million.

At the time of reporting, MAM has not generated any operating revenues other than USD 25,000 generated in 2017 for transporting goods on the *African Storm* "Dual Purpose Vessel", a deal which was arranged and managed by the Contractor.

The basis for the revenue projections was: income from maintenance services for the vessels owned by ProIndicus and EMATUM; construction of vessels; and servicing of commercial vessels for offshore oil and gas companies. The construction of vessels equated to over 70% of the estimated revenue for MAM from Year 2 of the contract. Kroll has not received any documentation to support the estimated revenues.

The MAM Business Plan was, in part, based on planned agreements with ProIndicus and EMATUM for the servicing of certain vessels classified as "Government Vessels."¹⁹ The Contractor has provided Kroll with documentation that indicates that MAM did not enter into any agreements with ProIndicus or EMATUM for the servicing of Government Vessels in a timely manner.

3.5.3 Scope of supply

On 1 May 2014, MAM signed a USD 500 million supply contract (hereafter the "Original MAM Supply Contract") with the Contractor for the supply of the following assets and services:

- í Construction and fit out of a shipyard in Pemba;
- í Construction of eighteen DV15 Interceptor vessels;
- í Upgrade of two existing facilities in Maputo and Beira to provide maintenance and servicing to the ProIndicus and EMATUM vessels, as well as offshore oil and gas vessels;
- í Management of the Pemba Shipyard and the Maputo and Beira facilities for a two year period;
- í Transfer of the intellectual property licences and technologies to enable the construction of the DV15 Interceptor, HSI32 Interceptor and WP18 Interceptor vessels. The contract also provided for the transfer of intellectual property for the fishing vessels and Ocean Eagle vessels from EMATUM to MAM (for no payment to the Contractor);
- í Provision of a Dual Purpose Vessel, and associated crew, for a period of two years; and,
- í Training of local personnel to enable them to undertake maintenance services and construction in the future.

On or around 22 December 2014, MAM and the Contractor agreed to amend the supply contract (hereafter the "Amended MAM Supply Contract") to reflect the ongoing challenges experienced by

¹⁹Note: "Government Vessels" are defined as DV15 Interceptors, HSI32 Interceptors, WP18 Interceptor, Ocean Eagle and the fishing vessels.

the Contractor in relation to delivering the project in Mozambique. The Amended MAM Supply Contract revised the scope of supply to include:

- ¶ Fit out of two maintenance and servicing bases to be located in Pemba and Maputo;
- Upgrade of one of these bases to enable "*basic steelwork and ship assembly activities*";
- Provision of a "Dual Purpose Vessel," the "African Storm" and associated crew, for a period of two years, with the vessel to be sold to MAM for USD 1 after this period;
- ¶ Fit out of the Mozambique Maritime Institute (a training facility), to be co-located in two existing facilities at the Pemba Naval School and Maputo Nautical School;
- ¶ Delivery of training at the Mozambique Maritime Institute for maintenance and operations of the vessels supplied to EMATUM and MAM; and,
- ¶ Transfer of intellectual property licences and technology as set out in the Original MAM Supply Contract.

The Amended MAM Supply Contract only required the Contractor to provide an invoice for the full price of the contract and did not require them to provide detailed invoices listing the price of each asset and service provided. At Kroll's request, MAM obtained from the Contractor an undated "Global Invoice" (hereafter the "MAM Invoice") for the Amended MAM Supply Contract which provided "*Confirmation of deliverables*" with a total value of USD 500 million. An extract of the MAM Invoice is included at Figure 3.

Figure 3 | Extract of MAM Invoice:

Re: Contract dated 1 May 2014, as amended and restated by a letter agreement dated 15 June 2015 – Global Invoice

Confirmation of deliverables

1. Mobile Maintenance Vessel
2. Mobile Maintenance Vessel Services
3. Base Equipment
4. Management Services
5. Base Maintenance Services
6. Training Services
7. Intellectual Property Licence and technology transfer

For a total value of US\$500,000,000

Kroll was informed by an industry expert that invoices should include a clear and detailed description of all assets and services provided. The invoices provided to Kroll do not provide sufficient detail to gain comfort that the documents accurately reflect the true price of these assets and services, and therefore do not allow proper accounting records to be maintained by the company. Kroll discusses in Section 9 of this Report how the limited invoice documentation gives

rise to potential breaches of certain Articles in the Mozambique Commercial Code by the Mozambique Companies.

3.5.4 Asset verification

Kroll verified that the Pemba Shipyard is partially fitted out, and the Contractor has stated that the site became operational around June 2016. Kroll has not been able to verify the capabilities of MAM to deliver the anticipated services at this site.

Kroll has not physically verified the existence of the Maputo Shipyard - at the time of completing the Independent Audit, access was not available to the Shipyard and the Contractor stated to Kroll that work was ongoing to upgrade and fit out this facility, a process which has been delayed due to failures by MAM to provide access to the facility.

Kroll verified the existence of the Dual Purpose Vessel, the *African Storm*, in Pemba and the Contractor provided evidence to show that the title of the vessel would be transferred to MAM on 31 May 2017.

Kroll attended the site of the Pemba Naval School which was partially completed. At the time of Kroll's visit [Redacted], a [Redacted], was engaged to deliver operator training for the vessels. Kroll was provided with a tour of the training facility, which included several mock vessel cockpits. Kroll was informed by the Contractor that the planned training courses have been considerably delayed due to failure by MAM to supply suitable candidates.

3.5.5 Intellectual property and transfer of technology

The Original MAM Supply Contract provided for the transfer of intellectual property licences and associated technology transfers from the Contractor to MAM, to allow MAM to construct DV15 Interceptors, HSI32 Interceptors and WP18 Interceptor vessels in Mozambique. Further, intellectual property licences and associated technology transfers for the fishing vessels and Ocean Eagle vessels, provided to EMATUM under the EMATUM Supply Contract, were to be transferred to MAM.

The Amended MAM Supply Contract stated that the intellectual property licences for the aforementioned vessels were transferred to MAM by the date of the contract (22 December 2014). The Amended MAM Supply Contract also stated that the associated technology transfer to enable MAM to assemble the vessels, rather than construct them as stated in the Original MAM Supply Contract, would be provided at a later date at no additional cost – it is not known if this transfer has actually occurred.

Furthermore, Kroll was not provided with any evidence to show that the intellectual property licences for the fishing vessels and Ocean Eagle vessels were transferred by EMATUM to MAM as provided for in the Original MAM Supply Contract. The intellectual property licences and technology rights have not been recognised as an asset in the accounting records of either company.

3.5.6 Payments from Logistics International to MAM

On 2 July 2014 a payment of USD 999,967 was received into a MAM bank account in Mozambique from a Logistics International bank account in the United Arab Emirates. Logistics International is the same company which transferred funds to EMATUM in 2013. The reason for this payment is unknown. Kroll has requested further information from the Contractor, but has not been provided with any evidence of an agreement between the Contractor and MAM to support this payment.

3.5.7 Issues with deliverables

The Contractor provided Kroll with a comprehensive overview, along with supporting documentation, of contract obligations not fulfilled by MAM management in respect of the MAM supply contract. These issues are stated to have impacted on the Contractor's ability to fulfil its contractual obligations under the Amended MAM Supply Contract which is due to expire on 31 May 2017, at which point the Contractor, in the absence of further extensions, will not be required to provide any further services under the supply contract.

The Contractor stated in the Prinvest Presentation that the key issues included:

- í **Sites:** MAM was severely delayed in procuring access and control of the sites required for the project.
- í **Permits and Authorisations:** MAM had not procured the necessary permits and authorisations for the sites and the installation of certain equipment onsite (e.g. pontoons).
- í **Visas:** MAM had not procured valid work visas for Contractor personnel.
- í **Customs Clearance:** MAM had not paid the customs duties due on certain containers, holding equipment and materials, or otherwise procured their timely release.
- í **Sub-Contractors:** MAM had not paid or managed the subcontractors undertaking critical works at the Sites which must be completed before other operations could commence.

Emails enclosed in the correspondence files provided by the Contractor to Kroll provide evidence the aforementioned issues. Kroll has not substantiated the authenticity of the documents with the Mozambique Companies, however there is no reason to doubt their veracity.

3.6 Price comparison of assets and services

The Independent Audit has enabled Kroll to obtain an understanding of the key assets and services that were contracted to be provided by the Contractor to the Mozambique Companies, including the purported overall price of each contract. However, gaps remain in understanding how exactly the USD 2 billion was spent, despite considerable efforts to close this gap.

3.6.1 Documents provided to Kroll

Kroll has considered the price of assets and services delivered (or to be delivered) as part of the three supply contacts between the Contractor and the Mozambique Companies. Limited documents have been provided to Kroll by the Contractor and the Mozambique Companies to evidence the price of assets and services. The documentation provided is summarised as follows:

ProIndicus:

- A one page "Confirmation of deliverables" invoice listing assets and services totalling USD 611,986,800 (the ProIndicus Invoice);
- Several invoices for the provision of: thirty-six DV15 Interceptor vessels; three WP18 Interceptor vessels; and sixteen radar stations. The prices stated in these individual asset invoices correspond to the one page "Confirmation of deliverables" invoice, and do not provide any further detail regarding the specification of the assets.

EMATUM:

- A one page invoice listing assets and services totalling USD 635,582,000 (the EMATUM Invoice); and,
- Several invoices including a short specification for the provision of three Trawlers and twenty-one Longliner vessels, each one priced at USD 22,302,000 (i.e., a total of USD 535,248,000).

The EMATUM invoice only listed assets and services that were still to be delivered under the supply contract. Kroll has considered this invoice in the context of the assets that had already been delivered to EMATUM at the time in order to calculate a total price of USD 836,300,000 for the assets and services to be provided under the supply contract, which corresponds with the price set out in the EMATUM Supply Contract.

MAM:

- A one page "Confirmation of deliverables" invoice listing assets and services totalling USD 500,000,000 (the MAM Invoice) - the invoice does not provide specific prices for any assets or services).

Other documents:

In addition, ProIndicus provided Kroll with a copy of a ProIndicus Business Plan, dated 17 March 2014, and MAM provided Kroll with a copy of an undated document entitled "*Construction of Shipyard and Coastal Maintenance Bases*" (hereafter the "MAM Business Plan"). For clarity, the EMATUM Feasibility Study did not reference any prices for specific assets.

The "Scope of Supply" Sections in 3.3 to 3.5 above include extracts from the invoices provided by the Contractor to ProIndicus, EMATUM and MAM for each supply contract.

3.6.2 Methodology to undertaking price comparison of assets and services

The invoices provided to Kroll provide limited detail, if any, on the specification of individual assets or services. Where specified in the invoices provided by the Contractor, the prices for certain assets and services do not correspond to the prices indicated in other documentation (as outlined below) provided to Kroll as part of the Independent Audit.

Further, the supply contracts between the Contractor and the Mozambique Companies do not provide any details of the pricing structure (for example, the costs allocated to training, maintenance etc.). The Contractor stated in email communications to Kroll that no purchase orders or delivery notes were required under the terms of the contract.

Based on the documentation received, Kroll was not able to undertake a full valuation of the assets and services to be provided by the Contractor under the three supply contracts with the Mozambique Companies. Instead Kroll, with the support of an independent expert, has sought to estimate the price discrepancy of the assets and services provided under each supply contract.

Kroll has approached the price comparison of assets and services by considering the prices stated in the invoices provided by the Contractor to the Mozambique Companies against:

1. The ProIndicus Business Plan;
2. The MAM Business Plan, and,
3. Estimated prices calculated by Kroll with the assistance of an independent expert.

3.6.3 Price comparison of assets and services - ProIndicus Business Plan

The ProIndicus Business Plan sets out different prices for several assets when compared to i) the prices stated in the invoices provided to ProIndicus by the Contractor and ii) the MAM Business Plan (discussed below).

Table 8 summarises the differences in asset prices for the DV15 Interceptor vessels, HSI32 Interceptor vessels, WP18 Interceptor vessels and Radar Stations. Kroll has focused on these specific assets as they represent the greatest differences in price.

Table 8 | Summary of asset price differences (ProIndicus invoice vs. ProIndicus Business Plan)

Assets	No	ProIndicus Invoice - USD (Unit)	ProIndicus Business Plan - USD (Unit)	ProIndicus Invoice - USD (Total)	ProIndicus Business Plan - USD (Total)	Difference - USD (Total)
DV15 Interceptor	36	7,200,000	7,645,000	259,200,000	275,220,000	16,020,000
HSI32 Interceptor	3	32,700,000	39,333,333	98,100,000	118,000,000	19,900,000
WP18 Interceptor	3	19,400,000	17,600,000	58,200,000	52,800,000	(5,400,000)
Radar Stations	16	7,400,000	3,830,000	118,400,000	61,280,000	(57,120,000)
Total				533,900,000	507,300,000	26,600,000

The analysis summarised in Table 8 shows a significant discrepancy in the price of the Radar Stations - the reason for the different prices is not known, but it provides evidence of the difficulties faced in obtaining an accurate price for the assets and services to be delivered under the ProIndicus Supply Contract for the purposes of the Independent Audit.

The ProIndicus Business Plan also includes additional assets and services that are not detailed in the invoice provided to ProIndicus by the Contractor, or the ProIndicus Supply Contract. For example, the ProIndicus Business Plan includes "Intellectual Property" for a total price of USD 38,920,000, which comprised USD 33,150,000 for intellectual property and transfer of technology for interceptor vessels, and USD 5,770,000 for management services.

3.6.4 Price comparison of assets and services - MAM Business Plan

The MAM Business Plan states that MAM will be the beneficiary of Intellectual Property and Transfer of Technology that will enable the construction of vessels to create a new revenue stream for the Government of Mozambique. The MAM Business Plan includes a section entitled "Estimated Revenues and Gross Profit from Construction of Vessels."

The estimated revenues for three ProIndicus vessel types (DV15 Interceptor, HSI32 Interceptor and WP18 Interceptor) and two EMATUM vessel types (Ocean Eagle and Longliner) were included in the MAM Business Plan and are summarised in Table 9. It is not clear from the MAM Business Plan if "estimated revenues" represents the price at which MAM would market and sell vessels that it had constructed to potential customers, however for the purposes of this analysis, Kroll uses the term "price" when referring to "estimated revenues."

Kroll compared the prices stated in the invoices provided by the Contractor to ProIndicus and EMATUM against the prices included in the MAM Business Plan. The prices included in the MAM Business Plan exclude the engine, software and electronics costs for each vessel - Kroll does not have any information on these incremental costs.

Table 9 | Summary of asset price differences (ProIndicus/EMATUM Invoice vs. MAM Business Plan)

Asset Description	ProIndicus / EMATUM Invoice Price - USD (Unit)	MAM Business Plan Price - USD (Unit)	Difference - USD (Unit)	Difference - Percentage
DV15 Interceptor	7,200,000	4,200,000	3,000,000	-42%
HSI32 Interceptor	32,700,000	14,700,000	18,000,000	-55%
WP18 Interceptor	19,400,000	8,400,000	11,000,000	-57%
Ocean Eagle	73,410,000	21,000,000	52,410,000	-71%
Longliner	22,302,000	10,500,000	11,802,000	-53%

Kroll's analysis shows that the prices included in the MAM Business Plan for the five asset types differ significantly from the invoice prices provided to ProIndicus and EMATUM by the Contractor. Kroll has considered the prices in the MAM Business Plan as they relate to ProIndicus and EMATUM Supply Contracts in more detail the next two sections.

3.6.4.1 Price comparison of ProIndicus assets

Table 10 summarises the differences between the prices of the DV15 Interceptor vessels, HSI32 Interceptor vessels and WP18 Interceptor vessels as stated in the invoices provided to ProIndicus by the Contractor, and the prices for the same assets in the MAM Business Plan.

Table 10 | Summary of asset price differences (ProIndicus Invoice vs. MAM Business Plan)

Assets	Nº	ProIndicus Invoice Price - USD (Unit)	MAM Business Plan Price - USD (Unit)	ProIndicus Invoice Price - USD (Total)	MAM Business Plan Price - USD (Total)	Difference - USD (Total)
DV15 Interceptor	36	7,200,000	4,200,000	259,200,000	151,200,000	108,000,000
HSI32 Interceptor	3	32,700,000	14,700,000	98,100,000	44,100,000	54,000,000
WP18 Interceptor	3	19,400,000	8,400,000	58,200,000	25,200,000	33,000,000
Total				415,500,000	220,500,000	195,000,000

The analysis illustrates that the difference between prices for the assets as stated in the invoices provided to ProIndicus by the Contractor, and the prices outlined in the MAM Business Plan total USD 195,000,000.

3.6.4.2 Price comparison of EMATUM assets

Table 11 summarises the differences between the prices of the Ocean Eagle vessels and Longliner vessels as stated in the invoices provided to EMATUM by the Contractor, and the prices for the same assets in the MAM Business Plan. For the purposes of this analysis, Kroll has classed the three Trawler vessels as Longliner vessels, as they are based on the same design as the Longliner vessels and have been invoiced by the Contractor to EMATUM at the same price.

Table 11 | Summary of asset price differences (EMATUM Invoice vs. MAM Business Plan)

Assets	No	EMATUM Invoice Price - USD (Unit)	MAM Business Plan Price - USD (Unit)	EMATUM Invoice Price - USD (Total)	MAM Business Plan Price - USD (Total)	Difference - USD (Total)
Ocean Eagle	3	73,410,000	21,000,000	220,230,000	63,000,000	157,230,000
Longliner	24	22,302,000	10,500,000	535,248,000	252,000,000	283,248,000
Total				755,478,000	315,000,000	440,478,000

The analysis illustrates that the difference between prices for the assets as stated in the invoices provided to EMATUM by the Contractor, and the prices outlined in the MAM Business Plan total USD 440,478,000.

Kroll has not been able to determine the basis on which the prices in the MAM Business Plan have been established, nor the costs of supplying the engine, software and electronics for each vessel. Kroll recommends that further information is requested from the Contractor to explain the differences in the prices.

In addition to the EMATUM Invoice, EMATUM provided Kroll with separate invoices for the twenty - four fishing vessels. Person A informed Kroll that the invoices were originally provided by the Contractor to EMATUM for customs purposes. The invoices stated that the price of each fishing vessel was USD 22.3 million (i.e. a total of USD 535.2 million) - these prices correspond with the EMATUM Invoice.

Person A stated to Kroll, in a meeting on 25 November 2016, that the invoices for the fishing vessels concealed the purchase of other assets. Subsequently, Person J (on behalf of the Contractor), in an email dated 21 March 2017, stated to Person A "...that any suggestion that PISB [Prinvest] or ADM [Abu Dhabi Mar] delivered hidden or secret assets is both completely untrue and potentially very damaging to us."

3.6.5 Price comparison of assets - independent expert

Kroll, with the support of an independent expert, has sought to estimate the price discrepancy of the assets and services provided under each supply contract. The independent expert engaged by

Kroll has over 30 years' experience working in both a military and commercial environment, primarily in sales and bid management for complex defence systems.

Kroll has undertaken the following analysis solely for the purposes of seeking to understand the underlying pricing structure of each supply contract, and as such the prices for assets and services discussed in the following sections cannot be verified without further information from the Contractor regarding the specification and pricing for individual assets and services. The Contractor has stated that pricing information for the supply contracts is confidential and cannot be shared without a non-disclosure agreement being agreed with Kroll.

Kroll has conducted the exercise to estimate the price discrepancy of the assets and services provided under the ProIndicus and EMATUM Supply Contracts only. The customised nature of the MAM Project means that it is not possible to consider comparable projects for the purposes of estimating the price discrepancy of the assets and services provided under the supply contract.

This exercise has been undertaken to identify commercially equivalent assets and their corresponding prices, using open source pricing information for a wide variety of comparable contracts, and, where possible, direct enquiries to vessel manufacturers in Europe. The ability to price contracts for assets and services in the defence industry is limited due to the lack of open source pricing information available, which is further compounded by incomplete information for the specifications for the assets acquired by ProIndicus and EMATUM.

3.6.5.1 Price comparison of ProIndicus assets

Table 12 summarises the differences between the prices of the DV15 Interceptor vessels, HSI32 Interceptor vessels and WP18 Interceptor vessels as stated in the invoices provided to ProIndicus by the Contractor, and the estimated prices for the same assets with reference to the analysis performed by Kroll's independent expert.

Table 12 | Summary of asset price differences (ProIndicus Invoice vs. Independent Expert)

Assets	No	ProIndicus Invoice Price - USD (Unit)	Independent Expert Price - USD (Unit)	ProIndicus Invoice Price - USD (Total)	Independent Expert Price - USD (Total)	Difference - USD (Total)
DV15 Interceptor	36	7,200,000	2,000,000	259,200,000	72,000,000	187,200,000
HSI32 Interceptor	3	32,700,000	8,000,000	98,100,000	24,000,000	74,100,000
WP18 Interceptor	3	19,400,000	20,000,000	58,200,000	60,000,000	(1,800,000)
Total without turnkey multipliers (A)				415,500,000	156,000,000	259,500,000
Total with turnkey multipliers (B)				415,500,000	385,700,000	29,800,000

The analysis illustrates that the difference between prices for the assets as stated in the invoices provided to ProIndicus by the Contractor, and the prices estimated by Kroll's independent expert total USD 259,500,000 (designated by (A) in Table 12).

However, it is important to note that considering the asset price in isolation will not provide an accurate reflection of the price of a turnkey contract such as the one agreed between ProIndicus and the Contractor. Kroll's independent expert has stated that the costs of delivering and integrating the assets (including costs for bid preparation, project planning, systems integration and project management), and by adding an appropriate profit margin for the project, could more than double the price of the combined assets.

Kroll has applied this approach using estimated multipliers calculated by the independent expert - this approach would increase the price of the assets included in Table 12 from USD 156,000,000 to USD 385,700,000, thereby reducing the difference to USD 29,800,000 (designated by (B) in Table 12).

Price comparison of EMATUM assets

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Table 13 summarises the differences between the prices of the Ocean Eagle vessels and Longliner vessels as stated in the invoices provided to EMATUM by the Contractor, and the estimated prices for the same assets with reference to the analysis performed by Kroll's independent expert.

For the purposes of this analysis, Kroll has classed the three Trawler vessels as Longliner vessels, as they are based on the same design as the Longliner vessels and have been invoiced by the Contractor to EMATUM at the same price.

Table 13 | Summary of asset price differences (EMATUM Invoice vs. Independent Expert)

Assets	No	EMATUM Invoice - USD (Unit)	Independent Expert Price - USD (Unit)	EMATUM Invoice Price - USD (Total)	Independent Expert Price - USD (Total)	Difference - USD (Total)
Ocean Eagle	3	73,410,000	20,000,000	220,230,000	60,000,000	160,230,000
Longliner	24	22,302,000	2,000,000	535,248,000	48,000,000	487,248,000
Total				755,478,000	108,000,000	647,478,000

The analysis illustrates that the difference between prices for the assets as stated in the invoices provided to EMATUM by the Contractor, and the prices estimated by Kroll's independent expert total USD 647,478,000.

The EMATUM Supply Contract appears to have been structured as an asset-purchase contract, rather than the turnkey/systems integration project acquired by ProIndicus. Kroll has not had any insight as to the underlying pricing model established for the EMATUM Supply Contract, and the

prices estimated by Kroll's independent expert are provided only as an indicative guide based on the limited contractual information available.

3.6.6 Price comparison of other ProIndicus contractual assets

Kroll's independent expert has raised several queries regarding the price of other assets to be provided under the ProIndicus Supply Contract. In particular, the decision to procure the Remos GX aircraft has been highlighted as requiring further explanation by the Contractor.

The original ProIndicus Supply Contract stated that two F406 light turboprop aircraft manufactured by Reims Aviation Industries would be provided. Kroll has conducted independent research which indicates that the list price of a brand new F406 aircraft is approximately USD 2.5 million (therefore USD 5 million for two aircraft). Minutes of a meeting dated 25 April 2013 between the Contractor and ProIndicus stated that the original scope of supply was amended to provide better coverage of the Exclusive Economic Zone. As a result, instead of the F406 aircraft ProIndicus received six Remos GX aircraft, which are not considered by Kroll's independent expert to be a typical Maritime Patrol Aircraft.

The Remos GX is designated as a Light Sport Aircraft and is subject to "Visual Flight Rules" which means that the aircraft is restricted in countries that impose international rules. The Remos GX cannot be flown under Instrument Flight Rules conditions (i.e., the aircraft cannot be flown with visibility of less than 3 or 5 nautical miles), which will restrict the ability for the aircraft to be used by ProIndicus in inclement weather.

Kroll's analysis indicates that the list price of a brand new Remos GX aircraft is approximately USD 135,000. However, in order to modify the Remos GX aircraft with the necessary equipment to undertake a maritime role (for example adding cameras and maritime surveillance radars), it is estimated that the additional costs would be in the range of USD 600,000 per aircraft, or USD 735,000 per aircraft in total. As summarised in Table 14, this is significantly less than the USD 7,900,000 unit price stated in the invoice provided to ProIndicus by the Contractor, even when applying the same turnkey multipliers discussed in Section 3.6.5.1. Further analysis is necessary to establish the actual costs of modifying the Remos GX aircraft for the purposes envisaged by the supply contract.

Table 14 | Summary of asset price differences for aircraft (ProIndicus Invoice vs. Independent Expert)

Asset	No	ProIndicus Invoice Price - USD (Unit)	Independent Expert Price - USD (Unit)	ProIndicus Invoice Price - USD (Total)	Independent Expert Price - USD (Total)	Difference - USD (Total)
Remos GX	6	7,900,000	735,000	47,400,000	4,410,000	42,990,000
Total without turnkey multipliers (A)				47,400,000	4,410,000	42,990,000
Total with turnkey multipliers (B)				47,400,000	10,892,700	36,507,300

3.6.7 Price comparison of MAM assets and services

The only documentation provided to MAM by the Contractor to explain the prices of the MAM supply contract is the MAM Invoice that listed assets and services totalling USD 500,000,000. The invoice did not provide specific prices for any assets or services.

Kroll has verified that the Pemba Shipyard has been partially fitted out, and the Contractor has stated that the site became operational in June 2016. Kroll has not physically verified the existence of the Maputo Shipyard and the Contractor has stated that work is ongoing to upgrade and fit out this facility.

Kroll has not been provided with any further documentation to indicate the prices for the construction works undertaken at the Pemba Shipyard or Maputo Shipyard, and the customised nature of the MAM Project means that it is not possible to consider comparable projects for the purposes of estimating the price discrepancy of the assets and services provided under the supply contract. The MAM supply contract also includes the transfer of intellectual property and transfer of technology to enable the construction of vessels to create a new revenue stream for the Government of Mozambique - the price apportioned to this transfer is not known.

3.6.8 Summary of price comparison findings

Table 15 combines Kroll's analysis in Table 10 through to Table 14 by summarising the prices of assets and services in the invoices provided to ProIndicus and EMATUM by the Contractor, compared to:

1. The prices for the same assets in the MAM Business Plan; and,
2. The estimated prices for the same assets by Kroll's independent expert (factoring in the turnkey multiplier for the ProIndicus assets).

The summary is limited to comparison of the DV15 Interceptor vessels, HSI32 Interceptor vessels and WP18 Interceptor vessels for ProIndicus, and the Ocean Eagle vessels and Longliner vessels for EMATUM, to give a sense of the discrepancies and unexplained differences caused by the lack of documentation provided to Kroll.

Table 15 | Summary of comparison of prices for assets and services

Assets	ProIndicus / EMATUM Invoice Price - USD (Total)	MAM Business Plan Price - USD (Total)	Independent Expert Price inc. multipliers - USD (Total)
ProIndicus	415,500,000	220,500,000	385,700,000
EMATUM	755,478,000	315,000,000	108,000,000
Maritime Patrol Aircraft (Remos GX)	47,400,000	-	10,892,700
Total	1,218,378,000	535,500,000	504,592,700
Difference to Contractor Invoices	-	(682,878,000)	(713,785,300)

Both the MAM Business Plan prices and the independent expert estimated prices identify material differences in the prices of the assets. There are several factors that will affect the pricing models applied by the Contractor, including the specification of individual assets, the approach taken by the Contractor to integrating the assets, the provision of the necessary auxiliary services, such as training and maintenance, the perceived risk of delivering the projects in a high-risk market, and the profit margins applied to the project by the Contractor.

The differences between prices of assets and services outlined in the invoices provided to ProIndicus and EMATUM by the Contractor may be clearly explained by additional documentation from the Contractor. However, at the conclusion of Kroll's Independent Audit the differences remain unexplained and warrant further consideration.

3.7 Prinvest Group and Palomar

3.7.1 The Prinvest Group and Palomar

The Contractor stated in the Prinvest Presentation that they introduced ProIndicus to Credit Suisse following a written request from Role C. From 2013 the Prinvest Group became increasingly involved in both negotiating the loan contracts (including subvention fees) for the Mozambique Companies, and in providing financial advice to the Mozambique Companies and the Government of Mozambique in relation to first managing the projects and then later advising on restructuring the financing for the projects. Financial advice was provided by Palomar which is part of the Prinvest Group. The Palomar corporate website describes itself as providing financial advisory and asset management services.²⁰

²⁰ Source: <http://www.plar.com/>.

Person B is a Role B²¹ and documents show that he/she advised the Ministry of Finance and the Mozambique Companies on behalf of Palomar from 2014 onwards in relation to the loan restructure. Person B was previously a Role B and was involved in negotiating the original loan agreements with ProIndicus.

3.7.2 Palomar and ProIndicus

Palomar has, at the time of reporting, received USD 7.9 million from the Ministry of Finance for providing financial advice in relation to the ProIndicus loan agreement and it is contracted to receive a total of USD 30.5 million. The payments made to Palomar by the Ministry of Finance relate to "Running Fees" for Palomar's involvement in the restructuring of the ProIndicus loans in December 2014. No documentation was provided, at the time of reporting, to understand the basis for the Running Fees to be paid to Palomar or why its fees were larger than similar fees due to Credit Suisse or VTB Capital.²²

Furthermore, an agreement signed between Palomar and ProIndicus in 2013 made Palomar solely responsible for generating revenues for ProIndicus and included a clause whereby Palomar was to receive a proportion of the future revenues of ProIndicus for a 10 year period, as follows:

- **Exclusive Economic Zone Revenue Fees:** a sum of 10% of the gross amount received by ProIndicus in relation to the Exclusive Economic Zone project "*...and / or the services performed by Palomar Advisers;*" and,
- **Income Fees:** a sum of 10% of the net income generated pursuant to investments made using Exclusive Economic Zone revenue in each quarter. These investments were to be made by Palomar.

The financial records of ProIndicus show that no revenues were generated by Palomar, but it would appear from the terms of the agreement that as and when ProIndicus does start generating revenues, Palomar will then be entitled to a proportion of this revenue.²³

3.7.3 Palomar and MAM

Palomar was involved in arranging the MAM loan agreement with VTB Capital. Documentation suggests that Palomar did not receive any fees for its involvement in arranging the loan agreement. The circumstances surrounding this arrangement are unknown.

²¹ Note: Palomar Capital Advisors Ltd

²² Note: Following publication of the Summary Report, Palomar provided Kroll with a letter dated 4 December 2014 that sets out their role as financial advisors to ProIndicus for the purposes of refinancing the facility agreement. The letter references that fees payable would be set out in subsequent "Fee Letters".

²³ Note: Following publication of the Summary Report, Palomar provided Kroll with a letter dated 4 December 2014 that purportedly terminated this agreement.

A loan interest instalment of USD 40.8 million was paid to VTB Capital from a bank account in the name of Palomar. The only evidence provided in support of this payment is an undated letter from MAM to Palomar in which Person A references an agreement between MAM and the Contractor to make this payment. Kroll was not provided with a copy of this agreement and it is not currently known why the Contractor agreed to pay USD 40.8 million due from MAM to VTB Capital, or why the payment was made by Palomar.

3.7.4 Palomar and Legacy Advisors Limited

On 18 October 2016 Palomar Capital Advisors Ltd was placed into administration. On 17 February 2017 Palomar assigned its rights to receive the Running Fees to an entity called VR Global Partners, L.P., a company that appears to be registered in the Cayman Islands and part of the VR Global Capital Group.

In 2016, Palomar was appointed as an advisor to the Ministry of Finance for the restructuring of the Mozambique Companies loans. Also appointed as an advisor was an entity called Legacy Advisors Limited (hereafter "Legacy Advisors"). The documentation reviewed shows that a representative at Legacy Advisors was Person K, who was at the time, and continues to be at the time of reporting, a Role K in Mozambique.

No documents have yet been provided to confirm the fees paid to Legacy Advisors for the financial advice it provided.

3.8 Government guarantees

3.8.1 Government guarantees and the Parliamentary Inquiry Commission

Kroll reviewed the government guarantees that were issued by the Mozambique Ministry of Finance in relation to the loans entered into by the Mozambique Companies.

Since the commencement of Kroll's Independent Audit, a Parliamentary Inquiry Commission ("CPI") report has been published, which addressed the government guarantees and made a number of conclusions regarding their legality.

In this report Kroll has focused, as far as possible from the information available, an understanding the process that was followed for authorising government guarantees in order to identify any irregularities or concerns regarding the process and to suggest any improvements that might be made to strengthen this process.

3.8.2 Overview of findings

Kroll was informed in discussions with Person C and Person H that the process for the Ministry of Finance to assess and issue government guarantees is determined on a case by case basis.

Between February 2013 and December 2014, the Ministry of Finance authorised five separate guarantees totalling USD 2.2 billion for loans entered into or planned to be entered into by the Mozambique Companies. Table 16 summarises the documents provided to Kroll in respect of the government guarantees issued. Where no date is shown, the respective document has not been provided to Kroll.

Table 16 | Summary of government guarantee documents received (including. date of document)

Ref	Company	Request Document	Opinion Document	Government Guarantee
1	ProIndicus Original Loan Agreement	-	26/02/2013	28/02/2013
2	ProIndicus Amended Loan Agreement	10/05/2013	-	10/06/2013
3	EMATUM Loan Agreement	16/08/2013	-	30/08/2013
4	MAM Loan Agreement	25/04/2014	30/04/2014	20/05/2014
5	ProIndicus Final Loan Agreement	13/11/2014	-	17/12/2014

There does not appear to have been a documented or clearly understood process for issuing government guarantees; this was complicated by the fact that the Mozambique Companies were incorporated as private companies. Kroll was informed by Person H that Companies set up as state owned entities with loans treated as lending to the Government of Mozambique would have been subjected to greater scrutiny by the Ministry of Finance.

Apart from the initial government guarantee for ProIndicus which involved three government officials (Person D, Person D, and Person L (possibly a Role L), the guarantees were only reviewed and approved by two government officials, namely Person C and Person D. There was no involvement of Parliament or the Administrative Court in the process of assessing or approving the government guarantees.

The Role E, Person E, and Person A, were both involved in negotiating the approval for the government guarantees. Considerable emphasis was placed on the secrecy of the projects and because SISE claimed that they were a matter of national security, the documentation forming the basis of the government guarantee requests was subjected to less scrutiny. In addition, the individuals approving the government guarantees were warned by those requesting the government guarantees not to involve anyone else in the approval process.

Furthermore, for the second and third government guarantee granted to ProIndicus (with a total value of USD 528 million), no documentation was provided by the Ministry of Finance to show that any assessment of the guarantee request took place prior to the Role C approving the guarantee.

Likewise, no evidence was provided to Kroll that any Ministry of Finance assessment was undertaken prior to the approval of the USD 850 million guarantee for the EMATUM loan.

A letter dated 13 November 2014 from Person E, on behalf of SISE, to the Ministry of Finance, confirmed that despite borrowing USD 622 million, ProIndicus had not commenced operations at that point in time and therefore was not generating any revenues to pay the amounts due under the loans. In the letter, Person E requested an additional government guarantee for USD 278 million stating that this would avoid triggering the original ProIndicus government guarantees.

Person E's request for a government guarantee shows that the additional loan funds were intended to be used to pay down the existing loan exposure rather than for additional assets and services under the project. The letter states that the USD 278 million guarantee was to be in favour of Palomar, which suggests that this was the proposed lender, although no documents were provided to confirm that this was the case. The government guarantee was issued in the favour of Credit Suisse, not Palomar, and was signed by Person C. It appears that the underlying loan facility was not utilised.

A document prepared by the Ministry of Finance suggests that Credit Suisse imposed a number of "*preceding conditions*" that needed to be met before it would approve the loan financing, including the requirement to have the loan agreement approved by the Bank of Mozambique and checked by the Mozambique Administrative Court and that the "*operation*"²⁴ needed to be reported to the IMF. Documentation provided suggests that these conditions were "*overcome*" so that no court or Bank of Mozambique approval was required and no reporting to the IMF was needed. Further documentation is needed to confirm how the lending proceeded without meeting the required conditions.

3.9 Management of the Mozambique Companies

The Mozambique Companies are governed by individuals who do not appear to possess the necessary qualifications, skills or experience to effectively deliver the Mozambique Project. Person A has informed Kroll that he/she does not have prior experience of implementing an infrastructure project of this nature. Further, it appears that the key individuals responsible for the day to day operation of the Mozambique Companies do not possess the skills necessary to perform their function.

Kroll has identified numerous examples of potential breaches of fiduciary duties by the Directors of the Mozambique Companies, which appear to have resulted in loan agreements and supply contracts agreed under onerous terms. For example, the MAM loan agreement was approved by Person A on 1 May 2014, over a year after the first ProIndicus loan agreement was approved by

²⁴ Note: The word "operation" is a direct quote from the supporting document - the exact meaning is not clear.

Person A and Person M. At the point of signing the MAM loan agreement, Person A would presumably have been aware that ProIndicus was not generating any income from operations, and that the revenue estimates outlined in the MAM Business Plan (which tied directly to the success of ProIndicus) were not achievable.

Kroll was not able to obtain reliable accounting records from the Mozambique Companies to enable a proper assessment of the financial position of each company. Further, the Mozambique Companies were unable to provide complete loan agreements or supply contracts to Kroll. Consequently, in order to complete the Independent Audit, Kroll had to request and obtain bank account information from several banks located in Mozambique, loan agreements from Credit Suisse and VTB Capital located in the United Kingdom, and supply contracts from the Contractor in the United Arab Emirates.

Kroll's work has not identified a coherent business plan to bring the assets for the Mozambique Companies to an operational status which would enable them to generate revenue in the foreseeable future. Further, meetings with senior management from the Mozambique Companies did not provide any further understanding about future plans to make the assets operational. Based on the work undertaken by Kroll, it appears that the lack of leadership, combined with an unqualified, inexperienced and ineffectual project management team, has contributed significantly to the failure of the Mozambique Project.

3.9.1 The Mozambique Commercial Code

During the Independent Audit, Kroll identified a number of potential shortcomings regarding the management of the Mozambique Companies.

Kroll has considered the overall management of the Mozambique Companies against the Mozambique Commercial Code Decree Law 2/2005 ("Commercial Code"), to identify any potential breaches.²⁵ The objective of this analysis was to assess the performance of management of the Mozambique Companies in fulfilling their fiduciary duties and not to provide any form of legal analysis. Section 3 (of Chapter 2) of the Commercial Code deals with Commercial bookkeeping. Article 42 through to Article 61 addresses the general provisions and forms of bookkeeping for Mozambique companies. Kroll's work has identified the following Articles relevant to the management of the Mozambique Companies:

1. Article 42 (Obligation of commercial bookkeeping);
2. Article 43 (Mandatory books);
3. Article 119 (Loss of half the capital);

²⁵ Note: The Attorney General's Office confirmed to Kroll that the Mozambique Commercial Code is the appropriate law for considering the fiduciary duties of management.

4. Article 150 (Duty of diligence):

5. Article 415 (Documents to be made available to shareholders):

Of particular relevance is that the Mozambique Companies were unable to provide a large proportion of the financial information and supporting documentation necessary to complete the Independent Audit.

Specifically, the Mozambique Companies could not provide Kroll with complete and up-to-date copies of the loan agreements and supply contracts. Invoices provided to Kroll by the Mozambique Companies did not include sufficient detail to provide comfort that the documents accurately reflect the true price of the assets and services. Further, certain assets are not recorded in the accounting records, for example, the Ocean Eagle vessels under the EMATUM Supply Contract.

Further detail of potential management shortcomings against each specific Article listed above are provided at Section 9.

3.9.2 Key findings relating to project planning and management

The documentation reviewed during the Independent Audit points towards a small group of SISE and government officials, led by Person A, exercising control over the planning of the Mozambique Project.

The infrastructure necessary to enable the successful implementation of the Mozambique Project was not established prior to the agreement of each supply contract. Specifically, it appears that: insufficient port facilities were available for the appropriate mooring, maintenance or repair of the vessels acquired by ProIndicus and EMATUM; there were no plans to construct a dry land processing and storage facility for EMATUM, and; land required for the construction of the shipyards as envisaged by the MAM supply contract had not been secured in a timely manner.

Further, there appears to be several issues that have prevented the acquired assets being operationalised, for example:

- ❖ **Training of crew:** Kroll was informed by the Contractor that insufficient personnel were provided for training for vessels owned by both ProIndicus and EMATUM;
- ❖ **Permits for fishing vessels:** Kroll was informed that the fishing vessels are currently unable to operate due to permits not being reissued; and,
- ❖ **Expired satellite package:** A satellite package, agreed for the first three years of the project, has expired, with no evidence that negotiations for a new package have commenced. As a result, the radar systems built into each asset cannot communicate with the central command centres, and therefore the assets cannot be operationalised.

4. ProIndicus

4.1 ProIndicus report structure

The main body of this report section is split into the following sections:

- í Incorporation, share capital, management and government decree and concession ;
- í Loan facility agreements with Credit Suisse and VTB Capital;
- í Prinvest Shipbuilding supply contract; and,
- í Company operations.

Each report section provides a narrative of key events, actions and consequences, together with a summary of Kroll's interpretation of the key issues and matters for further investigation.

Kroll has separately outlined its findings regarding the overall management of ProIndicus (and EMATUM and MAM) at Section 9. Kroll has considered the overall management of ProIndicus against the Commercial Code to identify any potential breaches by ProIndicus (also discussed in further detail at Section 9).

4.2 Incorporation, share capital and management

4.2.1 Incorporation

According to the Mozambique Official Gazette, dated 8 January 2013, ProIndicus S.A.²⁶ ("ProIndicus") was incorporated on 21 December 2012 and is headquartered in Maputo, Mozambique.²⁷

The Articles of Association for ProIndicus state that the company's objective was to prepare, finance and implement an integrated monitoring and security system, as well as provide infrastructure security services.²⁸ The Mozambique Official Gazette states that the company would provide:

- *"Preparation, financing, implementation and management of integrated systems for air, space, maritime, lake, river and land security;*
- í *Consulting, procurement, and provision of equipment and other items for services related to infrastructure security; and,*

²⁶ Note: There are two main types of company in Mozambique: *Sociedades por Quotas* (private limited companies) and *Sociedades Anónimas* (joint stock company). In a *Sociedade por Quotas* the share capital is represented by shares (Quotas). Quotas are not materialised in certificates but consist of a simple registration in favour of the respective holder in the corporate registry. As such, it is always possible to know a shareholder of a *Sociedade por Quotas*. In a *Sociedade Anónima*, the share capital is represented by shares (acções) that are issued and may take the form of titles (bearer shares or nominative shares) or book-entry type shares.

²⁷ Document Reference: 2013-01-08 - Official Gazette ProIndicus Articles of Association (page 8 - 12).

²⁸ Document Reference: 2013-01-08 - Official Gazette ProIndicus Articles of Association (page 8 - 12).

- *Provision of services in the air, space, maritime, lake, river and land areas."*

4.2.2 Share capital

4.2.2.1 Shareholders

ProIndicus was incorporated with share capital of MZN 15 million (USD 507,600).²⁹ The two shareholders were Monte Binga, S.A. ("Monte Binga") and Gestão de Investimentos, Participações e Serviços, Limitada ("GIPS"), each owning 50% of the company.³⁰

Both Monte Binga and GIPS are ultimately owned by the Government of Mozambique. Monte Binga was incorporated in October 2007 and is owned by the Instituto de Gestão das Participações do Estado ("IGEPE"), a Government of Mozambique holding company.³¹ According to the Ministry of Finance, Monte Binga has been under the authority of the Ministry of National Defence ("Ministry of Defence") since 2011.³²

GIPS is a limited liability quota company incorporated in December 2011 and is owned by the Serviços Sociais do Serviço de Informações e Segurança do Estado ("SERSSE").³³ SERSSE is a state entity that provides social services to SISE employees and is under the authority of the Director General of SISE.³⁴

The ProIndicus business plan for 2013 - 2020 indicated that a third entity, Dalo Construções Lda ("Dalo"), a Mozambique company, was originally intended to hold 33% of the shares in ProIndicus.³⁵ In addition, the original loan facility agreement ("Original ProIndicus Loan Agreement") dated 28 February 2013 signed between ProIndicus and Credit Suisse stated that ProIndicus was owned in equal proportion by "*The Ministry of National Defence, the Ministry of Interior and the State Security and Intelligence Service of Mozambique.*"³⁶

Dalo was incorporated on 23 May 2014, however its Articles of Association do not detail the shareholders.³⁷ The Role N, Person N, informed Kroll that whilst there had been discussions between the Ministry of Interior and ProIndicus regarding shareholdings, currently Dalo was not officially documented as a shareholder of ProIndicus.³⁸

²⁹ Document Reference: 2013-01-08 - Official Gazette ProIndicus Articles of Association (page 8 - 12).

³⁰ Note: The Articles of Association do not list the shareholders at incorporation. The shareholders are listed in the ProIndicus Financial Statements for 2013 and the company's trial balance for October 2016.

³¹ Document Reference: 2008-01-30 - Boletim da República III Serie Numero 5 - Monte Binga Incorporation (page 20 - 23).

³² Document Reference: 2016-06-09 - MoF Statement on the Public Debt to the Assembly (page 4).

³³ Document Reference: 2012-01-13 - Boletim da República III Serie Numero 2 - GIPS Incorporation & 2013-03-05 - Boletim da República III Serie Numero 18 - GIPS.

³⁴ Document Reference: 2009-12-29 - Boletim da República I Série - Número 51 - Decree 81 - SERSSE.

³⁵ Document Reference: 2013 - Business Plan prepared by Admin Board (Section 1.1.1, page 4).

³⁶ Document Reference: 2013-02-28 ProIndicus - Facility Agreement (EN) (Section 17.20, page 39).

³⁷ Document Reference: 2014-06-04 - Boletim da República III Serie Numero 45 - DALO (page 37 - 40).

³⁸ Source: Kroll meeting with Person N, Role N on 27 January 2017.

4.2.2.2 Increase in share capital

On 19 March 2014, a ProIndicus General Assembly approved the increase of the company's share capital from MZN 15 million (USD 507,600) to MZN 665 million (USD 21,113,750).³⁹ On 21 March 2014, two equal transfers of MZN 321,749,890 (USD 10,086,859) were received into a bank account held by ProIndicus at BIM Mozambique. Transaction descriptions show that these amounts came from Monte Binga and GIPS respectively.

The increased share capital is recorded in notary records for ProIndicus dated 23 March 2014, although the document does not indicate the division of the shares.⁴⁰ According to the ProIndicus audited financial statements for 2014 ("ProIndicus Financial Statements for 2014"), both GIPS and Monte Binga each contributed MZN 321.7 billion for the increased capital.⁴¹ The increased capital was used to fund an interest payment on 21 March 2014 to Credit Suisse (refer to Section 4.3.6 detailing interest payments) totalling MZN 642.2 billion (USD 19,759,654).⁴²

4.2.3 Management

According to a ProIndicus organisational chart dated 16 December 2016, the following individuals were members of the ProIndicus Administration Board:⁴³

- Person A – [Redacted];
- Person O – [Redacted]; and,
- Unknown Individual (no name provided) – [Redacted].

Throughout the Independent Audit, Kroll has liaised with Person A in respect of requests for information and for responses to queries. Person A represented ProIndicus (and EMATUM and MAM) at the CPI,⁴⁴ and was the main point of contact for representatives of the Contractor in email communications relating to the Mozambique Project. Person A was instrumental in arranging the government guarantees to support the loan agreements, and in negotiating the amendments to the loan agreements with Credit Suisse, the Contractor and the Ministry of Finance. On this basis, Person A appears to have been the primary decision maker within ProIndicus.

Kroll's review of documents provided by ProIndicus and other parties indicates that two other individuals also served as President of the company: Person M and Person P. According to documents provided to Kroll, Person M signed the supply contract with Prinvest Shipbuilding

³⁹ Document Reference: 2014-03-19 - Meeting Notes - General Assembly.

⁴⁰ Document Reference: 2012-12-21 - ProIndicus Incorporation Notary Registry.

⁴¹ Document Reference: 2014-12-31 - ProIndicus 2014 Financial Statements (EN) (Note 11, page 27).

⁴² Document Reference: ProIndicus Bank Statement - BIM-USD-269523813 and 2014-03-19 - Interest Payment - Credit Suisse.

⁴³ Document Reference: 2016-12-13 - ProIndicus organizational structure (Pt).

⁴⁴ Note: Parliamentary Inquiry Commission to Ascertain the Status of the Public Debt, created through Resolution 16/2016, on 1 August 2016.

S.A.L. Abu Dhabi Branch (hereafter the "Contractor") on behalf of ProIndicus, whilst Person P signed loan utilisation requests on behalf of ProIndicus along with Person A. Kroll's research indicates that Person M and Person P previously worked for SISE and the Ministry of Defence, respectively.

The ProIndicus Financial Statements for 2014 provided a breakdown of the average number of employees:⁴⁵

Employee Classification	2014	2013
General Meeting	3	3
Audit Committee	2	2
Administrative Council	6	4
Command and Control Centre	9	3
Technical Director and Logistics	2	1
Finance and Administration Directors	6	4
Resource Human Department	3	2
Total	31	19

4.2.4 Subsidiaries and affiliates

Kroll has identified that ProIndicus is a shareholder of at least two entities: MAM and VIP and Assets Security S.A ("VIPAS").

MAM was incorporated in April 2014 (refer to Section 6.2.1). The ProIndicus shareholding in MAM is recorded in the internal accounting records and in the ProIndicus Financial Statements for 2014.⁴⁶ VIPAS, however, is not recorded in the internal accounting records provided to Kroll by ProIndicus. Kroll was not provided with any explanations for the incorporation of these two companies.

VIP and Assets Security S.A.

VIPAS was incorporated on 24 January 2016 and is located in Maputo. According to the Mozambique Official Gazette, VIPAS provides security services for individuals and companies as well as the installation of electric security systems. The company shareholding structure is as set out below:⁴⁷

í ProIndicus (47.22%);

⁴⁵ Document Reference: 2014-12-31 - ProIndicus 2014 Financial Statements (EN) (Note 16, page 29).

⁴⁶ Document Reference: 2014-12-31 - ProIndicus 2014 Financial Statements (EN), page 25

⁴⁷ Document Reference: 2016-02-26 - Boletim da República III Serie 24 – VIPAS.

- í MAM (47.22%); and,
- í GIPS (5.56%).

Kroll was not provided with any information in relation to VIPAS. Kroll requested, through the Bank of Mozambique, details of any bank accounts held for VIPAS at local Mozambique banks. No bank accounts were identified at the time of reporting.

4.2.5 Government decree and concession

Several months after the incorporation of ProIndicus and the raising of finance through external borrowing to purportedly execute its business plan, the Government of Mozambique issued Decree No 91/2013 ("SIMP Decree").⁴⁸ A concession contract issued after the SIMP Decree corresponded with the ProIndicus business plan and granted the company exclusive rights to implement a monitoring and protection system for the Mozambique Exclusive Economic Zone.

4.2.5.1 The SIMP Decree

On 26 November 2013, the Mozambique Council of Ministries issued the SIMP Decree⁴⁹ for the creation of an "Integrated Monitoring and Protection System for the Exclusive Economic Zone" ("Integrated Monitoring and Protection System"). The SIMP Decree was signed almost a year after ProIndicus was formed, and over ten months after the first loan agreement was approved by ProIndicus.

According to the SIMP Decree, Mozambique's "growth and development rates" compelled the country to own a "deterrent and interventional capacity" in order to remove any threats to the national interest. This would be achieved through the implementation of a "modular and information management system" for monitoring and protection.⁵⁰ The Integrated Monitoring and Protection System would comprise a "technological solution, observation satellite, radars, cars, interception vessels, patrol boats, and manned and unmanned aircraft,"⁵¹ with the following objectives:

- í To ensure the security of people, resources, assets, and infrastructure in marine areas;
- í To fight aggression, piracy, and drug trafficking;
- í To enhance the monitoring of fishing activities;
- í To ensure the inviolability of national borders;
- í The enforcement of environmental rules;
- í To preserve underwater heritage; and

⁴⁸ Document Reference: 2013-12-31 - Official Gazette - Council of Ministry approval for the creation of SIMP.

⁴⁹ Document Reference: 2013-12-31 - Official Gazette - Council of Ministry approval for the creation of SIMP.

⁵⁰ Document Reference: 2013-12-31 - Official Gazette - Council of Ministry approval for the creation of SIMP.

⁵¹ Document Reference: 2013-12-31 - Official Gazette - Council of Ministry approval for the creation of SIMP.

ii To coordinate safety and rescue operations.

The SIMP Decree stated that management of the Integrated Monitoring and Protection System would be carried by the Defence and Security Forces ("FDS") and that the Government of Mozambique could grant a concession to third parties to implement the system's activities.⁵²

According to the CPI report, Person A is quoted as stating that the SIMP Decree was a way to regularise in law the intended activities of ProIndicus.

4.2.5.2 SIMP Concession Agreement

A concession agreement was signed between the Republic of Mozambique and ProIndicus on 12 March 2014, which provided the company with a 30 year exclusive deal to provide services in relation to the Integrated Monitoring and Protection System.⁵³ Clause 5 of the concession agreement stated that the contract was subject to the authorisation of the Administrative Court, whose authorisation⁵⁴ was granted on 17 November 2014.⁵⁵ The agreement was signed on behalf of ProIndicus by Person A. The Republic of Mozambique was represented by Person Q (the Role Q), Person R (the Role R) and Person C.

The agreement stated that ProIndicus was required to maintain "*complete and exact*" records of its activities and would have to provide access to these records within 10 days on receipt of a written request from the Republic of Mozambique. This would include the provision of audited financial statements and accounting records for at least five years. Further, ProIndicus was required to provide financial statements and an annual report summarising its operations and services within 90 days of the end of each fiscal year. Therefore, the limited financial documentation available from ProIndicus (referenced by Kroll at Section 9 of this report) indicates that the terms of the concession agreement may have been breached.

According to the concession agreement, the parties agreed that ProIndicus would be responsible for the financing of the project, the company's share capital, third party financing and "*shareholders' supplies.*" ProIndicus was allowed "*move forward with the selection of any financing*" for the project as long as it did not result in any responsibilities to the Republic of Mozambique without prior consent.

⁵² Note: The concession to implement the system activities to third parties should be granted according to Mozambique Law No 15/2011, which sets out the rules for the hiring and implementation of public-private partnerships. Web Reference: https://ppp.worldbank.org/public-private-partnership/sites/ppp.worldbank.org/files/ppp_testdumb/documents/fei15-2011.pdf.

⁵³ Document Reference: 2014-02-17 - SIMP Concession Agreement.

⁵⁴ Note: According to a stamp in the concession agreement.

⁵⁵ Document Reference: 2014-02-17 - SIMP Concession Agreement, (page 4).

4.2.6 Tendering process for project

Kroll has repeatedly requested information from Person A and other ProIndicus representatives to determine what, if any, due diligence was carried out in relation to the selection of the Contractor to develop the ProIndicus Project, or if any other proposals were obtained from other suppliers. Person A has refused to provide information on several occasions citing "national security." Kroll has subsequently made requests to both Person E, the Role E, and Person F, the Role F. Person E informed Kroll that he/she could not provide any information regarding ProIndicus, citing that documentation relating to tendering was "classified." Person F has informed Kroll that no records relating to ProIndicus have been provided to him/her by Person E since he/she took office.

As a result, Kroll cannot determine if other proposals were obtained or if the ProIndicus shareholders carried out any independent due diligence on the Contractor.

4.3 Loan facility agreements with Credit Suisse and VTB Capital

4.3.1 Key findings

On 28 February 2013 ProIndicus and Credit Suisse signed a loan agreement for USD 372 million (the "Original ProIndicus Loan Agreement"), which was amended on two subsequent occasions (14 June 2013 and 17 December 2014) to allow a maximum loan facility limit of USD 900 million.

The original and amended loan agreements were guaranteed by the Government of the Republic of Mozambique, acting through the Ministry of Finance and represented by Person C. Between 21 March 2013 and 15 November 2013, ProIndicus utilised USD 622 million of the loan facility.⁵⁶ Bank records provided to Kroll confirm that no loan proceeds were paid directly to ProIndicus. All loan proceeds were paid to a First Gulf Bank account in the United Arab Emirates belonging to the Contractor.

The utilisation requests signed by ProIndicus authorised Credit Suisse and VTB Capital to deduct fees for arranging the loans totalling USD 10.1 million.⁵⁷ The utilisation requests also authorised both banks to withhold "Contractor Fees" totalling USD 64.4 million. As a result, the total loan funds remaining after deducting the USD 74.5 million in fees equalled USD 547.5 million.

The Contractor explained to Kroll that the Contractor Fees (also termed "Subvention Fees" by the Contractor and Credit Suisse) were introduced by Credit Suisse and the Government of Mozambique as the pricing terms which the Government of Mozambique was prepared to agree for the lending were not commercially acceptable to Credit Suisse. The Contractor further explained to Kroll that the effect of the fee was to ensure that Credit Suisse achieved a return that was

⁵⁶ Note: The second amendment involved VTB Capital lending USD 118 million.

⁵⁷ Note: A 'Utilisation Request' is a notice issued to request the use of part/all a loan facility.

equivalent to the return it would have achieved had it advanced funds at a market rate more accurately reflecting Mozambique's risk profile.

The Contractor Fees of USD 64.4 million withheld by Credit Suisse on behalf of the Contractor equate to 10.3% of the total loan value of USD 622 million. It is not possible to determine whether the Contractor 1) was able to accommodate paying these fees in its profit margin or 2) increased the value of the supply contract to compensate for paying these fees in order to secure the loan for ProIndicus.

In addition, "Running Fees" totalling USD 57.3 million were agreed as part of the amended loan agreement dated 17 December 2014, payable to Credit Suisse, VTB Capital and Palomar over the course of the loan. As described in more detail below, Palomar is a joint venture between the Contractor and Person B, a Role B.

The rationale for the arrangement with ProIndicus to pay Running Fees is unknown from the information available to Kroll at the time of reporting, especially with regard to an agreement to pay Palomar an annual fee of 1.25% of the total loan outstanding, a rate which is greater than that paid to both Credit Suisse and VTB Capital.⁵⁸

The role of Palomar as it relates to ProIndicus is discussed at Section 7.3.

As of 14 March 2017, principal repayments on the loan totalled USD 24.9 million, interest payments totalled USD 71.5 million (together totalling USD 96.4 million), and the balance of the loan outstanding was USD 597.1 million.

Kroll was informed that ProIndicus defaulted on the principal and interest payments due to Credit Suisse in March 2017.

4.3.2 Original ProIndicus Loan Agreement

A Credit Suisse document dated 10 January 2013 set out the indicative terms and conditions for a USD 372 million loan facility to ProIndicus.⁵⁹ In the document, the Government of Mozambique is named as the "Guarantor"⁶⁰ and "Prininvest Shipbuilding SAL (Holdings), Abu Dhabi Branch" is named as the "Contractor." The document stated that the principal amount of the loan would be paid back on an annual basis for six years, commencing two years after the first drawdown. Interest on the loan would be payable in US Dollars, based on the London Interbank Offered Rate ("LIBOR") plus a margin of 3.2%.

⁵⁸ Note: Following publication of the Summary Report, Palomar provided Kroll with a letter dated 4 December 2014 that sets out their role as financial advisors to ProIndicus for the purposes of refinancing the facility agreement. The letter references that fees payable would be set out in subsequent "Fee Letters".

⁵⁹ Document Reference: 2013-01-10 - CS Financing Indicative Terms and Conditions USD 372 mi.

⁶⁰ Note: 'Guarantor' is defined in the document as "The Government of the Republic of Mozambique, acting through the Ministry of Finance."

The document confirmed that ProIndicus may direct Credit Suisse to pay all amounts to the Contractor. The indicative terms and conditions were signed by: Person D, as the Role D; Person S, on behalf of ProIndicus;⁶¹ Person G, from the Contractor, and; Person B and Person T, representing Credit Suisse. It is not clear why Person D signed this indicative terms document on behalf of the Ministry of Finance on 15 January 2013, more than one month before issuing an opinion to the Ministry of Finance approving a government guarantee for the loan, but it appears from this document that he/she was aware of the terms of the loan as early as January 2013. Concerns are therefore raised that by signing the indicative terms and conditions in advance of approving the government guarantee, Person D was not in a position to independently consider the merits of the request for the government guarantee.

A Credit Suisse information memorandum dated February 2013 provided an overview of the Republic of Mozambique, including its economic performance, and set out details of the project for an "Exclusive Economic Zone Monitoring and Protection System" and introduced the Contractor.⁶² According to the disclaimer, the memorandum was prepared based on information made available by ProIndicus, the Guarantor and the Contractor.

Government guarantee

4.3.2.1
Kroll requested (from Person A and the Ministry of Finance) a copy of the original request for a government guarantee from the Role E. Kroll was informed by Person A that the original request is "classified" information, and the Ministry of Finance stated that a copy of the original request cannot be located in their archive.

On 26 February 2013, the Ministry of Finance issued an opinion document regarding a government guarantee for "non-concessional financing from Credit Suisse for USD 372 million" to ProIndicus.⁶³ The opinion document was signed by Person L and Person A, and was approved by Person D and Person C. On 28 February 2013, a government guarantee for the full USD 372 million loan with Credit Suisse was signed by Person C on behalf of the Ministry of Finance.⁶⁴

Further details regarding the government guarantees are presented in Section 8.

Bank of Mozambique approval for Original ProIndicus Loan Agreement

4.3.2.2
In a letter dated 8 March 2013, Person P requested that the Bank of Mozambique approve the loan agreement and noted that the loan proceeds should be transferred to the Contractor.⁶⁵

⁶¹ Note: Kroll was provided with documents indicating that Person S is also a member of the Monte Binga Administration Board. Monte Binga is one of the shareholders of ProIndicus.

⁶² Document Reference: 2013-02-01 - Credit Suisse Information Memorandum.

⁶³ Document Reference: 2013-02-26 - MoF Opinion ProIndicus Initial Gov Guarantee USD 372 million Guarantee (page 1).

⁶⁴ Document Reference: 2013-02-28 - ProIndicus Government Guarantee USD 372 mi.

⁶⁵ Document Reference: 2013-03-08 - ProIndicus Request to BoM - Loan Approval.

The role of the Bank of Mozambique in approving foreign currency denominated loan agreements for state owned companies is restricted to ensuring the person authorising the loan has the appropriate legal authority. For the Original ProIndicus Loan Agreement this necessitated confirming that Person C had the appropriate legal authority to sign the government guarantee.

A letter dated 14 March 2013 provided formal approval for the loan agreement.^{66/67} The letter was signed by Person U, Role U.

4.3.3 Amended ProIndicus loan agreements

The Original ProIndicus Loan Agreement was amended on 14 June 2013 (hereafter the "Amended ProIndicus Loan Agreement") and on 17 December 2014 (hereafter the "Final Amended ProIndicus Loan") as shown in Table 17, below:

Table 17 | Summary of ProIndicus Loan Agreements

Loan	Agreement date	Loan value (USD)	Increase to loan value (USD)	Amended loan value (USD)
Original ProIndicus Loan	28/02/2013	372,000,000	-	-
Amended ProIndicus Loan	14/06/2013	372,000,000	250,000,000	622,000,000
Final Amended ProIndicus Loan	17/12/2014	622,000,000	278,000,000	900,000,000

Section 4.4.4 details the key changes to the scope of supply as a result of the loan increases.

Between 21 March 2013 and 15 November 2013, ProIndicus utilised the total approved loan facility at that date of USD 622 million. Of this amount, USD 504 million was provided by Credit Suisse and USD 118 million was provided by VTB Capital, drawn down in tranches as shown in Table 18, below.

Table 18 | Summary of ProIndicus loan tranches

Loan Disbursement Date	Arranger (Lender)	Amount (USD)
21/03/2013	Credit Suisse	372,000,000
25/06/2013	Credit Suisse	100,000,000
14/08/2013	Credit Suisse	32,000,000
15/11/2013	VTB Capital	118,000,000
Total		622,000,000

⁶⁶ Document Reference: 2013-03-12 - BoM Opinion - ProIndicus Request for Loan Approval.

⁶⁷ Document Reference: 2013-03-14 - BoM Letter to ProIndicus - Loan Authorization.

Bank records provided to Kroll confirm that no loan proceeds were paid directly to ProIndicus. All loan proceeds were remitted to the same Prinvest Shipbuilding USD bank account, held with First Gulf Bank in the United Arab Emirates.

Kroll was not provided with any documentation to explain the rationale for increasing the loan by USD 278 million (from USD 622 million to USD 900 million). Credit Suisse has confirmed to Kroll that the facility has now expired.

4.3.3.1 Government guarantee

The amended loan agreements, like the Original ProIndicus Loan Agreement, were guaranteed by the Government of the Republic of Mozambique, acting through the Ministry of Finance and represented by Person C. Further details regarding the government guarantees are presented in Section 8.

Bank of Mozambique approval for amended loan agreements

4.3.3.2 On 11 June 2013 ProIndicus notified the Bank of Mozambique that it wished to increase its existing loan agreement by USD 250 million, in two tranches of USD 100 million and one tranche of USD 50 million.⁶⁸ The notification stated that the funds were to be transferred to a Prinvest Shipbuilding account at First Gulf Bank in the United Arab Emirates. On 12 June 2013, the Bank of Mozambique issued a favourable opinion to the increase the loan agreement mentioning the "strategic nature" of the project.⁶⁹ In a letter dated 13 June 2013, the Bank of Mozambique informed ProIndicus that it had approved the increase. The letter was signed by Person U.⁷⁰

Kroll has not been provided with evidence indicating that the Bank of Mozambique approved the second amendment on 17 December 2014 to increase the loan from USD 622 million to USD 900 million.

4.3.4 Utilisation details

Table 19 summarises the amount of each utilisation request, the bank fees withheld as Arrangement Fees, the available Contractor Portion, the Contractor Fee, and the amount actually paid to the Contractor. Appendix C summarises the utilisation details.

⁶⁸ Document Reference: 2013-06-11 - ProIndicus Request to BoM - Loan Increase Approval.

⁶⁹ Document Reference: 2013-06-12 - BoM Opinion - ProIndicus Request for Loan Increase Approval.

⁷⁰ Document Reference: 2013-06-13 - BoM Letter to ProIndicus - Loan Increase Authorization.

Table 19 | Summary of utilisation details for ProIndicus

Utilisation Date	Utilisation amount (USD)	Bank Fees (USD)	Contractor Portion (USD)	Contractor Fee (USD)	Funds Sent to Contractor (USD)
21/03/2013	372,000,000	(6,100,000)	365,900,000	(38,000,000)	327,900,000
25/06/2013	100,000,000	(1,610,000)	98,390,000	(8,200,000)	90,190,000
14/08/2013	32,000,000	(515,200)	31,484,800	(2,624,000)	28,860,800
15/11/2013	118,000,000	(1,888,000)	116,112,000	(15,599,600)	100,512,400
Total	622,000,000	10,113,200	611,886,800	64,423,600	547,463,200

All of the payments made to the Contractor were sent to the same USD bank account held with First Gulf Bank in the United Arab Emirates.

4.3.5 Fees payable in relation to the loan agreements

Kroll's review identified three distinct categories of fees paid in relation to the loan facility agreement: i) Arrangement Fees ii) Contractor Fees and iii) Running Fees. Table 20 summarises these, as follows:

1. "Arrangement Fees," paid by ProIndicus to the banks;
2. "Contractor Portion," the amount owed to the Contractor after deducting Arrangement Fees; and,
3. "Contractor Fee," Subvention Fees discussed in more detail below.

Table 20 | Summary of ProIndicus loan

Details	Amount (USD)	Balance (USD)
Total loan facility drawn down (Credit Suisse)	504,000,000	
Total loan facility drawn down (VTB Capital)	118,000,000	
Total loan facility drawn down		622,000,000
Arrangement Fees paid by ProIndicus to Credit Suisse	(8,225,200)	
Arrangement Fees paid by ProIndicus to VTB Capital	(1,888,000)	
Total "Arrangement Fees"		(10,113,200)
<i>Sub-Total ("Contractor Portion")</i>		<i>611,886,800</i>
Contractor Fee paid by the Contractor to Credit Suisse	(48,824,000)	
Contractor Fee paid by the Contractor to VTB Capital	(15,599,600)	

Total "Contractor Fees"	(64,423,600)
Total payments to Contractor account	547,463,200

4.3.5.1 Arrangement Fees

All utilisation requests signed by ProIndicus authorised Credit Suisse or VTB Capital to deduct fees owed to them as the arrangers of the loans.

4.3.5.2 Contractor Fees

Kroll was provided with "Contractor Fee Letters" signed between the Contractor and Credit Suisse and VTB Capital authorising the banks to deduct fees from the amount due to the Contractor for providing the loan facilities to ProIndicus. As noted in the Table 20 above, USD 64.4 million in Contractor Fees were withheld by Credit Suisse and VTB Capital.

Two of the Credit Suisse Contractor Fee letters reference that the fee was payable due to the terms of the loan facility provided to ProIndicus, "*in particular the rate of interest.*"⁷¹

The Contractor explained that the Contractor Fees (or "Subvention Fees") were introduced to allow the lending banks to achieve a return at an interest rate more accurately reflecting Mozambique's risk profile. Credit Suisse explained that the Contractor Fees were effectively passed on to syndicate loan members that purchased the debt.

4.3.5.3 Running Fees

"Running Fee" letters were agreed between ProIndicus and Credit Suisse, VTB Capital and Palomar in respect of arranging the "Final ProIndicus Loan Agreement". Running Fees, which were paid by the Ministry of Finance on behalf of ProIndicus to Credit Suisse, VTB Capital and Palomar, total USD 14.7 million to date, with an additional USD 42.6 million due to the same parties over the remainder of the loan agreement.

On 17 December 2014, the same date as the Final ProIndicus Loan Agreement was agreed to increase the facility to USD 900 million, Person A and Person O, on behalf of ProIndicus, signed "Running Fee" letters with Credit Suisse, VTB Capital and Palomar, by which ProIndicus agreed to pay fees totalling USD 57.3 million. The role of Palomar as it relates to ProIndicus (and EMATUM and MAM) is discussed at Section 7.

⁷¹ Document Reference: 2013-03-21 - Contractor Fee Letter - Credit Suisse & Prinvest.

The letters stated that the following annual Running Fees would be charged: 0.95%⁷² by Credit Suisse on the total USD 622 million of loans it had provided; 0.75%⁷³ charged by VTB Capital on the total USD 118 million of loans it had provided, and: 1.25%⁷⁴ by Palomar on "the aggregate amount of the outstanding loans as at the relevant interest date."

Table 21 summarises the Running Fees due to be paid:

Table 21 | Schedule of Running Fees payable to Credit Suisse, VTB Capital and Palomar

Payment Date	Payable to Credit Suisse (USD)	Payable to VTB Capital (USD)	Payable to Palomar (USD)
21/03/2016	5,974,656	894,833	7,861,389
21/03/2017	5,751,427	861,400	7,567,666
21/03/2018	4,601,141	689,120	6,054,133
21/03/2019	3,450,856	516,840	4,540,600
21/03/2020	2,319,479	347,392	3,051,946
21/03/2021	1,147,134	171,808	1,509,386
Total	23,244,696	3,481,393	30,585,120

On 21 March 2016, the Ministry of Finance paid, on behalf of ProIndicus, Running Fees totalling USD 14.7 million, split as follows:

- € USD 5,974,656 to Credit Suisse;⁷⁵
- € USD 894,833 to VTB Capital;⁷⁶ and,
- € USD 7,861,389 to Palomar.⁷⁷

The Ministry of Finance stated that non-payment of the Running Fees due would undermine efforts to finalise the EMATUM debt restructuring process.

The Running Fees due for payment on 21 March 2017 have not been paid by ProIndicus or any other party. At the time of reporting, Kroll had not seen documentation to explain the rationale for increasing the loan agreement on 17 December 2014 by USD 278 million to USD 900 million, or

⁷² Document Reference: 2014-12-17 - ProIndicus - Credit Suisse Running Fee Letter.

⁷³ Document Reference: 2014-12-17 - ProIndicus - VTB Running Fee Letter.

⁷⁴ Document Reference: 2014-12-17 - ProIndicus - Palomar Running Fee Letter.

⁷⁵ Document Reference: 2016-02-11 - Credit Suisse Interest Payment Notice to ProIndicus and MoF Running Fee Payment.

⁷⁶ Document Reference: 2016-03-21 - MoF Running Fee Payment to VTB.

⁷⁷ Document Reference: 2016-03-21 - MoF Payment Running Fee to Palomar.

the justification for paying Palomar Running Fees amounting to USD 30.6 million in relation to the ProIndicus loan restructure in December 2014.⁷⁸

4.3.6 Summary of settled principal and interest payments

Table 22 summarises the principal and interest payments made in respect of the ProIndicus Loan Agreements to date:

Table 22 | Summary of ProIndicus loan principal and interest repayments

Ref.	Date	Payment Type	Payer	Amount (USD)
1	21/03/2014	Interest	ProIndicus (funded by shareholders)	19,759,654
2	23/03/2015	Interest	ProIndicus (funded by shareholders)	23,813,417
3	21/03/2016	Principal	Ministry of Finance	24,880,000
4	21/03/2016	Interest	Ministry of Finance	27,903,843
Total				96,356,914

The first two interest payments made by ProIndicus were funded by the company's shareholders, Monte Binga and GIPS. The first payment was funded by two separate loans obtained by Monte Binga and GIPS from BIM Mozambique and guaranteed by the Ministry of Finance. The second payment was solely funded by GIPS through transfers from SISE to a GIPS BNI Mozambique bank account.

The first principal payment was made by the Ministry of Finance. The third interest payment was made by the Ministry of Finance. At the time of reporting, the balance of the loan outstanding was USD 597.1 million.

4.3.7 Details of outstanding loan principal and interest repayments

Person V, the Role V, informed Kroll that ProIndicus defaulted on the principal payment and interest payment due on 21 March 2017.

⁷⁸Note: Following publication of the Summary Report, Palomar provided Kroll with a letter dated 4 December 2014 that sets out their role as financial advisors to ProIndicus for the purposes of refinancing the facility agreement. The letter references that fees payable would be set out in subsequent "Fee Letters".

4.4 Supply contract with Privinvest Shipbuilding

4.4.1 Key findings

4.4.1.1 Lack of documentation

During the course of the Independent Audit, Kroll encountered significant challenges in obtaining complete versions of the supply contract and supporting annexes. Kroll was provided with numerous incomplete versions of the supply contract from ProIndicus, and a "final" version together with supporting appendices from the Contractor.

The Contractor stated in an email dated 21 December 2016 to ProIndicus that it is not contractually obliged to provide individual invoices for the assets or services delivered. Instead, the Contractor provided a one page invoice to ProIndicus (the ProIndicus Invoice) that detailed the total contract value, together with a breakdown of the individual prices apportioned to the core assets and services to be provided under the supply contract. For the purpose of the statutory audit completed by Ernst & Young, the Contractor provided ProIndicus with further invoices for certain assets that correspond to the ProIndicus Invoice.

Kroll was informed by an industry expert that invoices should include a clear and detailed description of all assets and services provided. The invoices provided to Kroll do not include sufficient detail to gain comfort that the documents accurately reflect the true price of these assets and services, and therefore do not allow proper accounting records to be maintained by the company.

In conclusion, Kroll was not provided with satisfactory documentation to support the expenditure under the supply contract.

4.4.1.2 Provision of weaponry

Kroll's interpretation of the contractual documents provided by ProIndicus is that weapons were, in the original supply contract, envisaged to be provided for certain assets. According to the original supply contract between the Contractor and ProIndicus, two Vigilante 400 CL vessels would be fitted with a [Redacted] and [Redacted] and DV15 Interceptor vessels would be fitted with a [Redacted], designed to accommodate a [Redacted].

The original supply contract was then altered by "Change Orders" on four separate occasions. Change Order 4, the final amendment to the supply contract, did not include the provision of weapons for any vessel. Kroll has separately verified that none of the vessels delivered by the Contractor to ProIndicus were fitted with weapons.

ProIndicus has not provided an explanation as to why the weapons element of the specifications was removed in the final version of the contract. The Contractor has stated to Kroll that no weapons were provided as part of the supply contract.

Given the nature of the project, i.e. the monitoring and protecting of Mozambique 's national waters, it is remarkable that the vessels have not been fitted with weapons, as this will undoubtedly restrict the ability of the vessels and their operators to effectively police the Exclusive Economic Zone.

4.4.1.3 Changes to assets to be supplied and the cost of the contract

The original scope of assets to be delivered under the supply contract was amended four times. As mentioned above, certain vessels were initially contracted to be fitted with weapons, but this plan subsequently changed. Further, certain assets included in the original supply contract were replaced in the later Change Orders by models that differ significantly in terms of specification and estimated price.

Annex 1 to the original supply contract, entitled "*Technical Project Description*" outlined that Offshore Patrol Vessels ("OPVs") were to be provided under the terms of the contract. OPVs are long duration, deep sea patrol vessels and the original supply contract stated that two Vigilante 400 CL vessels were to be provided. Ultimately, following the changes to the contract, ProIndicus did not receive any Vigilante 400 CL vessels. Instead, ProIndicus received three HSI32 Interceptor vessels and three WP18 Interceptor vessels, described as being able to provide "*high combat efficiency for various missions.*"⁷⁹

Whilst it is not possible to accurately establish the extent of any difference in list price for the Vigilante 400 CL vessel versus the HSI32 Interceptor vessel or WP18 Interceptor vessel, HSI32 Interceptors are significantly smaller vessels and designed for a wholly different purpose.

Based on the documentation reviewed, it appears that weapons were to be included on certain vessels under the original contract for USD 372 million, yet were removed from the scope of supply through the various Changes Orders, despite the contract price increasing by USD 250 million to USD 622 million.

The original supply contract also stated that two F406 light turboprop aircraft manufactured by Reims Aviation Industries would be provided. Minutes of a meeting dated 25 April 2013 between the Contractor and ProIndicus stated that the original scope of supply was amended to provide better coverage of the Exclusive Economic Zone. As a result, instead of the F406 aircraft ProIndicus received six Remos GX aircraft, which are not considered by Kroll 's independent expert to be a typical Maritime Patrol Aircraft.

⁷⁹ Source: <http://www.privinest.com/naval-vessels/interceptor-wp18/>.

The Remos GX is designated as a Light Sport Aircraft and is subject to "Visual Flight Rules" which means that the aircraft is restricted in countries that impose international rules. The Remos GX cannot be flown under Instrument Flight Rules conditions (i.e., the aircraft cannot be flown with visibility of less than 3 or 5 nautical miles), which will restrict the ability for the aircraft to be used by ProIndicus in inclement weather.

4.4.2 Background to the supply contract

Person A informed Kröll that several potential companies were considered prior to entering into a supply contract with the Contractor, however no documentation was provided to evidence this statement, despite repeated requests to Person A and Person E, the Role E.

On 18 January 2013, ProIndicus signed a supply contract with the Contractor for the provision of "*the assets of the Exclusive Economic Zone Monitoring and Protection Solution as a turn-key solution*" for a total price of USD 366 million.⁸⁰ The supply contract provided for upfront payment of the entire contract amount, and specified that a corporate guarantee would be provided by Abu Dhabi Mar LLC ("Abu Dhabi Mar") equal to the contract value.

The Constructions Mécaniques de Normandie ("CMN") corporate website states that "*Our company offers turn-key solutions in order to serve country's needs, as a partner, and focus on number of important aspects of coastal waters management, as EEZ surveillance and monitoring, fisheries and renewable energy.*"⁸¹

Between April 2013 and June 2013, the contract was amended through four "Change Orders" to vary the price, quantity and specification of assets and services to be received by ProIndicus. The total price and scope of the contract appears to have increased due to further financing being available from Credit Suisse. The Prinvest Presentation stated that "*As a result of substantial lender appetite the deal size was subsequently increased three times, allowing ProIndicus to expand the scope of (and consideration for) the project.*"⁸² As a result, the original contract price of USD 366 million was eventually increased through the Change Orders to USD 616 million.⁸³

Table 23 summarises the assets and services included in the final contract amendment ("Change Order 4").

⁸⁰ Document Reference: 2013-01-18 - Supply Contract - Prinvest Shipbuilding (Section II, page 4).

⁸¹ Source: <https://cmn-group.com/>.

⁸² Document Reference: 2017-02-21 - Prinvest Presentation.

⁸³ Note: "Contract price" reflects value stated in supply contract, not value of loan agreement.

Table 23 | Summary of assets and services to be provided under Change Order 4

Asset	Quantity	Invoiced Price (USD)
DV15 Interceptor	36	259,200,000
WP18 Interceptor	3	58,200,000
HSI32 Interceptor	3	98,100,000
Radar stations	16	118,400,000
Infrastructure equipment	4	2,600,000
Maritime Patrol Aircraft	6	47,400,000
Training centre	1	1,686,800
SAT & VSAT Services	1	10,000,000
Central Command Centre	1	16,400,000
Total		611,986,800

4.4.3 ProIndicus Supply Contract

According to the supply contract preamble, the Government of Mozambique decided to enhance its capabilities of monitoring and protection of its Exclusive Economic Zone.⁸⁴ Consequently, on 18 January 2013, a contract (the "ProIndicus Supply Contract") between ProIndicus and the Contractor was agreed "for the purpose of the acquisition and operation of the Project".⁸⁵

The ProIndicus Supply Contract was signed by Person M as [Redacted] on behalf of ProIndicus, and Person G as [Redacted] on behalf of the Contractor.

Annex 1 of the ProIndicus Supply Contract, entitled "Technical Project Description," dated 15 October 2012, was prepared by the Contractor for the Republic of Mozambique, and stated that an "Exclusive Economic Zone Monitoring and Protection Solution", or turn-key solution, would be provided to ProIndicus that would be a "multi-layer solution providing both surveillance of the whole EEZ as well as intervention and enforcement capabilities to enable the Government of Mozambique to enforce its regulation and protect the sovereignty and economic assets of the country."⁸⁶

⁸⁴ Document Reference: 2013-01-18 - Supply Contract - Prinvest Shipbuilding (Preamble, page 3).

⁸⁵ Note: The body of the Original ProIndicus Supply Contract is comprised of 12 pages, together with seven annexes. The contract was signed by Person M as [Redacted] on behalf of ProIndicus, and Person G as [Redacted] on behalf of Prinvest Shipbuilding. The Original ProIndicus Supply Contract was signed in accordance with Swiss law, with any future disputes to be resolved by International Chamber of Commerce ("ICC") arbitration in Switzerland.

⁸⁶ Document Reference: 2013-01-18 - Supply Contract - Prinvest Shipbuilding (page 14). The document was created on 15 October 2012 by Person BD, and approved on 20 October 2012 by Person AM

Furthermore, the document referenced “hands-on training and coaching” and “maintenance and support throughout the project duration.”⁸⁷ Each page of Annex 1 was initialed by two parties, believed to be Person M and Person G.

The “Project” was defined in the ProIndicus Supply Contract as any assets and services indicated in a document entitled “EEZ Monitoring and Protection for the Republic of Mozambique.”^{88/89} The contract stated that the assets and services summarised in Table 24 would be provided as part of the “turn-key solution”.

Table 24 | Summary of ProIndicus assets to be provided

Nº	Asset	Quantity
1	Manned radar station	6
2	Unmanned radar station	10
3	Central command centre	1
4	Interceptor	12
5	Infrastructure equipment for ports	4
6	Offshore Patrol Vessel	2
7	Maritime Patrol Aircraft	2
8	Training Centre	1
9	Spare parts	1
10	Satellite surveillance	3 years
11	VSAT	3 years

The total price stated in the contract was USD 366 million with an estimated duration time of three years.⁹⁰ Although the ProIndicus Supply Contract listed the assets and services to be provided by the supplier, neither the contract nor the annexes included a breakdown of the prices for those items.

4.4.3.1 Planned provision of weaponry

Annex 1 to the ProIndicus Supply Contract referenced the inclusion of weapons for certain vessels. The Contractor subsequently provided Kroll with amended annexes to the ProIndicus Supply

⁸⁷ Document Reference: 2013-01-18 - Supply Contract - Prinvest Shipbuilding.

⁸⁸ Document Reference: 2013-01-18 - Supply Contract - Prinvest Shipbuilding (Section I, page 3).

⁸⁹ Note: The document is listed as Annex 1 to the Supply Contract. Technical Project Description Document No. 013 -C-TPD-000-N-001PR-02-B.

⁹⁰ Document Reference: 2013-01-18 - Supply Contract - Prinvest Shipbuilding (Section VII, page 5).

Contract, which did not make any reference to weapons. Neither Person A, nor the Contractor, has provided an explanation for amending the specification of the assets to exclude weapons.

The ProIndicus Supply Contract allowed the Contractor to make "slight changes" to the characteristics of the assets, with the only limitation that changes should not affect the "overall system's performance."

The Technical Project Description document, included in Annex 1 to the ProIndicus Supply Contract, outlined that DV15 Interceptors "vary from non-combat daily routine operations to fast response intervention and interception of hostile threats." A section for the DV15 Interceptor in the document titled "Combat Suite Main Components" included a description of "[Redacted] designed to accommodate a [Redacted]."

Furthermore, Annex 5 to the ProIndicus Supply Contract, entitled "DV15 Interceptor Technical Leaflet," stated that the "DV15 is fitted with an [Redacted] ([Redacted], or any other any available and exportable [Redacted] of the choice of the constructor that ensures the performance of the Interceptor)."

Annex 4 to the ProIndicus Supply Contract, entitled "Statement of Work," stated that "As the [Redacted] have a lead time of 12 months, the first batch of the Interceptors will be handed -over without weapons according to the Delivery Schedule; so the operators training of the Interceptors in country could be started. Together with the second batch of the Interceptors all the guns will be delivered and installed in country together with the appointed personnel. "

The Technical Project Description document also stated that the Vigilante 400 CL vessel variant would be provided as part of the contract; and that the Vigilante 400 CL vessel was fitted with a [Redacted] and [Redacted]. The Vigilante 400 CL vessels were interchanged in Change Order 1 with three HSI32 Interceptor vessels and three WP18 Interceptor vessels.

Annex 4 in Change Order 4 made no reference to weapons.

4.4.3.2 Subcontractors to the supply contract

Kroll was unable to ascertain which subcontractors (other than CMN), if any, were used by the Contractor to deliver the supply contract to ProIndicus, nor the prices paid for assets and services delivered by subcontractors. Kroll was informed by ProIndicus management that they do not have any knowledge or documentation regarding the subcontractors used by the Contractor.

The ProIndicus Supply Contract stated that the Contractor was authorised to subcontract all or part of the works related to the contract, and that the Contractor should use all "reasonable endeavours" to ensure the work was undertaken in accordance with the terms and conditions of the contract.⁹¹

⁹¹ Document Reference: 2013-01-18 - Supply Contract - Prinvest Shipbuilding (Section P, page 10).

The contract also stated that all communication with subcontractors and suppliers should be made by the Contractor only, and that ProIndicus would not have the right to contact any of these parties directly.

The effect of the contract structure was that ProIndicus had no understanding of who was providing the goods and services under the contract, was not allowed to attempt to contact the subcontractors to the contract and had no right of audit to the subcontractor. Given, as explained above, that the Contractor was not required to provide any supporting invoices under the contract, ProIndicus was to receive very little documentation to support how its loan funds were being spent by the Contractor.

4.4.3.3 Corporate guarantee provisions

A corporate guarantee was provided by Abu Dhabi Mar to ProIndicus to "*satisfy judicially determined claims against the Contractor from the Customer*" for the original USD 366 million supply contract. Kroll was provided with a letter dated 8 March 2017 from Person A which stated that the original corporate guarantee was not increased by the same amount of the increased supply contract (by USD 250 million to USD 622 million) which means that ProIndicus may not have sufficient coverage in the event of a dispute over the procured assets and services.

4.4.4 Amendments to the ProIndicus Supply Contract

The ProIndicus Supply Contract stated that any changes to the terms and conditions should be agreed by both parties and amended in a written form, signed by representatives from the Contractor and ProIndicus.⁹² Further, the ProIndicus Supply Contract stated that any requests for changes would need to indicate the description and rationale for the change as well the effects on contract price, the delivery schedule and any impact on the sub-contract provision.

The main body of the ProIndicus Supply Contract did not change from the version dated 18 January 2013. However, between 29 April 2013 and 28 June 2013, four Change Orders were signed which amended the quantity and specification of assets, and the price and payment dates of the ProIndicus Supply Contract. Table 25 summarises the amendments effected through the Change Orders.

⁹² Document Reference: 2013-01-18 - Supply Contract - Prinvest Shipbuilding (Section P, page 10).

Table 25 | Summary of Change Orders compared to Original Contract

Description	Original contract	Change Order № 01	Change Order № 02	Change Order № 03	Change Order № 04
Date of signing	18/01/2013	29/04/2013	15/05/2013	17/05/2013	28/06/2013
Contract Price (USD)	366 million	616 million	466 million	616 million	616 million ⁹³
Asset List:					
Manned Radar Station	6	6	6	6	6
Unmanned Radar Station	10	10	10	10	10 ⁹⁴
DV15 Interceptor	12	36	36	36	36
Offshore Patrol Vessels (Vigilante)	2	-	-	-	-
HSI32 Interceptor	-	3	1	3	3 ⁹⁵
WP18 Interceptor	-	3	-	3	3 ⁹⁶
Maritime Patrol Aircraft (F406)	2	-	-	-	-
Maritime Patrol Aircraft (Seeker)	-	6	6	6	6
Central Command Site	1	1	1	1	1
Training Centre	1	1	1	1	1
Infrastructure equipment for ports	4 sets	4 sets	4 sets	4 sets	4 sets
Spare parts for assets	1 set	1 set	1 set	1 set	1 set
Satellite Surveillance	3 years	3 years	3 years	3 years	3 years
VSAT Services	3 years	3 years	3 years	3 years	3 years

4.4.4.1 Summary of Change Orders

Change Order 1, dated 29 April 2013, resulted in the most significant amendment to the original supply contract. The value of the ProIndicus Supply Contract was raised from USD 366 million to USD 616 million, a USD 250 million increase. For the increased funds, ProIndicus received an additional twenty-four DV15 Interceptor vessels, three HSI32 Interceptor vessels and three WP18 Interceptor vessels. However, the planned supply of two Vigilante 400 CL vessels was removed.

Further, Change Order 1 replaced the planned supply of two F406 Maritime Patrol Aircraft with six "Seeker" Maritime Patrol Aircraft.

Change Order 2, dated 15 May 2013, was replaced two days later by Change Order 3, dated 17 May 2013, which was exactly the same in detail as Change Order 1.

⁹³ Note: Change Order 4 does not specify a contract price, however it does not vary the payment terms from Change Order 3.

⁹⁴ Note: Change Order 4 does not specify the split between manned/unmanned radar stations.

⁹⁵ Note: Although not listed in the asset table in Change Order №4, Clause 3 of the order states three HSI32 Interceptor vessels are included.

⁹⁶ Note: Although not listed in the asset table in Change Order №4, Clause 3 of the order states three WP18 Interceptor vessels are included.

Kroll's review of Change Order 4 indicates that the only amendment in comparison to Change Order 3 was related to a possible reduction in assets to be delivered (specifically the removal of the three HSI32 Interceptor vessels and one WP18 Interceptor vessel), should Credit Suisse be unable to raise the required funds to make Change Order 3 unconditional.

The final tranche for USD 118 million was raised (with VTB Capital) and the HSI32 Interceptor vessels and WP18 Interceptor vessels were delivered as envisaged by Change Order 4.

The effect of the Change Orders was that certain annexes to the ProIndicus Supply Contract were amended. Appendix D summarises the key details of the original and amended annexes.

4.4.4.2 Invoicing requirements

Clause F of the ProIndicus Supply Contract stated that the "*full amount of the price shall be invoiced by Contractor the day of signing the Contract.*"⁹⁷

According to an email dated 30 January 2017, the Contractor provided ProIndicus with a copy of a document purporting to be the "invoice" referred to in Clause F of the original contract and which the Contractor claimed had been previously sent to ProIndicus on an unspecified date.⁹⁸

The email from the Contractor followed a series of requests from ProIndicus to the Contractor requesting individual invoices for each of the contract assets and services for the purposes of the Independent Audit.⁹⁹

The Contractor stated in the email that the contract does not require the provision of any invoices for specific assets and that the only requirement is to provide a "*single global invoice*" setting out the scope of supply.

The ProIndicus Invoice is an undated letter from the Contractor confirming the delivery status of the assets detailed in the original ProIndicus Supply Contract signed on 18 January 2013 and the subsequent amendments.¹⁰⁰ Figure 4, below, is an extract from the ProIndicus Invoice.

⁹⁷ Document Reference: 2013-01-18 - Supply Contract - Prinvest Shipbuilding (Section F, page 8).

⁹⁸ Document Reference: 2017-01-30 - Global Invoice E-mail.

⁹⁹ Document Reference: 2017-01-19 - ProIndicus emails requesting Global Invoice to Priv (page 9).

¹⁰⁰ Document Reference: Undated - ProIndicus Global Invoice.

Figure 4 | Extract of the ProIndicus Invoice

Re: Contract Signed January 18, 2013 (and change orders)

Confirmation of deliverables

1. Delivered as at December 31, 2014 and invoiced:
 - a. 11 DV15 @ \$ 79,200,000
 - b. 3 WP18 @ \$ 58,200,000
2. Delivered in 2015 and Invoiced:
 - a. 4 DV15 @ \$ 28,800,000
3. Items partially delivered/Not delivered and not invoiced:
 - a. 21 DV15 @ 7,200,000 per unit
 - b. 16 Radar Stations @ \$ 118,400,000
 - c. 1 Central Command Center @ \$ 16,400,000
 - d. 4 Infrastructural Equipment @ \$ 2,600,000
 - e. 6 MPA @ \$ 47,400,000
 - f. 3 HSI32 @ \$ 98,100,000
 - g. 1 Training Center @ \$ 1,686,800
 - h. SAT & VSAT Services @ \$ 10,000,000

Kroll was informed by an industry expert that invoices issued by the Contractor would have included a clear and detailed description of the assets and services provided. The invoices do not provide sufficient detail for Kroll to gain comfort that the documents accurately reflect the true price of these assets. Therefore, due to the limitations in the information currently provided, Kroll is unable to independently audit the value of the assets and services delivered by the Contractor to ProIndicus.

4.4.5 Evaluation of prices of assets delivered under the supply contract

4.4.5.1 ProIndicus Equipment Costs Schedule

ProIndicus provided Kroll with an "Equipment Costs" schedule (Table 26) which valued the contracted assets at USD 612 million, together with a fee for "Custos de intermediação" ("intermediation costs") for USD 10 million. This equals the total loan value of USD 622 million.

The value for individual assets in this schedule appear to be derived from the ProIndicus Invoice, and the "intermediary costs" fee is the same value as the fees paid to Credit Suisse and VTB Capital for arranging the loan facility.

Table 26 | Summary of ProIndicus Equipment Costs schedule

Description	Quantity	Unit Price	Total Price
DV15 Interceptor	36	7,200,000	259,200,000
HSI32 Interceptor	3	32,700,000	98,100,000
WP18 Interceptor	3	19,400,000	58,200,000
Maritime Patrol Aircraft	6	7,900,000	47,400,000
Radars	16	7,400,000	118,400,000
Training Centre	1	1,686,800	1,686,800

Satellite package	10,000,000
Port infrastructures	2,600,000
Command and Control Centre	16,400,000
Intermediary costs	10,013,200
Total	622,000,000

The Equipment Costs schedule provides an insight as to how ProIndicus has treated the prices of assets in its accounting records. The information provided by ProIndicus does not provide a detailed understanding of the underlying costs associated with an individual asset, for example the actual construction cost of an asset, training and handover costs associated with an asset and any ongoing maintenance package for an asset.

4.4.5.2 Structure of ProIndicus Supply Contract

The ProIndicus Project has been structured as a turnkey project. The Prinvest Group corporate website states that *"The company has developed a turnkey solution to provide customers with coastline and territorial water security and surveillance as well as the establishment of a modern fleet with optimised use of maritime resources."* A turn-key project is developed with the intention of delivering a completed product to a customer, and will include the provision and installation of hardware, systems integration of software, training of employees and overall project management.

The ProIndicus Supply Contract outlined the scope of assets to be provided for a turnkey project. The subsequent increase in the loan value by USD 250 million from USD 372 million to USD 622 million enabled ProIndicus to increase the number of assets delivered under the supply contract (detailed in Table 27). Without further information from the Contractor, it is not possible to understand the actual value of additional assets acquired for the USD 250 million loan increase.

Table 27 | Summary of changes to scope of supply for increased USD 250 million loan

Description	Original Quantity	Amended Quantity
Vigilante 400 CL Offshore Patrol Vessel	2	0
DV15 Interceptor	12	36
HSI32 Interceptor	0	3
WP18 Interceptor	0	3
Maritime Patrol Aircraft (Reims F406)	2	0
Maritime Patrol Aircraft (Remos GX)	0	6

4.4.5.3 Price comparison of assets and services

The process to value a turnkey project needs to take into account not only the individual price of the assets, but also the costs of integrating the assets and the calculation of a profit margin based on the assessed risk of the project. Therefore, without engaging a subject matter expert to undertake a detailed analysis, it is difficult to ascertain the price of individual assets provided as part of a turnkey solution.

Kroll has, with the support of an independent subject matter expert, assessed at a high level the key specifications of the ProIndicus Project. Whilst Kroll was advised by an independent expert that the total cost of a turnkey project can be twice as much as the total price of its assets, the analysis undertaken has identified potential differences in the prices of certain assets provided under the supply contract which require further explanation.

Kroll's detailed summary of the price comparison analysis undertaken for ProIndicus is provided at Section 3.6.

4.4.5.4 Changes to vessels

The addition of the aforementioned vessels was matched by the removal of the Vigilante 400 CL vessels from the scope of supply. As noted above, these vessels are substantially different in purpose to the Interceptor vessels.

4.4.5.5 Changes to Maritime Patrol Aircraft

The increase in the number of Maritime Patrol Aircraft is tempered by the fact that the variant of aircraft actually delivered under the contract is, again, significantly different in purpose and price compared to the original Maritime Patrol Aircraft commissioned. This raises concerns regarding the price and suitability of the aircraft ultimately delivered.

The Technical Project Description document outlined that "Maritime Patrol Aircraft" enable surveillance coverage of large areas. To satisfy this requirement, the Contractor was initially contracted to supply two F406 light turboprop aircraft manufactured by Reims Aviation Industries. The contract does not state the price of an F406 aircraft. Kroll's independent research indicates that the list price of a brand new F406 aircraft is approximately USD 2.5 million (therefore USD 5 million for two aircraft).

Minutes of a meeting dated 25 April 2013 between the Contractor and ProIndicus stated that the original scope of supply was amended to provide better coverage of the Exclusive Economic Zone. As a result, instead of the F406 aircraft ProIndicus received six Remos GX aircraft, which are not considered by Kroll's independent expert to be a typical Maritime Patrol Aircraft.

The Remos GX is designated as a Light Sport Aircraft and is subject to "Visual Flight Rules" which means that the aircraft is restricted in countries that impose international rules. The Remos GX cannot be flown under Instrument Flight Rules conditions (i.e., the aircraft cannot be flown with visibility of less than 3 or 5 nautical miles), which will restrict the ability for the aircraft to be used by ProIndicus in inclement weather.

Kroll's analysis indicates that the list price of a brand new Remos GX aircraft is approximately USD 135,000. However, in order to modify the Remos GX aircraft with the necessary equipment to undertake a maritime role (for example adding cameras and maritime surveillance radars), it is estimated that the additional costs would be in the range of USD 600,000 per aircraft, or USD 735,000 per aircraft in total.

4.4.6 Verification of assets delivered under the supply contract

Kroll has visited several sites in Mozambique to verify the existence of the assets delivered by the Contractor to ProIndicus per the terms of the final supply contract.

In summary, Kroll has established that the majority of the assets listed in the ProIndicus contract exist and are physically located in Mozambique. However, the majority of the DV15 Interceptor vessels remain in dry storage at Pemba naval base or Maputo sea port.

Table 28 summarises physical assets to be delivered under the final change order compared to those that Kroll has physically verified (please refer to photographs at Appendix J).

Table 28 | Overview of ProIndicus assets physically verified

Ref.	Equipment Description	Contract №	Maputo	Pemba	Unverified
1	DV15 Interceptor	36	5	29	2
2	HSI32 Interceptor	3	0	3	0
3	WP18 Interceptor	3	3	0	0
4	Maritime Patrol Aircraft	6	6	0	0
5	Radars	16	0	1	15
6	Training Centre	1	1	0	0
7	Command Centre	1	1	0	0
8	Port infrastructure	4	-	-	4

4.4.6.1 DV15 Interceptor vessels

In relation to the two unverified DV15 Interceptor vessels, Kroll was informed that these vessels were aboard the *African Storm*, a Dual Purpose Vessel leased by the Contractor to MAM under the supply contract. The *African Storm* was anchored offshore at Pemba during the visit, therefore Kroll was unable to verify the number of DV15 Interceptor vessels stored on-board. Kroll was supplied with customs and shipping documents which indicate that the full contingent of 36 DV15 Interceptor vessels were delivered to Mozambique.¹⁰¹

4.4.6.2 Central Command Centre, Training Centre and Satellite System

Kroll has also been provided with "System Acceptance Certificates" issued by the Contractor to evidence that certain assets have been formally handed over to ProIndicus:

Table 29 | Summary of System Acceptance Certificates

Date	Asset
27/08/2017	Satellite Surveillance System and Services ¹⁰²
14/12/2013	Training Centre ¹⁰³
14/05/2014	Central Command Centre ¹⁰⁴

Person A informed Kroll that the original three year satellite contract agreed under the ProIndicus Supply Contract had expired. Kroll has not been provided with any evidence that negotiations for a new package have commenced. As a result, the radar systems cannot communicate with the Central Command Centre and therefore the assets cannot be operationalised.

Kroll has verified that buildings described as Central Command Centre and Training Centre in Maputo exist. Both facilities are equipped with computer technology. The facilities were not fully operational as at 28 November 2016.

Section 4.4.7, below, provides details of the issues encountered in delivering assets and services, which in part may explain the reason for the facilities not being operational.

4.4.6.3 Port Infrastructure

The ProIndicus Supply Contract/Change Orders and ProIndicus Invoice stated that four units of "Port Infrastructure" were to be delivered, however no further information detailing what constitutes

¹⁰¹ Document Reference: Invoices & bill of lading - DV15 & WP18.

¹⁰² Document Reference: 2013-08-27 - System Acceptance Certificate - Satellite.

¹⁰³ Document Reference: 2013-12-14 - System Acceptance Certificate - Training Centre.

¹⁰⁴ Document Reference: 2014-05-14 - System Acceptance Certificate - CCC.

"Port Infrastructure" or the specifications was provided. Kroll was shown various equipment including four floating pontoons. It is not possible to confirm if these assets constitute the contracted "Port Infrastructure."

4.4.6.4 Radars

Kroll has verified the existence of one manned radar station near Pemba. Kroll was provided with customs invoices and documentation to show that equipment for sixteen radar stations were delivered to Mozambique, however the existence of this equipment was not verified.¹⁰⁵ The wide distribution of the remaining radar sites along the Mozambique coastline, together with the inherent logistical and security challenges in visiting certain sites, has meant that it has not been possible to conduct further verification work during the Independent Audit.

The PGR has provided Kroll with a summary of the status of completion of the sixteen radar stations based on site visits they have undertaken. The summary provides an overview of works relating to each radar station, including: foundation works; assembly of the radar towers; assembly of the radars; and power supply works.

The summary indicates that two radar stations have been completed¹⁰⁶, eleven radar stations are partially completed¹⁰⁷ and that works relating to three radar stations have not yet been commenced¹⁰⁸. For the latter, the foundation works have not been completed.

Kroll's analysis of the available documentation shows that ProIndicus is responsible for the foundation works and the provision of power supply to the radar stations. Kroll's review of the correspondence files provided by the Contractor suggests that the lack of proper infrastructure at the radar sites was highlighted in communications and project reports and that ProIndicus failed to meet its contractor obligations for completing preparatory works. Documents reviewed by Kroll reference issues in relation to the transportation of materials and personnel to the radar sites, non-completion of foundation works and boundary fences, and difficulties in the provision of power supply and provision of personnel for radar training.

4.4.7 Issues encountered in delivering assets and services

The Privinvest Presentation¹⁰⁹ stated that the Contractor had encountered "numerous challenges in delivering the Exclusive Economic Zone Project." A summary of the challenges the Contractor stated it encountered are set out verbatim below:

¹⁰⁵ Document Reference: 2015-09-21 - Invoice 16 x radar stations & bills of lading (2014)

¹⁰⁶ Note: The two completed radar stations are located in Beira and Angoche.

¹⁰⁷ Note: The eleven partially completed radar stations are located in Pebane, Maringanha, M. Praia (Ulo), Cabo Delgado, Olumbe, Quiterajo, Mahate, Nacala, Zalala, P. Barra, and Zavora.

¹⁰⁸ Note: The three completed radar stations are located in Metangula, Vilanculos, and Ponta de Ouro.

¹⁰⁹ Document Reference: 2017-02-21 - Privinvest Presentation.

1. **“Insufficient assistance from the project companies:** The delivery of the project depended on the project companies performing their contractual obligation to assist and cooperate with the Contractors - for example, by providing in-country transportation, arranging for the provision of a local workforce, and procuring access to sites. The project companies frequently did not provide the required assistance, and this delayed and impeded delivery.
2. **Uncooperative public authorities:** Transporting access to and providing services in Mozambique involves cooperation from numerous public authorities, whether in order to obtain the documentation necessary to import assets or receive visa for staff. This was often not forthcoming, and performance suffered as a result.
3. **Security and environmental issues:** the security issues affecting Mozambique since 2013 and, at times, extreme weather conditions, have made implementation a challenge.
4. **Operational expenditure:** the Mozambique government did not provide the project companies with any support for initial operational expenditure which would be expected in a project of this nature.”

The Contractor provided Kroll with several detailed examples of contract obligations not fulfilled by ProIndicus.¹¹⁰

The Contractor explained in the Prinvest Presentation that the key issues with deliverables under the ProIndicus Supply Contract centred on the non-completion of seven unmanned radar stations. The equipment required for the seven stations was delivered to Mozambique, but the necessary preparatory works were not completed by ProIndicus, including laying foundations and transporting materials to the radar sites. The Contractor stated in the document that it had offered to return its personnel to Mozambique to complete the outstanding services at any point up until 31 May 2017.¹¹¹

Kroll is unable to independently verify the status of progress of any uncompleted radar sites, but notes that the non-completion of any radar site, coupled with the absence of an operational satellite contract, would impact the operational capability of the assets across the wider project.

The Prinvest Presentation also stated that ProIndicus was responsible for providing a storage room for the DV15 Interceptors, but that instead the vessels were currently stored in the open on land, and as a result have been damaged by the sun and heavy rains. The document further stated that ProIndicus should berth the vessels in the water, as specifically advised by the Contractor, as the bilge pump cannot function on land.

Kroll has not sought to verify the operational condition of the vessels during the Independent Audit, but notes that certain vessels observed during the visit to Pemba had damaged hulls which

¹¹⁰ Document Reference: 2017-02-21 - Prinvest Presentation.

¹¹¹ Document Reference: 2017-02-21 - Prinvest Presentation.

apparently had not been repaired. It appears that no storage facilities were constructed prior to the delivery of the vessels.

The Contractor also outlined several other operational issues encountered in -country, including transportation, security issues and technical issues regarding the procurement of dedicated radio call signs. Of specific note is that ProIndicus, according to the document, did not supply the appropriate personnel for vessel training courses, with candidates for the DV15 Interceptor and WP18 Interceptor training unable to swim, and candidates for radar training not attending courses. The aforementioned issues highlight a serious lack of preparation and planning by ProIndicus management.

4.5 Company operations

4.5.1 Key findings

Kroll's review of the available internal accounting records confirms that ProIndicus has not generated any operational revenues since incorporation.¹¹²

Kroll identified that ProIndicus received payments totalling USD 68.6 million from several sources since incorporation. These payments enabled ProIndicus to make interest payments due under the loan agreements with Credit Suisse and VTB Capital (discussed in Section 4.3.6) and other operational expenses, for example salary payments to employees.

One transaction of specific note is a USD 13 million receipt of funds from the Contractor, which was agreed on the same date as the ProIndicus Supply Contract was signed between the two parties. The notes to the ProIndicus Financial Statements for 2013 stated that a "...subsidy to exploitation..." was granted by the Contractor "...with the aim of supporting the running costs of the Company."

The notes further stated that USD 500,000 of this amount would be allocated to paid-up share capital with the remaining USD 12.5 million "...to support the start of the operations related to the protection and security services."

4.5.2 USD 13 million receipt from the Contractor

On 18 January 2013 the Contractor sent a letter to ProIndicus which stated that "*within the spirit of cooperation and partnership*" between the two companies, the Contractor was irrevocably committed to providing USD 13 million to ProIndicus.

The letter, signed by Person G on behalf of the Contractor, was sent on the same date as the signing of the ProIndicus Supply Contract between the two parties. The letter did not specify the

¹¹² Note: Period of review was March 2013 to October 2016.

purpose for the funds transfer but stated that "*Prinvest Shipbuilding SAL is confident that its partnership with ProIndicus SA will lead to more ventures which will in the future make up for this contribution.*"

The letter stated that as soon as the supply contract between the two companies came into force, and funding was received by the Contractor as per the contract, USD 13 million would immediately be transferred to a ProIndicus bank account in Mozambique.¹¹³

A further letter dated 13 March 2013 from the Contractor authorised First Gulf Bank in the United Arab Emirates to transfer USD 13 million to a ProIndicus bank account with BCI Mozambique. The letter stated that the Contractor and ProIndicus "*agreed on January 18th 2013 to cooperate in developing the services of the latter*" and that the USD 13 million was part of this agreement.¹¹⁴

Kroll's analysis of bank records confirms that on 25 March 2013, a BCI Mozambique bank account¹¹⁵ held by ProIndicus received an amount of USD 12,999,958 from a First Gulf Bank account in the United Arab Emirates held by the Contractor.¹¹⁶

ProIndicus has not directly provided Kroll with an explanation of the intended and actual purpose of the proceeds of the USD 13 million transfer. However, the ProIndicus Financial Statements for 2013 stated that ProIndicus received USD 13 million from the Contractor as "*exploration subsidies*" and recorded the receipt in its financial statements as "other income." The notes to the financial statements stated that "*on 23 October 2013,¹¹⁷ ProIndicus received USD 13 million*" and that USD 500,000 would be allocated to paid-up share capital with the remaining USD 12.5 million "*utilized to support the start of the operations related to the protection and security services.*"¹¹⁸ This explanation was also included in a signed audit presentation letter dated 23 October 2014 from the Directors of ProIndicus to their external auditors, Ernst & Young.¹¹⁹

It is possible that the USD 13 million payment was made without the knowledge of Credit Suisse. Clause 3.1 of the Original ProIndicus Loan Agreement stated that "*the Borrower shall apply all amounts borrowed by it under the Facility towards the financing of the Project.*" The Contractor, in the Prinvest Presentation, stated that Credit Suisse insisted "*no funds raised pursuant to the ProIndicus financing were paid into banks or accounts in Mozambique.*"¹²⁰

¹¹³ Document Reference: 2013-01-18 - Prinvest Agreement USD 13 million. ¹¹⁴

Document Reference: 2013-01-18 - Prinvest Agreement USD 13 million. ¹¹⁵

Account Reference: BCI-USD-[Redacted].

¹¹⁶ Document Reference: 2013-01-18 - Prinvest Agreement USD 13 million.

¹¹⁷ Note: The reason for the payment being described as being received on 23 October 2013 is possibly due to the bank payment confirmation recording this date at the top of the document, however this cannot be confirmed.

¹¹⁸ Document Reference: 2013-12-31 ProIndicus 2013 Financial Statements (PT) (Note 14, page 26).

¹¹⁹ Document Reference: 2014-10-23 - Representation Letter (page 5).

¹²⁰ Document Reference: 2017-02-21 - Prinvest Presentation.

Kroll's review of bank records confirmed that no funds were contributed as share capital by the ProIndicus shareholders, Monte Binga and GIPS, prior to the USD 13 million payment. The application of USD 500,000 of the USD 13 million payment to fund share capital therefore appears to be designed to allow Monte Binga and GIPS, both state-owned, to contribute capital to ProIndicus on a risk-free basis.

4.5.3 Summary of income and expenses for year ending December 2013

Kroll's review of the available internal accounting records¹²¹ established that ProIndicus has not generated any operational revenues since incorporation.

Ernst & Young was engaged by ProIndicus to undertake a statutory audit of the financial statements for 2013. Kroll has used the information provided by Ernst & Young as the basis for its analysis, as the financial information provided by ProIndicus was incomplete and considered to be an unreliable source for assessing the income and expenditure of the company.

Table 30 | Income Statement for ProIndicus for the year ended 31 December 2013

Ref.	Description	Metical	USD
1	Income	375,875,000	12,550,083
2	Personnel expenses	(18,442,532)	(615,777)
3	Third party services and supplies	(8,588,194)	(286,751)
4	Depreciation	(5,390,100)	(179,970)
5	Other operational expenses	(14,692,507)	(490,568)
6	Operational result	328,761,667	10,977,017

The following bullet points set out an explanation of the data contained in Table 30.

1. **"Income"** relates to the USD 13 million receipt from the Contractor "granted by the supplier of the equipment, with the aim of supporting the running costs of the Company, during the initial phase of the business." The reason for the difference in value is explained by the USD 500,000 allocation of the receipt to share capital and exchange rate differences.
2. **"Personal expenses"** is allocated into four categories in the audit accounts. Kroll has not been provided with any documentation or calculations to support the expenditure:
 - a. Remuneration to statutory bodies MZN 10,327,945 (USD 344,840);

¹²¹ Note: Which comprise the audited financial statements for 2013 and 2014 for ProIndicus and the trial balance for the period March 2013 through to October 2016.

- b. *Employees remuneration MZN 7,563,583 (USD 252,540);*
 - c. *Per diem MZN 451,900 (USD 15,088); and,*
 - d. *Other MZN 99,104 (USD 3,309).*
3. **“Third party services and supplies”** is allocated to fifteen separate categories, including “Travel Expenses” (USD 70,786) and “Gift items” (USD 22,792). Kroll has not been provided with any documentation or calculations to support the expenditure.
 4. **“Depreciation”** according to the notes in the audited financial statements related to *“Transport equipment refers to the purchase of 3 vehicles branded Toyota Hilux 4X4, 3 Jeep Cherokee, 1 vehicle brand VW and four Lexus Constatia, to be used during the operationalization of the Company.”*
 5. **“Other operational expenses”** is allocated to “Taxes and fees” and “Others” (USD 489,334).
 6. **“Operational result”** shows that ProIndicus had a year-end operating profit of USD 10,977,017.

The ProIndicus Financial Statements for 2013 also outlined “Financial Income” and “Financial Expense,” which included interest income and expenses, and foreign exchange gains and losses. “Foreign exchange losses” totalling USD 12.4 million are the key item of note, which contributed to an overall accounting loss of USD 755,382 for the year ending 31 December 2013. ProIndicus does not appear to have hedged against any foreign exchange losses.

4.5.4 Summary of income and expenses for year ending December 2014

Ernst & Young was also engaged by ProIndicus to undertake a statutory audit of the financial statements for 2014. As above, Kroll used the information provided by Ernst & Young as the basis for its analysis, as the financial information provided by ProIndicus was incomplete and considered to be an unreliable source for assessing the income and expenditure of the Company.

Table 31 | Income Statement for ProIndicus for the year ended 31 December 2014

Ref.	Description	Metical	USD
1	Income	0	0
2	<i>Personnel expenses</i>	(47,099,935)	(1,440,365)
3	<i>Third party services and supplies</i>	(44,890,759)	(1,372,806)
4	<i>Depreciation</i>	(98,166,465)	(3,002,033)
5	<i>Other operational expenses</i>	(5,118,174)	(156,519)
6	Operational result	(195,275,333)	(5,971,723)

The following bullet points set out an explanation of the data contained in Table 31.

1. **"Income"** - no income was reported from operations in 2014.
2. **"Personal expenses"** is allocated into four categories in the audit accounts. Kroll has not been provided with any documentation or calculations to support the expenditure:
 - a. *Remuneration to statutory bodies MZN 17,648,882 (USD 539,721);*
 - b. *Employees remuneration MZN 24,630,396 (USD 753,223);*
 - c. *Per diem MZN 2,918,193 (USD 89,241); and,*
 - d. *Other MZN 1,902,464 (USD 58,179).*
3. **"Third party services and supplies"** is allocated to eighteen separate categories, including "General and Administrative expenses" (USD 349,530), "Rents and Leases" (USD 310,501) and "Travel expenses" (USD 172,660). Kroll was not provided with any documentation or calculations to support the expenditure.

The notes in the ProIndicus Financial Statements for 2014 record that the overall increase in costs from 2013 *"reflects the fact that the Company was operating during 12 months in 2014, while in the prior year the activity only began in June."*

4. **"Depreciation"** according to the notes in the ProIndicus Financial Statements for 2014 related to 'Basic Equipment', this included 11 DV15 Interceptor vessel, 3 WP18 Interceptor vessels as well as a communication system which comprised *"1 data network, 2 GPS and 1 UPS"*.

Transport equipment refers to *"11 vehicles, being: 3 Toyota Fortuner ; 3 Toyota Hilux, 1 Peugeot; 1 Lexus, 1 Audi, 1 Chevrolet; 1 Land Cruiser Prado, 1 Toyota Corolla and another Toyota Land Cruiser "pick up", which were acquired for use in the company's operations ."*¹²²
5. **"Other operational expenses"** is allocated to "Taxes and fees" (USD 28,880), "Fines and penalties" (USD 1,610) and "Social Responsibility Program" (USD 123,523).¹²³
6. **"Operational result"** shows that ProIndicus had a year-end operating loss of USD (5,971,723).

The ProIndicus Financial Statements for 2014 also outline *"Financial Income"* and *"Financial Expense"*, which includes interest income and expenses, and foreign exchange gains and losses.

Net foreign exchange losses totalling USD (9.8 million) and *"Loan Interest-Credit Suisse"* totalling USD (3.1 million) are the key items of note.

¹²² Document Reference: 2014-12-31 - ProIndicus 2014 Financial Statements (EN) (Note 5 & 6).

¹²³ Note: The notes to the audited financial statement stated that *"A significant portion of spending on social responsibility programs, are related to equipping for the Health Centre of the Navy that is responsible for the medical care of the vessels' staff."*

The notes to the ProIndicus Financial Statements for 2014 record that the foreign exchange losses "directly related to the bank loans granted by Credit Suisse " and the "Loan Interest-Credit Suisse" related to "part of interest relating to the 14 vessels already received ." These losses contributed to an overall accounting loss of USD 15.3 million for the year ending 31 December 2014.

4.5.5 Summary of income and expenses for years ending December 2015/16

At the time of undertaking the Independent Audit, Ernst & Young has not yet been contracted to undertake an audit of the financial statements for 2015 or 2016. Kroll was informed that there is an unresolved issue regarding the payment of fees in relation to audits undertaken by the firm of the financial statements for 2013 and 2014.

4.5.6 Analysis of company bank statements

Kroll has completed a review of all available company bank statements for ProIndicus.

ProIndicus provided Kroll with bank statements for four bank accounts with BIM Mozambique and BCI Mozambique. The bank statements provided by ProIndicus were incomplete with pages missing for a number of time periods.

Kroll considers this to be a further example of inadequate record keeping by the company. To enable a complete analysis, Kroll obtained and reviewed bank statements provided by the Bank of Mozambique (which were sourced directly from the relevant local Mozambique banks). The key observations from Kroll's analysis of the bank statements are outlined below.

Table 32 shows the bank accounts held by ProIndicus:

Table 32 | Summary of ProIndicus bank accounts

Bank	Account Number	2015 Closing Balance	2015 Trial Balance	October 2016 Balance	October 2016 Trial Balance
BIM	[Redacted]	USD 6,695	USD 6,213	USD 1,170	USD 1,171
	[Redacted]	MZN 23,450	MZN 23,450	MZN 32,954	MZN 33,084
BCI	[Redacted]	USD 6,259	USD 5,808	USD 4	USD 9
	[Redacted]	MZN 15,225,600	MZN 14,179,027	MZN -29,266,020	MZN -29,286,020
BNI	[Redacted]	MZN 249,500	MZN 249,500	MZN 249,500	MZN 249,500

4.5.6.1 Analysis of funds received by ProIndicus

Table 33 summarises the total receipts into the bank accounts owned by ProIndicus between 8 March 2013 and 19 January 2017.

Table 33 | Summary of payments into ProIndicus bank accounts

Ref.	Credit Type	Total Credits (USD)
1	Receipts from Shareholders	48,059,062
2	Receipts from the Contractor	12,999,959
3	Receipts from unknown sources selected for further analysis	5,451,648
4	Receipts from Person W	13,606
5	Receipts from MAM accounts	12,350
6	Receipts from unknown sources not selected for further analysis	2,061,273
Total		68,597,898

Reference 1 highlights that the largest source of funds into the bank accounts was from the ProIndicus shareholders, Monte Binga and GIPS, who provided USD 48.1 million.

Of this amount, USD 43.6 million was used to fund the interest payments discussed at Section 4.3.6. The first payment was funded by two separate loans obtained by Monte Binga and GIPS from Millennium BIM Mozambique and guaranteed by the Ministry of Finance. The second payment was solely funded by GIPS through transfers from SISE to a GIPS BNI Mozambique bank account.

Reference 2 highlights the USD 13 million receipt from the Contractor discussed at Section 4.5.2.

Reference 3 highlights receipts which total USD 5.4 million from unknown parties selected by Kroll for further analysis per the bank methodology outlined at Section 2.3. Kroll has requested supporting documentation from the respective local Mozambique banks, but at the time of reporting had not received responses to all enquiries. The descriptions for certain receipts refer to deposit accounts.

Reference 4 and Reference 5 detail receipts from Person W (possibly a [Redacted]) and MAM.

Reference 6 highlights receipts totalling USD 2.1 million not selected by Kroll for further analysis per the bank methodology outlined at Section 2.3. Kroll has not reviewed these transactions in detail for the purposes of the Independent Audit.

4.5.6.2 Analysis of payments made by ProIndicus

Table 34 summarises the total payments made from the bank accounts owned by ProIndicus between 8 March 2013 and 19 January 2017.

Table 34 | Summary of payments from ProIndicus bank accounts

Ref	Debit Type	Total Transfers (USD)
1	Payment to Credit Suisse	43,903,144
2	Payments to unknown parties selected for further analysis	5,873,735
3	Payments to suppliers	5,490,990
4	Payments of salaries	2,137,228
5	Deposits at BIM Mozambique	2,000,000
6	Payments to shareholders	1,203,827
7	Payments to individuals	1,102,307
8	Payments for car purchases/rental	902,164
9	Payment to [Redacted] ¹²⁴	350,702
10	Payment to MAM	10,800
11	Payments to unknown parties not selected for further analysis	6,439,439
Total		69,414,336

Reference 1 includes two payments totalling USD 43.6 million for the interest payments discussed at Section 4.3.6. The remaining balance of USD 330,073 relates to exchange rate variances.

Reference 2 highlights payments selected by Kroll for further analysis per the bank methodology outlined at Section 2.3. Kroll has requested supporting documentation from the respective local Mozambique banks, but at the time of reporting had not received responses to all enquiries.

Reference 3 details transactions that appear to be payments to suppliers. The single largest recipient of a supplier payment from ProIndicus was [Redacted] ("[Redacted]"), which received USD 2.8 million.¹²⁵ The second largest recipient of a supplier payment was [Redacted], which received USD 1.1 million.¹²⁶

¹²⁴ Note: Open source enquiries indicate this company provides custom clearance support. Both the 2013 and 2014 financial statements reference payments for 'duties' and 'port costs' relating to the radar tower components and associated installation equipment, however no further information was provided.

¹²⁵ Note: [Redacted] Moçambique Limitada ("[Redacted]") is the Mozambique subsidiary of the [Redacted] Group, a Portuguese construction group. On 10 March 2014, ProIndicus signed a contract with [Redacted] for the transport of the radar towers supplied by the Contractor as well as the construction of the concrete bases for the tower. The contract price was USD 3.76 million which according to the contract was based on "quantities provided by" ProIndicus. Kroll has not been provided with specific invoices for the payments made by ProIndicus. Document Reference: 2014-03-10 - Prebuilding Contract.

¹²⁶ Note: Public records indicate that [Redacted] is a construction and engineering company with operations in Mozambique as well as Portugal, Brazil and other countries.

According to the ProIndicus Financial Statements for 2014, [Redacted] and [Redacted] are the same entity, and according to a contract signed with ProIndicus on 10 March 2014, the company was engaged to construct foundations for the radar sites as well as for transporting the radar towers to the sites. Kroll has not been able to verify with ProIndicus if these works have been completed.

Reference 4 relates to payments that appear to be in respect of salaries, totalling USD 2.1 million.

Reference 5 relates to a deposit made by ProIndicus on 25 July 2013 for USD 2 million into an unknown bank account¹²⁷ at BIM Mozambique. Kroll has requested further information in relation to this transaction, but no explanation has yet been provided.

Reference 6 relates to two equal payments made by ProIndicus on 16 September 2014 totalling MZN 36.5 million (USD 1.2 million) to Monte Binga and GIPS.¹²⁸ According to the ProIndicus Financial Statements for 2014, the two payments were non-recourse loans to the shareholders, with no interest or repayment terms.¹²⁹ The reason for the loan is unknown.

Reference 7 comprises a number of payments made from bank accounts to several individuals. Kroll was informed that a number of the individuals are employees of ProIndicus, including Person A, Person O and Person W. Kroll has not been able to verify which individuals are employees.

The relationship between ProIndicus and other named individuals has not been determined. These payments include a single payment of USD 102,600 made to a bank account in the name of Person BE on 13 May 2013, which was funded from the transfer of USD 13 million received from the Contractor. Table 35 summarises the individuals in this category.

Table 35 | Summary of payments to named individuals

Individual	Total Transfers (USD)
[Redacted] ¹³⁰	247,771
[Redacted] ¹³¹	190,936
[Redacted]	102,600
[Redacted]	30,471
[Redacted]	27,666
[Redacted]	22,353

¹²⁷ Note: Account number [Redacted].

¹²⁸ Document Reference: ProIndicus BCI-MZN-[Redacted].

¹²⁹ Document Reference: 2014-12-31 - ProIndicus 2014 Financial Statements (EN) (Note 8b, page 26).

¹³⁰ Note: [Redacted] is believed to be a 'clearing agent'.

¹³¹ Note: [Redacted] is believed to be a 'clearing agent'.

[Redacted] ¹³²	18,451
[Redacted]	17,839
[Redacted]	17,040
[Redacted]	13,542
[Redacted]	12,257
Other payments below USD 10,000 to individuals	401,380
Total	1,102,306

Reference 8 represents payments made for car purchases and/or rentals together with associated accessories totalling USD 902,164.

Reference 9 relates to a payment to [Redacted] for USD 350,702. No further information has been provided for these payments.

Reference 10 relates to a payment to MAM for USD 10,800.

Reference 11 highlights payments not selected by Kroll for further analysis per the bank methodology outlined at Section 2.3. Kroll has not reviewed these transactions in detail for the purposes of the Independent Audit.

¹³² Note: [Redacted] is believed to be a Monte Binga employee seconded to work at ProIndicus.

5. Empresa Moçambicana de Atum S.A.

5.1 EMATUM report structure

The main body of this report section is split into the following five sections:

- í *Incorporation, share capital and management;*
- í *Loan facility agreements with Credit Suisse and VTB Capital;*
- í *Funds provided by the Contractor to EMATUM;*
- í *Transfer of USD 500 million to the Ministry of Defence;*
- í *Abu Dhabi Mar supply contract; and,*
- í *Company operations.*

Each report section provides a narrative of key events, actions and consequences, together with a summary of Kroll's interpretation of the key issues and matters for further investigation.

Kroll has separately outlined its observations regarding the overall management of EMATUM (and ProIndicus and MAM) at Section 9.

Kroll has considered the overall management of EMATUM against the Commercial Code to identify any potential breaches - this is discussed in further detail in Section 9.

5.2 Incorporation, share capital and management

5.2.1 Incorporation

Empresa Mocambicana de Atum, S.A. ("EMATUM") was incorporated on 2 August 2013 and is headquartered in Maputo, Mozambique. The Articles of Association for EMATUM stated that the company's main objectives were fishing, including "...receiving, processing, storage, handling, movement, sale, import and export."¹³³

5.2.2 Share capital

The company is owned by the following three shareholders:¹³⁴

- Instituto de Gestão das Participações do Estado (34%);
- í Emopesca (33%); and,
- í GIPS (33%).

¹³³ Document Reference: 2013-09-05 - Official Gazette EMATUM Articles of Association (page 2 – 5).

¹³⁴ Document Reference: 2013-08-02 - EMATUM Incorporation Notary Registry.

IGEPE is a public entity that is under the authority of the Ministry of Finance.¹³⁵ Emopesca is the national fisheries company, owned by the Government of Mozambique (80%) and the government financed Fund of Fishing Promotion (20%).¹³⁶ GIPS is also a shareholder of ProIndicus and MAM.

5.2.3 Management

The last available Administration Board meeting minutes, dated 23 September 2016, indicated that the following individuals were the administrators of EMATUM:¹³⁷

- Person A – [Redacted];
- Person X – [Redacted]; and
- Person Y – [Redacted].

Kroll's review of documents provided during the course of the Independent Audit indicated that the following individuals have also previously served as administrators of the company:

- Person Z – [Redacted];
- Person AA – [Redacted]; and,
- Person D – [Redacted].

The role of Person D as it relates to government guarantees is discussed in more detail in Section 8.

5.2.4 Subsidiaries and affiliates

As detailed in Section 6.2.2 of the MAM section of this report, a Ministry of Finance opinion document, and the MAM loan agreement with VTB Capital both state that EMATUM holds a 1% shareholding in MAM. This shareholding is not reflected in the internal accounting records or the audited financial statements of EMATUM.

5.2.5 Background to the company

The Privinvest Presentation sets out that EMATUM was established to "... develop a homegrown self-financing fishing industry in Mozambique, including the supply of a modern fleet of vessels, equipment, associated training services, and intellectual property licence and technology transfer."¹³⁸

The Privinvest Presentation stated that once the ProIndicus financing had been obtained, and the supply contract initiated in 2013, "*Both ADM [Abu Dhabi Mar] and Mozambique saw the ProIndicus*

¹³⁵ Document Reference: 2001-12-21 - Official Gazette IGEPE Incorporation.

¹³⁶ Source: <http://e.xivwpldgs1.fao.org/docs/pdf/moz110476.pdf>.

¹³⁷ Document Reference: 2016-09-23 - Admin Board Meeting. ¹³⁸

Document Reference: 2017-02-21 - Privinvest Presentation.

transaction as a template which could be repeated to provide Mozambique with the capability to protect and exploit its tuna reserves, a natural extension of the objectives of the EEZ Project in order to develop the blue economy." The document stated that this led to the conception of the EMATUM project (the "EMATUM Project") and that it was "...Mozambique that first requested a "fishing" solution."

The Privinvest Presentation stated that the objective of the EMATUM Project was to develop Mozambique's ability to "...to exploit one of the EEZ's most important natural resources: tuna and the creation of a strong export economy due to increasing food security in Mozambique."

5.2.6 Mozambique Fishing Feasibility Study

On or about 28 March 2013, approximately four months before the incorporation of EMATUM, the Mozambique Ministry of Fisheries submitted its "*Fleet Development Plan*" to the Indian Ocean Tuna Commission ("IOTC"). The Fleet Development Plan detailed Mozambique's desire to establish a national fishing fleet with a projected plan of adding 130 locally flagged vessels within 15 years.¹³⁹ The plan noted that Mozambique was in the final stages of approval for its "*Tuna Strategy and Development Plan*."¹⁴⁰

This Fleet Development Plan was subsequently amended and resubmitted to the IOTC on 28 August 2013, one month after the formation of EMATUM. It contains the same information from the previous plan but was updated to include IOTC technical standards and noted that the "*Tuna Strategy and Development Plan*" had been finalised.¹⁴¹

The Ministry of Finance provided Kroll with a presentation entitled "*Mozambique Fishing Feasibility Study*" (hereafter the "EMATUM Feasibility Study"). The EMATUM Feasibility Study, dated July 2013, did not state the author of the document. It is possible that Abu Dhabi Mar LLC (hereafter the "Contractor"), a company part owned by the Privinvest Group and the lead party for the EMATUM supply contract, was involved in the preparation of the document due to the inclusion of technical details and financing terms of the project with the Contractor. The EMATUM Feasibility Study set out:

- í The strategic reasons for the Mozambique Tuna Fishing Development plan and a rationale for the project as proposed by the Contractor;
- í An overview of the twenty-seven vessels to be supplied, including twenty-one Longliner fishing vessels, three Bait Trawler fishing vessels and three Ocean Eagle vessels;
- í An overview of the Land Operations Co-ordination Centre;

¹³⁹ Note: Based on documents submitted to the IOTC by Person Y, Role Y, Mozambique has been a full member of the IOTC since 2012.

¹⁴⁰ Document Reference: 2013-03-28 - Mozambique Fleet Development Plan. Web Reference: <http://www.iotc.org/>.

¹⁴¹ Document Reference: 2013-00-00 - Tuna Fishing Development Plan (Pt).

- í The intellectual property to be provided for the construction of the fishing vessels and Ocean Eagle vessels;
- í An overview of the stated economic feasibility of the EMATUM Project, including:
 - a. Revenue potential showing projected revenue of USD 220 million in Year 3 once all the vessels were delivered and operational, rising to USD 259 million annually after 8 years;¹⁴²
 - b. "Cost Assumptions" detailing international licencing fees per vessel, maintenance costs for the fishing vessels and Ocean Eagle vessels, and crew costs. The total operating costs were projected to be USD 32 million in Year 3, rising to USD 36 million annually in Year 8; and,
 - c. A proposed financing structure based on a seven year, USD 800 million government guaranteed loan. The proposed terms stated that one year 's interest reserve would be retained by the borrower from the proceeds.
- í The above assumptions were used to calculate projections of a self-financing project with USD 192 million available for debt servicing in Year 3, and the loan fully repaid in Year 7.

Whilst the provision of a "Land Operations Coordination Centre" indicated that there would be a control facility to support the operation of the fishing fleet and "Trimarans" (i.e., Ocean Eagles), the EMATUM Feasibility Study made no reference to other infrastructure required to successfully mobilise the vessels, for example the radars that would be required to link vessels to the centre.

The EMATUM Feasibility Study also referenced that the EMATUM Project would generate revenues "...that could be used to fund tuna storage and processing plants." This statement supports Kroll's understanding that there were no plans by EMATUM at the outset of the project to construct an onshore tuna storage and processing plant prior to supply of the fishing vessels.

The EMATUM Feasibility Study appears to include limited independent information to critically assess the viability of the planned investment. Kroll was not provided with any documentation to evidence that EMATUM or its shareholders conducted due diligence on the Contractor. Further, Kroll has no insight regarding the due diligence undertaken by Credit Suisse or VTB Capital in relation to the Contractor, EMATUM or the wider feasibility of the project.

5.2.7 Tendering process for the project

Kroll has repeatedly requested information from EMATUM and Person A to determine what, if any, due diligence was carried out in relation to the selection of the Contractor to develop the EMATUM Project, or if any other proposals were obtained from other suppliers. Person A has refused to provide information, citing "national security" reasons for non-disclosure. Kroll has subsequently

¹⁴² Note: These prices are quoted as being received from "Fish Information & Services." Document Reference: 2013-07-00 - Mozambique Fishing Feasibility Study (page 14).

made requests to both Person E, the Role E, and Person F, the Role F. Person E informed Kroll that he/she could not provide any information regarding EMATUM, citing that documentation relating to tendering was "*classified*." Person F has informed Kroll that no records relating to the EMATUM were provided to him/her by Person E since taking office.

As a result, Kroll cannot determine if other proposals were obtained or if the EMATUM shareholders carried out any independent due diligence on the Contractor.

5.3 Loan facility agreement with Credit Suisse and VTB Capital

5.3.1 Key findings

5.3.1.1 EMATUM government guarantee

The government guarantee for the loan agreement signed by EMATUM on 30 August 2013 (hereafter the "EMATUM Government Guarantee") was issued without an independent assessment by the Ministry of Finance of the EMATUM Feasibility Study. A government guarantee was issued for the total loan amount on 30 August 2013 and signed by Person C. Kroll was advised by the Ministry of Finance that, in relation to the request for the government guarantee from SISE, it has no record of an independent assessment being completed which is usually evidenced by an "opinion document." Therefore, Kroll is unable to determine the basis on which the government guarantee was assessed.

Further detail on the government guarantee process and the EMATUM Government Guarantee is set out at Section 8.

Role of Person D

5.3.1.2 Person D, in his/her role as Role D, was responsible for signing government guarantee opinion documents for ProIndicus, EMATUM and MAM. Person D was appointed to [Redacted] on 2 August 2013 and was paid USD 95,000 during the period August 2013 to July 2014 for his/her role as a [Redacted].¹⁴³

Further detail on the government guarantee process and the role of Person D is set out at Section 8.

5.3.1.3 Contractor Fee Rebate

According to a letter from Credit Suisse, dated 3 October 2013, the Contractor was entitled to a Contractor Fee Rebate of USD 4 million. This amount was reduced by USD 748,500 as the

¹⁴³ Document Reference: 2013-08-02 - General Assembly Meeting.

Contractor provided a 3% discount to an unknown buyer for USD 24.9 million of loan notes, which resulted in a net rebate of USD 3.3 million from Credit Suisse to the Contractor.

Kroll requested further details of the transaction from the Contractor, including details of the unknown buyer of the USD 24.9 million loan notes. Kroll was informed by the Contractor that no response will be provided to this request.

Contractor Rebate Fees in respect of the EMATUM Loan Agreement are discussed in further detail in Section 5.3.4.3.

5.3.1.4 The source of funds for interest payments

The audited financial statements for EMATUM for the year ending 31 December 2014 (hereafter the "EMATUM Financial Statements for 2014") record a liability to the Contractor of USD 53 million. The notes to the EMATUM Financial Statements for 2014 stated the liability related to an advancement of USD 53 million provided to EMATUM for the payment of the first interest payments due in March 2014 and September 2014. In summary, Kroll was unable to verify the source of funds for this payment as described below.

EMATUM has generated limited revenue from its operations and therefore has been unable to service any loan repayments without the support of other parties. Between 10 March 2014 and 11 March 2016, five interest repayments totalling USD 129.8 million, and two principal repayments totalling of USD 153 million, were made on behalf of EMATUM in relation to the EMATUM Loan Agreement.

The source of the funds to make two of the first interest payments totalling USD 53 million is unclear and documentation provided to Kroll is contradictory. The EMATUM Financial Statements for 2014 state the payments were made by the Contractor, but Kroll's analysis shows that these interest payments were made from an undisclosed EMATUM bank account, funded by transfers from SISE.

The process for making the two interest payments contradicts the EMATUM Financial Statements for 2014, which stated that the Contractor, not SISE, provided EMATUM with an advance for USD 53 million for the interest payments to Credit Suisse. This was supported by a letter from the Contractor to EMATUM which stated that payments of USD 53 million had been made directly to EMATUM's lenders, a claim also stated in an audit representation letter signed by Person A.

It appears from accounting records that EMATUM received funds from IGEPE to make an interest payment of USD 25.8 million in March 2015. In turn, bank records show that IGEPE sourced the funds by way of a loan from BNI Mozambique, a bank owned by IGEPE.

5.3.2 EMATUM Loan Agreement

On 30 August 2013, EMATUM signed a loan agreement (hereafter the "EMATUM Loan Agreement") with Credit Suisse with a maximum limit of USD 850 million and a maturity period of seven years from first utilisation.¹⁴⁴ The loan facility was arranged by Credit Suisse International, who were named as the original lender, and was facilitated by Credit Suisse AG. The agreement was signed according to the law of England and Wales and was guaranteed by the Ministry of Finance.¹⁴⁵ On 2 August 2013, the date of EMATUM's incorporation, EMATUM's General Assembly authorised the Administration Board to sign a financing agreement for the supply of equipment.¹⁴⁶

The interest rate of the loan was LIBOR plus 3.7%, with interest payments to be made semi - annually beginning six months after the first utilisation. The EMATUM Loan Agreement stated that the loan principal was to be repaid in ten semi-annual tranches of USD 76.5 million, beginning two years after the first utilisation, with a final tranche of USD 85 million.¹⁴⁷

The EMATUM Loan Agreement was signed with Credit Suisse and distributed as syndicated loan notes through a Dutch entity, Mozambique EMATUM Finance 2020 B.V.¹⁴⁸ The loan proceeds were utilised in two tranches: the first tranche of USD 500 million was raised by Credit Suisse and the second tranche of USD 350 million was raised by VTB Capital.

The stated purpose of the EMATUM Loan Agreement was to finance the "...purchase of fishing infrastructure, comprising of 27 vessels, an operations centre and related training" as well as financing the "general corporate purposes" of EMATUM.¹⁴⁹ The EMATUM Loan Agreement made no mention of the background of the EMATUM Project.

The EMATUM Loan Agreement was signed by Person A and Person Z – [Redacted], on behalf of EMATUM, and Person T and Person AB on behalf of both Credit Suisse International and Credit Suisse AG.

5.3.3 Government guarantee and Bank of Mozambique approval process

5.3.3.1 Government Guarantee request by SISE

On 16 August 2013 SISE requested a government guarantee from the Ministry of Finance for a loan of USD 850 million to EMATUM to pay for "...necessary equipment and services." The request was signed by the Role E; Person E. At this stage, EMATUM had only signed a USD 785.4 million supply contract with the Contractor (on 2 August 2013). It was not until nearly two months later that

¹⁴⁴ Document Reference: 2013-08-30 - EMATUM - Facility Agreement (EN).

¹⁴⁵ Document Reference: 2013-08-30 - EMATUM Government Guarantee.

¹⁴⁶ Document Reference: 2013-08-02 - General Assembly Meeting.

¹⁴⁷ Document Reference: 2013-08-30 EMATUM - Facility Agreement (EN) (Section 4, page 25).

¹⁴⁸ Document Reference: 2013-09-11 - Mozambique - Offering Circular_Memorando Informativo.

¹⁴⁹ Document Reference: 2013-08-30 EMATUM - Facility Agreement (EN) (page 16 and 21).

EMATUM agreed to increase the total amount of the supply contract by USD 51 million to USD 836.4 million (on 26 September 2013).

On 30 August 2013 a government guarantee for the full USD 850 loan with Credit Suisse was signed by Person C on behalf of the Ministry of Finance.

Further details regarding the government guarantees are available in Section 8.

5.3.3.2 Bank of Mozambique approval

On 16 August 2013, the same day as the government guarantee was requested, EMATUM requested that the Bank of Mozambique approve the USD 850 million EMATUM Loan Agreement.¹⁵⁰ The letter of request indicated that USD 785.4 million would be transferred directly to the Contractor. The request was signed by Person A and Person Z on behalf of EMATUM.

The role of the Bank of Mozambique in approving foreign currency denominated loan agreements for state owned companies is restricted to ensuring the person authorising the loan has the appropriate legal authority. For the EMATUM Loan Agreement this necessitated confirming that Person C had the appropriate legal authority to sign the government guarantee.

The Bank of Mozambique did not assess the viability of the EMATUM Feasibility Study. The assessment conducted by the Bank of Mozambique was based on the assumption that the Ministry of Finance had already conducted a technical assessment of the risks relating to the financing. A Bank of Mozambique loan opinion document stated "*Considering that a government guarantee has been issued, we want to believe that there was a prior assessment of its risks and impact.*"¹⁵¹ Further, the Bank of Mozambique opinion document stated that as the loan related to "*state strategy*", technical matters were not relevant.

The EMATUM Loan Agreement and associated government guarantee was approved by the Bank of Mozambique on 21 August 2013.¹⁵² On the same day, Person U, Role U, forwarded a copy of the approval to Person A. In turn, Person A sent the document to Person G, the Role G for the Contractor. Person G replied stating "*Thanks my brother. We need one without the mention of the "Libor + 3.7%" because the bank is taking much more and we are subsidizing the rest!! Can he/she remove the phrase please? ProIndicus Letter didn't mention interest rates.*"¹⁵³

¹⁵⁰ Document Reference: 2013-08-16 - EMATUM Request to BoM - Loan Approval.

¹⁵¹ Document Reference: 2013-08-21 - BoM Opinion - EMATUM Request for Loan Approval.

¹⁵² Document Reference: 2013-08-21 - BoM Letter to EMATUM - Loan Authorization.

¹⁵³ Document Reference: 2013-08-22 - Person A & Person G Emails - Fwd Attached Image.

Person A subsequently forwarded this request to the Bank of Mozambique. A Bank of Mozambique opinion document showed that Person G's request was considered. The approval letter, however, was not amended to remove the reference to the interest rates.¹⁵⁴

5.3.4 Utilisation details

Table 36 summarises the amount of each utilisation request, the bank fees withheld as Arrangement Fees, the available Contractor Portion, the Contractor Fee and the amount actually paid to the Contractor. Appendix E summarises the utilisation details.

Table 36 | Schedule of bank fees paid to Credit Suisse/amount paid to Contractor

Utilisation Date	Utilisation Amount (USD)	Arrangement Fees (USD)	Contractor Portion (USD)	Contractor Fees (USD)	Remitted to Contractor (USD)
05/09/2013	500,000,000	(8,100,000) ¹⁵⁵	492,000,000	(45,000,000)	446,900,000
30/09/2013	350,000,000	(5,600,000)	344,300,000	(31,500,000)	312,900,000
Total	850,000,000	13,700,000	836,300,000	76,500,000	759,800,000

5.3.4.1 Arrangement fees and transaction fees

An arrangement fee letter ("EMATUM Arrangement Fee Letter") dated 30 August 2013 was signed between EMATUM and Credit Suisse. The letter stated that EMATUM agreed to pay Credit Suisse 1.6% of the total amount of each loan drawdown for providing the financing, and an additional USD 100,000 for transaction costs and expenses (the "EMATUM Arrangement Fees").¹⁵⁶ The fees totalled USD 8.1 million for the first tranche and were withheld by Credit Suisse from the total utilisation amount.

Under the terms of an assignment agreement ("EMATUM Assignment Agreement") dated 24 September 2013, the 1.6% EMATUM Arrangement Fee was then assigned to VTB Capital as providers for the second tranche payment of USD 350 million.¹⁵⁷ The EMATUM Arrangement Fee Letter stated that the total "Contractor Portion" of the loan would not exceed USD 785.4 million, which was the initial price of the supply contract signed with the Contractor on 2 August 2013.¹⁵⁸ As detailed in Section 5.6.3, the supply contract price was increased to USD 836.4 million on 26

¹⁵⁴ Document Reference: 2013-08-22 - BoM Opinion - Request for Change.

¹⁵⁵ Note: USD 100,000 withheld as transaction fee, rather than arrangement fee.

¹⁵⁶ Document Reference: 2013-08-30 - Credit Suisse Arrangement Fee Letter.

¹⁵⁷ Document Reference: 2013-09-24 - EMATUM & Credit Suisse ADM - Loan Assignment Agreement.

¹⁵⁸ Document Reference: 2013-08-30 - Credit Suisse Arrangement Fee Letter.

September 2013.¹⁵⁹ It is not known if the EMATUM Arrangement Fee Letter was amended to reflect the increased loan amount from the original USD 785.4 million contract price.

5.3.4.2 Contractor Fees

According to the EMATUM Contractor Fee Letter, signed between the Contractor and Credit Suisse International and Credit Suisse AG on 22 August 2013, the Contractor agreed to pay Contractor Fees to Credit Suisse International for providing the financing to EMATUM.

The EMATUM Contractor Fee Letter stated that "*In consideration for the Arranger's [Credit Suisse International] agreement to arrange the Facility on the terms and conditions (in particular the rate of interest) ... the Contractor [Abu Dhabi Mar] agrees to pay to the Arranger for its own account a fee of 9.00% of the principal amount of each ... Utilisation Request.*" The agreement authorised Credit Suisse International to deduct the Contractor Fee from the Contractor Portion.

Kroll's review of documents shows that the EMATUM Contractor Fees totalled USD 76.5 million.

Under the terms of the EMATUM Assignment Agreement, the Contractor Fees payable to Credit Suisse for the second tranche of USD 350 million were assigned by Credit Suisse to VTB Capital for providing the funds.¹⁶⁰

5.3.4.3 Contractor Fee Rebate

The EMATUM Contractor Fee Letter also set out a formula for calculating a "Contractor Fee Rebate," which would be payable by Credit Suisse International to the Contractor. The formula for calculating the Contractor Fee Rebate was based on the price and yield of any tranche of notes issued by Mozambique EMATUM Finance 2020 B.V. that related to the EMATUM Loan Agreement.

Credit Suisse agreed to pay the Contractor a "Contractor Fee Rebate" if Credit Suisse sold the notes with a discount lower than 9%. The rebate amount would be calculated using a formula set out in the EMATUM Contractor Fee Letter. This would be paid directly by Credit Suisse to the Contractor. Credit Suisse documents show that as the first USD 500 million tranche of notes were sold at a reduced discount, the Contractor was entitled to a rebate (i.e. Credit Suisse achieved a sale price on the notes higher than anticipated).

According to a Contractor Rebate Letter, dated 3 October 2013, the Contractor was entitled to a Contractor Fee Rebate of USD 4 million. This amount was reduced by USD 748,500 to USD 3.25 million, as the Contractor provided a 3% discount to an unknown buyer of USD 24.9 million of notes

¹⁵⁹ Document Reference: 2013-09-26 - Abu Dhabi Mar Letter - Confirmation Payment and Loan Increase Notice.

¹⁶⁰ Document Reference: 2013-09-24 - EMATUM & Credit Suisse ADM - Loan Assignment Agreement.

as part of the initial USD 500 million note offering by Credit Suisse. This resulted in a net Contractor Fee Rebate payment of USD 3.3 million from Credit Suisse to the Contractor.¹⁶¹

Clause 3.3(a) of the EMATUM Assignment Agreement stated that the Contractor could refer unrelated parties to Credit Suisse to purchase syndicate notes and the Contractor could pay a portion of any sale price to these parties by foregoing a portion of the Contractor Fee Rebate.¹⁶² The reasons for this subsidy or the identity of the buyer of the loan notes are unknown. The Contractor has informed Kroll, through their lawyers, that no further information in relation to this matter will be provided.

5.3.5 Confirmation of funds paid to the Contractor

A letter sent from Credit Suisse to the Ministry of Finance on 3 April 2014 confirmed that USD 850 million was utilised under the facility.¹⁶³ The letter provided the following breakdown of funds:

Table 37 | Summary of funds per Credit Suisse letter dated 3 April 2014

Type	Amount (USD)
Payment to the Contractor	763,189,118
Net Contractor Fee withheld by Credit Suisse and VTB Capital	73,210,882
Arrangement fees to Credit Suisse and VTB Capital	13,600,000
Total Facility	850,000,000

SWIFT payment records confirmed that USD 759.8 million was paid to the United Arab Emirates bank account of the Contractor on 11 September 2013 and 11 October 2013. The Contractor Rebate letter from Credit Suisse to the Contractor stated that "*The Contractor Fee Rebate payable to the Contractor net of the Contractor Subsidy shall be USD 3,289,118.*"

The difference of USD 3,389,118 between the SWIFT amount paid to the Contractor and the Credit Suisse letter amount therefore included the Contractor Fee Rebate of USD 3,289,118 (paid on an unknown date) to the Contractor.¹⁶⁴ The USD 100,000 difference between these amounts represents the transaction fees payable per the EMATUM Arrangement Fee Letter. It does not appear that Credit Suisse has considered this in their calculations.

¹⁶¹ Document Reference: 2013-10-03 - Contractor Rebate Letter.

¹⁶² Document Reference: 2013-09-24 - EMATUM & Credit Suisse ADM - Loan Assignment Agreement (clause 3.3. (a), page 7).

¹⁶³ Document Reference: 2014-04-03 - Credit Suisse Fee Letter to MoF - Breakdown of Payments.

¹⁶⁴ Document Reference: 2013-10-03 - Contractor Rebate Letter.

Kroll was not provided with any SWIFT payment records to detail payment of this Contractor Fee Rebate, however as both Credit Suisse and the Contractor have confirmed the payment, it is believed to have been paid directly by Credit Suisse to the Contractor.¹⁶⁵

5.3.6 Restructuring of the EMATUM Loan Agreement to a Sovereign Bond

On 6 August 2015, Credit Suisse sent an engagement letter to EMATUM and the Ministry of Finance regarding a refinancing of the USD 850 million facility ("EMATUM Refinancing Letter"). The proposed strategy was to restructure the existing facility into a Sovereign Bond.¹⁶⁶ Kroll was informed by the Role H, Person H, that the restructure was instigated to negotiate a lower interest rate and longer repayment period.

The EMATUM Refinancing Letter did not set out any terms for the interest to be paid or schedule for repayment of principal. The letter was signed by Person A and a representative from EMATUM whose signature is illegible, stamped by the Ministry of Finance, and signed by Person AC for Credit Suisse.

On 12 November 2015, VTB Capital sent a similar engagement letter to EMATUM regarding the offer of a change to the existing facility. The VTB Capital letter did not set out the terms of any changes to the facility and was signed by Person A and another representative of EMATUM, but was not signed by VTB Capital.¹⁶⁷

A "Dealer Management" agreement, dated 9 March 2016, named Credit Suisse Securities and VTB Capital as joint dealers on the sovereign bond offering.¹⁶⁸ On 5 April 2016, the Mozambique Council of Ministries approved the restructure of EMATUM's facility into a Sovereign Bond.¹⁶⁹ The Sovereign Bond prospectus showed a total issue of USD 727 million with an interest rate of 10.5%, paid semi-annually, maturing in January 2023.¹⁷⁰ At the time of reporting, the outstanding debt for the EMATUM Sovereign Bond was USD 726.5 million.

The Dealer Management agreement for the April 2016 restructuring of EMATUM's facility showed that Credit Suisse would receive USD 3 million and VTB Capital would receive USD 2 million in fees as dealer managers, as well as payment for other costs and expenses up to a maximum of USD 580,000.¹⁷¹ The Ministry of Finance provided Kroll with a document summarising all fees paid in relation to the April 2016 EMATUM debt restructuring. The document details payments totalling USD 31.4 million to twelve parties, including USD 17.3 million to a joint BNI Mozambique and Ernst & Young consortium (the "Consortium"). The Ministry of Finance provided Kroll with evidence that

¹⁶⁵ Document Reference: 2017-02-21 Privinvest Presentation.

¹⁶⁶ Document Reference: 2015-08-06 - Credit Suisse Letter to EMATUM - Sovereign Notes.

¹⁶⁷ Document Reference: 2015-11-12 - VTB Mandate Letter to EMATUM.

¹⁶⁸ Document Reference: 2016-03-09 - Credit Suisse and VTB Mandate Letter.

¹⁶⁹ Document Reference: 2016-04-05 - Council of Ministers EMATUM Restructure Bond Approval.

¹⁷⁰ Document Reference: 2016-04-15 - Mozambique Listing Prospectus.

¹⁷¹ Document Reference: 2016-03-09 - Credit Suisse and VTB Mandate Letter.

it paid USD 31.4 million to the Consortium. Kroll has not received any evidence to show that the proceeds were distributed, as stated in the document, by the Consortium to twelve named parties (Table 5 in Section 3.4.2 summarises the payments made by the Ministry of Finance and the role of each party in the restructuring, as indicated in the document provided by the Ministry of Finance).

A document entitled "Summary of Key Terms of Certain Commercial External Indebtedness," issued by the Government of Mozambique on 22 November 2016, summarised the renegotiated EMATUM loan.

5.3.7 Role of BNP Paribas

An e-mail from a Credit Suisse representative to Person A in April 2016 indicated that the first tranche of USD 500 million of the EMATUM loan was arranged by Credit Suisse and BNP Paribas.¹⁷²

Limited information is contained in the loan documents or other information provided by Credit Suisse regarding the role of BNP Paribas. An offering document for the syndication of the initial USD 500 million loan facility by Credit Suisse through the syndication vehicle, Mozambique EMATUM Finance 2020 B.V., named Credit Suisse Securities and BNP Paribas as "joint lead managers" on the offering note.¹⁷³

Kroll was not provided with any further documentation which indicates BNP Paribas was involved in the EMATUM Loan Agreement.

5.3.8 Status of loan repayments

5.3.8.1 Repayments in respect of EMATUM Loan Agreement

Table 38 summarises the repayments made by EMATUM and the Ministry of Finance in respect of the EMATUM Loan Agreement, prior to restructuring.

EMATUM did not generate sufficient revenue to enable the company to service the loan, with all repayments being funded by SISE, IGEPE or the Ministry of Finance.

¹⁷² Document Reference: 2016-04-17 - MoF & Lenders Email - Re Follow Up To Your Queries.

¹⁷³ Document Reference: 2013-09-11 - Mozambique - Offering Circular_Memorando Informativo.

Table 38 | Schedule of EMATUM loan repayments

Ref.	Date	Payment Type	Payer	Amount (USD)
1	10/03/2014	Interest	EMATUM (Funds provided by SISE)	25,106,160
2	10/09/2014	Interest	EMATUM (Funds provided by SISE)	26,796,250
3	17/03/2015	Interest	EMATUM (Funds provided by IGEPE / Ministry of Finance)	26,796,250
4	11/09/2015	Principal	Ministry of Finance	76,500,000
5	11/09/2015	Interest	Ministry of Finance	26,796,250
6	11/03/2016	Principal	Ministry of Finance	76,500,000
7	11/03/2016	Interest	Ministry of Finance	24,384,587
Total				282,879,497

Reference 1: On 21 February 2014, Credit Suisse sent an interest payment notice to EMATUM and the Ministry of Finance, requesting that USD 25.1 million be paid to a Credit Suisse AG bank account by 11 March 2014.¹⁷⁴

On 10 March 2014, a payment of 25.1 million (MZN 822.2 million) was made from an EMATUM Moza Banco account¹⁷⁵ to a Credit Suisse bank account.¹⁷⁶ As detailed in Section 5.4, the transfer was funded by two payments of MZN 775 million (USD 23.6 million) and MZN 50 million (USD 1.5 million) received into the Moza Banco account on 7 and 10 March 2014 from a SISE bank account.¹⁷⁷ The source of the SISE funds was a Bank of Mozambique bank account, opened at the request of the Ministry of Finance.

On 19 May 2014, Credit Suisse paid USD 148,858 (MZN 4.5 million) to an EMATUM bank account at Moza Banco.^{178/179} The SWIFT payment confirmation stated "*excess funds paid 11 Mar 14.*" An internal email in support of this transaction was provided by Moza Banco which indicated that the payment to EMATUM was a refund of an overpayment to Credit Suisse "*last April.*"¹⁸⁰

¹⁷⁴ Document Reference: 2014-02-21 - Credit Suisse Interest Payment Notice to EMATUM and MoF.

¹⁷⁵ Account Reference: Moza Banco-[Redacted].

¹⁷⁶ Document Reference: 2014-03-10 - SWIFT Payment Record - EMATUM USD 25.1 million.

¹⁷⁷ Account Reference: Credit Suisse [Redacted].

¹⁷⁸ Document Reference: 2014-05-19 - SWIFT Payment Records - Credit Suisse USD 148858.

¹⁷⁹ Account Reference: Moza Banco-MZN-[Redacted].

¹⁸⁰ Document Reference: 2014-06-19 - Re EMATUM - (Moza Banco email - USD 148858).

Reference 2: On 18 August 2014, a further interest payment notice was sent by Credit Suisse to EMATUM and the Ministry of Finance requesting that USD 26.8 million be paid to a Credit Suisse AG account by 11 September 2014.¹⁸¹ On 11 September 2014, an interest payment of USD 26.8 million (MZN 857 million) was made from an EMATUM Moza Banco account to a Credit Suisse account.¹⁸² As detailed in Section 5.4, the payment was funded by a transfer into EMATUM's Moza Banco account¹⁸³ of MZN 891 million (USD 27.8 million) from a SISE bank account.

In respect of the first two interest payments, Kroll has requested from Person A and Person F, Role F, details of the source of funds from SISE. Person A has not provided a satisfactory response, and Person F has informed Kroll that no records relating to the EMATUM Project have been discovered since he/she took office.

Reference 3: On 11 March 2015, a further interest payment of USD 26.8 million (MZN 964.6 million) was made from an EMATUM BNI Mozambique account¹⁸⁴ to a Credit Suisse account.¹⁸⁵ This transfer was funded by two transfers into an EMATUM BNI Mozambique account of MZN 384 million and MZN 720 million from the Ministry of Finance and IGEPE, respectively.

Banking records show that IGEPE funded the transfer by a separate loan obtained from BNI Mozambique.¹⁸⁶ BNI Mozambique is a state owned bank of which IGEPE is the sole shareholder.¹⁸⁷

Reference 4 / Reference 5: On 2 September 2015, Credit Suisse sent a further payment notice to EMATUM and the Ministry of Finance, requesting that a principal payment of USD 76.5 million and an interest payment of USD 26.8 million was due by 11 September 2015.¹⁸⁸ Kroll's review of SWIFT payment records confirmed that on 10 September 2015, two payments for USD 76.5 million and USD 26.8 million were paid from a bank account held by the Ministry of Finance to a Credit Suisse AG account.^{189/190}

Reference 6 / Reference 7: On 7 March 2016, Credit Suisse sent a further payment notice to EMATUM and the Ministry of Finance, requesting that a principal payment of USD 76.5 million and an interest payment of USD 24.4 million was due by 11 March 2016.¹⁹¹ Kroll's review of SWIFT payment records confirmed that on 11 March 2016, two payments for USD 76.5 million and USD

¹⁸¹ Document Reference: 2014-08-18 - Credit Suisse Interest Payment Notice to EMATUM and MoF.

¹⁸² Document Reference: 2014-09-11 - SWIFT Payment Records - EMATUM USD 26 million.

¹⁸³ Account Reference: Moza Banco-MZN-[Redacted].

¹⁸⁴ Account Reference: BNI-MZN-[Redacted].

¹⁸⁵ Document Reference: 2015-03-10 - EMATUM Letter to BNI - Request of Transfer USD 26.7m and 2015-03-10 - Payment Record - EMATUM USD 26.7m.

¹⁸⁶ Document Reference: Undated - IGEPE Loan Agreement MZN720m.

¹⁸⁷ Source: <http://www.bni.co.mz/bni/facilidades.asp>.

¹⁸⁸ Document Reference: 2015-09-02 - Credit Suisse Interest Payment Notice to EMATUM and MoF.

¹⁸⁹ Document Reference: 2015-09-10 - Payment Records - MoF USD 76.5 million.

¹⁹⁰ Document Reference: 2015-09-10 - Payment Records - MoF USD 26.7 million.

¹⁹¹ Document Reference: 2016-03-07 - Credit Suisse Interest Payment Notice to EMATUM and MoF.

24.4 million were paid from a bank account held by the Ministry of Finance to a Credit Suisse AG account.¹⁹²

5.3.9 Repayments in respect of Sovereign Bond

The terms of the Sovereign Bond issued by the Republic of Mozambique provide for a single principal repayment on 18 January 2023, with interest payments due on 18 January and 19 July each year until maturity, commencing 18 January 2017.

Kroll was informed by the Ministry of Finance that EMATUM defaulted on the interest payment due (USD 59.8 million) on 18 January 2017.

5.4 Funds provided by the Contractor to EMATUM

The EMATUM Feasibility Study set out a proposed financing arrangement for EMATUM in which the company would retain USD 50 million of the loan proceeds to cover the first year of interest repayments.¹⁹³

On 25 March 2015, the Audited Financial Statements for 2014 were finalised and record a liability to the Contractor of MZN 1.8 billion (USD 53 million). The notes to the financial statements state the liability "...corresponds essentially to an advancement of USD 53 million provided to EMATUM for the payment of the first interest due in March and September 2014."¹⁹⁴

On 22 March 2015, the Contractor sent a signed letter to EMATUM stating "Abu Dhabi Mar hereby confirms that it has made total payments to EMATUM's lenders in excess of USD\$ 53,000,000 (USD Dollars Fifty Three million)."¹⁹⁵ This letter was provided to Ernst & Young as part of their audit of the EMATUM Financial Statements for 2014.

An audit representation letter dated 23 March 2015 signed by Person A, Person AD and Person AE¹⁹⁶ stated that the Contractor "made an advancement of USD 53,000,000 through":

1. A USD 51,753,542 direct payment to Credit Suisse which comprised:
 - a. USD 31,525,001 of the interest payment on the loan portion which was owed by EMATUM; and,
 - b. USD 20,228,541 of the interest on the loan portion "that was assumed by the State shareholder."

¹⁹² Document Reference: 2016-03-07 - SWIFT Payment Record - MoF USD 76.5m and USD 26.7m.

¹⁹³ Document Reference: 2013-07-00 - Mozambique Fishing Feasibility Study (page 19).¹⁹⁴

Document Reference: 2014-12-31 - 2014 Financial Statements (Note 13a, page 25).¹⁹⁵

Document Reference: 2015-03-22 - Abu Dhabi Mar Letter -USD53M Confirmation.

¹⁹⁶ Note: The names of Person AD and Person AE are not written on the letter but it is assumed to be their signatures based on other documents and their positions in the company at that time.

2. A USD 1,246,458 payment to "another entity."

Kroll has requested that the Contractor provide further information regarding the identity of the entity to which the USD 1.2 million was paid - no further information has been made available. However, as detailed in Section 5.7.5, it is possible this is the same payment as that made from a Prinvest Group company, Logistics International, on 2 December 2014 of EUR 1.0 million (USD 1.2 million), to a BCI Mozambique account in the name of EMATUM.¹⁹⁷

Kroll identified a bank account held by EMATUM at Moza Banco that has not been included in EMATUM's accounting records.¹⁹⁸ Kroll's analysis of the bank statements for this account show that EMATUM made two interest payments, in March 2014 and September 2014, to Credit Suisse totalling USD 51.9 million.¹⁹⁹ These payments were funded by two transfers from bank accounts held by SISE.²⁰⁰ Moza Banco records show that Person A signed the authorisation to make the first interest payment from the EMATUM bank account. Kroll has not been provided with a signed authorisation for the second payment in September 2014.²⁰¹

The reason for the USD 148,598 difference between the amount paid by EMATUM to Credit Suisse (USD 51,902,140) and the amount stated in the audit representation letter (USD 51,753,542) is due to a refund of the same amount to EMATUM by Credit Suisse which resulted from an overpayment of the 10 March 2014 payment.²⁰²

Kroll has requested further information from both EMATUM and the Contractor to evidence any agreements in relation to this USD 53 million, however to date no information has been provided.

5.5 Transfer of USD 500 million loan to Ministry of Defence

5.5.1 Discrepancies in explanation of USD 500 million expenditure

The Independent Audit has established that there are inconsistencies between explanations provided by Person A, the Ministry of Finance, the Ministry of Defence and the Contractor regarding the actual use of USD 500 million of the loan proceeds.

Kroll was informed by the Ministry of Finance that USD 500 million of the EMATUM loan was integrated into the national budget in 2014. The Role H, Person H, informed Kroll that the transfer

¹⁹⁷ Account Reference: BCI-MZN-[Redacted].

¹⁹⁸ Account Reference: Moza Banco-MZN-[Redacted].

¹⁹⁹ Document Reference: 2014-03-10 - SWIFT Payment Record - EMATUM USD 25.1 million & 2014-09-11 - SWIFT Payment Records - EMATUM USD 26 million.

²⁰⁰ Document Reference: 2017-03-06 - RE Moza Banco request for information.

²⁰¹ Document Reference: 2014-03-05 - EMATUM request of transfer to CS USD 25 million.

²⁰² Document Reference: 2014-06-19 - Moza Banco email - USD 148858.

occurred in 2013 during discussions regarding the budget proposal for 2014. Initially, only USD 350 million of the loan was transferred, with an additional USD 150 million allocated at a later date.

A document published by the IMF, entitled "Staff Report for the 2015 Article IV Consultation, fifth review under the Policy Support Instrument" states that the Government of Mozambique guaranteed a USD 850 million bond issued in 2013 by EMATUM to finance the purchase of tuna fishing boats and maritime security equipment. The document states that subsequently USD 500 million was incorporated into the State budget for the maritime security equipment, and became public debt under the responsibility of the Treasury.

The Ministry of Finance has not been able to confirm to Kroll any details of the maritime security equipment that were effectively included in the USD 500 million allocation, nor if the USD 500 million integration into the national budget has actually been completed.

Separately, Person A stated to Kroll that USD 500 million of the loan proceeds were used to purchase military equipment. Kroll has raised the question of how the loan proceeds were used by the Ministry of Defence with Person A on several occasions, who in turn has stated that financial information and documentation supporting any confidential military expenditure is outside the scope of the Independent Audit. Person A has further stated that this is classified information held by SISE.

Person A, in further support of this statement, provided Kroll with an unsigned draft letter dated 5 December 2016 purportedly from Person I, the Role I. The letter stated:

*"For all legal and consequent effects, we confirm that the Ministry of Defence of the Republic of Mozambique received, in the scope of the "EMATUM project", military equipment in the total amount equal to USD 500,000.00 [sic] (five hundred million US dollar), aiming to boost the capacities for the protection of national sovereignty, territorial integrity, and the inviolability of national borders."*²⁰³

Kroll met with Person I to discuss the draft letter. Person I explained to Kroll that he/she was aware of the draft letter, but refused to sign the letter as he/she was unaware of what, if any, military equipment was provided to the Ministry of Defence.

The Contractor has categorically stated to Kroll that the assets delivered to EMATUM were per the agreed supply contract and specifically that no weapons were provided.

Kroll has requested that both the Role E, Person E and the Role F, Person F, provide further details on what military equipment was procured for the Ministry of Defence. Person E stated that SISE was unable to provide any information to Kroll. Person F has informed Kroll that no records relating to the Mozambique Companies have been provided to him/her since he/she took office.

²⁰³ Note: The reference to "USD 500,000.00 (five hundred million US dollar) is quoted verbatim.

In order to verify how the USD 500 million loan proceeds were actually allocated, a framework that preserves the confidentiality of relevant information needs to be established or the relevant parties need to waive confidentiality. This will enable Kroll to be provided with further documentation from the Contractor explaining the pricing structure of the EMATUM Supply Contract, without breaching the terms of the contract.

Until the inconsistencies are resolved, and satisfactory documentation is provided, at least USD 500 million of expenditure of a potentially sensitive nature remains unexplained.

5.5.2 Inclusion of EMATUM loan in the 2014 Budget

Kroll was not provided with any documentation to confirm the transfer of loan repayment obligations to the Ministry of Defence, the rationale for why the debt obligation was transferred to the Ministry of Defence or what assets, if any, were acquired for the Ministry of Defence in return for assuming the debt obligations. According to the Ministry of Finance, "...the acquisition and internal distribution of equipment was SISE's responsibility."²⁰⁴

The USD 350 million initially allocated to the Ministry of Defence formed part of the foreign investment expenditure in the 2014 Budget Proposal, with the description of "...financing of National Defence through the acquisition of equipment for coast protection and economic activities in Mozambique waters." The proposal explained that such financing was "...conceived by a state owned company [...] through the issuance of Eurobonds."²⁰⁵

The Budget Proposal also stated that, in addition to the USD 350 million allocated to the Ministry of Defence, EMATUM had also obtained a USD 500 million loan in order to finance its tuna fishing activities. According to the budget proposal, this amount had been incorporated in Article 11 of Mozambique 2014 Budget Law, which relates to the issuance of government guarantees.

A copy of the Mozambique 2014 Budget Law obtained from the National Department of Planning and Budget²⁰⁶ website,²⁰⁷ a department under the Ministry of Finance,²⁰⁸ confirmed the budget amounts indicated in the 2014 Budget Proposal. The government expenses outlined in the

²⁰⁴ Document Reference: RESPONSE TO THE AUDITORS – MoF – 6 June 2017.

²⁰⁵ Document Reference: 2013-12-00 - Proposal - Moz Budget Plan 2014 (Mozambique's 2014 Budget Proposal, dated December 2013, stated that the Government of Mozambique would allocate approximately MZN 100.8 billion to investment expenditure which represented 18.8% of Mozambique GDP.²⁰⁵ Of this amount, MZN 42.5 billion was related to national investments and MZN 58.3 billion to foreign investment expenses).

²⁰⁶ Note: In Portuguese, *Direcção Nacional de Planificação e Orçamento*.

²⁰⁷ Source: <http://www.dno.gov.mz/#nope>.

²⁰⁸ Document Reference: 2015-12-04 - Boletim da República - I Série - Número 7 - MoF Statute.

document indicated that MZN 10.9 billion, or approximately USD 350 million,²⁰⁹ was allocated to the Ministry of Defence for naval equipment²¹⁰ - no further detail was provided about the assets.²¹¹

A letter from the National Department of Planning and Budget to EMATUM dated 14 July 2014 confirmed that the Government of Mozambique had assumed responsibility for USD 350 million of the total debt acquired by EMATUM. The letter stated that the amount was related *"to the acquisition of equipment of public utility aiming the public interest."*²¹² Again, no further detail was provided about the assets. National Department of Planning and Budget releases relating to the Mozambique 2015 and 2016 Budgets did not make reference to foreign investment obligations assumed by the Ministry of Defence.

The State General Account for 2014 ("State General Account"), dated May 2015, states that after the *"...reassessment of the operational system assets required for tuna fishing and costal protection operations, the Government needed to include an additional expenditure of USD 150 million to the Ministry of Defence's budget allocation to accommodate other equipment that was initially considered as being of mixed technology (usable for commercial and non-commercial activities)."* The State General Account further states that the reassessment resulted in the allocation of the amount of USD 500 million of the EMATUM loan to the Ministry of Defence, and *"USD 350 million in fishing vessels, spare parts, license and other commercial assets that are in the possession of EMATUM and were not included in the State Budget."*²¹³

A breakdown of expenses in the budget releases for the Ministry of Defence for 2014 did not include any mention of naval equipment.²¹⁴ Person H has confirmed to Kroll that the Ministry of Defence is now responsible for USD 500 million of the EMATUM loan.

5.6 Supply Contract with Abu Dhabi Mar LLC

5.6.1 Key findings

5.6.1.1 Increase of USD 51 million to EMATUM Supply Contract

On 2 August 2013, EMATUM signed a USD 785.4 million supply contract (the "EMATUM Supply Contract") with Abu Dhabi Mar LLC (hereafter also the "Contractor") for the supply of assets including twenty-four fishing vessels, three Ocean Eagle vessels, equipment for a Land Operations

²⁰⁹ Note: As per currency date on 24 December 2014, which is the document date.

²¹⁰ Budget Code: MDN-2014-0002, Document Reference: 2014-01-00 - Mozambique Budget - Breakdown of Expenses.

²¹¹ Document Reference: 2014-01-00 - Mozambique Budget - Breakdown of Expenses & 2014-01-00 - Mozambique Budget Law.

²¹² Document Reference: 2014-07-14 - MoF Letter USD 350 million transfer.

²¹³ Document Reference: CGE 2014.

²¹⁴ Document Reference: 2015-01-00 - Mozambique Budget - Breakdown of Expenses.

Coordination Centre, training, intellectual property and support to enable EMATUM to construct the ordered vessels in the future.

On 26 September 2013, the Contractor and EMATUM agreed to increase the total price of the supply contract by USD 51 million to USD 836.4 million. The amendment to the EMATUM Supply Contract did not specify any changes to the scope or supply or terms of the initial contract and Kroll has not been provided with an explanation by EMATUM for this significant increase.

Additionally, although the contract price was increased by USD 51 million, the contract guarantee provided was not updated from the original contract price of USD 785.4 million.

5.6.1.2 Issues with pricing of assets

Several issues regarding the pricing of assets were identified during the Independent Audit. Kroll's detailed summary of the price comparison analysis undertaken for EMATUM is provided at Section 3.6.

5.6.2 Summary of EMATUM Supply Contract

Contract details

~~5.6.2.1~~ On 2 August 2013 EMATUM signed a supply contract with the Contractor for the supply of assets and services for a total price of USD 785.4 million.^{215/216}

The preamble to the EMATUM Supply Contract stated that the *"...Republic of Mozambique has identified the need to develop a modern and efficient fishing industry as a critical step in the social and economic development of the country."*

Further, the preamble stated that EMATUM had been granted authority to acquire and operate the same assets as outlined in the EMATUM Feasibility Study and the Contractor *"...is willing to supply the required vessels ... and to provide basic operators training and support to EMATUM..."*

The EMATUM Supply Contract comprised eleven pages and referenced four separate annexes. The contract was signed on behalf of EMATUM by Person A and Person Z, as [Redacted] and [Redacted] of the company, respectively, and Person J, as [Redacted] for the Contractor.

The supply contract was stated as being effective from the date of signature by the parties and the receipt of the total contract amount by the Contractor.

²¹⁵ Document Reference: 2013-08-02 - Supply Contract - Abu Dhabi Mar (Section I, page 2).

²¹⁶ Note: The contract was signed in accordance with Swiss law, with any disputes to be resolved by International Chamber of Commerce ("ICC") arbitration in Switzerland. Document Reference: 2013-08-02 - Abu Dhabi Mar Contract with EMATUM (Section J, page 8).

5.6.2.2 Assets and Services under the EMATUM Supply Contract

The EMATUM Supply Contract listed the following assets and services, without itemising the prices of individual assets or services:

Table 39 | Original EMATUM Contract summary of assets and services to be delivered

Nº	Scope of Supply and Works	Quantity
1	Longliner fishing vessels	21
2	Ocean Eagle	3
3	Bait Trawler fishing vessels	3
4	Centre Equipment	1
5	Intellectual Property Licence	1
6	On-board base spare parts	1 (set per vessel)
7	Basic Operators training	1

The assets were defined as "... (b) agreed equipment and materials (but not, for the avoidance of doubt, any infrastructure) to outfit a land operations co-ordination center as annexed hereto ("Center Equipment")." The contract stated that the vessels would be supplied with on-board spare parts as the Contractor "...deemed appropriate."

The services were defined as: "...technology transfer, initial commissioning of the Center Equipment and the provision of basic operators training and user manuals (such manuals being in English) related to the Vessels and in accordance with the relevant specification appended hereto."²¹⁷

Section II of the EMATUM Supply Contract, "Subject of Contract," stated that technology would be transferred to EMATUM to provide the company with the ability to construct the vessels at a site approved by the Contractor in Mozambique and that the technology transfer would include data packages, but not equipment or infrastructure.²¹⁸

In summary, the technology transfer would include:

- On-site support, including engineers, in Mozambique during the initial ship building;
- "On the job" training for appropriately qualified engineers in Mozambique at the site where the vessels would be built;

²¹⁷ Document Reference: 2013-08-02 - Supply Contract - Abu Dhabi Mar (Section I, page 2).

²¹⁸ Document Reference: 2013-08-02 - Supply Contract - Abu Dhabi Mar (Section II, page 3).

- Support for procurement and equipment management and acquisition; and,
- Technical data packages.

The contract stated that the Contractor would "...grant or procure to grant" to EMATUM a "non-exclusive, non-transferable and royalty free licence [...] to use relevant intellectual property related to the vessels."²¹⁹ The EMATUM Supply Contract included a requirement for an authorisation from the Contractor if products utilising its intellectual property were to be provided to countries other than the Republic of Mozambique.

5.6.2.3 Subcontractors to the supply contract

Kroll was unable to ascertain which subcontractors, if any, were used by the Contractor to deliver the supply contract to EMATUM, nor the prices paid for assets and services delivered by subcontractors. Kroll was informed by EMATUM management that they did not have any knowledge or documentation regarding the subcontractors used by the Contractor.

The contract authorised the Contractor to subcontract all or part of the works related to the contract and that the Contractor should use all "...reasonable endeavours" to ensure the work was undertaken in accordance with the terms and conditions of the contract.²²⁰

The contract also stated that all communications with subcontractors and suppliers would be made by the Contractor, and that EMATUM would not have the right to contact any of these parties directly.

5.6.3 Amendment to the EMATUM Supply Contract

The EMATUM Supply Contract stated that any changes to the terms and conditions should be agreed by both parties and amended in a written form, signed by representatives from the Contractor and EMATUM. Any requests for changes would also need to indicate the description and rationale for the change as well the effects on contract price, the delivery schedule and any impact on the sub-contract provision.²²¹

On 26 September 2013, EMATUM and the Contractor signed a one page agreement to increase the price of the contract by USD 51 million (the "Amended EMATUM Supply Contract") which made no reference to changes to the scope of supply of assets and services.²²²

The Amended EMATUM Supply Contract stated that the Contractor had received USD 492 million and the supply contract had taken full effect, with a balance of USD 293.4 million due by 31

²¹⁹ Document Reference: 2013-08-02 - Supply Contract - Abu Dhabi Mar (Section II, page 3).

²²⁰ Document Reference: 2013-08-02 - Supply Contract - Abu Dhabi Mar (Section IV, page 4).

²²¹ Document Reference: 2013-08-02 - Supply Contract - Abu Dhabi Mar (Section N, page 9).

²²² Document Reference: 2013-09-26 - Abu Dhabi Mar Letter - Confirmation Payment and Loan Increase Notice.

December 2013. It also stated that "...the parties now agree that the total Contract Price is US\$836,400,000 and that the Balance due to the Contractor is US\$344,400,000."

It further stipulated that if the balance was not paid by 31 December 2013, the assets and services provided under the contract would be scaled back "...in such a way as the Contractor, in its absolute discretion, deems fit" and "in a manner previously agreed in writing by the Contractor and the Customer."

A payment confirmation from the Contractor to EMATUM, dated 23 September 2014, confirmed that the total contract price of USD 836.3 million was received. The payment confirmation stated that the supply contract was amended on or about 27 September 2013 but did not include any details of any changes to the scope of the original contract.²²³

5.6.4 Evaluation of prices of assets delivered under the supply contract

The EMATUM Supply Contract only required the Contractor to provide a single invoice for the total price of the contract (the "EMATUM Invoice"). Figure 5 is an extract from a document provided by the Contractor and for the purposes of this report considered to be the EMATUM Invoice.

Figure 5 | Extract of EMATUM Invoice

March 25, 2015

Ref: Contract Signed August 2, 2013

Remaining boats to be delivered as at December 31, 2014

1. 12 Longliners
2. 3 Trawlers
3. 3 Ocean Eagle 43

For a total value of US\$ 554,760,000

Other items as per contract:

1. Equipment Center
2. Intellectual Property (delivered not invoiced)
3. Spare parts and Training

For a total value of US\$ 80,822,000

EMATUM provided Kroll with email communications between Person AF, an [Redacted], and Person J, the [Redacted] for the Contractor, requesting a copy of a "Global Invoice" which outlined "...the values of the scope of the supply pursuant to the terms of the contract ..." ²²⁴

²²³ Document Reference: 2014-09-23 - Abu Dhabi Mar Letter - Confirmation of Payments Received.

²²⁴ Document Reference: 2017-03-01 - EMATUM e-mail to Abu Dhabi.

Attached to this email was a copy of a letter from the Contractor to EMATUM, dated 25 March 2015, which provided details of the assets remaining to be delivered as of 31 December 2014.²²⁵ The letter stated that as at 31 December 2014, twelve Longliner fishing vessels, three Bait Trawler fishing vessels and three Ocean Eagle vessels were remaining to be delivered for a total value of USD 554.8 million.

The letter also stated that "Equipment Center, Intellectual Property and spare parts and training " were together valued at USD 80.8 million.

Ernst & Young provided Kroll with a similar letter from the Contractor dated 22 March 2015, also confirming the assets remaining to be delivered as of 31 December 2014.²²⁶ This version of the letter contradicted information from the letter provided by EMATUM as it stated that three HSI32 vessels remained to be delivered in addition to the twelve Longliner fishing vessels, three Bait Trawler fishing vessels and three Ocean Eagle vessels. This letter also stated that the total value of these assets was USD 554.8 million. Kroll has established that no HSI32 Interceptor vessels were delivered as part of the EMATUM Supply Contract (refer to Section 5.6.2.2). The reason for the inclusion of the vessels in the letter provided to Ernst & Young is unknown.

In addition to the EMATUM Invoice, EMATUM provided Kroll with separate invoices for the twenty - four fishing vessels. Person A informed Kroll that the invoices were originally provided by the Contractor to EMATUM for customs purposes. The invoices stated th at the price of each fishing vessel was USD 22.3 million (i.e. a total of USD 535.2 million).

On the basis of the EMATUM Invoice and the separate invoices for the twenty-four fishing vessels provided to EMATUM, it is possible to estimate the price of the Ocean Eagle vessels provided by the Contractor at USD 73.4 million each, or USD 220.2 million for three.²²⁷ Table 40 summarises the pricing information:

Table 40 | Asset value as per the EMATUM Invoice

Details	Units provided	Stated price per unit (USD)	Total Price
Longliner fishing vessels	21	22,302,000	468,342,000
Bait Trawler fishing vessels	3	22,302,000	66,906,000
Equipment Centre		Unstated	80,822,000
Intellectual property		Unstated	

²²⁵ Document Reference: 2015-03-25 - Abu Dhabi Mar Letter - Status of Contract Deliverables.

²²⁶ Document Reference: 2015-03-22 - Abu Dhabi Mar Letter - Status of Contract Deliverables.

²²⁷ Note: Kroll has received invoices for the twenty-one Longliner and three Bait Trawler fishing vessels totalling USD 535.2 million, which when added to the EMATUM Invoice cost for "Equipment Center, Intellectual Property and spare parts and training" at USD 80.8 million, total USD 616.1 million. The difference between USD 616.1 million and the contract price of USD 836.3 million is USD 220.2 million.

Spare parts and training		Unstated	
Ocean Eagle vessels (Kroll estimated price)	3	73,410,000	220,230,000
Total²²⁸			836,300,000

5.6.4.1 Price comparison of assets and services

The EMATUM Supply Contract, according to Kroll's independent expert, appears to be an asset delivery contract with no apparent systems integration, in contrast to the "turnkey" solution provided for the ProIndicus Supply Contract.

Kroll's detailed summary of the price comparison analysis undertaken for EMATUM is provided at Section 3.6.

5.6.4.2 Intellectual property licence and technology transfer

An email from Person J to Person A, dated 23 March 2017, stated that all documents related to the EMATUM intellectual property agreement were delivered to the EMATUM offices in Maputo in September 2014, and that the documents weighed 788kg.²²⁹

Kroll was not provided with any details of the specific value apportioned to the intellectual property licence or technology transfer.

Kroll was not provided with any documentation to illustrate how the intellectual property licence was intended to be utilised.

Kroll has asked EMATUM, via Person A, and the Contractor, via its legal representatives, to provide further details about the intellectual property. No further information has been provided to date, save for the information provided in the EMATUM Supply Contract that stated "*The associated technology transfer related to the Vessels will be provided. This technology transfer will be structured and designed so as to enable the Customer to have the capability to build the same vessels at an agreed site within Mozambique ...*"

At the time of reporting, it appears that EMATUM does not have the facilities or appropriately experienced personnel to construct any the vessels envisaged under EMATUM Supply Contract.

5.6.4.3 Equipment Centre

Kroll has not verified the existence of the equipment provided to fit out the Equipment Centre. The Privinvest Presentation stated that this equipment was provided, but that the installation and

²²⁸ Note: The difference of USD 100,000 between the agreed contract price of USD 836.4 million and value of the assets provided in the EMATUM Invoice of USD 836.3 million is possibly explained by Abu Dhabi Mar not factoring in a transaction fees of USD 100,000 charged by Credit Suisse on the first tranche of USD 500 million loan per the EMATUM Arrangement Fee Letter.

²²⁹ Document Reference: 2017-03-23 - IP transfers to EMATUM & MAM.

commissioning of the equipment had not occurred due to the failure of EMATUM to procure a site for the Coordination Centre, or to provide personnel to undertake the necessary training.²³⁰

5.6.5 Verification of assets delivered under the supply contract

Kroll conducted site visits to several locations in Maputo and Pemba and verified that the following main assets had been delivered under the supply contract (please refer to photographs at Appendix J):

Table 41 | Physical verification of EMATUM assets

Asset type	Contract No	Maputo	Pemba	Unverified
Longliner fishing vessel	21	21	-	0
Bait Trawlers fishing vessel	3	3	-	0
Ocean Eagle	3	-	3	0
Centre Equipment	1	-	-	1
On-board base spare parts	1 (set per vessel)	-	-	27

The vessel names of the Longliner fishing vessels and Bait Trawler fishing vessels matched those listed in invoices and bills of lading provided to Kroll by EMATUM.²³¹

The three Ocean Eagle vessels were moored at anchor near the Pemba maintenance facility at the date of Kroll's site visit. The Prinvest Presentation stated that the vessels are not operational, primarily due EMATUM failing to provide personnel for scheduled training to operate and maintain the vessels.²³²

Each Ocean Eagle vessel was to be shipped with a Camcopter S-100s surveillance drone ("Camcopter Drone"). The Contractor stated in the Prinvest Presentation that one Camcopter Drone was delivered to Mozambique with the other two being held in Austria because EMATUM did not provide the appropriate personnel for training.²³³ Kroll has not received any further details from EMATUM regarding the location of the remaining Camcopter drone purportedly delivered to Mozambique in September 2014.

The Ocean Eagle vessels have not been recorded in the EMATUM accounts, and it is unclear who currently owns the vessels. In response to a request for clarification on this issue, Person A signed

²³⁰ Document Reference: 2017-02-21 - Prinvest Presentation (page 54).

²³¹ Document Reference: Undated - Bill of Lading - Fishing Vessels and Undated - Invoices - Fishing Vessels.

²³² Document Reference: 2017-02-21 - Prinvest Presentation (page 35).

²³³ Document Reference: 2017-02-21 - Prinvest Presentation.

a response on behalf of EMATUM stating that the vessels were to be transferred to ProIndicus only after "...a retrocession agreement of USD 350 million between EMATUM and the State" was signed by the relevant parties.²³⁴ Kroll has not been provided with any further details in relation to the "retrocession agreement" and the rationale for this transfer is unknown.

Kroll also visited the EMATUM office in Maputo. The EMATUM office appears to be a converted residential building with a front desk for the public to make enquiries.

Kroll has not been able to verify from the available documentation that the following assets and services, listed on the EMATUM Invoice with a combined price of USD 80,822,000, have been delivered to EMATUM:²³⁵

- í Equipment centre;
- í Spare parts and training; and,
- í Intellectual Property.

5.6.6 Contractual provisions regarding End User Certificates

Clause K of the original EMATUM Supply Contract states that "*for the execution of the Project, the Contractor might require permissions according to Arms Control Acts legislation.*"²³⁶

The contract states that it would be necessary for the Contractor to receive the End User Certificates "...issued by the Customer or relevant Mozambique authorities" within four weeks of any request being made by or on behalf of the Contractor,²³⁷ and should certificates not be provided in the specified timeframe, the project would be delayed and EMATUM would have to pay any costs incurred from such delay.

According to the Constructions Mecaniques de Normandie ("CMN") website, the Ocean Eagle vessels has an option to be fitted with remote-controlled gun-turret and side gun.²³⁸ There are no references in the EMATUM Supply Contract to indicate that these options were included in the vessels supplied by the Contractor.

The PGR has informed Kroll that EMATUM stated that no End User Certificates have been issued in relation to the EMATUM Project as the equipment did not meet the requirements for the issuance of such certificates.²³⁹

²³⁴ Document Reference: 2017-01-25 - ProIndicus Letter Doc Request – List.

²³⁵ Document Reference: 2015-03-22 - Abu Dhabi Mar Letter - Status of Contract Deliverables.

²³⁶ Document Reference: 2013-08-02 - Supply Contract - Abu Dhabi Mar (Section K, page 8).

²³⁷ Document Reference: 2013-08-02 - Supply Contract - Abu Dhabi Mar (Section K, page 8).

²³⁸ Source: <https://cmn-group.com/wp-content/uploads/2014/10/Ocean-Eagle-43.pdf>.

²³⁹ Document Reference: 2017-04-11 - PGR Email to Kroll - RE Fwd End User Certificate.

However, the Contractor supplied Kroll with a letter dated 8 March 2016 from the Contractor to EMATUM which stated that the Contractor was in the process of arranging the shipping of the three Ocean Eagle vessels from France to Pemba and "...in order to do so we require EMATUM to sign and return the enclosed End User Certificate, which was originally sent to [Person A] by email on 8 February 2016."²⁴⁰ Attached to the letter was an unsigned End User Certificate for dual use goods²⁴¹ in Austria, being two Camcopter Drones, which were to be supplied with the Ocean Eagle vessels.

Kroll has not been provided with a copy of this signed End User Certificate. Information provided by the Contractor states that the two Camcopter Drones are still in Austria due to EMATUM's delays in implementing training.²⁴²

5.6.7 Contractual provisions regarding project guarantees

The EMATUM Supply Contract indicates that the guaranteed value would be USD 785.4 million. Clause F of the contract states that "...following the receipt of the total invoiced price by Contractor in Contractor's bank account [...] the Customer will receive the Guarantee in the form set out in Annex 2 hereof (to satisfy judicially determined claims against the Contractor from the Customer) from PrivInvest Holding SAL."²⁴³

Kroll was provided with an undated and unsigned copy of a guarantee from Privinvest Holding for USD 750 million.²⁴⁴ A letter from the Contractor to EMATUM, dated 1 September 2014, states that Privinvest Holding was replaced as guarantor by PrivInvest Shipbuilding Investments LLC ("PrivInvest Shipbuilding").²⁴⁵ A document attached to the letter stated the value of the guarantee to be USD 785.4 million.²⁴⁶

As stated in Section 5.6.3, the contract value was increased to USD 836.4 million. Despite the price increase, Kroll has not received documentation from EMATUM showing that the contract guarantee provided by Privinvest Shipbuilding was changed to reflect the increased funds provided to the Contractor by Credit Suisse and VTB Capital.

5.6.8 Issues encountered in delivering assets and services

The Contractor provided Kroll with a comprehensive overview of contract obligations not fulfilled by EMATUM management in respect of the EMATUM Supply Contract. These issues are stated to

²⁴⁰ Document Reference: 2016-03-08 - Abu Dhabi Letter - End User Certificate & Training Issues.

²⁴¹ Note: Dual use goods are products and technologies normally used for civilian purposes but which may have military applications

²⁴² Document Reference: 2013-08-02 - Supply Contract - Abu Dhabi Mar (page 35).

²⁴³ Document Reference: 2013-08-02 - Supply Contract - Abu Dhabi Mar (Section F, page 6 – 7).

²⁴⁴ Document Reference: Undated - Corporate Guarantee - Privinvest Holding SAL.

²⁴⁵ Document Reference: 2014-09-01 - ADM Letter Changes in Privinvest Contract Guarantee.

²⁴⁶ Document Reference: 2014-09-01 - ADM Letter - Attachment - Privinvest Ship Guarantee.

have impacted on the Contractor's ability to fulfil its contractual obligations and to have caused delays to the delivery of the EMATUM Project.

The Privinvest Presentation stated that the key issues include a) non-completion of crew training for the Ocean Eagle vessels and Camcopter Drones, and b) the non-provision of a site for the Land Operations Coordination Centre.²⁴⁷

Specifically, the Privinvest Presentation stated that:

- a) EMATUM had not supplied the 32 personnel required for the maintenance and operation training, despite the training being organised on three separate occasions in France, and that further, EMATUM did not supply the 10 personnel required for the Camcopter Drone training in Austria. The Contractor further stated that EMATUM "...failed to engage with ADM [Abu Dhabi Mar] when the offer was made for training to then take place in Mozambique."
- b) EMATUM had not procured a site for the Land Operations Coordination Centre, and that as a result the Contractor had been unable to install and commission the required equipment, and had not provided the agreed operator training. The Contractor highlighted that EMATUM had not secured the appropriate licences from the Ministry of Fisheries for all fishing vessels, and that no licences had been issued in respect of any of the twenty-four fishing vessels since 31 December 2016.

Kroll is unable to independently verify the progress status of these issues. However, Kroll was provided with emails between the Contractor and EMATUM management that support the issues raised. It appears that without a Land Operations Coordination Centre and the shortage of properly trained crew, the ability for the EMATUM Project to operate as envisaged is severely impeded.

The Contractor also outlined several operational issues encountered in Mozambique. Of specific note is that EMATUM, according to the document, had not established an onshore storage facility that would enable the company to store fish at the correct temperature, that EMTUM had not maintained the vessels supplied as advised by the Contractor, and that EMATUM had made alterations to the vessels which impacted the ability to claim under the contractual warranty.

5.6.9 Overview of contract annexes

The original contract lists four annexes that are described as an "integral part of the contract":

- ❖ Annex 1: Vessel Technical Specifications;
- ❖ Annex 2: Centre Equipment;
- ❖ Annex 3: Guarantee of PrivInvest Holding SAL; and,
- ❖ Annex 4: Training and Logistics Specifications.

²⁴⁷ Document Reference: 2017-02-21 - Privinvest Presentation.

Although the original contract references four annexes, Kroll has received eight undated annexes from the Contractor. The titles of the documents provided to Kroll do not match the document titles indicated in the original contract. The reason for this discrepancy is unknown and Kroll cannot confirm if the versions provided relate to the Original EMATUM Supply Contract.

Appendix F summarises the key details of the original and amended annexes.

Table 42 | EMATUM annexes provided to Kroll

Annex #	Annex
01	Equipment for Co-ordination Center
02	Ocean Eagle - Logistics and Training Specifications
03	Ocean Eagle - Technical Specification
04	23.5m Bait Trawler - Vessel Technical Specification
05	23.5m Longliner - Vessel Technical Specification
06	23.5m Bait Trawler and 23.5m Longliner - Logistics and Services Specifications
07	PrivInvest Holding Guarantee
08	Privinvest Investments Guarantee

5.7 Company Operations

5.7.1 Key findings

The EMATUM Feasibility Study projected revenues of more than USD 176 million once all fishing vessels were delivered and operational. All fishing vessels were delivered by March 2015. EMATUM has not generated any significant income from operations since incorporation.

In 2014, the last year in which audited financial statements for EMATUM were produced, the only reported income from fishing operations was revenue totalling MZN 460,541 (USD 14,268). Further, Kroll's analysis of bank records show that payments from customers totalled only USD 67,000 in 2015 and 2016. The EMATUM Financial Statements for 2014 stated that stored fish with an estimated sales price of USD 14,268²⁴⁸ would be sold at a significant loss due to operating expenses. As a result, EMATUM was not able to settle interest and principal payments pertaining to the EMATUM Loan Agreement, as outlined at Section 5.3.8.

²⁴⁸ Note: The Financial Statements show the company had 5.8 tonnes of stored fish with an estimated sales value of MZN 500,000 or USD 2.46 per kg.

Kroll has made multiple requests to obtain accounting records from EMATUM as part of the Independent Audit. Throughout the audit, EMATUM management have only incrementally provided incomplete accounting records, which have not been sufficient for Kroll to properly assess the financial status of the company.

For example, EMATUM only provided limited statements for two bank accounts which did not cover the period from the account opening, nor did EMATUM provide details of two bank accounts held with BNI Mozambique and Moza Banco. Of particular concern is that the Moza Banco account was not recorded in the EMATUM accounting records, despite this account being used to receive more than MZN 1.7 billion (USD 55 million) from SISE. The MZN 1.7 billion was used, in part, to make the interest payments discussed at Section 5.4.

As a result of the incomplete information, Kroll has relied on information provided by the Bank of Mozambique and local Mozambique banks to undertake its analysis. The inability of EMATUM to provide complete accounting records and bank statements demonstrates that the company has not maintained adequate books and records, either through mismanagement or a deliberate attempt to frustrate Kroll's Independent Audit.

The limited accounting records provided to Kroll show that the fishing vessels supplied by the Contractor under the supply contract have been recorded at the price detailed on the EMATUM Invoice in EMATUM's financial accounts. Based on the information reviewed, Kroll's independent expert does not consider that the invoices and accounting records reflect accurate prices of the assets (as discussed as Section 3.6).

Furthermore, the Ocean Eagle vessels are not recorded in the accounting records provided. Kroll has not received a satisfactory response to understand who currently owns the vessels. In response to a request from Kroll, Person A stated that the vessels were to be transferred to ProIndicus only after "...a retrocession agreement of USD 350 million between EMATUM and the State" was signed by the parties.²⁴⁹ Kroll has not been provided with any further details in relation to the "retrocession agreement." However, the Contractor provided emails which indicate that management of the Ocean Eagle vessels was transferred from EMATUM to ProIndicus in July 2016.

5.7.2 Summary of income and expenses for year ending December 2013

Ernst & Young was engaged by EMATUM to undertake a statutory audit of the financial statements for the years ending 31 December 2013. Kroll has used the information provided by Ernst & Young as the basis for its analysis, as the financial information provided by EMATUM was incomplete and considered to be an unreliable source for assessing the income and expenditure of the company.

²⁴⁹ Document Reference: 2017-01-25 - ProIndicus Letter Doc Request – List.

Table 43 | Income Statement for EMATUM for the year ended 31 December 2013

Ref.	Description	MZN	USD
1	Income	92,204,304	3,049,084
2	Personal expenses	(1,750,374)	(57,883)
3	Third party services and supplies	(1,453,452)	(48,064)
4	Depreciation	(27,820)	(920)
5	Operational result	88,972,658	2,942,217

The following points set out an explanation of the data contained in Table 43:

1. **"Income"** relates to a USD 3 million payment from Logistics International which is stated in the notes to be an "...*exploration allowance, which was granted by the supplier of equipment.*" The notes also stated it was expected that between USD 3 million and USD 6 million would be received in 2014 depending on the start date of the tuna fishing operations. Further detail on this income is set out below.
2. **"Personal expenses"** is allocated into two categories. Kroll has not been provided with any documentation or calculations to support the expenditure :
 - a. *Employees remuneration MZN 1,402,267 (USD 46,371); and*
 - b. *Per diem MZN 348,107 (USD 11,511);*
3. **"Third party services and supplies"** is allocated to eleven separate categories, including "Travel Expenses" (USD 17,974) and "Rent and Leases" (USD 17,344). Kroll has not been provided with any documentation or calculations to support the expenditure.
4. **"Depreciation"** refers to *"Miscellaneous furniture for equipping the office."*
5. **"Operational result"** shows that EMATUM had a year-end operating profit of USD 2.9 million.

The EMATUM Financial Statements for 2013 also outline "*Financial Income*" and "*Financial Expense*", which includes term deposit interest income and foreign exchange losses. "*Foreign exchange losses*" totalling USD 13.5 million are the key item of note, which contributed to an overall accounting loss of USD (10.7 million) for the year ending 31 December 2013.

5.7.3 Summary of income and expenses for year ending December 2014

Ernst & Young was also engaged by EMATUM to undertake a statutory audit of the financial statements for 2014. Kroll has used the information provided by Ernst & Young as the basis for its

analysis, as the financial information provided by EMATUM was incomplete and considered to be an unreliable source for assessing the income and expenditure of the Company.

Table 44 | Income Statement for EMATUM for the year ended 31 December 2014

Ref.	Description	MZN	USD
1	Income	39,567,921	1,186,089
2	Personal expenses	(44,424,569)	(1,331,672)
3	Third party services and supplies	(36,559,164)	(1,095,898)
4	Depreciation	(49,884,933)	(1,495,352)
5	Operational result²⁵⁰	(91,494,154)	(2,742,631)

The following points set out an explanation of the data contained in Table 44.

1. **"Income"** relates to the EUR 1 million payment from Logistics International which is stated in the notes to the EMATUM Financial Statements for 2014 to be *"As in the previous year, subsidies for exploration refers to an amount of EUR 1 million that was provided by the supplier of the vessels to support the company's current expenses during the initial phase of its business, i.e., during the period in which the equipment is not yet fully operational."*²⁵¹ Further detail on this income is set out below.
2. **"Personal expenses"** is allocated into two categories. Kroll has not been provided with any documentation or calculations to support the expenditure :
 - a. *Employees remuneration MZN 21,871,704 (USD 655,627); and*
 - b. *Social security expenses MZN 19,561,000 (USD 586,361).*
3. **"Third party services and supplies"** is allocated to seventeen separate categories, including "Travel Expenses" (USD 34,697) and "Rent and leases" (USD 91,492). "Specialised Services" relating to recruitment, customs fees and project analysis was recorded with a cost of USD 309,609. Kroll has not been provided with any documentation or calculations to support the expenditure.
4. **"Depreciation"** primarily relates to the five fishing vessels which had been delivered (USD 1.4 million) as well as transport vehicles (USD 57,000).

²⁵⁰ Note: Table 44 does not include 1) production variation costs 2) impairment losses or 3) other operating income or losses - these values form part of the operation result figure.

²⁵¹ Document Reference: 2014-12-31 - 2014 Financial Statements

5. “Operational result” shows that EMATUM had a year-end operating loss of USD 2.7 million.

The EMATUM Financial Statements for 2014 also provided details on “Fish production.” EMATUM reported a net loss from fishing operations due to the costs per kilogram of fish caught (USD 19.91 per kilogram) being substantially higher than the average sales prices of USD 2.46 per kilogram.²⁵²

Table 45 | Net Loss from Fishing Operations

Description	Metical	USD
Fish production	3,735,169	111,965
Inventory Cost (Sold or Consumed)	(653,951)	(19,603)
Impairment Loss (Adjustment to Net Realizable Value)	(3,274,627)	(98,160)

The EMATUM Financial Statements for 2014 also outline “Financial Income” and “Financial Expense”, which includes interest income and expenses and foreign exchange losses.

“Interest expenses” on the Credit Suisse loan related to the nine vessels delivered (USD 2.6 million) and net foreign exchange losses of (USD 13.9 million), which contributed to an overall accounting loss of USD (25.5 million) for the year ending 31 December 2014.

5.7.4 Summary of income and expenses for years ending December 2015/16

Ernst & Young has not yet been contracted to undertake an audit of the financial statements for 2015 or 2016. Kroll was informed that there is an unresolved issue regarding the payment of fees in relation to audits undertaken by Ernst & Young of the financial statements for 2013 and 2014.

5.7.5 Payments from Prinvest Group companies to EMATUM

Kroll’s analysis shows that on 19 September 2013, a transfer of USD 3 million was received into an EMATUM bank account at BIM Mozambique²⁵³, from a First Gulf Bank account in the United Arab Emirates in the name of “Logistics Intl Sal (Offshore) AUH.”²⁵⁴ A SWIFT payment order for the transaction states the reason for payment as “special contribution in working capital.” Enquiries indicate that “Logistics Intl Sal (Offshore) AUH” refers to Logistics International SAL (Offshore), which is part of the Prinvest Group.²⁵⁵

In the EMATUM Financial Statements for 2013, the USD 3 million transaction was recorded as “...other income and operational earnings” with the notes stating that the funds were “...provided

²⁵² Document Reference: 2014-12-31 - 2014 Financial Statements, page 22

²⁵³ Account Reference: BIM-USD-[Redacted].

²⁵⁴ Document Reference: 2013-09-19 - Payment Confirmation - Logistics USD 3 million.

²⁵⁵ Source: <http://www.marktwired.com/press-release/prinvest-completes-internal-reorganization-including-transfer-ventek-securities-certain-1847472.htm>.

by the supplier of the vessels to support the company's current expenses during the initial stage of its business, this means, during the period in which the vessels are not yet fully operational." The notes also state that a further USD 3 million to USD 6 million was expected to be provided in 2014, depending on the progress of operations.²⁵⁶

On 2 December 2014, a transfer of EUR 1.0 million (USD 1.2 million) was received into an EMATUM BCI Mozambique account²⁵⁷ from an Emirates Ndb Bank account in the United Arab Emirates, in the name of "Logistics International Investment."²⁵⁸ The address listed for Logistics International Investment is the same as that listed for the Contractor.²⁵⁹ The EMATUM Financial Statements for 2014 stated that the payment was to support operating expenses to the company until the fishing vessels were fully operational.²⁶⁰

Kroll has not been provided with documentation to evidence any formal agreement between EMATUM and the Contractor (or other Privinvest Group companies) to provide support in respect of operational costs. Similarly, Kroll has not been provided with any evidence beyond the information in the financial statements to indicate the intended purpose of the payments.

5.7.6 Analysis of company bank statements

EMATUM provided a limited number of statements for two bank accounts held at BIM Mozambique and BCI Mozambique. The bank statements were incomplete with documentation for a number of time periods missing. It is not clear why the Moza Banco account was not documented in the accounting records of EMATUM even though the account received more than MZN 1.7 billion (USD 55 million) from SISE.

Kroll considers this to be a further example of inadequate record keeping by the company. To enable a complete analysis, Kroll has obtained and reviewed bank statements provided by the Bank of Mozambique (which were sourced directly from the relevant local Mozambique banks). The key observations from Kroll's analysis of the bank statements is outlined below.

The bank account information provided shows that EMATUM holds the following accounts:

²⁵⁶ Document Reference: 2013-12-31 - 2013 Financial Statements (Note 13, page 26).

²⁵⁷ Account Reference: BCI-EUR-[Redacted].

²⁵⁸ Document Reference: 2014-12-02 - Payment Confirmation - Logistics EUR 1 million.

²⁵⁹ Note: The address is: Villa B, Plot 134, 15 Mohd Bin Khalifa, Abu Dhabi UAE Post Box 107241.

²⁶⁰ Document Reference: 2014-12-31 - 2014 Financial Statements (Note 19, page 29).

Table 46 | Overview of EMATUM bank accounts

Bank	Account Number	Account Type	Account opening date	Statement balance as at 31/12/2016
BIM	[Redacted]	Corporate	12/09/2013	MZN -4,955
	[Redacted]	Corporate	12/09/2013	USD 943
BCI	[Redacted]	Corporate	29/09/2014	MZN 1,108,826
	[Redacted]	Corporate	19/03/2015	MZN 3,357
	[Redacted]	Corporate	30/09/2014	EUR 55
	[Redacted]	Corporate	19/03/2015	USD 126
	[Redacted]	Deposit	30/06/2015	MZN 6,100,000
BNI	[Redacted]	Corporate	06/03/2015	MZN 209,402
Moza Banco	[Redacted]	Corporate	03/03/2015	MZN 1,067,313

5.7.6.1 Trial Balance documentation

Kroll reviewed the year-end account balances for the bank accounts against the corresponding trial balance information supplied by EMATUM. The accounts denominated in MZN reflect closely the comparative data in the company's trial balance.

The EMATUM bank account at Moza Banco is not recorded in the company's trial balance, despite the fact that two interest payments relating to the EMATUM loan facility were made from this account in March 2014 and September 2014.

Table 47 | Comparison of EMATUM bank statement closing balances versus trial balances

Bank	Account Number	2015 Closing Balance	2015 Trial Balance	October 2016 Balance	October 2016 Trial Balance
BIM	[Redacted]	MZN 85,497	MZN 80,990	MZN 698	MZN 698
	[Redacted]	USD 943	USD 884	USD 943	USD 550
BCI	[Redacted]	MZN -14,867,045	MZN -15,019,718	MZN 8,918,481	MZN 9,593,023
	[Redacted]	MZN 12,467	MZN 12,467	MZN 250,327	MZN 241,672
	[Redacted]	EUR 1,193	EUR 7,321	EUR 55	EUR 3,521
	[Redacted]	USD 626	USD 8,504	USD 126	USD 5,040
	[Redacted]	MZN 6,100,000	MZN 6,100,000	MZN 6,100,000	MZN 6,100,000

BNI	[Redacted]	MZN 209,652	MZN 209,652	MZN 209,652	MZN 0
Moza Banco	[Redacted]	MZN 1,092,813	N/A	MZN 1,067,313	N/A

5.7.6.2 Analysis of funds received by EMATUM

Table 48 summarises the total receipts made into the bank accounts owned by EMATUM between 19 September 2013 and 20 January 2017.

Table 48 | Summary of payments into EMATUM bank accounts

Ref.	Credit Type	Total Transfers (USD)
1	Receipts from SISE	55,129,800
2	Receipts from Shareholders	21,944,480
3	Receipts from Treasury	11,620,164
4	Receipts from Logistics International	4,249,367
5	Receipts from unknown sources selected for further analysis	1,474,100
6	Receipts from Credit Suisse	143,452
7	Receipts from Customers	66,863
8	Receipts from Individuals	8,183
9	Receipts from unknown sources not selected for further analysis	2,235,960
Total		96,872,369

Reference 1 highlights that the largest source of funds into the banks accounts were transfers totalling more than MZN 1.7 billion (USD 55 million) transferred into EMATUM's Moza Banco account from SISE. Although not a direct shareholder in EMATUM, SISE has an indirect holding interest in the company through its relationship in GIPS. The receipts funded two interest payments as discussed at Section 5.4.

Reference 2 details the funds transferred to the EMATUM bank accounts from IGEPE and GIPS, the shareholders of EMATUM.

Reference 3 includes the 16 March 2015 payment to an EMATUM BNI Mozambique account for MZN 384 million (USD 11.3 million) from a National Treasury account.^{261/262} According to bank

²⁶¹ Account Reference: BNI-MZN-[Redacted].

²⁶² In English: *Interbank Transfer Received – UGC.*

documents, the funds were intended to be used to fund a n interest payment due to Credit Suisse in March 2015.²⁶³ As detailed in Section 5.3.8, the proceeds were partly used to fund an interest payment made by EMATUM to Credit Suisse on 11 March 2015.

On 10 April 2015, EMATUM received a further payment of MZN 13.3 million (USD 369,711) with the same payment description.²⁶⁴ This payment is likely to have been received from a National Treasury account based on the transaction description although the purpose of the payment is unknown.

Reference 4 details funds received from the Privinvest Group of companies. USD 4.2 million was received into the EMATUM USD and EMATUM EUR bank accounts at BIM Mozambique and BCI Mozambique from Logistics International.²⁶⁵

On 19 September 2013, Logistics International transferred USD 3 million to the EMATUM bank account at BIM Mozambique.²⁶⁶ Transaction documentation supplied to Kroll by BIM Mozambique stated that the payment was for the purposes of "...special contribution in working capital."²⁶⁷ The EMATUM Financial Statements for 2013 indicated that the funds were used to "...support the company's current expenses."

On 2 December 2014, Logistics International made a further payment of EUR 1 million (USD 1.2 million) to the EMATUM bank account at BCI Mozambique.²⁶⁸ Transaction documentation supplied to Kroll by BCI Mozambique does not indicate the reasons for the payment, however the EMATUM Financial Statements for 2014 indicated that the payment was to fund expenses to the company until the fishing vessels were operational.

Reference 5 highlights receipts selected by Kroll for further analysis totalling USD 1.4 million per the bank methodology outlined at Section 2.3. Kroll has requested supporting documentation from the respective local Mozambique banks, but at the time of reporting had not received responses to all enquiries. The descriptions for certain receipts refer to deposit accounts.

Reference 6 refers to a refund paid on the 19 May 2014 by Credit Suisse for USD 148,858 (MZN 4.5 million) to the EMATUM account at Moza Banco. The transaction was made due to an overpayment on the 10 March 2014 interest payment.²⁶⁹

Reference 7 outlines receipts which appear from open source research undertaken by Kroll to be from customers totalling USD 66,863 for the purchase of fish. The first payment of USD 54,365

²⁶³ Document Reference: 2015-03-16 - FW Abertura de Conta EMATUM.

²⁶⁴ Account Reference: BNI-MZN-[Redacted].

²⁶⁵ Source: <http://www.marketwired.com/press-release/privinvest-completes-internal-reorganization-including-transfer-vendtek-securities-certain-1847472.htm>.

²⁶⁶ Account Reference: BIM-USD-[Redacted].

²⁶⁷ Document Reference: 2013-09-19 - Payment Confirmation - Logistics USD 3 million.

²⁶⁸ Account Reference: BCI-EUR-[Redacted].

²⁶⁹ Account Reference: BIM-MZN-[Redacted].

was received on 23 March 2015 from an account in the name of Breezewood Trading, which is believed to be a seafood importer and exporter based in Johannesburg, South Africa. The second payment of USD 12,498 was received on 5 May 2016 from an account in the name of Supapackers Fish Processors, which is believed to be a seafood importer and exporter based in Atlantis, South Africa.

Reference 8 includes receipts from individuals totalling USD 8,183.

Reference 9 highlights receipts not selected by Kroll for further analysis totalling USD 2.2 million. Kroll has not reviewed these transactions in detail for the purposes of the Independent Audit.

5.7.6.3 Analysis of payments made by EMATUM

Table 49 summarises the total payments made from the bank accounts owned by EMATUM between 19 September 2013 and 20 January 2017.

Table 49 | Summary of payments from EMATUM bank accounts

Ref.	Payment Type	Total Transfers (USD)
1	Payments to Credit Suisse	81,918,548
2	Payments to Suppliers	4,084,342
3	Deposits at BCI Mozambique	3,372,000
4	Payments of Salaries	2,140,377
5	Payments to individuals	395,670
6	Payments to unknown parties selected for further analysis	226,685
7	Guarantee at BCI Mozambique	157,990
8	Payments to unknown parties not selected for further analysis	7,013,483
Total		99,309,095

Reference 1 includes payments from EMATUM to Credit Suisse which relate to interest payments due on the EMATUM Loan Agreement as detailed in Section 5.3.8.

Reference 2 details transactions totalling USD 4.1 million that appear to be payment to suppliers. The main supplier payments were made to Emose²⁷⁰ (USD 1.4 million), an insurance company, PetroMoc (USD 0.55 million) the Mozambique national fuel company,²⁷¹ and Boa Pesca (USD 0.34

²⁷⁰ Note: Emose stands for *Empresa Moçambicana de Seguros S.A.* or Mozambican Insurance Company.

²⁷¹ Source: <http://extwprlegs1.fao.org/docs/pdf/moz119871.pdf>.

million), a firm that provides consulting, training and management services for the fishing industry.
²⁷² Kroll has not been provided with further details of transactions that comprise this balance.

Reference 3 relates to rolling term deposits made by EMATUM totalling USD 3.4 million at BCI Mozambique. Kroll has requested that EMATUM management provide further information in relation to these transactions, but no explanation has been provided.

Reference 4 relates to payments that appear to be in respect of salaries, totalling USD 2.1 million.

Reference 5 comprises a number of payments made from bank accounts to individuals totalling USD 395,670. Table 50, below, summarises these payments.

A number of payments were made to named individuals, including Person A. Payments were also made to a bank account held in the name of Person AG, who is possibly the [spouse] of Role Z, Person Z. The PGR explained that the account in the name of Person AG was possibly a joint account with Person Z.²⁷³

Table 50 | Breakdown of payments to named individuals

Individual	Total Transfers (USD)
[Redacted]	95,050
[Redacted]	95,050
[Redacted]	44,741
[Redacted]	34,715
[Redacted]	32,419
[Redacted]	32,401
[Redacted]	32,142
[Redacted]	9,721
[Redacted]	9,178
[Redacted]	4,332
[Redacted]	5,922
Total	395,671

²⁷² Document Reference: 2014-10-20 - Boletim da República III Serie Numero 84 - Boa Pesca.

²⁷³ Document Reference: 2014-03-18 - Signature (page 3).

Reference 6 highlights payments selected by Kroll for further analysis totalling USD 226,685 per the bank methodology outlined at Section 2.3. Kroll has requested supporting documentation from the respective local Mozambique banks, but at the time of reporting had not received responses to all enquiries.

Reference 7 details a 30 June 2015 payment by EMATUM in respect of a guarantee for MZN 6.1 million (USD 0.16 million) for the purpose of holding funds relating to an employee dispute.²⁷⁴

Reference 8 highlights payments not selected by Kroll for further analysis totalling USD 7 million. Kroll has not reviewed these transactions in detail for the purposes of the Independent Audit.

²⁷⁴ Account Reference: BCI-MZN-[Redacted].

6. Mozambique Asset Management S.A.

6.1 MAM report structure

The main body of this report section is split into the following sections:

- í *Incorporation, share capital and management;*
- í *Loan facility agreements with VTB Capital;*
- í *Prinvest Investments supply contract; and,*
- í *Company operations.*

Each report section provides a narrative of key events, actions and consequences, together with a summary of Kroll's interpretation of the key issues and matters for further investigation.

Kroll has considered the overall management of MAM against the Commercial Code, to identify any potential breaches. Kroll has separately outlined its findings regarding the overall management of MAM (and ProIndicus and EMATUM) at Section 9.

6.2 Incorporation, share capital and management

6.2.1 Incorporation

Mozambique Asset Management, S.A. ("MAM") was incorporated on 8 April 2014 and is headquartered in Maputo.²⁷⁵

The Articles of Association state that the company's objective is to provide "...multiple services for the oil, mining, naval, port, and steel industries" including, but not limited to, exploration, representation and trading.

MAM provided Kroll with a document entitled "*Construction of Shipyard and Coastal Maintenance Bases*" (hereafter the "MAM Business Plan") which indicates that the Government of Mozambique granted MAM authorisation to construct a shipyard in Pemba (hereafter the "Pemba Facility"), and three maintenance facilities along the Mozambican coast. The objective of these facilities would be "...servicing of Government and commercial vessels as well as construction of certain vessels at the shipyard..."²⁷⁶

Further commentary on the MAM Business Plan is provided at Section 6.5.1.

²⁷⁵ Document Reference: 2014-04-10 - Official Gazette MAM Articles of Association.

²⁷⁶ Document Reference: Undated - MAM Project of Construction of Shipyard and Coastal Maintenance Bases.

6.2.2 Share capital

The Articles of Association state that the company's share capital was MZN 30 million (USD 957,000). The document does not include information regarding the company's shareholding structure.²⁷⁷

The first reference of the shareholding structure was included in a Ministry of Finance opinion document relating to the request for a government guarantee for a loan agreement with VTB Capital. The opinion document stated that the shareholders were:²⁷⁸

- í GIPS (98%);
- í EMATUM (1%); and,
- í ProIndicus (1%).

The MAM loan agreement signed with VTB Capital on 20 May 2014 states that SISE "...directly or indirectly" held 98% of the shares in MAM with ProIndicus and EMATUM each holding 1%.²⁷⁹

GIPS is also a shareholder of ProIndicus and EMATUM.

Kroll was not able to independently verify the shareholders of MAM through other official records.

6.2.3 Management

Kroll's review of documents provided by MAM and other parties indicates that the following individuals have held an executive position at MAM:

- í Person A: [Redacted]; and,
- í Person M: [Redacted].

Person A and Person M signed the MAM loan agreement with VTB Capital and a supply contract with Privinvest Shipbuilding Investments LLC (hereafter, "the Contractor").

6.2.4 Subsidiaries and affiliates

Kroll identified that MAM is a shareholder of at least three entities incorporated in Mozambique during 2016. None of these entities were recorded in the accounting records provided to Kroll by MAM. Kroll was not provided with any explanations for the incorporation of these three companies, which are as follows:

²⁷⁷ Document Reference: 2014-04-10 - Official Gazette MAM Articles of Association.

²⁷⁸ Document Reference: 2014-04-30 - MoFs Opinion MAM Gov Guarantee USD 750 million.

²⁷⁹ Document Reference: 2014-05-20 - VTB MAM Facility Agreement (EN).

VIP and Assets Security S.A

MAM is a shareholder of VIP and Assets Security S.A ("VIPAS"). VIPAS was incorporated on 24 January 2016 and is located in Maputo. According to the Mozambique Official Gazette, the company provides installation of electric security systems and security services for individuals and companies. The company shareholding structure is as set out below:²⁸⁰

- í MAM (47.22%);
- í ProIndicus (47.22%); and,
- í GIPS (5.56%).

MS Maputo Shipyard and PS Pemba Shipyard

Records from the Mozambique Official Gazette indicate that MAM is a majority shareholder of MS Maputo Shipyard Lda ("MS Maputo") and PS Pemba Shipyard Lda ("PS Pemba"). Both companies were incorporated on 22 October 2016.²⁸¹ MAM owns 99% of the shareholding and GIPS the remaining 1% in each company.

According to the Mozambique Official Gazette, the objectives of MS Maputo and PS Pemba are the repair and maintenance of vessels, the build and sale of vessels and provision of services in the shipping, oil, and railway sectors.

Bank account information

Kroll was not provided with any information by MAM in relation to VIPAS, MS Maputo or PS Pemba. Kroll requested, through the Bank of Mozambique, details of any bank accounts held for VIPAS, MS Maputo Shipyard and PS Pemba Shipyard at local Mozambique banks. No bank accounts had been identified at the time of reporting for VIPAS and PS Pemba.

Kroll identified a bank account held by MS Maputo at BIM Mozambique. The bank account was opened on 13 December 2016.²⁸² Bank records show that the account has received four payments totaling USD 186,329 between 30 December 2016 and 4 April 2017 from Logistics International Investments and the Contractor.²⁸³ An email dated 15 December 2016 from the Contractor to Person A stated that this BIM Mozambique account of MS Maputo would be used to receive payments from the Contractor to pay salaries of MAM staff as required under the Amended MAM Supply Agreement (refer to Section 6.4.3 for further details).²⁸⁴

²⁸⁰ Document Reference: 2016-02-26 - Boletim da República III Serie 24 – VIPAS.

²⁸¹ Document Reference: 2016-11-09 - Boletim da República III Serie Numero 134 - MS & PS Shipyard.

²⁸² Account Reference: BIM-MZN-[Redacted].

²⁸³ Document Reference: MS Maputo - Payments from Foreign Entities.

²⁸⁴ Document Reference: 2016-12-19 - MAM & PISB Emails - MS Maputo bank account.

6.2.5 Tendering process for project

Kroll has repeatedly requested information from Person A and other MAM representatives to determine what, if any, due diligence was carried out in relation to the selection of the Contractor to develop the MAM Project, or if any other proposals were obtained from other suppliers. Person A has refused to provide information on several occasions citing "national security." Kroll has subsequently made requests to both Person E, the Role E, and Person F, the Role F. Person E informed Kroll that he/she could not provide any information regarding MAM, citing that documentation relating to tendering was "Classified." Person F has informed Kroll that no records relating to the MAM have been provided to him/her by Person E since he/she took office.

As a result, Kroll cannot determine if other proposals were obtained or if the MAM shareholders carried out any independent due diligence on the Contractor.

6.3 Loan facility agreement with VTB Capital

6.3.1 Key findings

6.3.1.1 Bank fees

On 20 May 2014 MAM signed a loan agreement (the "MAM Loan Agreement") with VTB Capital with a maximum limit of USD 540 million which was issued with a government guarantee by the Ministry of Finance.

In total, MAM drew down USD 535 million of this facility. Kroll has verified that USD 35 million of the loan proceeds was withheld by VTB Capital as "Arrangement Fees", and the remaining USD 500 million was paid to the Contractor. The Arrangement Fees equate to 6.5% of the total loan amount, a comparably higher rate than the rates applied for the ProIndicus and EMATUM Arrangement Fees of 1.6%.

Unlike the ProIndicus and EMATUM loan agreements, no Contractor Fees were payable by the Contractor. The MAM Loan Agreement showed that the interest rate was higher than the interest rates charged on the ProIndicus and EMATUM loans.

6.3.1.2 Interest payments

At the time of reporting, only one interest payment in relation to the MAM Loan Agreement had been made by Palomar, on behalf of MAM, for USD 40.8 million (refer to Section 6.3.7).

The Privinvest Presentation stated that the Ministry of Finance requested the Contractor "...to subsidise the cost of the MAM financing by undertaking to fund the first year of interest of the MAM loan" which the Contractor stated it did at its own cost.

Documents provided to Kroll indicate that MAM and the Contractor had an agreement for the Contractor to make the first interest payment. Kroll was not provided with any further supporting documentation for this agreement.

6.3.2 MAM Loan Agreement

On 20 May 2014, MAM agreed a loan agreement with a limit of USD 540 million with VTB Capital.²⁸⁵ VTB Capital facilitated the MAM Loan Agreement. Palomar and VTB Capital both acted as facility arrangers.²⁸⁶

The MAM Loan Agreement, drafted according to the law of England and Wales, was signed by Person A and Person M, on behalf of MAM, Person AH and Person AI, on behalf of VTB Capital and Person AJ on behalf of Palomar.

The loan agreement named Prinvest Shipbuilding Investments LLC as the "Contractor" and stated that VTB Capital should directly apply all amounts under the loan agreement to the Contractor. Repayment of the principal amount was due in four equal, annual tranches, beginning two years after the first draw down of the loan facility. The interest rate of the loan was set at LIBOR plus 7% with interest payments beginning twelve months after the first draw down of the loan facility.

Table 51 | Summary of MAM loan disbursements

Details	Fees (USD)	Amount (USD)
Total loan facility drawn down from VTB Capital		535,000,000
Arrangement Fees payable by MAM to VTB Capital	(35,000,000)	
Total payments to Prinvest Investments		500,000,000

6.3.3 Government Guarantee approval process

On 25 April 2014, the Role E, Person E, requested a government guarantee for the MAM Loan Agreement for USD 750 million, despite the final MAM Loan Agreement stipulating a maximum loan of USD 540 million. Furthermore, the request was for the guarantee to be made in favour of Palomar.²⁸⁷ The Ministry of Finance has not provided Kroll with the rationale for 1) Person E requesting a government guarantee of USD 750 million or 2) the reason for requesting the government guarantee be made in the favour of Palomar.

²⁸⁵ Document Reference: 2014-05-20 - VTB MAM Facility Agreement (EN).

²⁸⁶ Note: The Palomar entity in this arrangement is Palomar Advisors S.A.

²⁸⁷ Document Reference: 2014-04-25 - SISE Request for MAM Gov Guarantee USD 750 million.

Kroll's review identified that in response to the request from Person E, Person D, Role D, undertook an assessment and met with Person A and "[Redacted]" (possibly Person G) of Palomar as part of that assessment.

On 30 April 2014, Person D issued an opinion document granting approval for the government guarantee request. The opinion document listed the value of the government guarantee as USD 515 million and included a handwritten note in the "Decision" section of the document, which stated that Person C had also approved the guarantee for an amount of USD 515 million. On 20 May 2014 the Ministry of Finance issued a government guarantee (the "MAM Government Guarantee") for USD 540 million – USD 25 million more than the amount stated on the opinion document.²⁸⁸

The opinion document signed by Person D stated that he/she had informed Person A and "[Redacted]" that the government guarantee request for USD 750 million was above the ceiling indicated in the Mozambique Budget Law and the indebtedness limit agreed with the International Monetary Fund. The opinion document also showed that Person A had advised Person D against sharing information [with anyone else] about the arrangement due to the matter relating to state security.

Despite the issue with the government guarantee breaching certain limits, Person D recommended that the government guarantee should be issued as it had been requested by Person E, and on his/her assessment that the:

- i. MAM Project aimed to ensure the sustainability of an existing project (i.e. the ProIndicus and EMATUM Projects);
- ii. MAM Project was related to national sovereignty; and,
- iii. Feasibility Study showed that the MAM Project was financially sustainable.

MAM management did not provide Kroll with an explanation for the initial government guarantee request of USD 750 million, nor why a lesser amount was finally approved.

The opinion document stated that Person D and Person C approved and signed off on an amount of USD 515 million, which is USD 25 million less than the amount of the maximum loan facility of USD 540 million. It is unclear why Person C signed off on the MAM Government Guarantee when the amount approved in the opinion document was only USD 515 million.

A detailed summary of key the observations regarding the process for requesting government guarantees is provided at Section 8.

²⁸⁸ Document Reference: 2014-05-20 - MAM Gov Guarantee.

6.3.4 Bank of Mozambique approval process

On 20 May 2014, the same day that the government guarantee was signed, Person C requested by letter that the Bank of Mozambique approve the MAM Loan Agreement, stating, "The Government of Mozambique wants to create the infrastructure conditions for support and maintenance of Security Forces tools and equipment."²⁸⁹ The Bank of Mozambique approved the request on the same date for a maximum of USD 540 million.²⁹⁰

The role of the Bank of Mozambique in approving foreign currency denominated loan agreements for state owned companies is restricted to ensuring the person authorising the loan agreement has the appropriate legal authority. The Bank of Mozambique was not required to consider the MAM business plan or any other equivalent documents.

6.3.5 Utilisation details

Table 52 summarises the utilisation amount, bank fees charged by VTB Capital under the MAM Loan Agreement and the actual funds paid to the Contractor:

Table 52 | Summary of MAM utilisation details

Date	Utilisation Amount (USD)	Bank Fees (USD)	Total Paid to Contractor (USD)
23/05/2014	435,000,000	(28,457,944)	406,542,056
11/06/2014	100,000,000	(6,542,056)	93,457,944
Total	535,000,000	(35,000,000)	500,000,000

Both payments to the Contractor were sent to a First Gulf Bank account in the United Arab Emirates held by the Contractor. A detailed summary of the Utilisation Requests is provided at Appendix G.

6.3.6 Fees payable in relation to the loan agreement

Unlike ProIndicus and EMATUM, the fees payable in respect of the MAM Loan Agreement relate only to bank "Arrangement Fees." The Prinvest Presentation stated that VTB Capital did not require a Contractor Fee.²⁹¹

On 23 May 2014, MAM and VTB Capital signed an Arrangement Fee letter (the "VTB Arrangement Fee Letter") in which MAM agreed to pay VTB Capital an Arrangement Fee of USD 35 million.²⁹²

²⁸⁹ Document Reference: 2014-05-20 - MoF Request to BoM - MAM Loan Approval.

²⁹⁰ Document Reference: 2014-05-20 - BoM Letter to MAM - Loan Authorization.

²⁹¹ Document Reference: 2017-02-21 - Prinvest Presentation.

²⁹² Document Reference: 2014-05-23 - VTB Arrangement Fee Letter.

The VTB Arrangement Fee Letter stated that the maximum payment to the Contractor was USD 500 million and that the Arrangement Fee would be withheld from each Utilisation Request.²⁹³

6.3.7 Summary of interest and principal repayments

The MAM Loan Agreement stated that the total amount of the loan utilised was repayable in four equal instalments beginning twenty-four months after the first date of utilisation with the final payment due after 60 months. The total value of the loan utilised was USD 535 million with the first utilisation occurring on 23 May 2014. As a result, the principal repayments were due on the following dates:

Table 53 | Schedule of MAM loan repayment

Date	Payment Type	Amount (USD)
26/05/2016	Principal	133,750,000
26/05/2017	Principal	133,750,000
26/05/2018	Principal	133,750,000
26/05/2019	Principal	133,750,000
Total		535,000,000

The MAM Loan Agreement stated that interest payments were due annually beginning 12 months after the first utilisation date.

6.3.7.1 First interest payment

The first interest payment of USD 40.8 million is the only interest payment that has been made under the MAM Loan Agreement.²⁹⁴ On 11 June 2014, VTB Capital advised MAM that an interest payment of USD 40.8 million was due on 26 May 2015.²⁹⁵

An undated letter to Palomar, signed by Person A on behalf of MAM,²⁹⁶ stated that MAM was to make an interest payment of USD 40.8 million to VTB Capital by 26 May 2015. The letter further stated: "*It was agreed between MAM and the Contractor that the first interest payment would be settled (at least in part) by the Contractor on MAM's behalf*" and that it was understood "...the

²⁹³ Note: The letter stated that should the first utilisation of the loan facility be less than USD 535 million, the amount of the Arrangement Fee withheld would be reduced on a pro-rata basis.

²⁹⁴ Document Reference: 2016-11-00 - MoF Loans Overview.

²⁹⁵ Document Reference: 2014-06-11 - VTB Disbursement confirmation & Payment Notice.

²⁹⁶ Note: The Palomar entity in this letter is Palomar Capital Advisors Ltd.

monies held were placed with Palomar to settle the Interest Amount on MAM 's behalf by remitting this amount value 26th May 2015 directly to the following account of the Facility Agent. " ²⁹⁷

A SWIFT payment record provided to Kroll from VTB Capital confirms that a payment was made on 27 May 2015. The "Sender to Receiver Information" on the SWIFT payment record stated "MAM by order Palomar Holding." ²⁹⁸

Kroll has not been provided with documentation that evidences a formal agreement relating to the interest payment between MAM and the Contractor and/or Palomar. However, the Privinvest Presentation stated that the Contractor agreed to provide MAM with interest support in the first year of repayment, and that "...just under USD 41m was paid to VTB Capital by ways of interest support."

The MAM Business Plan estimated revenues to be USD 63.7 million at the end of Year 1, and that available cash, after loan interest of USD 48.6 million (an amount greater than the USD 40.8 million interest payment actually made to VTB Capital), would be USD 15.9 million. MAM did not generate any operational revenues in the first year of operation; it was not therefore possible for MAM to settle any interest payments due without contributions from other parties. ²⁹⁹

6.3.7.2 Subsequent interest and principal payments

On 19 January 2016 VTB Capital sent a letter to MAM and the Ministry of Finance, which stated that an interest payment of USD 41.7 million and a principal repayment of USD133.8 million was payable on 23 May 2016. ³⁰⁰ A document entitled "Summary of Key Terms of Certain Commercial External Indebtedness," issued by the Government of Mozambique, confirmed that these payments were not made and are currently in arrears. ³⁰¹

6.3.8 Restructuring

On 3 May 2016, VTB Capital sent a letter to Palomar, ³⁰² copying MAM, stating that the bank understood that Palomar had been appointed as a financial advisor for the restructuring of MAM 's facilities with the bank. ³⁰³

Under this agreement, Palomar would receive all communications from VTB Capital in relation to the MAM Loan Agreement and would be compensated by MAM for its role. The agreement was executed under the law of England and Wales, and was signed by Person AI and Person AK on

²⁹⁷ Document Reference: Undated - MAM Letter to Palomar - Request First Interest Payment.

²⁹⁸ Document Reference: 2015-05-27 - SWIFT Payment Record - VTB USD 40.7 million.

²⁹⁹ Document Reference: Undated - MAM Project of Construction of Shipyard and Coastal Maintenance Bases.

³⁰⁰ Document Reference: 2016-01-19 -VTB Payment Notice to MAM and MoF.

³⁰¹ Document Reference: 2016-11-00 - MoF Loans Overview.

³⁰² Note: The Palomar entity in this letter is Palomar Consulting LLC.

³⁰³ Document Reference: 2016-05-03 - VTB Letter to Palomar - Restructuring Fin Adviser.

behalf of VTB Capital, and Person A on behalf of MAM. The identity of the individual who signed on behalf of Palomar is unknown.

On 8 July 2016, Person A sent a letter to VTB Capital requesting that the bank not execute the government guarantee supporting the MAM Loan Agreement and asking for the bank's support with debt restructuring. In the letter, Person A noted that there were delays in the implementation of the construction schedule that prevented the company from generating revenue for its debt repayments. Person A requested VTB Capital to negotiate a debt restructuring with MAM to adjust the repayment schedule to reflect the changed circumstances of the business.³⁰⁴

Kroll has not received any further information regarding the proposed restructuring of the MAM loan agreement.

The role of Palomar is discussed in further detail at Section 7.

6.4 Supply Contract with Prinvest Investments

6.4.1 Key findings

6.4.1.1 Current status of the MAM Project

At the time of reporting, the delivery of the MAM Project by the Contractor remains in progress. The original supply contract between MAM and the Contractor (hereafter the "Original MAM Supply Contract") was signed on 1 May 2014. This was subsequently modified approximately seven months later, on or around 22 December 2014, resulting in the "Amended MAM Supply Contract", which reflected the ongoing challenges experienced by the Contractor in relation to delivering the project in Mozambique.

Kroll has received several correspondence files from the Contractor that suggests they encountered multiple challenges in delivering the Original MAM Supply Contract (and Amended MAM Supply Contract). The documents reviewed by Kroll show that the Contractor has offered to complete the outstanding project activities, subject to the necessary cooperation from MAM, before 31 May 2017.

6.4.1.2 Lack of documentation

During the course of the Independent Audit, Kroll encountered significant challenges in obtaining complete versions of the supply contract and supporting annexes. Kroll received incomplete versions of the supply contract from MAM. Following an information request from Kroll, a "final" version supply contract together with supporting annexes was provided by the Contractor.

³⁰⁴ Document Reference: 2016-07-08 - MAM Letter to VTB - Request for Debt Restructure.

The Contractor provided a one-page invoice to MAM (the "MAM Invoice"). The MAM Invoice does not provide a detailed breakdown of the individual prices apportioned to the core assets and services that were to be provided under the supply contract. The MAM Invoice only provided the total contract value, with no costs apportioned to individual assets or services.

Kroll was not provided with satisfactory documentation to support expenditure to date under the supply contract.

6.4.2 Original MAM Supply Contract

6.4.2.1 Background to Original MAM Supply Contract

On 1 May 2014, MAM signed the Original MAM Supply Contract³⁰⁵ with the Contractor for the supply of assets and services that would enable MAM to construct vessels and provide "...*maintenance and servicing services*..." in a shipyard and two maintenance facilities to be located in Beira and Maputo. The total contract price stated was USD 500 million, however the contract did not include individual prices for the assets and services to be provided by the Contractor.³⁰⁶

According to the contract preamble, MAM was granted authority to acquire "...*land and infrastructure*" for the Pemba Facility in which the company would be able to build certain vessels using intellectual property licensed by the Contractor. The contract stated that MAM would also provide maintenance services for the "Government Vessels"³⁰⁷ which are indicated in the contract as being those vessels acquired by ProIndicus and EMATUM.

Kroll was not provided with documentation evidencing that MAM has been granted authority to acquire land in Pemba. Person A informed Kroll, during a visit to the maintenance facility, that the site is owned by the Ministry of Defence, which has granted MAM a 30 year lease for nil consideration. No evidence was provided to support this statement.

6.4.2.2 Original MAM Supply Contract Scope of Work

The Original MAM Supply Contract stated that the Contractor would construct the Pemba Facility and "upgrade" two bases (in Beira and Maputo) to enable MAM to provide maintenance services to the existing "Government Vessels"³⁰⁸ owned by ProIndicus and EMATUM as well as vessels associated with the offshore oil and gas industry.

The Original MAM Supply Contract stated that MAM was responsible for procuring access to the Pemba Facility and two bases. The Contractor would manage and operate the sites, as well as

³⁰⁵ Note: The body of the Original MAM Supply Contract comprised 17 pages with five annexes. The Original MAM Supply Contract was signed by Person A and an unknown party on behalf of MAM, and by Person G, on behalf of Prinvest Investments.

³⁰⁶ Document Reference: 2014-05-01 - Supply Contract - Prinvest Investments.

³⁰⁷ Note: "Government Vessels" are comprised of the 36 DV15 Interceptors, 3 HSI32 Interceptors, 3 WP18 Interceptor, 3 Ocean Eagle vessels and 24 fishing vessels.

³⁰⁸ Document Reference: 2014-05-01 - Supply Contract - Prinvest Investments.

provide the maintenance services for the Government Vessels and offshore oil and gas industry vessels for a period of two years.

The Contractor was also required to fit out the Pemba Facility to enable MAM to construct 18 DV15 Interceptor vessels (referred in the initial contract as the "*Local Vessels*"), which would be paid for by the Contractor, and to enable MAM in the future to construct other vessels of the same type as the Government Vessels.

To enable this, the Contractor would transfer to MAM the intellectual property rights and associated technology for the DV15 Interceptor vessels. The Contractor would also provide a technical assistance team to support the technology transfer.

The MAM Supply Contract states that all existing rights, being the intellectual property licences and associated technology transfer in relation to the fishing vessels and Ocean Eagle vessels, would be transferred, without payment to the Contractor, from EMATUM to MAM.

The EMATUM Supply Contract (refer to Section 5.6.2) discusses the intellectual property rights and associated technology for the fishing vessels and Ocean Eagle vessels in more detail. Kroll has not been provided with documentation supporting this transfer.

The Original MAM Supply Contract stated that the "*...technology transfer will be structured and designed so as to enable the Customer to have the capability to build (at its own expense) the relevant vessels at the Shipyard.*" However, the Original MAM Supply Contract stated that MAM would require prior consent from the Contractor if it wished to supply vessels constructed at the Pemba Facility to customers outside of Mozambique.

According to the Original MAM Supply Contract, MAM would be responsible for recruiting the appropriate employees to provide maintenance services and to construct the Local Vessels, the costs of which would be paid for by the Contractor. Further, the Contractor would also provide training to Mozambican nationals to enable them to undertake the maintenance services at the Pemba Facility and the two bases, and undertake relevant construction activities at the Pemba Facility.

The Original MAM Supply Contract also stated that the Pemba Facility would be managed and operated by the Contractor until the last of the Local Vessels was constructed and delivered. Further, the Original MAM Supply Contract stated that the Contractor would make available a Dual Purpose Vessel, to provide maintenance services to the Government Vessels for a period of two years.

6.4.2.3 Original Contract annexes

The Original MAM Supply Contract contains a list of annexes described as being an "*integral part of the contract.*"

- í Annex 1: Shipyard Overview
- í Annex 2: Dual Purpose Vessel Overview
- í Annex 3: DV15 Interceptor Specification
- í Annex 4: WP18 Interceptor Specification
- í Annex 5: HSI32 Interceptor Specification

Kroll requested copies of the annexes from MAM, however the versions of the annexes supplied were not the final contract versions. The Contractor subsequently provided Kroll with copies of the annexes (with the exception of Annex 3). A summary of the Annexes is provided at Appendix H.

6.4.3 Amended MAM Supply Contract

6.4.3.1 Overview of the Amended MAM Supply Contract

The Original MAM Supply Contract was subsequently modified on or around 22 December 2014, resulting in the "Amended MAM Supply Contract" to reflect ongoing challenges experienced by the Contractor in relation to delivering the project in Mozambique.³⁰⁹ An e-mail provided to Kroll by the Contractor states that the amended contract was dated and became effective on 15 June 2015.³¹⁰

Under the terms of the Amended MAM Supply Contract, MAM would "...acquire appropriate land and existing buildings, infrastructure and facilities" at a site in Pemba and at the Catempe Naval Base in Maputo. The Contractor agreed to upgrade both these bases to enable MAM to provide maintenance services for the Government Vessels and vessels associated with the offshore oil and gas industry.

The Amended MAM Supply Contract altered the scope of supply, so that instead of equipping the Pemba Facility to construct the Local Vessels as detailed in the Original MAM Supply Contract, the Contractor would upgrade and fit out one of the shipyards to enable "...basic steelwork and ship assembly activities" to be undertaken (the shipyard to be upgraded is not specified). The Amended MAM Supply Contract states that this would provide MAM with "...the capability to finally assemble (at its own expense) the relevant vessels at a Base." The Amended MAM Supply Contract stated that the Contractor would also manage and operate the two bases for a period of twenty-four months.³¹¹

The Amended MAM Supply Contract varied the definition of the Local Vessels¹ from the 18 DV15 Interceptor vessels in the Original MAM Supply Contract to mean any vessels for which MAM received orders, which would be required to be purchased by MAM from the Contractor and

³⁰⁹ Note: The cover letter to the amended and restated contract was signed by Person A on behalf of MAM, and Person J on behalf of the Contractor. Document Reference: 2014-12-22 - Amended & Restated Supply Contract Prinvest Investments.

³¹⁰ Document Reference: 2015-06-15 - Prinvest Email - Restated Contract Effective Date.1.

³¹¹ Document Reference: 2015-06-15 - Prinvest Email - Restated Contract Effective Date.1.

assembled at one of the MAM bases for sale. This differs to the Original MAM Supply Contract, which would have provided MAM with the capability to construct, rather than assemble, the Government Vessels. The difference between "construct" and "assemble" is not known.

The Amended MAM Supply Contract did not change the plans to provide basic training to Mozambican nationals to undertake maintenance services on the Government Vessels and to assemble the Local Vessels.

The contract stated that MAM would take possession of parts of two existing facilities in Mozambique, being the Pemba Naval School and the Maputo Nautical School, to create a "*Mozambique Maritime Institute*." The Amended MAM Supply Contract stated that the Contractor would upgrade the Mozambique Maritime Institute and manage the facility for a period of twenty- four months, beginning 1 June 2015. The Amended MAM Supply Contract also stated that it would provide training for locally engaged crew to operate the vessels owned by EMATUM and ProIndicus. Kroll has requested from MAM, but has not received, records to support the delivery of crew training for the vessels, or any other form of training delivered in respect of the MAM Project.

The Amended MAM Supply Contract also stated that the Dual Patrol Vessel would be made available to provide maintenance services for a 24-month period from the date of its arrival in Mozambican waters, and that the vessel would be transferred to MAM at the end of this period for USD 1.

Finally, the Amended MAM Supply Contract did not vary the requirement for the supply of spare parts by the Contractor for the Government Vessels, as set out in the Original MAM Supply Contract.

6.4.3.2 Amended contract annexes

A single annex (Annex 1 – Overview) is referenced in the Amended MAM Supply Contract. The document provides an overview of the two maintenance bases and training facilities that would be upgraded, the training programme and the services to be provided by the Dual Purpose Vessel.³¹²

6.4.3.3 Subcontractors to the supply contract

Kroll was unable to ascertain which subcontractors, if any, were used by the Contractor to deliver the Original and Amended Supply Contract to MAM, nor the prices paid for assets and services delivered by subcontractors. MAM management informed Kroll that they do not have any knowledge or documentation regarding the subcontractors used by the Contractor.

³¹² Document Reference: 2014-12-22 - Annex 1 - Supply Contract Change Order.

Both the Original and Amended MAM Supply Contract stated that the Contractor was authorised to subcontract all or part of the works related to the contract and that the Contractor "shall endeavour" to ensure the work was undertaken in accordance with the terms and conditions of the contract.³¹³

Both the Original and Amended MAM Supply Contract also stated that communication with subcontractors and suppliers should be made by the Contractor only, and that MAM would not have the right to contact any of these parties directly.

6.4.4 Contractual provisions in respect of invoices

Clause E of both the Original MAM Supply Contract and the Amended MAM Supply Contract stated that the "...full amount of the price shall be invoiced by Contractor on or about the day of signing this Contract."³¹⁴

MAM provided Kroll with an e-mail exchange between Person AL, representing MAM, and Person J, representing the Contractor, which resulted in the MAM Invoice being sent from Person J. The document confirmed the assets and services to be delivered as per the Amended MAM Supply Contract in June 2015.³¹⁵ Figure 6 is an extract from the MAM Invoice:

Figure 6 | Extract of MAM Invoice

Re: Contract dated 1 May 2014, as amended and restated by a letter agreement dated 15 June 2015 – Global Invoice

Confirmation of deliverables

1. Mobile Maintenance Vessel
2. Mobile Maintenance Vessel Services
3. Base Equipment
4. Management Services
5. Base Maintenance Services
6. Training Services
7. Intellectual Property Licence and technology transfer

For a total value of US\$500,000,000

The MAM Invoice only provides the total contract value, with no costs apportioned to individual assets or services. Kroll has not been provided with any other invoices in relation to the assets and services to be provided by the Contractor.

In conclusion, Kroll has not been provided with satisfactory documentation to support expenditure under the Original or Amended Supply Contracts. Kroll was informed by an industry expert that invoices should include a clear and detailed description of all assets and services provided. The invoices provided to Kroll do not provide sufficient detail to gain comfort that the documents

³¹³ Document Reference: 2014-05-01 - Supply Contract - Prinvest Investments (page 8).

³¹⁴ Document Reference: 2014-05-01 - Supply Contract - Prinvest Investments (page 11).

³¹⁵ Document Reference: Undated - Global Invoice.

accurately reflect the true price of these assets and services, and therefore do not allow proper accounting records to be maintained by the company. Kroll discusses how the limited invoice documentation potentially breaches certain Articles in the Mozambique Commercial Code in Section 9 of this report.

6.4.5 Verification of assets delivered under the supply contract

On 29 November 2016, Kroll visited Pemba as part of the process to verify assets delivered under the ProIndicus, EMATUM and MAM supply contracts.

Based on Kroll's visit, the Pemba Facility component of the Amended MAM Supply Contract appears to have been partially fulfilled by the Contractor. A summary of Kroll's observations is provided below.

The Pemba Facility is built on reclaimed land, with a limited number of permanent moorings for vessels. During Kroll's visit to the Pemba Facility, two HSI32 Interceptor vessels and two DV15 Interceptor vessels (belonging to ProIndicus) were moored using the permanent pontoons. One Ocean Eagle vessel was moored using the permanent pontoons and the remaining two Ocean Eagle vessels were moored at anchor offshore (all belonging to EMATUM).

The Pemba Facility has several maintenance workshops, some of which were being used for storage of materials during Kroll's visit. A maintenance shed had also been constructed, using shipping containers and a corrugated roof, however the shed was open-ended and offered no protection from inclement weather. No permanent lifts were installed to enable vessels to be removed from the water. The Pemba Facility Site Manager informed Kroll that the only method to transfer vessels from water to dry land was by tractor and mobile lift.

The Dual Purpose Vessel was moored a short distance offshore. Kroll was informed during the visit that the Dual Purpose Vessel was at the time being used to store two DV15 Interceptor vessels owned by ProIndicus.

Person A informed Kroll during a visit to the Pemba Facility that the site is owned by the Ministry of Defence and that MAM has been granted a 30 year lease to the site for nil consideration. Kroll has not received any evidence to support this statement.

6.4.6 Analysis of assets and services to be provided under supply contract

A summary of the observations regarding the key assets and services to be provided by the Contractor in the Original MAM Supply Contract and Amended MAM Supply Contract is outlined in the following paragraphs.

6.4.6.1 Maintenance of vessels

The preamble (Point 2) of the Original MAM Supply Contract and Amended MAM Supply Contract stated that the vessels acquired by ProIndicus and EMATUM required regular maintenance and servicing to remain operational.

The requirement for regular maintenance and servicing of vessels should have been recognised in advance of the delivery of vessels. The delay in having active maintenance and servicing facilities (which continues to be the case at the time of reporting) will likely have a detrimental impact on the operational status of the delivered vessels.

6.4.6.2 Training of crews

The preamble (Point 2) of the Amended MAM Supply Contract referenced that “...operational, trained, crews are required” and makes reference to “...the obvious need for naval teaching.”

The Amended MAM Supply Contract stated that the Contractor would “...cosmetically upgrade and thereafter provide the Training Services as the Mozambique Maritime Institute for a period of time not to exceed 24 months from 1st June 2015...”

6.4.6.3 Pemba Facility

Based on the facilities available at the time of Kroll's visit, the assembly or construction of vessels would not be possible at the Pemba Facility and only basic maintenance of vessels could be carried out at the Pemba Facility.

The Original MAM Supply Contract and Amended MAM Supply Contract did not provide any detailed specifications or timeframe of the facilities to be established at the Pemba Facility. Kroll has not been provided with any information regarding the cost of constructing the Pemba Facility. Therefore, it is not possible to independently verify if the intended scope of work has been completed or to ascertain the budget remaining for the provision of the other assets and services to be provided under the Amended MAM Supply Contract.

6.4.6.4 Somonav Shipyard

Annex 3 of the Original MAM Supply Contract is a one page document entitled “Maputo (Somonav) Shipyard” (hereafter the “Somonav Shipyard”). Kroll's independent research indicates that a company named Somonav Lda previously owned a shipbuilding and repair facility in Maputo. Person A has informed Kroll that MAM has since acquired this facility, however no details as to the price or date of acquisition have been provided by MAM management. A Government of

Mozambique resolution signed in August 2013, stated that the Maputo Shipyard was state owned and that custody of the shipyard had been transferred to SISE.³¹⁶

Annex 3 outlines the land, infrastructure and facilities at the Somonav Shipyard Maputo, which were to be made available to the Contractor for the purposes of establishing a “*Base/Shipyard and training facility.*” Annex 3 outlined that MAM must procure “...*unfettered access and vacant possession of the above identified area...*” and that “*Prinvest Investments would not be able to start work at the site until 15 October 2015 at the earliest.*” The document further stated that MAM was responsible for the dredging of the inlet area from the shore and for the removal of all wrecks that are visible.

Annex 1 of the Amended MAM Supply Contract, entitled “Shipyard Overview”, provides a short overview of the key components of a shipyard, but does not provide detailed specifications for either the Pemba or Maputo shipyards.

Both Person A and Person G informed Kroll that work is currently in progress to upgrade the Somonav Shipyard. The Prinvest Presentation stated that access to the Somonav Shipyard (referred to by the Contractor as the “*Maputo Base*”) was procured by MAM eighteen months later than planned.³¹⁷

Kroll has not been provided with any detailed specifications or associated costs for upgrading the Somonav Shipyard.

Kroll was provided with multiple progress reports for the MAM Project by the Contractor - these are summarised at Section 6.6.

6.4.6.5 Intellectual property licence and technology transfer

An email from Person J to Person A, dated 23 March 2017, states that all documents related to the intellectual property for MAM was delivered to the EMATUM offices in Maputo in September 2014, and that the documents weighed 788kg.³¹⁸

Kroll has asked MAM, via Person A, and the Contractor, via its legal representatives, to provide further details about the intellectual property. No further information has been provided to date, save for the information contained in the Original MAM Supply Contract and Amended MAM Supply Contract.

The Amended MAM Supply Contract stated that the Contractor granted MAM a non-exclusive, non-transferable and royalty free licence to use intellectual property to assemble DV15 Interceptor Vessels, HSI32 Interceptor vessels and WP18 Interceptor vessels. Annex 4 and Annex 5 of the

³¹⁶ Document Reference: 2013-08-01 - Transfer Maputo Port

³¹⁷ Document Reference: 2017-02-21 - Prinvest Presentation.

³¹⁸ Document Reference: 2017-03-23 - IP transfers to EMATUM & MAM.

Amended MAM Supply Contract provided specifications for the HSI32 Interceptor vessels and WP18 Interceptor vessels.

The Amended MAM Supply Contract also stated that the associated technology transfer would be provided to MAM at no additional cost, enabling MAM to have the capability to assemble, but not construct, the vessels at its own expense.

The document stated that the technology transfer would include any necessary technical data packages, ship drawings, part lists, industrialization files, fabrication orders, material and equipment identification, inspection and trials procedures, and that the transfer would be supported by a technical assistance team comprising a program manager and specialists as and when required within a period of twenty-four months from 1 June 2015.

Kroll has not been provided with any details of the value apportioned to the intellectual property licence or technology transfer. At the time of reporting, it appears that MAM does not have the facilities or appropriately experienced personnel to assemble any of the vessels envisaged under the license.

6.4.7 Customer and Contractor's contractual obligations

The Amended MAM Supply Contract stated that the ability of the Contractor to perform its obligations *"...is dependent on the Contractor [...] having unfettered access and control over the Sites and appropriate and timely support and co-operation of the managers, operators or inhabitants of the Sites and / or the Bases employees (in number and in quality) and representatives, managers and officers of the Customer and / or of the Mozambican government / Navy and the availability of suitable employees and trainees (in number and in quality)."*³¹⁹

According to the Amended MAM Supply Contract, MAM would have to:

- í Make the sites available to the Contractor with required utility connections;
- í Ensure that there would be a number of skilled individuals to receive training and undertake the maintenance activities at the bases;
- í Obtain fuel and spare parts supplies for the Government Vessels;
- í Ensure that lands are of sufficient quality for the installation of the base equipment; and,
- í Undertake all dredging works and any works indicated as its responsibility.

The Amended MAM Supply Contract stated that the failure to meet these terms would result in delays to the execution of the project or in works being uncompleted. Emails enclosed in the

³¹⁹ Document Reference: Document Reference: 2014-05-01 - Supply Contract - Prinvest Investments (page 9).

correspondence files provided by the Contractor to Kroll suggest that MAM has not fulfilled the required contractual obligations (further details are provided at Section 6.6).

6.5 Company Operations

6.5.1 Key findings

6.5.1.1 The MAM Business Plan

The MAM Business Plan (undated) identifies three key revenue sources: 1) maintenance of government owned vessels, 2) construction of vessels per transfer of technology and 3) commercial and offshore oil and gas servicing. The MAM Business Plan estimated revenues to be USD 63.65 million at the end of Year 1, and that available cash, after loan interest of USD 48.6 million, would be USD 15.9 million.³²⁰ The MAM Business plan sets out that after the MAM Loan Agreement had been paid in full, the *“annual free cash generated is estimated at \$240 million each year.”*

MAM, to date, has not generated any operational revenue, with the exception of approximately USD 25,000 in 2017 in respect of leasing the *African Storm*. Based on the correspondence files reviewed the deal was arranged by the Contractor - no further details have been provided.³²¹

Kroll's review of the MAM Business Plan raises three key issues regarding revenue generation.

First, the MAM Project was dependent on the successful implementation on the ProIndicus Project and the EMATUM Project to generate the revenues from the maintenance of government owned vessels. ProIndicus and EMATUM have not generated operational revenues since incorporation (save for limited revenues from fishing for EMATUM), and as a result neither company has been able to service its debt obligations. Therefore, the revenue projections for MAM as they relate to the maintenance of government owned vessels are unachievable. Further, the preamble to the Original MAM Supply Contract stated *“The Government Vessels require regular maintenance and servicing to remain operational and to meet the financial business plans of each of ProIndicus and EMATUM.”*

Second, the revenue estimates for the *“Construction of Vessels per the Transfer of Technology”* appear to be optimistic. The MAM Business Plan states that revenue from this source would increase from USD 25.2 million in Year 1 to USD 422.1 million by Year 4 (and at the same rates onwards to Year 8). The MAM Business Plan does not provide any further information on how this revenue project was calculated. The MAM Business Plan makes no reference to any potential

³²⁰ Document Reference: Undated - MAM Project of Construction of Shipyard and Coastal Maintenance Bases.

³²¹ Document Reference: 2017-02-17 - PISB Emails - African Storm Revenue.

customers who would be willing to purchase vessels from Mozambique, a country with limited experience in the construction of vessels.

Third, the revenue estimates for "*Commercial and Offshore Oil and Gas Servicing*" were dependent, indirectly, on the success of the ProIndicus Project.

The MAM Business Plan did not reference any sources for the revenue projections. The document appears to have been drafted in part by the Contractor, and no evidence has been provided to Kroll to indicate that the MAM Business Plan was subject to an independent review.

6.5.1.2 Cash flow problems

An email dated 2 December 2015 between Person AL, on behalf of MAM, and Person AM, on behalf of the Contractor, discusses that MAM "...is currently with liquidity problems, and that work cannot be delayed so as not compromising [sic] the project."³²² This email, together with Kroll's summary of the correspondence files provided by the Contractor (refer to Section 6.6), demonstrate that MAM had insufficient funds to meet day-to-day business expenditure.

6.5.1.3 Unreliable accounting data

Kroll was provided with incomplete accounting data from MAM management, and as such, the information is not considered as a reliable basis for considering the financial position of the company. For example, the three subsidiaries discussed at Section 6.2.4, VIPAS, MS Maputo and PS Pemba, are not included in the accounting records of MAM.

6.5.2 Summary of income and expenses

Kroll was informed that MAM engaged Ernst & Young to complete statutory audits for the financial years ending 31 December 2014 and 31 December 2015. Ernst & Young informed Kroll that it had not been possible to complete the audit work due to a lack of available information from MAM. Kroll, therefore, cannot assess audited financial statements for MAM.

Kroll was provided with trial balance information for MAM for the period April 2014 to October 2016. A review of trial balance data shows that MAM has not generated any significant income, and that the loan proceeds have not been converted into tangible assets.

Furthermore, the trial balance contains numerous duplicate entries for assets and liabilities. Kroll has therefore not been able to gain a full understanding of the financial position of the company from incorporation in April 2014 to the present date.

The "profit" recorded in the trial balance relates to realised foreign exchange movements, and the "losses" as unrealised foreign exchange movements.

³²² Document Reference: 2015-12-02 - PISB Emails - MAM liquidity issues

Kroll's review of the balance sheet for the same period shows that only limited loan proceeds received have been utilised to purchase tangible assets. On 31 December 2014, MAM had total loan liabilities of USD 539 million, marked as VTB Capital in the trial balance. As at October 2016, the total loan liabilities balance had reduced to MZN 20.1 billion (USD 261.7 million).

MAM's accounting records do not include any recognition of intellectual property assets, and the three MAM subsidiaries incorporated in 2016, VIPAS, MS Maputo and PS Pemba, are not referenced in the accounting records.

6.5.3 Payments from Prinvest Group companies to MAM

On 2 July 2014, a transfer of USD 999,967 was received into MAM's BIM Mozambique account from a First Gulf Bank account in the United Arab Emirates, held in the name of Logistics Intl Sal (Offshore) AUH, the same entity which transferred funds to EMATUM in 2013 (please refer to Section 5.7.5. The reason for this payment is unknown and Kroll has not been provided with any evidence of an agreement between the Contractor and MAM to support this payment.

6.5.4 Analysis of company bank statements

Kroll has completed a review of all available company bank statements for MAM. The bank statements MAM provided to Kroll were incomplete with a number of time-periods missing.

To enable a complete analysis, Kroll obtained and reviewed bank statements provided by the Bank of Mozambique for all disclosed MAM accounts (which were sourced directly from the relevant local Mozambique banks). The key observations from Kroll's analysis of the bank statements are outlined below.

The bank account information provided shows that MAM holds the following accounts:

Table 54 | Summary of MAM bank accounts

Bank	Account Number	Account Type	Account opening date	Statement balance as at 13/01/2017
BIM	[Redacted]	Corporate	09/05/2014	MZN 253,613
	[Redacted]	Corporate	14/05/2014	USD 5,517
	[Redacted]	Corporate	15/09/2014	MZN 12,449,924

6.5.4.1 Person AN bank account

The MAM trial balance includes details of a BCI Mozambique account held in the name of an individual, Person AN. According to MAM, this is a bank account held by a MAM employee in

Pemba. A monthly allowance for operating expenses relating to the MAM Project is paid to this account and expense forms for supplier payments are processed for any expenses paid.³²³

6.5.4.2 MS Maputo Shipyard bank account

An email dated 15 December 2016 from the Contractor to Person A stated that under the Amended MAM Supply Contract, the Contractor was required to fund employment costs for staff who were employed by MAM to complete work under the contract.

The email sets out the terms of this arrangement and stated that due to the Contractor not having a local Mozambique bank account, funds were to be paid to and distributed from a MAM BIM Mozambique account held by MS Maputo.³²⁴ As indicated in Section 6.2.4, MS Maputo is a Mozambican entity incorporated on 22 October 2016. It is owned by MAM (99%) and GIPS (1%). Kroll has not been provided with any further details of the relationship between MAM and MS Maputo Shipyard, and this bank account is not recorded in the accounting records of MAM.

Kroll's analysis of information provided by the local Mozambique banks shows that between 30 December 2016 and 4 April 2017, the BIM Mozambique account of MS Maputo received four payments totalling USD 186,000 from accounts held by Prinvest Investments and Logistics International Investments.

6.5.4.3 Analysis of funds received by MAM

Table 55 summarises the total payments made into the bank accounts owned by MAM between 2 July 2014 and 13 January 2017.

Table 55 | Summary of payments into MAM bank accounts

Ref.	Receipt Type	Total Transfers (USD)
1	Receipts from unknown sources selected for further analysis	2,932,892
2	Receipts from Prinvest	999,967
3	Receipts from ProIndicus	11,000
4	Receipts from unknown sources not selected for further analysis	70,327
Total		4,014,186

³²³ Document Reference: 2017-04-04 - Solicitação - Auditoria Independente.

³²⁴ Document Reference: 2016-12-19 - MAM & PISB Emails - MS Maputo bank account.

Reference 1 relates to two payments totalling USD 2.9 million to a MAM MZN bank account at BIM Mozambique.³²⁵ On 29 April 2015, a payment for MZN 31,572,156 (USD 893,492), followed by a further payment of MZN 99,000,000 (USD 2 million) were made from a BNI Mozambique bank account.^{326/327} Kroll was informed by BIM Mozambique that there is no further information available about the origin or reason for these payments.

Reference 2 relates to a transfer on 2 July 2014 of USD 999,967 that was received into a MAM USD bank account at BIM Mozambique from a First Gulf Bank account in the United Arab Emirates held in the name of Logistics Intl Sal (Offshore) AUH.

Reference 3 relates to funding from ProIndicus. MAM received a transfer of MZN 500,000 (USD 11,000) on 26 January 2016.³²⁸ It appears that this may have been a return of funds from ProIndicus, as MAM had, five months prior, sent MZN 500,000 to ProIndicus on 25 August 2015.

Reference 4 highlights receipts not selected by Kroll for further analysis totalling USD 70,327. Kroll has not reviewed these transactions for the purposes of the Independent Audit (refer to Section 2.3).

6.5.4.4 Analysis of payments made by MAM

Table 56 summarises the total payments made from the bank accounts owned by MAM between 2 July 2014 and 13 January 2017.

Table 56 | Summary of payments from MAM bank accounts

Ref.	Debit Type	Total Transfers (USD)
1	Payments to [Redacted]	577,600
2	Payments of Salaries	520,069
3	Payments to Individuals	419,701
4	Payments for 'Rendas e alugueres' ("Incomes and rents")	78,535
5	Payments to ProIndicus	12,350
6	Payments from unknown sources not selected for further analysis	1,505,836
Total		3,114,091

³²⁵ Account Reference: BIM-MZN-[Redacted].

³²⁶ Account Reference: BNI [Redacted].

³²⁷ Document Reference: 2017-04-10 - Solicitação de Esclarecimentos.

³²⁸ Account Reference: BIM-MZN-[Redacted].

Reference 1 details payments to [Redacted], a Maputo-based company that provides a wide range of services in the following areas: "engineering, architecture, environment, economy and management, real estate, marketing, agriculture, mining resources, and others."³²⁹

These transactions include a payment of MZN 20 million (USD 428,000) on 8 January 2016.³³⁰ The underlying reason for this payment, and details of any services provided, could not be ascertained from the documentation provided.

Reference 2 relates to payments that appear, based on the transaction descriptions, to be in respect of salaries, totalling USD 520,069. The recipients of these salary payments are not known. These payments were all made from the same BIM Mozambique account;³³¹ this bank account is not the same account used to make payments to the named individuals as detailed in Reference 3 below.

Reference 3 comprises a number of payments made from bank accounts to individuals totalling USD 419,701.

A number of payments were made from MAM's bank accounts to seven individuals, including Person A. These payments were made from one of MAM's MZN bank account and took place between 5 August 2014 and June 2015. Following this, based on analysis of the payment amounts, it appears that payments continued to these individuals but the names were substituted by the use of numbered references in the payment description. As this cannot be confirmed, these amounts have not been included in this analysis above.³³²

On 21 August 2014, three cheque payments of USD 10,000 were made to Person AO. No other payments to him/her were identified based on transaction descriptions.³³³ The reason for these three same day payments could not be determined from the documentation provided, although Person AO does appear in the List of Suppliers provided by MAM.³³⁴

Table 57, below, summarises these payments.

Table 57 | Breakdown of payments to named individuals

Individual	Total Transfers (USD)
[Redacted]	119,613
[Redacted]	104,011

³²⁹ Document Reference: 2014-08-26 - Boletim da República III Serie Número 69 - [Redacted].

³³⁰ Account Reference: BIM-MZN-[Redacted].

³³¹ Account Reference: MAM BIM-MZN-[Redacted].

³³² Account Reference: MAM BIM-MZN-[Redacted].

³³³ Document Reference: 2014-08-01 - BIM Cheque to Person AO - USD 10 million.

³³⁴ Document Reference: Undated - MAM - List of suppliers and clients.

[Redacted]	96,087
[Redacted]	48,227
[Redacted]	30,000
[Redacted]	11,922
[Redacted]	9,842
Total	419,702

Reference 4 details thirteen payments made between August 2015 and August 2016, totalling approximately USD 78,535. Analysis of the ledger accounts show that these amounts were recorded with the transaction description "Rendas e alugueres", which translates as "Incomes and rents." The recipient of these funds and the exact purpose is not provided in the detail of the general ledger.

Reference 5 relates to payments to ProIndicus for USD 12,350.

Reference 6 highlights payments not selected by Kroll for further analysis totalling USD 1.5 million. Kroll has not reviewed these transactions for the purposes of the Independent Audit.

6.6 Project management issues

6.6.1 Key findings

The Contractor supplied Kroll with seven folders of emails covering the period June 2014 to February 2017 along with three other folders containing work reports, status updates and other correspondence related to MAM. Kroll did not forensically gather these files and cannot confirm the accuracy or completeness of this material.

These documents detail issues with the delivery of the assets and services under the MAM contract, primarily due to the failure of MAM to fulfil its obligations, and how these delays impacted the ability of MAM to become operational and to generate revenue. The delays appear to have begun almost immediately upon signing of the contract and to have continued throughout the course of the Mozambique Project. Further, key project milestones appear to have been missed due to MAM's continuing failure to fulfil its obligations.

The documents also show that the Contractor was in regular communication via email, the instant messaging service WhatsApp and calls to Person A to inform him/her of issues and pending written notifications. The documents indicate that Person A frequently did not acknowledge these

communications or failed to respond in a timely manner to issues which were negatively effecting MAM's.³³⁵

The contract period for the Contractor's provision of services was due to expire on 31 May 2017. Based on Kroll's site visits, review of relevant documents and information provided by the Contractor, it is extremely unlikely that MAM will be in a position to operate as planned by 31 May 2017, or at any time in the near future.

The Contractor has stated that they believe MAM does not have sufficient resources to manage the project or to liaise with the Contractor on routine project issues.³³⁶

Emails provided to Kroll by the Contractor also indicate that due to the failure to properly implement the MAM shipyards project, routine maintenance of the ProIndicus and EMATUM vessels could not be performed and the assets were degrading as a result.³³⁷

Other documentation and correspondence provided to Kroll indicates that although MAM's Business Plan included servicing the vessels owned by ProIndicus and EMATUM, the company had not entered into any formal arrangements, contracts or framework agreements with the two companies.³³⁸ Further, emails indicate that in February 2016, EMATUM was seeking to procure maintenance and repair services from another supplier, even though MAM was established for this purpose.³³⁹

Further emails show that MAM failed to exploit opportunities to secure contracts for maintenance services for an [Redacted] offshore platform in Mozambique, despite being a key reason for the company's incorporation, and was reliant on the Contractor to provide advice, beyond the scope of the contract, on how to operate the business and make it commercially viable.³⁴⁰

6.6.2 Performance issues - Somonav Shipyard

The Contractor has stated that the access and control of the Maputo Base (Somonav Shipyard) was delayed by eighteen months and that the site is still not operational due to MAM not completing the following responsibilities that would allow necessary upgrade works to occur:

- Obtaining valid working visas for personnel;

³³⁵ Document Reference: 2016-01-29 - PISB Email - Somonav, & 2015-10-27 - PISB Email - Pemba Naval School, & 2017-01-01 - PISB Emails - PEMBA NAVAL SCHOOL COURSES.

³³⁶ Document Reference: 2015-12-15 - PISB Email - Pontoon mooring permits.

³³⁷ Document Reference: 2016-03-03 - Person AM Emails - Issues with MAM Service of ProIndicus vessels & 2016-07-11 - PISB Email - MAM to ProIndicus services.

³³⁸ Document Reference: 2016-03-03 - PISB Emails - MAM Service of ProIndicus vessels & 2016-07-11 - PISB Email - MAM to ProIndicus services.

³³⁹ Document Reference: 2016-02-01 - PISB Email - Maintenance of EMATUM fishing vessels.

³⁴⁰ Document Reference: 2016-08-04 - PISB Email - MAM business opportunity & 2016-02-12 - PISB Email - MAM Commercialisation & 2015-10-27 - PISB Email - Need an urgent meeting today if you want to pursue this.

- í Procuring the release of project equipment being held by Customs for non-payment of customs fees;
- í Dredging of Maputo Bay;
- í Undertaking removal of wrecks and repairs to sea walls; and,
- í Obtaining necessary insurance.

On 17 December 2015, the Contractor advised MAM in a letter, addressed to Person A, that pursuant to Section B of the Amended Supply Contract, MAM had failed to fulfil its obligations under the contract with regard to access to the Somonav Shipyard.

Specifically, the Contractor stated that they had agreed that its Contractor team would arrive in Mozambique to work on the Somonav Shipyard on 12 October 2015 and complete work by 19 October 2015. The letter stated that the team arrived on 12 October 2015, however MAM had not taken any "...effective steps to procure access, control and vacant possession of Somonav Shipyard" despite repeated requests and assurances to the Contractor.³⁴¹

The letter further states that as per an email to Person A, dated 30 October 2015,³⁴² the lack of access and control of the Somonav Shipyard prevented the company from fulfilling its obligations under the contract to bring the shipyard into service and to provide maintenance and ship assembly services.

The letter stated that MAM had until 27 February 2016, being 120 days from the email notification on 30 October 2015, to fulfil its obligations with regard to the Somonav Shipyard, or the Contractor's contractual obligations would cease.³⁴³ On 24 February 2016, the Contractor granted an initial grace period of 14 days to MAM to meet its obligations in relation to the Somonav Shipyard. Between 24 February 2016 and 25 November 2016, a further fifteen grace periods were granted to MAM to allow them time to fulfil their obligations with regard to the Somonav Shipyard.

According to the sixteenth grace period notice dated 25 November 2016, MAM had until 17 December 2016 to provide "...access, control and vacant possession of Somonav Shipyard" in order to allow the Contractor to fulfil their obligations under the contract.³⁴⁴ The notice further stated that the contract envisaged a twenty-four month period, expiring 31 May 2017, to establish a "self-sustaining site" and it was extremely unlikely that there would be sufficient time available to fully train MAM personnel for a site handover in June 2017.³⁴⁵

³⁴¹ Document Reference: Contract Grace Letters - All.

³⁴² Document Reference: 2015-10-30 - PISB Email - Somonav Shipyard.

³⁴³ Document Reference: Contract Grace Letters - All.

³⁴⁴ Document Reference: Contract Grace Letters - All.

³⁴⁵ Document Reference: Contract Grace Letters - All.

In addition to these grace period letters, Kroll was supplied with a large quantity of emails and other correspondence from the Contractor's employees to Person A and other MAM representatives, setting out events causing delays with the Somonav Shipyard project.³⁴⁶ These emails and correspondence, dated between 2015 and 2017, set out a number of ongoing issues including:

- í Access to the site by MAM and the Contractor staff;
- í Security at the site;
- í Issues with locally engaged staff;
- í Failures by MAM management to secure the release of goods held at Customs; and,
- í Failures of Person A to respond to communications with the Contractor.

6.6.3 Performance issues - African Storm

The *African Storm* was to be made available to MAM, and, according to emails, arrived in Mozambican waters on or about 17 February 2015. It arrived with a team on board ready to provide maintenance services pursuant to the Original and/or Amended MAM Supply Contract.³⁴⁷ Emails between the Contractor's representatives and Person A, as well as other MAM representatives, indicate that the *African Storm* was unable to provide maintenance services to Government Vessels as envisaged under the contract. This was due to MAM's request for the vessel to be used to store four DV15 Interceptor vessels, owned by ProIndicus, due to a lack of mooring facilities, as well as other equipment for the project sites.

Further emails and correspondence indicate that in April 2015, the *African Storm* had been refused entry to an unspecified port due to failure by MAM to pay port fees and that the vessel was running out of fresh water. The email stated that due to the growing threat to the Contractor's employees, the Contractor would cover the fees and associated re-provisioning costs at its own expense.³⁴⁸

The transfer of title for the *African Storm* was originally scheduled to take place on 17 February 2017, however this was delayed until 31 May 2017. In an email from the Contractor to Person A dated 10 February 2017, the Contractor made the suggestion to delay the handover to allow MAM time to negotiate arrangements to commercialise the vessel once the Contractor's service period expired at the end of May. In the email, the Contractor stated that they would continue to cover all costs for the vessel until this date. Person A responded to this email on 16 February 2017 and a memorandum of agreement was signed the same day to amend the title handover date until 31 May 2017.³⁴⁹

³⁴⁶ Document Reference: Contract Grace Letters - All.

³⁴⁷ Document Reference: 2015-11-03 - PISB Email - African Storm & 2015-11-19 - PISB Email - African Storm.

³⁴⁸ Document Reference: 2015-04-23 - PISB - African Storm.

³⁴⁹ Document Reference: 2017-02-17 - PISB Email - African Storm Transfer of Title.

6.6.4 Performance issues - Provision of suitable trainees

As detailed in Section 6.4.3, the Amended MAM Supply Contract included training to be provided by the Contractor, enabling Mozambican nationals to undertake basic maintenance activities at the bases, and construction activities at the Pemba Facility, as well as to operate as crew on the Government Vessels.

The Contractor has stated that MAM has consistently failed to supply personnel for scheduled training sessions to operate the Government Vessels and for personnel to undertake maintenance and servicing training. The delivery of any training was subject to MAM providing suitability qualified candidates, and although the Contractor had teams in Mozambique to deliver this training, it is claimed that insufficient or inadequate candidates were provided. For example, of the twelve basic training courses which were to be delivered at Pemba Naval School, MAM provided candidates for only three of the twelve courses. Further, candidates provided for training often did not meet the minimum entry-level requirements, including lacking in any prior training or experience, English language skills or the ability to swim.³⁵⁰

An email dated 15 February 2016 from the Contractor's representatives to Person A stated that MAM was expected to provide 100 suitable personnel to undertake training courses. This, according to the Contractor, had not occurred because of MAM's failure to provide:³⁵¹

- í A second site to undertake the advanced training course;
- í Access and control of Pemba Naval school until September 2016;
- í Agreed necessary repair works to the facilities at Pemba Naval school in a timely fashion; and,
- í Appropriate and skilled individuals to receive training.

Between this date and February 2017, email correspondence indicates that MAM had failed to provide suitable candidates for training, including large numbers of candidates that could not meet minimum requirements such as the ability to swim, or to provide suitable facilities at the Pemba Naval School.

6.6.5 Performance issues - Visas

Emails provided by the Contractor show that between January 2015 and March 2017, the Contractor encountered significant issues with MAM repeatedly failing to obtain the required work visas for Contractor employees, as required under the Original and/or Amended MAM Supply Contract.³⁵² These emails indicate that the failures caused delays to the project and increased costs

³⁵⁰ Document Reference: 2016-03-24 - PISB Email - 2016-03-24 MAM Training Program Update.

³⁵¹ Document Reference: 2016-02-15 - PISB Email - Training Program.

³⁵² Document Reference: 2015-02-13 - PISB Email - Mozambique Visa Proposed draft letter & 2017-03-22 - PISB Email - MAM and Visa Process.

to the Contractor.³⁵³ The emails show that these issues were clearly explained to Person A on a number of occasions and that he/she was aware that a failure to obtain the correct visas would result in the Contractor evacuating their staff from Mozambique and the issues that would arise for the project as a consequence.³⁵⁴

6.6.6 Other issues

On 23 January 2015, in response to an email about the *African Storm*, Person A sent an email to the Contractor representatives stating that "*Africa storm is a MAM issue. So don't involve ProIndicus staff on this because they are the ones blocking it so far and leaking the info to competitors with political motivations.*"³⁵⁵ Person A further stated that this was the reason "...we don't have things rolling as we initially intended." The email goes on to detail those employees of ProIndicus and MAM that could be involved in communications, noting that '[Redacted]' was not to be involved "...due to his/her determination to divert our business to competitors who have already taken moves and we are now controlling the damages."³⁵⁶ The reason for the accusations raised by Person A in this email are unknown.

³⁵³ Document Reference: 2015-10-27 - PISB Email - Pemba Naval School & 2017-01-19 - PISB Email - SA VISAS IN PEMBA.

³⁵⁴ Document Reference: 2015-11-26 - PISB Email - Emalling 2015-11-26 Ltr to MAM - re Visas & 2017-03-09 - PISB Memo - Visa Issues.

³⁵⁵ Document Reference: 2015-01-27 - PISB Email - African Storm.

³⁵⁶ Document Reference: 2015-01-27 - PISB Email - African Storm.

7. Palomar and Person B

7.1 Summary of findings

Palomar, a Privinvest Group company, has had an expanding role in the Mozambique Project. Palomar Group's corporate website describes itself as providing financial advisory and asset management services.³⁵⁷

Palomar had a role in: arranging the MAM loan agreement alongside VTB Capital; contracting with the Mozambique Companies and the Ministry of Finance to restructure the ProIndicus and EMATUM loan agreement (and receiving fees for doing so); and (for ProIndicus) taking responsibility for generating revenues and contracting to receive a proportion of any future revenues.

Person B is a Role B and advised the Ministry of Finance and the Mozambique Companies on behalf of Palomar from 2013 onwards. Person B was previously an [Redacted] and was involved in negotiating the initial loan agreements with ProIndicus.

Palomar received USD 7.9 million from the Ministry of Finance for providing financial advice in relation to the ProIndicus loan agreement and was contracted to receive a total of USD 30.5 million. The payments made to Palomar by the Ministry of Finance relate to "Running Fees" for Palomar's involvement in the restructuring of ProIndicus' loans in December 2014. Kroll has not seen any documentation to date which explains the basis for the Running Fees to be paid to Palomar, or why its fees were larger than similar fees due to Credit Suisse or VTB Capital.

Furthermore, an agreement signed between Palomar and ProIndicus in 2013 made Palomar solely responsible for generating revenues for ProIndicus. The agreement included a clause whereby Palomar was to receive a proportion of the future revenues of ProIndicus for a ten year period. The financial records of ProIndicus show that no revenues have been generated by Palomar. It would appear from the terms of the agreement that when ProIndicus starts generating revenues, Palomar will be entitled to a proportion of this revenue.³⁵⁸

For the MAM loan, Palomar was involved in arranging the loan agreement with VTB Capital. Documentation suggests that Palomar did not receive any fees for its involvement in arranging the loan agreement. The reason for and details of, this arrangement are unknown at the date of this report based on the information available.

³⁵⁷ Source: <http://www.plmr.com/>

³⁵⁸ Note: Following publication of the Summary Report, Palomar provided Kroll with a letter dated 4 December 2014 that sets out their role as financial advisors to ProIndicus for the purposes of refinancing the facility agreement. The letter references that fees payable would be set out in subsequent "Fee Letters".

Finally, a loan interest instalment of USD 40.8 million was paid to VTB Capital from a bank account in the name of Palomar. The only evidence provided in support of this payment is an undated letter from MAM to Palomar in which Person A references an agreement between MAM and the Contractor to make this payment. Kroll was not provided with a copy of this agreement by MAM.

On 18 October 2016, Palomar Capital Advisors Ltd was placed into liquidation in Switzerland, and on 17 February 2017, Palomar assigned its rights to receive the ProIndicus' Running Fees to an entity called VR Global Partners, L.P., a company that appears to be registered in the Cayman Islands and part of the VR Global Capital Group.

Also involved in providing financial advisory services relating to the restructuring of the loans was an entity called Legacy Advisors Limited (hereafter "Legacy Advisors"). The documentation reviewed shows that a representative at Legacy Advisors was Person K, who was at the time, and continues to be, a Role K in Mozambique.

The basis on which Person K provided financial advice through Legacy Advisors at the same time as Ernst & Young provided external audit services to the Mozambique Companies is not known. Kroll requested from MAM (but has not received) documentation to confirm the fees paid to Legacy Advisors for the financial advice it provided. Kroll requested further information in relation to Legacy Advisors from the Ministry of Finance, however it was stated that no information was held by the Ministry of Finance and as the agreement was signed between this entity and MAM, and all information would be held by MAM.

7.2 Person B: Role in Credit Suisse and Palomar

As detailed in Section 4.3, Person B initially appears as a signatory for Credit Suisse on financing documents relating to the indicative terms and conditions for a loan to ProIndicus in January 2013. The last known involvement of Person B on behalf of Credit Suisse was in relation to the Amended ProIndicus Loan Agreement on 14 June 2013. A media report indicates that Person B left Credit Suisse in June 2013, however the exact date of his/her departure is unknown.³⁵⁹

Swiss corporate records show that Person B was appointed as a Role B in October 2013.³⁶⁰ As indicated in the sections below, Person B attended meetings for Palomar with the Ministry of Finance, representatives for the Mozambique Companies and BNI Mozambique, a state owned bank, to discuss restructuring the loans to the Mozambique Companies. Person B also signed the

³⁵⁹ Source: <http://zikamar.com/revealed-credit-suisse-banker-now-pay-EMATUM-ship-builder/>

³⁶⁰ Source: Palomar Capital Advisors Ltd. Swiss corporate registry extract available at <http://www.shab.ch/shabforms/servelet/Search?EID=7&DOCID=1164579>

Palomar Running Fee Letter for the restructure of the Final ProIndicus Loan Agreement in December 2014.³⁶¹

A media article published in May 2016 contains a statement from the Prinvest Group stating that Palomar is part of the Prinvest Group and that Person B is a shareholder of Palomar, although the percentage of shares owned by Person B is not specified.³⁶² According to the statement, "*Palomar provides its considerable skills and experience for the wider Prinvest group and also third parties.*"

³⁶³

7.3 Palomar Role: ProIndicus

7.3.1 Background to Palomar providing financial advice to ProIndicus

On 8 May 2013, Abu Dhabi Mar (i.e., the Contractor) sent ProIndicus a "*Heads of Terms for advising and implementing the financial infrastructure required*" (the "Heads of Terms") for the Exclusive Economic Zone project in Mozambique. The cover letter stated that Abu Dhabi Mar had "*...vast experience advising clients across the globe in relation to financial engineering, cash management and the international debt and capital markets.*"³⁶⁴

The cover letter referenced a meeting which occurred on 25 April 2013 in Maputo between representatives from ProIndicus, Prinvest Shipbuilding and Credit Suisse. The letter stated that following this meeting, Credit Suisse requested that Abu Dhabi Mar provide assistance to ProIndicus to "*...ensure the financial success of the EEZ project*" and that Abu Dhabi Mar understood that Credit Suisse "*...will insist that ProIndicus demonstrates a viable revenue stream from the Project in accordance with the financial model presented to the bank prior to December 31st 2013.*" This quote is understood to mean that prior to 31 December 2013, ProIndicus would demonstrate a viable revenue stream.

The cover letter sets out the services Abu Dhabi Mar could provide to ProIndicus and stated that the company "*believed*" that it could generate:

- ¶ USD 450 million for the Exclusive Economic Zone Project over the next 5 years; and,
- ¶ Sustainable revenue streams that could exceed USD 100 million per year within the next twenty-four months.

The cover letter sets out the expected sources of these revenues split between transit, security and container streams but did not provide any justification or evidence for the projections.

³⁶¹ Document Reference: 2014-12-17 - Palomar Running Fee Letter

³⁶² Source : <http://zltamar.com/revealed-credit-suisse-banker-now-pay-EMATUM-ship-builder/>

³⁶³ Source: <http://zltamar.com/revealed-credit-suisse-banker-now-pay-EMATUM-ship-builder/>

³⁶⁴ Document Reference: 2013-05-08 - Abu Dhabi Mar Heads of Terms with ProIndicus (page 1).)

Attached to the cover letter was the Heads of Terms for advisory and implementation of the financial structure required for the Exclusive Economic Zone Project.³⁶⁵ The document summarised the main terms and conditions for an agreement between the parties, outlining the services that were to be provided and fees to be paid to Abu Dhabi Mar.

According to Clause 5 of the Heads of Terms, ProIndicus, by signing the agreement, agreed to not enter into any negotiations with third parties in relation to the matter and to terminate any existing negotiations.³⁶⁶ The Heads of Terms were signed on 8 May 2014 by Person P on behalf of ProIndicus and by Person G on behalf of Abu Dhabi Mar.

7.3.2 Financial advisory agreement between ProIndicus and Palomar

7.3.2.1 Palomar agreed services

Also in May 2013, although the date is unspecified in the agreement, ProIndicus agreed to appoint Palomar as financial adviser for the provision of "...*advice and assistance in relation to implementing and administering the financial infrastructure*" for the Mozambique *Exclusive Economic Zone*.³⁶⁷ The terms of the agreement largely mirrored those set out in the Heads of Terms signed between Abu Dhabi Mar and ProIndicus and was signed on behalf of ProIndicus by Person A and Person P.

Kroll has not been provided with any documentation to evidence that ProIndicus was waived from its obligations with Abu Dhabi Mar in relation to the Heads of Terms or to evidence the negotiation between ProIndicus and Palomar in relation to this matter.

Through the agreement, Palomar was authorised to act as ProIndicus' sole and exclusive "...*agent in all respects in relation to the Project and its monetarisation.*" The services to be provided by Palomar comprised of:

- í **Transit Services:** the identification of an international maritime fleet and subsequent negotiation and enforcement of agreements;
- í **Security Services:** the negotiation with offshore gas exploitation and exploration companies for the payment of fees related to marine security for offshore facilities, infrastructure and activities;
- í **Container Services:** the negotiation with Mozambique port authorities to implement container traffic charges for off-loading and on-loading in Mozambique;
- í **Legal Coordination Services:** advice and assistance for legal and legislative matters required for the implementation of the project;

³⁶⁵ Document Reference: 2013-05-08 - Abu Dhabi Mar Heads of Terms with ProIndicus (page 4).)

³⁶⁶ Document Reference: 2013-05-08 - Abu Dhabi Mar Heads of Terms with ProIndicus (page 6).)

³⁶⁷ Document Reference: 2013-05-01 - Palomar Agreement - Financial Adviser (page 1).)

- í **Revenue Collection Services:** the implementation of collection and enforcement infrastructure of all revenues pertaining to the Exclusive Economic Zone; and,
- í **Investment Management Services:** management of revenue pertaining to the Exclusive Economic Zone.

According to Clause 2.2 of the agreement, ProIndicus was not authorised to contract with any third party or undertake by itself any services as or similar to the services to be provided by Palomar.³⁶⁸

The document stated that the agreement period would be for 10 years with an option for a 10 year renewal exercisable by Palomar. The agreement was signed in accordance with the law of England and Wales, with any disputes to be settled under the Rules of Arbitration of the International Chamber of Commerce arbitration in Switzerland.

7.3.2.2 Palomar agreed remuneration for the services

For the provision of the services, Palomar would be paid:

- **Exclusive Economic Zone Revenue Fees:** a sum of 10% of the gross amount received by ProIndicus in relation to the Exclusive Economic Zone project "*...and / or the services performed by Palomar Advisers,*" and,
- í **Income Fees:** a sum of 10% of the net income generated pursuant to investments made using Exclusive Economic Zone revenue in each quarter. These investments were to be made by Palomar.³⁶⁹

The agreement stated that Palomar would open and administer bank accounts on behalf of ProIndicus and that ProIndicus would ensure that all project revenue was paid to those bank accounts. The contract imposed obligations on ProIndicus, including: to provide support in relation to the provision of services; obtaining and maintaining any necessary licenses and consents, and ; to provide confirmation of Palomar's exclusive right to undertake the contract services.³⁷⁰

7.3.2.3 Services provided and fees

Kroll has not seen evidence that services were provided by Palomar to ProIndicus, however e-mails show that Palomar was involved in discussions with Ernst & Young for the preparation of the ProIndicus Financial Statements for 2014.³⁷¹ The e-mails provide limited information and it is not possible to ascertain the reason for Palomar's engagement in this matter.

³⁶⁸ Document Reference: 2013-05-01 - Palomar Agreement - Financial Adviser (page 2).)

³⁶⁹ Note: Following publication of the Summary Report, Palomar provided Kroll with a letter dated 4 December 2014 that sets out their role as financial advisors to ProIndicus for the purposes of refinancing the facility agreement.

³⁷⁰ Note: Following publication of the Summary Report, Palomar provided Kroll with a letter dated 4 December 2014 that purportedly terminated this agreement.

³⁷¹ Document Reference: 2016-04-14 - Emails Palomar & EY.

Kroll was also supplied with correspondence files provided by the Contractor. This correspondence indicates that Person AP of Palomar provided support to ProIndicus with issues arising from the development of the supply contract with the Contractor and with discussions for the signing of agreements with government authorities.^{372/373}

A media report indicates that Person AP is also a [Redacted], however the exact date of his/her departure is unknown. Kroll was not provided with documentation confirming whether any funds were paid to Palomar under this agreement.

7.3.3 ProIndicus facility restructure December 2014 and Running Fees

Palomar is not named in the Amended ProIndicus Loan Agreement signed between ProIndicus and Credit Suisse on 17 December 2014.³⁷⁴ However, as detailed in Section 4.3.5.3, a Running Fee letter dated 17 December 2014 stated that Palomar acted as an arranger alongside Credit Suisse and VTB Capital in relation to the amendment.

On 4 March 2016 the Ministry of Finance made a payment to Palomar of USD 7.9 million for Running Fees under the agreement.

An email from Person AP to Person A on 16 March 2017 stated that Palomar also acted as an advisor to ProIndicus during the restructuring of the financing in December 2014.³⁷⁵

Kroll was provided with a copy of a memorandum prepared by Palomar regarding a meeting with representatives of the Ministry of Finance and BNI Mozambique on 27 August 2015.³⁷⁶ The memorandum indicates that the objective of the meeting was to discuss solutions for the debts owned by the Mozambique Companies. In the document, it is stated that during the meeting Person B from Palomar "*reiterated*" that the ProIndicus debt could not be restructured due to a "*...successful and complicated restructuring arranged by Palomar in December 2014.*"³⁷⁷

7.4 Palomar Role: MAM

7.4.1 Loan Facility Agreement

As detailed in Section 6.3, the MAM Loan Agreement and related government guarantee stated that Palomar acted as an arranger alongside VTB Capital for the facility.³⁷⁸

³⁷² Document Reference: 2014-07-10 - PISB Email - AW RADAR Sites.

³⁷³ Document Reference: 2014-07-24 - PISB Emails - RE ProIndicus - To Do List 24th July 2014.

³⁷⁴ Document Reference: 2014-12-17 - Palomar Running Fee Letter.

³⁷⁵ Document Reference: 2017-03-16 - Person A Email - Fwd Assistance with Kroll's request.

³⁷⁶ Document Reference: 2015-08-27 - Palomar Restructuring Discussion - Memo.

³⁷⁷ Document Reference: 2015-08-27 - Palomar Restructuring Discussion - Memo (page 2).

³⁷⁸ Document Reference: 2014-05-20 - VTB MAM Facility Agreement (EN) & 2014-05-20 - MAM Gov Guarantee.

Clause 13 of the MAM Loan Agreement indicated that MAM should "...pay to the arrangers the fees the amounts and at the times agreed in the Arrangement Fee Letter."³⁷⁹ On 23 May 2014, MAM and VTB Capital signed an Arrangement Fee letter in which MAM agreed to pay VTB Capital an Arrangement Fee of USD 35 million.

According to an e-mail from Person AP to Person A on 16 March 2017, Palomar "...was not remunerated for its role as Arranger under the financing by MAM or VTB."³⁸⁰ It is not known why Palomar performed the role of arranger for the MAM loan facility or why it does not appear to have been compensated for its services. Kroll is not aware of any Arrangement Fee agreement between MAM and Palomar. Banking records show no payment of funds to Palomar.

7.4.2 Palomar payment of loan interest on behalf of MAM

Kroll was provided with an undated letter from MAM to Palomar regarding the settlement of the first interest payment due under the MAM Loan Agreement with VTB Capital.

In the letter, Person A stated that USD 40.8 million was due by MAM to VTB Capital on 26 May 2015 under the loan agreement.³⁸¹ The letter states that it had been agreed between MAM and the Contractor that the first interest payment on the loan would be settled by the Contractor. The letter further states that "...the monies held were placed with Palomar" and the understanding was that Palomar would make the payment on behalf of MAM. According to the letter, by making that payment, Palomar was released from holding any capital or interests related to the loan agreement on behalf of MAM. Kroll has not been provided with documentation to evidence an agreement between MAM and the Contractor pertaining to Palomar making the payment.

A SWIFT message received from VTB Capital confirms that this payment was made on 27 May 2015.³⁸² It is not clear from the message which company made this payment; the free text on the SWIFT message states "MAM by order Palomar Holding."

Kroll was provided with an e-mail from Person AP stating that Palomar was not a party to any agreements in respect of the first MAM interest payment. According to Person AP, the agreement was between MAM and the Contractor.³⁸³ Person AP further stated that the interest reserve amount had been held by the Contractor in one of its relationship banks and, "...for logistical reasons," the Contractor had remitted the interest payment to VTB Capital through Palomar's bank account.

³⁷⁹ Document Reference: 2014-05-20 - VTB MAM Facility Agreement (EN) (page 30).)

³⁸⁰ Document Reference: 2017-03-16 - Person A Email - Fwd Assistance with Kroll's request

³⁸¹ Document Reference: Undated - MAM Letter to Palomar - Request First Interest Payment.

³⁸² Document Reference: 2015-05-27 - SWIFT Payment Record - VTB USD 40.7 million.

³⁸³ Document Reference: 2017-03-16 - Person A Email - Fwd Assistance with Kroll's request.

7.4.3 Palomar appointment as advisor to MAM in 2016

Kroll was provided with a letter from VTB Capital to Palomar³⁸⁴ in connection to the MAM facility.³⁸⁵ The letter is dated 3 May 2016 and stated that Palomar was appointed as financial adviser to MAM in respect to the restructuring of the facility with VTB Capital.

The letter stated that Palomar was to serve as MAM's agent in communications with VTB Capital pertaining to the debt restructuring, including discussions of costs and expenses payable to VTB Capital. The letter is signed by Person AP and was acknowledged by Person A on 12 May 2016.

The letter also indicated that Palomar would be paid by MAM for its services. Kroll has not been provided with documents evidencing that Palomar was paid by MAM.

7.5 Palomar Role: Loan restructuring

7.5.1 Background to Palomar's engagement by the Ministry of Finance

Kroll was provided with documents indicating that Palomar had, or attempted to have, a role as advisor to the Ministry of Finance in the process of restructuring the Mozambique Companies' debts.

According to a memorandum prepared by Palomar, a meeting occurred on 27 August 2015 in the offices of the Ministry of Finance between representatives of the Ministry of Finance, BNI Mozambique and Palomar. The following individuals are listed as attendees:³⁸⁶

- í Person D - Role D;
- í Person AQ - BNI Mozambique;
- í Person AR - BNI Mozambique;
- í Person B - Palomar; and,
- í Person AS - Palomar.

The memorandum records that Person D explained that the purpose of the meeting was to introduce Palomar to the BNI Mozambique team so that Palomar could "...provide its expertise, experience and assistance" to deal with the ProIndicus, EMATUM and MAM restructuring.

The memorandum indicates that BNI Mozambique requested Palomar to advise on the EMATUM restructuring on the basis of a "...gentleman's agreement."³⁸⁷ The proposal seems to have been accepted by Palomar on the basis that the bank would pay for Palomar's "minimum expenses."

³⁸⁴ Note: The Palomar entity is Palomar Consulting LLC.

³⁸⁵ Document Reference: 2016-05-03 - VTB Letter to Palomar - Restructuring Fin Adviser.

³⁸⁶ Document Reference: 2015-08-27 - Palomar Restructuring Discussion - Memo (page 1.)

³⁸⁷ Document Reference: 2015-08-27 - Palomar Restructuring Discussion - Memo (page 2.)

According to the memorandum, BNI Mozambique was looking to be appointed as advisor for the Ministry of Finance for matters related to MAM and that further discussions would follow this appointment. The action steps listed in the memorandum indicate that BNI Mozambique would seek to be appointed as leader of the MAM and ProIndicus restructure and, after that, would appoint Palomar to support that process.³⁸⁸

On 21 October 2015, Person AP sent a letter to Person H, in relation to the government guarantees issued for the loan agreements from the Mozambique Companies.^{389/390} In the letter, Person AP referred to a 12 May 2015 meeting between Palomar and the Role H. Person AP claimed that during that meeting, Palomar had recommended an action plan to the Ministry of Finance in order "...to minimise the risk to the government's budget."³⁹¹ The recommendations included an "...innovative structure, which, for accounting purposes, is not treated as a debt and hence would not contribute to national debt-to-GDP statistics."

In the letter, Person AP claimed that Palomar was appointed as adviser by MAM and ProIndicus and had travelled to Mozambique on several occasions to move forward with the recommended action plan.³⁹² This had included meetings with representatives from BNI Mozambique, the Ministry of Finance and Ernst & Young as the external auditors to MAM and ProIndicus.

Kroll has also been provided with a presentation prepared by Palomar dated 19 February 2016.³⁹³ The presentation summarised Palomar's plan to restructure the EMATUM debt, "de-risk ProIndicus and MAM" business models and create a "Sovereign Wealth Fund." According to the presentation, Palomar would partner with BNI Mozambique to implement its recommendations. It is not clear to which parties the presentation was addressed.

7.5.2 Engagement by the Ministry of Finance in April 2016

A redacted version of a mandate letter dated 8 April 2016 (the "Mandate Letter") sets out the terms and conditions for the appointment of BNI Mozambique, Legacy Advisors and Palomar as financial advisers to the Ministry of Finance.³⁹⁴ According to the Mandate Letter, no other person should be appointed as financial adviser to the Ministry of Finance.

According to the Mandate Letter, the financial advisers would provide services to the Ministry of Finance in connection with:

- "The restructuring of MAM facility;

³⁸⁸ Document Reference: 2015-08-27 - Palomar Restructuring Discussion – Memo (page 3).)

³⁸⁹ Note: In the letter, the following individuals were copied: Person A, from ProIndicus, MAM and EMATUM; Person AR, from BNI; and Person K, from Ernst and Young.

³⁹⁰ Document Reference: 2015-10-21 - Palomar Restructuring Letter to MoF (page 1).)

³⁹¹ Document Reference: 2015-10-21 - Palomar Restructuring Letter to MoF (page 1).)

³⁹² Document Reference: 2015-10-21 - Palomar Restructuring Letter to MoF (page 2).)

³⁹³ Document Reference: 2015-10-21 - Palomar Restructuring Letter to MoF.

³⁹⁴ Document Reference: 2016-04-08 - Mozambique Restructuring Mandate.

- The waiver of the individual lender prepayment right pursuant to Clause 7.2 of ProIndicus facility resulting from Standard & Poor's Ratings Services downgrading the foreign currency rating of the Republic of Mozambique;
- í The restructuring of ProIndicus facility;
- í The increase of the Notes issuance from USD 726,524,000 to USD 850 million; and
- All other financial restructurings, debt, or capital raising of any kind, sale of assets or the business of any of MAM, ProIndicus or EMATUM."

The document also lists the conditions that should be met for the provision of services, such as the support of the Government of Mozambique to the MAM and ProIndicus business models, the obtaining of all relevant approvals and the creation of a maritime authority.

An undated and non-redacted version of the same document indicated, pursuant to the services, that the Ministry of Finance agreed to pay 3% of the following:³⁹⁵

- í The total outstanding amount under the MAM facility after restructuring;
- í The total amount of outstanding commitments under the ProIndicus facility that as of the date of the letter had not waived their prepayment right, indicated in the Mandate Letter as USD 191 million;
- í The total outstanding amount under the ProIndicus facility; and,
- í The amount of USD 850 million related to EMATUM notes.

A "monthly non-refundable retainer" of USD 75,000 was also to be paid in relation to the ProIndicus restructure.

The amounts payable by the Ministry of Finance were to be equally split between BNI Mozambique, Legacy Advisors and Palomar.³⁹⁶ The Ministry of Finance has stated that it does not know the identity of the ultimate beneficial owner of Legacy Advisors.³⁹⁷

The Mandate Letter was signed on behalf of the Ministry of Finance by Person V. Person AP signed on behalf of Palomar and two unnamed parties signed on behalf of Legacy Advisors and BNI Mozambique.³⁹⁸ Person A signed on behalf of MAM. Based on comparison of the signatures, the Mandate Letter is thought to have also been signed by Person M, Person A and Person O on behalf of ProIndicus.

³⁹⁵ Document Reference: 2016-04-08 - Mozambique Restructuring Mandate (page 5.)

³⁹⁶ Document Reference: 2016-04-08 - Mozambique Restructuring Mandate (page 5.)

³⁹⁷ Document Reference: 2017-04-23 - Answer to the Auditors & Re Solicitação de Informações Adicionais.

³⁹⁸ Document Reference: 2016-04-08 - Mozambique Restructuring Mandate (page 5.)

7.5.3 Ministry of Finance attempt to terminate the Mandate Letter

Kroll was provided with copies of termination notices sent on 17 October 2016 by the Ministry of Finance to Palomar, Legacy Advisors and BNI Mozambique.³⁹⁹ In the notices, the Ministry of Finance requested that the advisors terminate the appointment and waive any right in connection with the Mandate Letter.

On 18 October 2016, Palomar sent a letter to the Ministry of Finance stating that there was no legal basis for the termination of the Mandate Letter.⁴⁰⁰ The letter states that this was also indicated verbally to the Ministry's representatives in a meeting on the day before the letter was sent. According to the letter, services under the Mandate Letter had been provided by Palomar since 8 April 2016.

Kroll was not provided with evidence showing that an agreement has been reached between the Ministry of Finance and Palomar for the termination of the Mandate Letter.

According to Person V, the Legacy Advisors mandate was terminated, but the termination letter was not signed by Legacy Advisors.⁴⁰¹

BNI Mozambique agreed to terminate the Mandate Letter as indicated in a termination notice dated 19 October 2016.⁴⁰²

7.5.4 Palomar proposal for Sovereign Wealth Fund

A statement made by the Role AT, Person AT, to the CPI, indicates that Palomar and Credit Suisse proposed, in and around July 2013, the creation of a Mozambique Sovereign Wealth Fund using revenue obtained from the exploitation of natural gas reserves. Palomar proposed that the Government of Mozambique's stakes relating to Areas 1 and 4 of the Rovuma Basin would be transferred to the fund. Palomar would then liaise with the oil and gas companies [Redacted] and [Redacted]. According to Person AT's statement, the Bank of Mozambique prepared an opinion about the proposal indicating that it was "*unfeasible*."

In February 2016, during discussions pertaining to the restructure of the Mozambique Companies' debts, Palomar again proposed the creation of a Sovereign Wealth Fund with revenue from the Rovuma Basin.⁴⁰³ According to Palomar, the fund was expected to raise USD 5 to USD 6 billion in funds through the transfer of Mozambique's resources to an offshore fund.

³⁹⁹ Document Reference: 2016-10-17 - MoF Termination Notice.

⁴⁰⁰ Document Reference: 2016-10-18 - Palomar Response to Republic of Mozambique.

⁴⁰¹ Document Reference: 2017-04-23 - Answer to the Auditors & Re Solicitação de Informações Adicionais.

⁴⁰² Document Reference: 2016-10-19 - BNI Termination Letter.

⁴⁰³ Document Reference: 2016-02-19 - Palomar Mozambique Master Growth Plan.

8. Government Guarantees

8.1 Introduction

Kroll has reviewed the government guarantees that were issued by the Ministry of Finance in relation to the loans entered into by the Mozambique Companies. It is important to note that since Kroll's Independent Audit commenced, a CPI report has been published. The CPI report addressed the government guarantees and made a number of conclusions regarding their legality.

In this report, Kroll focuses on establishing the facts, as far as possible from the information available, in order to set out the process that was followed for authorising government guarantees, to identify any irregularities or concerns regarding the process that was followed and to suggest any improvements to strengthen this process.

8.2 Methodology

Kroll conducted meetings with the following individuals to understand the process for the issuance of government guarantees:

- í Person C, Role C, on 24 November 2016 and 26 January 2017;
- í Person H, Role H, on 23 November 2016 and 26 January 2017; and,
- í Person D, Role D, on 1 December 2016.

Kroll was informed in meetings with Person C and Person H that the process for the Ministry of Finance to assess and issue government guarantees is determined on a case by case basis.

Kroll also reviewed the assessments of the government guarantees that were conducted by the CPI and by the Mozambique Administrative Court.⁴⁰⁴

8.3 Overview of findings

Between February 2013 and December 2014, the Ministry of Finance authorised five separate guarantees totalling USD 2.2 billion for loans entered into or planned to be entered into by the Mozambique Companies. As at 31 December 2014, the value of the five guarantees represented 13% of Mozambique's 2014 Gross Domestic Product.⁴⁰⁵

Since authorising the guarantees, the Mozambique Companies have generated negligible revenues and have been unable to service their debt commitments. Table 58, below, summarises

⁴⁰⁴ Note: In Portuguese, *Tribunal Administrativo*.

⁴⁰⁵ Source: <http://data.worldbank.org/country/mozambique>

the principal and interest payments made by the Ministry of Finance on behalf of the Mozambique Companies totalling USD 257 million.⁴⁰⁶

Table 58 | Summary of principal and interest payments made by Ministry of Finance

Company	Date	Payment Type	Amount (USD)	Total (USD)
ProIndicus	21/03/2016	Principal	24,880,000	
	21/03/2016	Interest	27,903,843	52,783,843
EMATUM	11/09/2015	Principal	76,500,000	
	11/09/2015	Interest	26,796,250	
	11/03/2016	Principal	76,500,000	
	11/03/2016	Interest	24,384,587	204,180,837
MAM				Nil
Total				256,964,680

There does not appear to have been a documented or clearly understood process for issuing government guarantees, and this was further complicated by the fact that the Mozambique Companies were privately owned. Kroll was informed by Person H that companies set up as state owned entities with loans treated as lending to the Government of Mozambique would have been subjected to greater scrutiny by the Ministry of Finance.

Based on the documentation reviewed and conversations held, apart from the first government guarantee which involved three individuals, the guarantees were reviewed and approved by only two government officials: Person C and Person D. There was no involvement of Parliament or the Administrative Court in the process of assessing or approving the government guarantees.

It appears from the documents reviewed and meetings held that the Role E, Person E, and Person A, were both involved in negotiating the approval for the government guarantees. It appears that considerable emphasis was placed on the secrecy of the projects and that they were described as a matter of national security. The documents that formed the basis of the government guarantees were therefore subjected to minimal scrutiny rather than being submitted for parliamentary approval. In addition, the individuals approving the government guarantees were warned by those requesting the government guarantees to not involve anyone else in the approval process.

No documentation was provided by the Ministry of Finance to show that any assessment of the guarantee request took place prior to the Role C approving two of the three guarantees, with a total

⁴⁰⁶ Source: <http://data.worldbank.org/country/mozambique>

value of USD 528 million, provided to ProIndicus. Likewise, there is no evidence that any Ministry of Finance assessment was undertaken prior to a USD 850 million guarantee for the EMATUM loan being approved.

A letter dated 13 November 2014 from Person E, on behalf of SISE, to the Ministry of Finance confirmed that, despite borrowing USD 622 million, ProIndicus had not commenced operations at that point in time and therefore was not generating any revenues to pay the amounts due under the loan agreements. In the letter, Person E requested an additional government guarantee for USD 278 million.

Person E's request indicated that the additional loan funds were intended to be used to pay down the prior loan exposure rather than for additional services under the project, and the explanation he/she provided was that this would avoid the government guarantees being triggered. The letter stated that the USD 278 million guarantee was to be issued in favour of Palomar, indicating that the company was the proposed lender. No documents have been provided to confirm that this was the case. The government guarantee was signed by Person C but it appears the underlying loan facility has not been utilised.

Furthermore, Kroll's review has identified potential concerns regarding the independence of Person D. He/she reviewed and approved the government guarantee applications in his/her role as Role D. He/she also received approximately USD 95,000 from EMATUM, for his/her role as a [Redacted] during the period of August 2013 to July 2014. No documentation has been identified that suggests any wrongdoing, however it seems unusual for a government official to be receiving funds from a private company at the same time as approving government guarantees to that company and other closely linked companies. It is also of concern that the official approval documentation for the EMATUM government guarantee appears to be missing from the file and cannot be located.

Finally, a document prepared by the Ministry of Finance suggests that Credit Suisse imposed a number of "*preceding conditions*" that needed to be met before it would approve the loan financing, including the requirement to have the loan agreement approved by the Bank of Mozambique and checked by the Mozambique Administrative Court. It also requires that the "*operation*"⁴⁰⁷ needed to be reported to the IMF. Documentation provided suggests that these conditions were "*overcome*" so that no court or Bank of Mozambique approval was required and no reporting of the operation to the IMF was needed. In light of the preceding conditions not being met, further documentation is needed to confirm the events that enabled the lending to proceed.

Detailed analysis of the government guarantee process followed for each government guarantee is set out at Appendix I.

⁴⁰⁷ Note: The word "operation" is a direct quote from the supporting document - the exact meaning is not clear.

8.4 ProIndicus government guarantees

8.4.1 Guarantee for the Original ProIndicus Loan Agreement

On 28 February 2013, a government guarantee was issued in relation to the initial ProIndicus facility (hereafter the "ProIndicus Government Guarantee").⁴⁰⁸

The ProIndicus Government Guarantee states that "...to the extent required by law, provision has been made or will be made for all amounts due and payable" in the following fiscal year.⁴⁰⁹ The ProIndicus Government Guarantee undertakings state that Credit Suisse would receive documents from the Republic of Mozambique. This would include details of the country's financial status such as annual budget, debt strategy, as well as any support financing documents provided to the IMF. It is not known if these documents were provided to Credit Suisse.

8.4.1.1 Absence of written request for government guarantee

Kroll has not been provided with a written request for a government guarantee in relation to the Original ProIndicus Loan Agreement. The only document received was a copy of the feasibility study that was provided by SISE to the Ministry of Finance relating to ProIndicus' operations.⁴¹⁰

On 9 February 2017 Person V informed Kroll that the original SISE request for the ProIndicus Government Guarantee for USD 372 million is not archived in the Ministry of Finance's files.⁴¹¹ Kroll also requested a copy of this document to ProIndicus but was informed by Person A that the company does not hold a copy of it as the document pertains to SISE.

On 9 March 2017, Kroll was informed by Person A that he/she had submitted a letter to SISE requesting a copy of this document,⁴¹² although it remains outstanding at the time of writing this report.

8.4.1.2 Credit Suisse lending conditions "overcome"

Kroll was provided with a copy of an opinion document issued by the Ministry of Finance on 26 February 2013 regarding a "*non-concessional financing from Credit Suisse for USD 327 million*."⁴¹³ According to the opinion document, the Government of Mozambique would serve as guarantor to the loan agreement. The opinion document is signed by Person A and Person L.

⁴⁰⁸ Document Reference: 2013-02-28 - Government Guarantee USD 372 mi.

⁴⁰⁹ Document Reference: 2013-02-28 - Government Guarantee USD 372 mi, Page 9.

⁴¹⁰ Document Reference: Unknown date - EEZ Feasibility Study.

⁴¹¹ Document Reference: RE Follow-up - Solicitação de Documentos.

⁴¹² Document Reference: Respostas as vossas.

⁴¹³ Document Reference: 2013-02-26 - MoF Opinion Issuance of Gov Guarantee, Page 1.

The opinion document indicates that the Ministry of Finance discussed the terms and conditions of the government guarantee with representatives of Credit Suisse.⁴¹⁴ According to the opinion document, Credit Suisse imposed some "*preceding conditions*" that were eventually "*overcome*" by the parties.⁴¹⁵ Specifically, the opinion document highlights two conditions imposed by Credit Suisse:

1. A requirement to have the Bank of Mozambique approve the financing document; and,
2. A requirement to have the financing checked by the Administrative Court.⁴¹⁶

The opinion document also notes a requirement to inform the IMF about the government guarantee, but it states this issue was overcome due to "*obvious reasons*."⁴¹⁷ No further information has been provided to explain what is meant by "*obvious reasons*."

The opinion document includes an explanation that Clause 5.3 of the government guarantee was "*...negotiated but not withdrawn*." Clause 5.3 of the government guarantee states that "*...to the extent required by law*" provisions related to the government guarantee must and will be included in the Mozambique annual budget statement for the any amounts due or payable. The opinion document stated this clause should not be included in the government guarantee but ultimately indicated the guarantee was "*...ready to be signed*."

The opinion document also contains a hand-written note dated 25 February 2013, which based on comparison of the signature is thought to have been signed by Person D.⁴¹⁸ The note states that there was "*...alignment with SISE, which was represented by [Person A]*", as the matter related to national security and authorised forwarding the opinion for "*...review and superior decision*."

8.4.2 Guarantee for the Amended ProIndicus Loan Agreement

8.4.2.1 14 June 2013: increase of USD 250 million to USD 622 million

On 10 May 2013, Person E sent a letter to Person C to request a government guarantee for an increase to the initial facility provided by Credit Suisse to ProIndicus.⁴¹⁹ Person E commented that ProIndicus wanted to increase the total of assets and services to be purchased to address the "*...international scenario*" and requested an additional guarantee of USD 250 million in favour of Credit Suisse.⁴²⁰

⁴¹⁴ Document Reference: 2013-02-26 - MoF Opinion Issuance of Gov Guarantee, Page 1.

⁴¹⁵ Document Reference: 2013-02-26 - MoF Opinion Issuance of Gov Guarantee, Page 1.

⁴¹⁶ Note: In Portuguese, *Tribunal Administrativo*.

⁴¹⁷ Document Reference: 2013-02-26 - MoF Opinion Issuance of Gov Guarantee, Page 2.

⁴¹⁸ Document Reference: 2013-02-26 - MoF Opinion Issuance of Gov Guarantee, Page 1.

⁴¹⁹ Document Reference: 2013-05-10 - SISE Request Gov Guarantee Increase USD 250 mi.

⁴²⁰ Document Reference: 2013-05-10 - SISE Request Gov Guarantee Increase USD 250 mi.

Kroll has not been provided with any evidence that the Ministry of Finance issued an opinion in relation to this request.

Kroll was provided with a "First Government Guarantee Confirmation" letter from the Ministry of Finance to the "Finance Parties under the Amended Facility Agreement."⁴²¹ In the letter, the Ministry of Finance acknowledges that an additional amount of USD 250 million would be made available to ProIndicus and confirmed that the ProIndicus government guarantee would be extended to the additional facility amount. The document is dated 14 June 2013, the same date of the extended facility agreement, and was signed by Person C on behalf of the Republic of Mozambique.

8.4.3 Guarantee for the Final ProIndicus Loan Agreement

8.4.3.1 December 2014: increase of USD 278 million to USD 900 million

Kroll was provided with a letter dated 13 November 2014 from Person E to the Role C referencing the ProIndicus loan facility. In the letter, Person E states that ProIndicus had not commenced its operations due to issues relating to the concession agreement and, therefore, was unable to generate revenue to pay the first instalment of the interest on the underlying loan due on 21 March 2015.^{422/423}

In order to avoid the use of the government guarantee for this payment and its "...negative consequences to the country", Person E requested the issuance of a further government guarantee of USD 278 million in favour of Palomar and in accordance to the documents attached to the letter.⁴²⁴ Kroll has not been provided with the annexes to the letter or any additional information related to this request. Kroll has not been provided with evidence of the outcome of this request.

On 17 December 2013, the same date the amended facility agreement for USD 900 million was signed, a "Second Government Guarantee Confirmation" letter was issued by the Ministry of Finance to the "Finance Parties under the Amended Facility Agreement."⁴²⁵ In the letter, the Ministry of Finance acknowledges that the finance documents were amended and would include "...provisions which allow Increased Facility Commitments of up to USD 278,000,000, to be made available to the Borrower", being that the maximum facility amount was increased to USD 900 million. This document was also signed by Person C on behalf of the Republic of Mozambique.

⁴²¹ Document Reference: 2013-06-14 - MoF Confirmation of Gov Guarantee USD 250 mi Increase.

⁴²² Document Reference: 2014-11-13 - SISE Request Gov Guarantee Loan Restructuring USD 278 mi, Page 1.

⁴²³ Document Reference: 2014-11-13 - SISE Request Gov Guarantee Loan Restructuring USD 278 mi, Page 1.

⁴²⁴ Document Reference: 2014-11-13 - SISE Request Gov Guarantee Loan Restructuring USD 278 mi, Page 2.

⁴²⁵ Document Reference: 2014-12-17 - Government Guarantee - USD 900 million.

8.5 EMATUM government guarantee

On 16 August 2013, Person E sent a request for a government guarantee to the Ministry of Finance.⁴²⁶ In the letter, Person E stated that SISE had incorporated EMATUM along with other government owned companies in response to the "...*increasing and sophisticated challenges to national security.*" The document stated that the company wanted to obtain a loan of USD 850 million to pay for "...*necessary equipment and services*" and that a government guarantee for the loan would be required.

Kroll was informed that the usual practice before issuing a government guarantee is for the Ministry of Finance to assess the guarantee request and prepare an opinion document. Although Kroll received a copy of the EMATUM feasibility study provided by SISE to the Ministry of Finance, Kroll has not been provided with a copy of an opinion document prepared by the Ministry of Finance in relation to SISE's request. On 30 March 2017, Person V informed Kroll that an opinion from the Ministry of Finance in relation to the EMATUM government guarantee is not archived in the Ministry of Finance's files.⁴²⁷

On 30 August 2013, a government guarantee was issued for the EMATUM loan agreement ("EMATUM Government Guarantee").

The EMATUM Government Guarantee relates to the loan agreement arranged by Credit Suisse to EMATUM and shows the Republic of Mozambique agreed to serve as guarantor of the loan agreement.⁴²⁸ The EMATUM Government Guarantee was "...*executed as a deed by the Republic of Mozambique acting by and through its Ministry of Economy and Finance*" and signed by Person C as representative of the Ministry of Finance.⁴²⁹

The EMATUM Government Guarantee does not state the amount of the loan agreement, the purpose of the loan or any other details of the loan agreement. The loan agreement signed by EMATUM with Credit Suisse on the same date was for an amount of USD 850 million.

The EMATUM Government Guarantee is very similar in content to the ProIndicus Government Guarantee. However, the undertakings under EMATUM's Government Guarantee do not require EMATUM to provide Credit Suisse with a copy of any periodic reporting documents prepared under the terms of the financial support arrangements with the IMF. Kroll has not identified any reason for the differences in reporting requirements.

⁴²⁶ Document Reference: 2013-08-16 - SISE Request for Gov Guarantee USD 850 mi.

⁴²⁷ Document Reference: 2017-03-30 - Person V on EMATUM opinion.

⁴²⁸ Document Reference: 2013-08-30 - EMATUM Gov Guarantee.

⁴²⁹ Document Reference: 2013-08-30 - EMATUM Gov Guarantee, Page 18.

8.6 MAM government guarantee

On 25 April 2014, Person E sent a request for a government guarantee for MAM to the Ministry of Finance. The request was for the issuance of a guarantee in favour of Palomar.⁴³⁰

In the letter, Person E explained that in order to address the "*...increasing and sophisticated*" challenges to the national security, the Ministry of Defence and SISE had incorporated ProIndicus⁴³¹ to implement the Integrated System of Monitoring and Protection.⁴³² To that end, MAM was created to construct naval shipyards in the cities of Pemba and Maputo to "*...create infrastructure conditions along the Mozambique coast to provide support and maintenance for FDS⁴³³ equipment.*" Person E requested the issuance of a government guarantee for a maximum amount of USD 750 million to be provided in favour of Palomar.⁴³⁴

On 30 April 2014, the Ministry of Finance issued its opinion document regarding Person E's request. The opinion document stated that on 28 April 2014, Person C sent a letter to Person E recommending that MAM should pursue other financing means that would not have an impact on the public debt. Kroll has not been provided with a copy of this letter.

The opinion document states that following Person C's letter, Person D met with Person A and "[Redacted]", a representative of Palomar, to discuss the matter. It is possible that "[Redacted]" is Person G, a Role G. According to the opinion document, Person D was informed in the meeting that contact with lenders had determined that no financing arrangement would be possible without a government guarantee.

In the letter, Person D claims that he/she was informed by Person A and "[Redacted]" that the financing value was above the ceiling for the government guarantee as indicated in the Mozambique Budget Law and the indebtedness limit agreed with the IMF. Person D further claims that he/she informed Person A and "[Redacted]" that he/she would have to request "*...proper authorization.*"

The letter states that Person A explained to Person D that the financing was a matter of national security and was strictly confidential and the matter should not be disclosed. According to Person D, this is the same reason why the matter was not disclosed to the Administrative Court.

Following the summary of the discussions related to SISE's request, Person D provided a brief assessment on the request stating that the MAM feasibility study indicated that "*...robust and sufficient gross revenue*" would be generated for the repayment of the financing and to support the

⁴³⁰ Document Reference: 2014-04-25 - SISE Request Gov Guarantee.

⁴³¹ Document Reference: 2014-04-25 - SISE Request Gov Guarantee, Page 1.

⁴³² Note: In Portuguese, Sistema Integrado de Monitoria e Protecã.

⁴³³ Note: FDS stands for Defence and Security Forces, or Forças de Defesa e Segurança, in Portuguese.

⁴³⁴ Document Reference: 2014-04-25 - SISE Request Gov Guarantee, Page 2.

company's ongoing operations. Person D recommended that the government guarantee should be issued as requested given the:

1. Explanation from Person A that the financing was a matter of national security;
2. Relevancy of the MAM Project for the sustainability of other projects;
3. Project was related to national sovereignty; and ,
4. Feasibility Study indicated good revenue.

The opinion document has a handwritten note, dated 2 May 2014, which provides an authorisation for the issuance of a USD 515 million government guarantee in favour of MAM, approved by Person C.

On 20 May 2014, a government guarantee was issued for the MAM facility ("MAM Government Guarantee").

The MAM Government Guarantee relates to the loan facility provided by VTB Capital to MAM and shows that the Republic of Mozambique agreed to serve as guarantor of the facility agreement.⁴³⁵ The guarantee was "...executed as a deed by the Republic of Mozambique acting by and through its Ministry of Economy and Finance" having Person C signed as representative of the Ministry of Finance.⁴³⁶

The MAM Government Guarantee does not state the amount of the facility, the purpose of the loan or any other details of the facility agreement. However, the facility agreement signed by MAM with VTB Capital on the same date was for a maximum amount of USD 540 million.

8.7 Irregularities in the issue of Government Guarantees

The CPI and Administrative Court conducted assessments of Mozambique 's public debt in relation to the facilities and guarantees provided to ProIndicus, EMATUM, and MAM.

Both assessments conclude that those agreements are not in compliance with Mozambique legislation, indicating that the facilities and guarantees; (1) should have been approved by Mozambique Assembly of the Republic and (2) did not comply with Mozambican Budget Law. The assessments also mentioned other violations to the law, such as the need of an opinion from the Public Prosecutor and the lack of Portuguese versions of the facility agreements.

⁴³⁵ Document Reference: 2014-05-20 - Gov Guarantee.

⁴³⁶ Document Reference: 2014-05-20 - Gov Guarantee, Page 43.

9. Management of the Mozambique Companies

9.1 Overview

During the Independent Audit, Kroll identified a number of shortcomings as they relate to the management of the Mozambique Companies.

Kroll considered the overall management of the Mozambique Companies against the Commercial Code to identify any potential breaches.⁴³⁷ The objective of this analysis was to assess the performance of fiduciary duties on the part of management of the Mozambique Companies.

9.2 The Mozambique Commercial Code

The Commercial Code was established to replace several obsolete laws and was approved by the Council of Ministers and the former President of the Republic of Mozambique, Armando Emilio Guebuza ("Guebuza"), on 27 December 2005.

The Commercial Code regulates the activity of commercial entrepreneurs who are defined as a) "individuals or corporate persons who, in their own name, directly or through third parties, pursue a commercial enterprise", and b) "commercial companies."⁴³⁸

In particular, Section 3 (of Chapter 2) of the Commercial Code deals with commercial bookkeeping. Article 42 through to Article 61 addresses the general provisions and forms of bookkeeping for Mozambique companies. Kroll has summarised below the key Articles as they relate to the Independent Audit, and the key findings in relation to each Article.

9.2.1 Article 42 (Obligation of commercial bookkeeping)

Article 42 states: "Every commercial entrepreneur shall be obliged to keep organised record books that are adequate for the enterprise, in order to provide chronological information on all the entrepreneur's operations and to enable periodic balance sheets and inventories to be prepared."

At the commencement of the Independent Audit, Kroll understood that the majority of the information required to complete the planned scope of work would be available directly from the Mozambique Companies in Mozambique.

At an early stage of the Independent Audit, representatives for the Mozambique Companies informed Kroll that they were unable to provide a large proportion of the information required the

⁴³⁷ Note: The Attorney-General's Office confirmed to Kroll that the Mozambique Commercial Code is the appropriate law for considering the fiduciary duties of management.

⁴³⁸ Source: Article 1 and Article 2 of the Mozambique Commercial Code 2005.

information was held by the Mozambique Ministry of Defence and/or by parties outside of Mozambique.

The difficulties encountered by Kroll in obtaining the required financial information and supporting documentation necessary to complete the Independent Audit indicate that the Directors of the Mozambique Companies are potentially in breach of Article 42, specifically:

- í The invoices provided to Kroll by the Mozambique Companies do not provide sufficient detail to gain comfort that the documents accurately reflect the true price of assets and services, and therefore do not allow proper accounting records to be maintained by the company;
- í Certain assets, for example, the Ocean Eagle vessels under the EMATUM Supply Contract are not recorded in the accounting records; and,
- í MS Maputo and PS Pemba, two MAM subsidiaries, are not included in the accounting records for the company.

9.2.2 Article 43 (Mandatory books)

Article 43 states: *"The commercial entrepreneur is obliged to keep a daily record, an inventory and balance sheet record, as well as other books determined by law (Clause 1 of 5)."*

The Mozambique Companies have not provided Kroll with sufficient financial information or supporting documentation to evidence that an inventory of assets has been maintained.

Further, none of the Mozambique Companies provided Kroll with reliable balance sheet records. The absence of reliable balance sheets is also potentially in breach of Article 60 (Obligation to keep balance sheets). Article 60 states: *"Every commercial entrepreneur is obliged to prepare an annual balance sheet of assets and liabilities during the first three months of the immediately following year, to enter it into the inventory and balance sheets records and to duly sign it."*

Further, Kroll was informed that MAM engaged Ernst & Young to complete statutory audits for the financial years ending 31 December 2014 and 31 December 2015 but that it had not been possible to complete the audit work due to a lack of available information from MAM.

9.2.3 Article 119 (Loss of half the capital – ProIndicus only)

Ernst & Young noted in the ProIndicus Financial Statements for 2013 that *"...the loss of more than half of the capital, puts the company in the situation expected in Article 119 of the Commercial Code, making imperative to implement measures, to be presented at the General Meeting of Shareholders ... that prevent implementation of the actions set out in that Article."*

Article 119 (Loss of half of capital) states: *"The board of directors ... shall propose ... that the company is dissolved or the capital reduced unless the associates raise amounts in cash that replenish the assets in equal measure to the capital value within a period of sixty days ..."*

Kroll has not been provided with any evidence to evidence that the Directors of ProIndicus took the actions outlined in Article 119 to address the loss of more than half of the capital.

9.2.4 Article 150 (Duty of diligence)

Article 150 states: *"The directors of a company shall act with the diligence of a careful and coordinated manager in the interests of the company, taking into account the interests of the partners and employees."*

Kroll has repeatedly requested from Person A, the Role A, information that would provide a fuller understanding of expenditure. The response received was invariably that the requested information is "classified" and not available.

Examples of documents not available from the Mozambique Companies include:

- í **Loan Agreements:** Kroll was unable to obtain complete executed versions of the loan agreements from the Mozambique Companies. The loan agreements provided by the Mozambique Companies were undated, unsigned or incomplete.
- í **Supply Contracts:** Kroll was unable to obtain final versions of the supply contracts between the Mozambique Companies and the suppliers. The supply contracts provided by the Mozambique Companies were undated, unsigned and did not include all referenced annexes.

The effect of the supply contract structure was that the Mozambique Companies had no understanding of the parties engaged by the Contractor to provide the assets and services under the contract. The Mozambique Companies had no right of audit to the supplier, nor were they able to engage with the subcontractors to the contract. Further, the Contractor was not required to provide detailed supporting invoices under the contract.

The absence of complete and final versions of loan agreements and supply contracts, together with the inability to obtain a clear understanding of how the supplier spent the USD 2 billion loan proceeds, may evidence that the Directors of the Mozambique Companies were in breach of Article 150.

9.2.5 Article 415 (Documents to be made available to shareholders)

Article 415 states: *"Until one month before the date of the ordinary general assembly the directors shall provide the following documents to the shareholders ... (b) copies of accounting statements, accompanied by the opinion of independent auditors and of the supervisory board, if any (Clause 1 of 3).*

Person A engaged Ernst & Young to complete financial statement audits for ProIndicus and EMATUM for the financial years ending 31 December 2013 and 31 December 2014.

Ernst & Young was engaged to undertake a financial statement audit for MAM for the financial years ending 31 December 2013 and 31 December 2014. The audits have not been completed due to insufficient information being provided by MAM to Ernst & Young.

Ernst & Young (nor any other audit firm) has not completed a financial statement audit for ProIndicus, EMATUM or MAM for the financial years ending 31 December 2015 or 31 December 2016.

As a result, Directors of the Mozambique Companies have not discharged Section 1(b) of Article 415. It is possible that this also evidences a breach of Article 150 by the Directors; the engagement of an appropriate audit firm to undertake a review of the financial statements may be considered an act "*...of a careful and coordinated manager in the interests of the company*", an act which has not been successfully undertaken in the Mozambique Companies.

9.3 The Mozambique Procurement Regulation for Public Hiring

9.3.1 Explanations provided by Person A and Mozambique Companies

During the Independent Audit, Kroll has repeatedly requested information from Person A and the Mozambique Companies to determine what, if any, due diligence was carried out in relation to the selection of the Contractor to develop the Mozambique Project, or if any other proposals were obtained from other suppliers. Kroll has not been provided with any information by Person A or the Mozambique Companies about the selection process applied for the hiring of the Contractor, and as a result cannot determine if other proposals were obtained, or if the shareholders of the Mozambique Companies carried out any independent due diligence on the Contractor.

Kroll has considered the overall understanding of the hiring of the Contractor against Mozambique Procurement Regulation. The objective of this analysis was to assess what process should have been undertaken for the selection of the Contractor for the Mozambique Projects if the Mozambique Companies were treated as public entities.

On 8 March 2016, the Mozambique Council of Ministers approved Decree 5/2016, which established the Regulation of the Contracting of Public Works, Supply of Goods and Provision of Services to the State⁴³⁹ (hereafter, the "Procurement Regulation") due to the need of "*...greater transparency and to ensure the effective implementation of procurement proceedings*".⁴⁴⁰ Decree 5/2016 superseded Decree 15/2010, which was broadly the same in content for the purposes of the following analysis undertaken by Kroll.

⁴³⁹ Document Reference: Decree 5/2016, dated 8 March.

⁴⁴⁰ Source: Decree 5/2016 and Article 1 of the Procurement Law.

The Procurement Regulation states the regulation is applicable to all institutions of the Public Administration, but that "...public companies and state-owned companies are ruled by specific legislation." The PGR has explained to Kroll that the Mozambique Companies are not public entities, but are part of the State business sector, which is governed by Law 7/2012.

Law N. 7/2012 states that the State business sector is comprised of "...productive or commercial unities that are solely or mainly owned by the State and that adopt a form of an organization and business operation."⁴⁴¹ The same law also states that the companies that are part of the State business sector are governed by private law, "...except in what is specially regulated in the law of public companies."

Whilst the Mozambique Companies are not public entities and therefore are not subject to the Procurement Regulation, the selection of the Contractor for the Mozambique Project would have been subjected to greater scrutiny if the Procurement Regulation or good market practices were applied to companies which are owned by the Mozambique State.

Kroll has summarised the types of tendering processes in the following sections,

9.3.2 Types of Tendering Processes

Section II of the Procurement Regulation states that there are three regimes for public tenders:

- a. **General Regime:** the standard regime for public tender.
- b. **Special Regime:** arises from any agreements signed by Mozambique and international institutions or other States.
- c. **Exceptional Regime:** Article 8 states that the Exceptional Regime is applicable "...whenever it is convenient for the public interest and the requirements laid down in this Regulation are presented, the Executing Agency for Acquisitions⁴⁴² shall, if justified, propose to the Competent Authority the application of the Exceptional Regime."

In cases where the a company decides to undertake a tendering process through the Exceptional Regime, this decision shall be duly substantiated and recorded in written form by the Competent Authority.

There are seven types of tendering processes under the Exceptional Regime, including Direct Arrangement - when the contracting through any of the other contracting types is unfeasible.

Article 94 states that the "Direct Arrangement" is used as a tendering process under specific circumstances, such as when contracting can only be obtained from a single supplier, emergencies

⁴⁴¹ Source Reference: Article 103 of Law 7/2012.

⁴⁴² Note: the Executing Agency for Acquisitions (in Portuguese, Unidade Gestora Executora das Aquisições) is a department within a Public Administration unity that is responsible for the general management of tendering processes.

and war times. Article 94 also states that this tendering process is applicable in the following circumstances:

- *"If the contracting object is related to defence and national security, especially in respect of the execution of secret military works, clothing and accessories, acquisition, repair and maintenance of military equipment of exclusive use of the Police and Armed Forces;"*
- *"If contracting is the State Information and Security Service. "*

The Privinvest Presentation states that *"Both ADM and Mozambique saw the ProIndicus transaction as a template which could be repeated to provide Mozambique with the capability to protect and exploit its tuna reserves ... This led to the conception of the EMATUM project,"* which indicates that no other proposal was received by EMATUM for the provision of scope of supply and that the hiring of the Contractor was made through a direct arrangement between the parties.

The MAM Business Plan states that *"MAM has asked Abu Dhabi Mar LLC ... to design a commercially viable proposal that encompasses the required infrastructure to meet the needs of the Mozambique Government..."* It is not known if any other proposals were received for the MAM Project.

Kroll has not been provided with any evidence of the rationale for a direct arrangement in the contracting of the Contractor by EMATUM and MAM.

9.3.3 Assessment of Proposals - The Bidding Committee

Section IV of the Procurement Regulation indicates that a bidding committee ("Jury") shall be formed for each tendering process, comprised of a minimum of three members.

The Jury shall conduct an assessment of the proposals and qualification documents, in accordance with the criteria indicated in the Bidding Notice, to qualify, disqualify, rate the proposals and make a recommendation about the winning bid. The Jury's assessment is provided to the company through the form of a report duly substantiated.

Kroll has not been provided with any evidence that a committee was formed to undertake an assessment of the proposals sent by the Contractors of the Mozambique Companies or any other potential bidders.

9.3.4 Contracting Stages

The stages for the tendering processes are similar to the General Regime, depending on the public interest outlined in the Exceptional Regime.

The General Regime contracting stages is comprised of:

-
- í **Preparation and launching:** the bidding notice shall be clear in the definition of the tender requirements (hiring entities, contracting objective, date of the tender stages) and shall be published in the media.
 - í **Receipt of proposals and qualification documents:** proposals and qualification documents must be presented in a sealed envelope within the deadline indicated in the tender announcement.
 - í **Opening of proposals and qualification documents:** the envelopes received from bidders are opened in public by a jury.
 - **Assessment, classification and recommendation:** the jury conducts an assessment of the proposals based on the selection criteria indicated in the bidding notice and can request further clarification from bidders. After the assessment, the jury prepares the classification of bidders and makes a recommendation to the company indicating the "best proposal".
 - **Award, cancellation or invalidation:** based on the jury's recommendation, the company can award the tender. At this stage, the company can also cancel or invalidate the bid if it finds any irregularities in the bidding process.
 - í **Notification to bidders:** the final results are communicated to all bidders.
 - í **Complaints and appeals:** bidders can appeal to the jury against the classification, declassification and final results. The jury shall conduct an assessment of the appeal and provide an opinion document on the matter, which is then sent to the company.
 - í **Contract settlement:** the winning bidder and the company sign a contract.

There are variations to the aforementioned tendering stages depending on the type of contracting under the Exceptional Regime. For instance, in the case of tender with pre-qualification, there is a pre-qualification and complaints and appeals stage before the submission of commercial proposals.

Regardless of the differences, the assessment of the qualification of the bidders is a step for all tendering types. Kroll has not been provided with any evidence that the Mozambique Companies have conducted an assessment of the qualification or independent due diligence of the Contractors or any other potential bidder.

9.3.5 Selection Criteria

Article 36 states that "*...the contracting of public works, supply of goods and provision of services shall be decided based on the Lowest Price Criteria.*"

10. Payments from Privinvest Group companies

Kroll, in response to findings from the analysis of certain transactions in the Mozambique Companies bank accounts, requested that all local Mozambique banks provide details of transactions to any individual or company in Mozambique from:

1. Known Contractor bank accounts;⁴⁴⁴ and,
2. Other PrivInvest Group companies (for example Logistics International) bank accounts.⁴⁴⁵

At the time of reporting, Kroll has not received responses from all local Mozambique banks. Further, issues have been identified regarding the search criteria applied by some local Mozambique banks. For example, responses provided did not include known payments to the Mozambique Companies which were identified in Kroll's original review of company bank accounts, which indicates that the search criteria applied by some local Mozambique banks is ineffective to identify relevant transactions. As a result, Kroll cannot rely on the information provided to conduct a complete review.

Based on the information provided by local Mozambique banks, Kroll identified a total of 43 payments from Privinvest Group companies to individuals and companies in Mozambique totalling USD 20,418,970. The payments include transactions already detailed elsewhere in this report (for example, payments to Mozambique Companies and related entities, such as MS Maputo) as well as a number of transactions which appear to be related to the Mozambique Projects - these transactions were not subject to further review.

Kroll requested further information for several transactions identified as requiring additional investigation, either because the payment description was vague or the beneficiary of the payment did not appear to relate to the Mozambique Project. Kroll has received limited information relating to certain transactions and the purpose of these payments remains unexplained.

Table 59 | Transactions requiring further information

No	Local recipient	Remitter name	Country of Origin	Amount (USD)
1	[Redacted]	Logistics International SAL (Off-Shore)	Lebanon	1,799,807
2	[Redacted]	Logistics International SAL (Off-Shore)	UAE	569,761
		Privinvest Shipbuilding Investments	UAE	580,466

⁴⁴⁴ Note: Kroll has identified that the Contractors and related entities held bank accounts with the following banks: First Gulf Bank, First National Bank S.A.L., Emirates NBD Bank, and Mashreqbank Psc.

⁴⁴⁵ Note: This search criteria included Privinvest Group related entities Logistics International and Palomar.

Based on this criteria, the winning bid shall be the one with the lowest price amongst the proposals that are in accordance with the technical specifications and qualification requirements for the bid.⁴⁴³

Article 36 also states that if the lowest price criteria is not feasible for the bid the company can select the winning bid based on a combination of technical valuation and price. The weighted criteria for the technical and price proposals shall be indicated in the bidding documents and the technical assessment and recommendation of the bidding winner shall be duly substantiated in the final bid report.

Kroll has not been provided with any evidence of the criteria used, if any, by the Mozambique Companies for the selection of the Contractor.

⁴⁴³ Note: Article 37 of the Procurement Regulation.

3	[Redacted]	Prinvest Shipbuilding SAL Holding	UAE	1,000,000
4	Person AX	Prinvest Shipbuilding SAL Holdings	UAE	249,972
5	Person AZ	Logistics International Investment	UAE	139,908
6	Person BA	Prinvest Shipbuilding SAL Holding	UAE	99,986

Reference 1: Payments to [Redacted]

Logistics International SAL (Off-Shore) made three payments between January 2015 and February 2017 to a BIM Mozambique account held in the name of [Redacted] ("[Redacted]") totalling approximately USD 1.8 million.

On 16 January 2015 and 17 June 2015 two payments for USD 1 million and USD 500,000 were paid to [Redacted] respectively. The transaction descriptions indicated that the reason for the payments was related to foreign direct investment for increase of capital.⁴⁴⁶ On 23 February 2017 one payment for USD 300,000 was made with a transaction description indicating that the payment was related to supplies.⁴⁴⁷ Bank statements for [Redacted] indicate that all three amounts received by the company were subsequently transferred to [Redacted] ("[Redacted]").

[Redacted] is a Mozambique entity incorporated on [Redacted].⁴⁴⁸ The Articles of Association indicates that the company was incorporated with a share capital of MZN 20,000 but the shareholders are not listed in the document. The company is registered at the same address of [Redacted] in Maputo.⁴⁴⁹ [Redacted] was incorporated in Mozambique on [Redacted].⁴⁵⁰ According to the company's Role AU, Person AU, [Redacted] provides "...electronic distribution and technology providing company servicing mainly the telecom industry and the utilities distribution companies in general."⁴⁵¹

Kroll has identified that Person AU is a [Redacted] national who has previously worked as a [Redacted] for Logistics International in Beirut. Corporate records show that Person AU is now a shareholder (6%) in a company named [Redacted], which is also owned by Logistics International (90%) and [Redacted] (4%).⁴⁵²

⁴⁴⁶ Document Reference: Bank Statements - MZN-[Redacted]-[Redacted]

⁴⁴⁷ Document Reference: Bank Único Information - FGB and FIN.

⁴⁴⁸ Document Reference: [Redacted].

⁴⁴⁹ Note: The address is: [Redacted].

⁴⁵⁰ Document Reference: [Redacted].

⁴⁵¹ Source: [Redacted].

⁴⁵² Document Reference: [Redacted].

Reference 2: Payments to [Redacted]

Logistics International (Off Shore) AUH and Privinvest Investments respectively made payments in December 2014 to a BCI Mozambique account held in the name of [Redacted] ("[Redacted]") totalling approximately USD 1.2 million.

On 2 December 2014 a payment was made by Logistics International (Off Shore) AUH for USD 570,761. The description of the transaction indicates that the payment was related to "services rendered". On 14 December 2014 a payment was made by Privinvest Investments for USD 580,446. The description of the transaction indicates it related to maritime transportation.⁴⁵³

According to the BCI Mozambique account opening information for [Redacted], the entity was incorporated in [Redacted]. The bank account⁴⁵⁴ appears to be owned by Person AV who appears to be a [Redacted] in Mozambique. Person AV describes him/herself as an expert in the "...*installation and implementation of foreign direct investment in Mozambique*".⁴⁵⁵ According to media reports, Person AV is related to Person AW, the Role AW during Guebuza's Presidency.⁴⁵⁶

Reference 3: Payments to Person AX

Privinvest Investments made two payments in August 2013 to a BCI Mozambique account held in the name of Person AX totalling USD 250,000.

On 28 August 2013 a payment of USD 180,000 was received into a BCI Mozambique bank account for Person AX. The transaction description indicates it was related to income from real estate investment. On 17 September 2013 a further payment of USD 70,000 was received into the same account - according to the description of the transaction the payment was related to "services rendered".⁴⁵⁷

Person AX is thought to be the son/daughter of Person AY, who was [Redacted]⁴⁵⁸ and an ex-Presidential candidate.⁴⁵⁹

Reference 4: Payments to Person AZ

⁴⁵³ Document Reference: BCI - Logistics, Privinvest, First Gulg, Emirates NBD, FNB SAL.

⁴⁵⁴ Document Reference: [Redacted].

⁴⁵⁵ Source: [Redacted].

⁴⁵⁶ Source: [Redacted].

⁴⁵⁷ Document Reference: BCI - Logistics, Privinvest, First Gulg, Emirates NBD, FNB SAL.

⁴⁵⁸ In Portuguese: [Redacted].

⁴⁵⁹ Source: [Redacted].

Four payments totalling USD 140,000 were received into BCI Mozambique accounts held by Person AZ.⁴⁶⁰ The payments were all made by Logistics International Investments between April and September 2016.

Kroll was provided with supporting documents for these payments which indicate that the transactions are related to preparation works undertaken in a "Commercial Port" by [Redacted]. Kroll has not been provided with any evidence to support the payment.

Reference 5: Payments to Person BA

A single payment of USD 99,986 was made to a BCI Mozambique account held in the name of Person BA. The payment was made on 29 May 2013 and according to SWIFT message relates to a "*...partial payment on consultancy agreement.*"⁴⁶¹

No further information by the Bank of Mozambique regarding the rationale for the aforementioned payments has been provided to Kroll - further work is recommended to understand the purpose of these transactions.

⁴⁶⁰ Document Reference: [Redacted].

⁴⁶¹ Document Reference: [Redacted].

11. Local Mozambique bank exposure to loans

Based on information provided by the Bank of Mozambique and Kroll's discussions with local Mozambique bank representatives, it has been established that at least four local Mozambique banks have exposure to the syndicated Credit Suisse and VTB Capital loan facilities provided to ProIndicus and EMATUM. Kroll has not been provided with any information indicating that local Mozambique banks are currently exposed to any loans to MAM.

The exposure of local Mozambique banks, as provided to Kroll, is set out in Table 60 below:

Table 60 | Summary of local Mozambique bank exposure

Company	Local Mozambique bank	Nominal value purchased (USD)
ProIndicus	BIM Mozambique	37,200,000 ⁴⁶²
ProIndicus	Moza Banco	20,000,000 ⁴⁶³
ProIndicus	Moza Banco	3,000,000 ⁴⁶⁴
ProIndicus	Moza Banco	10,000,000 ⁴⁶⁵
ProIndicus	BCI Mozambique	30,000,000 ⁴⁶⁶
ProIndicus	ABC Bank	7,000,000 ⁴⁶⁷
EMATUM	Moza Banco	13,000,000 ⁴⁶⁸
EMATUM	BCI Mozambique	25,000,000 ⁴⁶⁹
Total		145,200,000

Kroll was unable to confirm the current value of the local Mozambique banks' exposure to the ProIndicus and EMATUM loans due to incomplete information provided. Kroll has confirmed that the BCI Mozambique and Moza Banco exposure to the EMATUM facility was converted to Mozambique sovereign bonds as part of the EMATUM bond restructuring in 2016.

⁴⁶² Document Reference: 2013-05-30 - BIM Form of Transfer Certificate

⁴⁶³ Document Reference: 2013-06-21 - Form of Transfer Certificate

⁴⁶⁴ Document Reference: 2013-12-23 - LMA Trade Confirmation - Moza Banco USD 3 million

⁴⁶⁵ Document Reference: 2014-11-14 - Exolix Letter - Moza Banco USD 10 million

⁴⁶⁶ Document Reference: 2013-08-13 - Transfer Certificate - BCI USD 30 million

⁴⁶⁷ Document Reference: 2014-12-10 - Credit Memorandum - BancABC USD 7 million

⁴⁶⁸ Document Reference: Undated - Exchange Offer - Moza Banco USD 13 million

⁴⁶⁹ Note: Kroll were informed by BCI in a meeting on 28 February 2017 that the bank purchased USD 25 million of the EMATUM loan, however no supporting documentation was provided and this value has not been confirmed.

12. Recommendations

Section 12 sets out recommendations for consideration in response to the key findings from the Independent Audit.

Ref.	Observation	Potential Risk	Recommendations
1 (3.1.1)	<p>Formation of private companies</p> <p>There are two types of company in Mozambique: <i>Sociedades por Quotas</i> (private limited companies) and <i>Sociedades Anónimas</i> (Public Limited Company/joint stock companies).</p> <p>In a <i>Sociedade por Quotas</i> the share capital is represented by shares (<i>Quotas</i>) and the shareholders details are always available. In a <i>Sociedade Anónima</i>, the share capital is represented by shares (<i>acções</i>) that are issued and may take the form of titles (bearer shares or nominative shares) or book-entry type shares, therefore it is not always possible to know the identity of a shareholder of a <i>Sociedade Anónima</i>.</p> <p>The Mozambique Companies have each been set up as <i>Sociedade Anónima</i> companies, despite the fact that the company shareholders are either directly or indirectly owned by the Mozambique State. As a result, the Mozambique Companies were not subject to the same laws and regulations for government-owned organizations, for example procurement laws, which has meant oversight of the entities has been limited.</p>	<p><i>There is a risk that:</i></p> <p>The <i>Sociedade Anónima</i> company structure may be used by companies that are in effect state-owned entities to:</p> <ul style="list-style-type: none"> Operate with a greater level of anonymity; and, Bypass rules and regulations normally applied by the Government of Mozambique for state-owned entities, for example procurement and tendering processes. 	<p><i>Kroll recommends that:</i></p> <ol style="list-style-type: none"> 1. A comprehensive review of Mozambique legislation be undertaken to review how <i>Sociedades Anónimas</i> companies that are in effect state-owned companies ... are treated, regardless of their legal form, by key regulatory bodies including the Bank of Mozambique, the Ministry of Finance and other relevant organisations. Specific focus should on: <ol style="list-style-type: none"> a. Procurement and tendering processes; b. Incorporation of guaranteed debts into the Mozambique State budget; and, c. Monitoring activities of a company's operations. 2. The Government of Mozambique consider making it mandatory for state-owned companies to implement the Organisation for Economic Co-operation and Development guidelines on corporate governance - this requirement should be extended to <i>Sociedades Anónimas</i> companies that are in effect state-owned companies.

Ref.	Observation	Potential Risk	Recommendations
	Kroll's research indicates that Mozambique state-owned enterprises do not follow the Organisation for Economic Co-operation and Development guidelines on corporate governance. ⁴⁷⁰		3. The Government of Mozambique should consider reviewing and strengthening the application and enforcement of the Mozambique Procurement Regulation for Public Hiring by state-owned entities.
2. (3.2.1)	<p>Upfront payment of loan proceeds to Contractor</p> Actual loan proceeds of USD 1.8 billion were directly transferred in several tranches to the Contractors bank account in the United Arab Emirates, in advance of the corresponding assets and services being delivered to the Mozambique Companies.	<p><i>There is a risk that:</i></p> The Mozambique Companies have no control or leverage over the delivery of the supply contracts, i.e., payment of invoices cannot be withheld for non-delivery or incomplete delivery of assets. The Contractor and the Mozambique Companies enter into a closed arrangement enabling funds to be transferred without transparency.	<p><i>Kroll recommends that:</i></p> <ol style="list-style-type: none"> 1. All future contracts (of a similar nature) are structured so that stage payments are made against a specific work programme. 2. An Escrow Account (or similar) is set up to securely manage the disbursement of funds on completion of contracted works. 3. A transparent authorisation process and with clear guidelines for record keeping is established to assess and approve the disbursement of funds.
3. (3.3.1)	<p>Due diligence undertaken by Credit Suisse</p> Kroll requested that Credit Suisse provide a summary of the due diligence undertaken by the bank in relation to the loan agreements with the Mozambique	<p><i>There is a risk that:</i></p> Credit Suisse has not undertaken adequate due diligence on the Mozambique Companies and / or its controlling officers, and as a consequence has enabled the entities to apply the loans	<p><i>Kroll recommends that:</i></p> <ol style="list-style-type: none"> 1. The PGR request, under the Mutual Legal Assistance arrangements in criminal matters, that the UK Authorities request the details of enhanced due diligence documentation from Credit Suisse.

⁴⁷⁰ Source: www.oecd.org/corporate/principles-corporate-governance.htm

Ref.	Observation	Potential Risk	Recommendations
	<p>Companies, including all relevant supporting documentation.</p> <p>Credit Suisse stated to Kroll that it is not in a position to address the due diligence queries in light of limitations arising out of various enquiries into the Prolindus and EMATUM transactions [the reasoning was not further elaborated].</p> <p>Credit Suisse, as a UK financial institution, has an obligation under the UK Money Laundering regulations to undertake enhanced due diligence where there is the prospect of Politically Exposed Persons ("PEPs") being a party to the financial transaction - in this instance the Mozambique Companies are recognised as state-owned companies and consequently those <i>responsible officers</i> i.e., Person A should be regarded as PEPs.</p> <p>Further, Credit Suisse, has an obligation under the UK Money Laundering regulations to establish the Ultimate Beneficial Owner(s) of the Mozambique Companies.</p>	<p>contrary to the stated purpose, i.e., for possibly unauthorised expenditure.</p>	
<p>4. (3.3.1)</p>	<p>Due diligence undertaken by Mozambique Companies</p> <p>The Mozambique Companies, despite repeated requests, have not provided Kroll with any evidence that comprehensive due diligence was undertaken to assess the suitability of the Contractor(s) for the Mozambique Project.</p>	<p><i>There is a risk that:</i></p> <p>The Mozambique Companies may have entered into supply contracts with the Contractor that do not provide value for money, and / or do not meet the specific needs of the Mozambique Companies.</p>	<p><i>Kroll recommends that the PGR:</i></p> <ol style="list-style-type: none"> 1. Formally request SISE provide all classified due diligence documentation prepared in connection with and in relation to the selection of the Contractor; to enable the PGR to: <ol style="list-style-type: none"> a. Obtain evidence to support any potential criminal offenses or other

Ref.	Observation	Potential Risk	Recommendations
5. (3.2.2)	<p>Kroll was informed by Person A that due diligence information is maintained by SISE and that the information is "classified" and cannot be shared with Kroll.</p>	<p><i>There is a risk that:</i></p> <p>All, or part, of the USD 500 million loan proceeds have been used for unintended and possibly improper expenditure and which are not in accordance with the supply contracts agreed between the Mozambique Companies and the Contractor.</p>	<p><i>Kroll recommends that the PGR:</i></p> <ol style="list-style-type: none"> Undertake a Prosecutor-led interview of Person A and other relevant Ministry of Finance employees connected with the matter to obtain explanations on the actual use of the USD 500 million loan proceeds, including clarifications on the "maritime assets" included in the 2014 National Budget transfer.
	<p>Inconsistencies in the stated purpose of USD 500 million loan proceeds</p> <p>Kroll's Independent Audit established that there are inconsistencies in the explanations provided by Person A, the Ministry of Finance, the Ministry of Defence and the Contractor regarding the actual use of USD 500 million of the EMATUM loan proceeds. Until the inconsistencies are resolved, and satisfactory documentation is provided, at</p>		<ol style="list-style-type: none"> Procedures are established by the Ministry of Finance (and other relevant bodies) that require enhanced due diligence to be undertaken on third parties that provide services underwritten by government guaranteees. <p><i>Kroll further recommends that:</i></p> <ol style="list-style-type: none"> Procedures are established by the Ministry of Finance (and other relevant bodies) that require enhanced due diligence to be undertaken on third parties that provide services underwritten by government guaranteees.

Ref.	Observation	Potential Risk	Recommendations
	least USD 500 millions of expenditure of a potentially sensitive nature remains unaudited and unexplained.		<ol style="list-style-type: none"> 2. Formally request further information from Person A to support his/her assertion that military equipment, valued at USD 500 million, was purchased for the Ministry of Defence. 3. Formally request further documentation from the Contractor, specifically the underlying pricing structure to show how the EMATUM loan proceeds were expended in delivering the supply contract.
6. (3.2.3)	<p>Price Comparison (Prolindicus Contract)</p> <p>Kroll has undertaken a price comparison analysis based on the limited documents provided by the Contractor and Prolindicus to date. The analysis has been completed with the support of an industry expert, who has not had an opportunity to physically review the actual specification and condition of assets delivered to Mozambique.</p> <p>None of the invoices provide detailed specification of the assets. The documentation provided by the Contractor to Prolindicus consisted of a one page "Confirmation of deliverables" invoice listing assets and services totalling USD 611,986,800 and several invoices for the provision of thirty-six DV15 Interceptor vessels, three WP18 Interceptor vessels, and sixteen radar stations.</p>	<p><i>There is a risk that:</i></p> <p>Certain assets delivered by the Contractor have been overvalued compared to i) prices outlined in other documents provided to Kroll (i.e., the MAM Business Plan) and ii) the prices estimated by Kroll's independent expert.</p> <p>Further, there is a risk that the price of certain assets have been intentionally inflated to conceal other unintended and possibly improper expenditure.</p>	<p><i>Kroll recommends that:</i></p> <ol style="list-style-type: none"> 1. An independent industry expert (with specific experience in valuing turnkey systems) is engaged to perform a detailed on-site review of the Prolindicus assets, combined with a review of all available documentation, to: <ol style="list-style-type: none"> a. Enable a fully informed view of the price of the Prolindicus Project. b. Highlight any further factors for consideration in the pricing of assets, for example specific specifications that affect the estimated price. c. Provide an opinion on the operational condition of the acquired assets.

Ref.	Observation	Potential Risk	Recommendations
7. (3.2.3)	<p>Price Comparison (MAM Contract)</p> <p>Kroll was not able to assess the price of the MAM Project due to the limited documents provided by the Contractor or the Mozambique Companies to evidence the price of assets and services delivered.</p> <p>Further, Kroll was not provided with any documentation to indicate the value apportioned to the intellectual property / transfer of technology license element of the MAM Contract.</p>	<p><i>There is a risk that:</i></p> <p>The price of certain assets and services have been inflated to conceal unintended and possibly improper expenditure.</p>	<p><i>Kroll recommends that:</i></p> <ol style="list-style-type: none"> 1. A site visit is undertaken by an appropriately qualified individual/team (i.e., specialist quantity surveyor(s)) to the Pemba Shipyard and Maputo Shipyard (once operational), to verify that the specification of the facilities meets the terms of the MAM Supply Contract. This review should also consider whether the facilities are sufficient to enable the construction and maintenance of vessels per the provisions of the MAM Supply Contract. 2. The PGR formally request copies of the intellectual property / transfer of technology license from EMATUM, MAM and / or the Contractor. 3. An appropriately qualified specialist review the content of the intellectual property / transfer of technology license to assess i) the estimated value of the license and ii) the ability to monetise the license.
8. (3.3.2)	<p>Running Fees</p> <p>"Running Fees" totalling USD 57.3 million were agreed as part of the Amended Proindicus Loan Agreement (for a USD 278 million increase to the loan value) dated 17 December 2014, payable to</p>	<p><i>There is a risk that:</i></p> <p>The Running Fees agreed for the Amended Proindicus Loan Agreement do not represent value for money, given that the USD 278 million increase to the loan value</p>	<p><i>Kroll recommends that the PGR:</i></p> <ol style="list-style-type: none"> 1. Formally request Credit Suisse, VTB Capital and Palomar (through the Administrator to the company) provide a written explanation of the rationale

Ref.	Observation	Potential Risk	Recommendations
	<p>Credit Suisse, VTB Capital and Palomar over the course of the loan agreement.</p> <p>Kroll has not seen documentation to explain the rationale for paying Running Fees.</p> <p>Further, Kroll was informed by Credit Suisse that the facility for the USD 278 million increase to the loan value has expired and cannot be drawn down by ProIndicus.</p> <p>The restructure involved an agreement to pay Palomar "Running Fees" totalling at least USD 30.6 million over the course of the loan agreement.</p> <p>On 18 October 2016 Palomar Capital Advisors Ltd was placed into administration. On 17 February 2017 Palomar assigned its rights to receive the Running Fees to an entity called VR Global Partners, L.P.</p>	<p>has expired and was not drawn down by ProIndicus.</p>	<p>for the agreement to pay annual Running Fees.</p>
<p>9. (3.2.3)</p>	<p>Discrepancies in the prices of delivered assets</p> <p>Kroll was not able to undertake a full valuation of the assets and services to be provided by the Contractor under the three supply contracts with the Mozambique Companies. Instead Kroll, with the support of an independent expert, sought to estimate the price of the assets and services provided under each supply contract.</p>	<p><i>There is a risk that:</i></p> <p>Certain assets delivered by the Contractor have been overvalued compared to i) prices outlined in other documents provided to Kroll (i.e., the MAM Business Plan) or ii) the prices estimated by Kroll's independent expert.</p> <p>Further, there is a risk that the price of certain assets have been inflated to conceal unintended and possibly improper expenditure.</p>	<p><i>Kroll recommends that the PGR:</i></p> <p>1. Consider raising a dispute in connection with the unfulfilled delivery of the three supply contracts in accordance with the "Applicable Law and Arbitration Law" clause, in Switzerland, in order to gain access to all relevant documentation maintained in the power, possession or control of the Abu Dhabi entities. The PGR should contact the Swiss Financial Market Supervisory Authority (FINMA) to progress this option.</p>

Ref.	Observation	Potential Risk	Recommendations
	<p>The differences between prices of the assets and services outlined in the invoices provided to Prolindicus and EMATUM by the Contractor, compared to the prices estimated by the independent expert, total approximately USD 713 million.</p> <p>The three supply contracts between the Mozambique Companies and the Contractors state that all disputes arising in connection with the Mozambique Project, if not amicably resolved between the parties, shall finally be settled by an ICC Arbitrator in Geneva, Switzerland.</p>		<p>2. Engage an experienced legal team to consider all the legal remedies that might be available, including in Abu Dhabi, to obtain disclosure of documentation from the Contractor to fully explain the use of the loan proceeds.</p>
<p>10. (3.2.4)</p>	<p>Unexplained USD 53 million payment.</p> <p>Kroll's enquiries identified that EMATUM held an account at Moza Banco which was not recorded in the company's accounting records, and that the account was used to make two interest payments to Credit Suisse totalling more than USD 51 million in March 2014 and September 2014.</p> <p>The two interest payments were funded by transfers into the Moza Banco bank account from a SISE bank account, which contradicts the EMATUM Financial Statements for 2014, which stated that the Contractor, not SISE, provided EMATUM with an advance for USD 53 million for the interest payments to Credit Suisse.</p>	<p><i>There is a risk that:</i></p> <p>The USD 53 million advance stated in the EMATUM Financial Statements for 2014 as being for the interest payments is unaccounted for, and that the funds have been used for unintended and possibly improper expenditure.</p>	<p><i>Kroll recommends that the PGR:</i></p> <ol style="list-style-type: none"> 1. Formally request an explanation from Person A regarding: <ol style="list-style-type: none"> a. How the USD 53 million advance has been utilised. b. The purpose of the Moza Banco account, and the reasons for not recording the account in the company's accounting records. 2. Formally approach the Contractor to obtain a written explanation regarding how the USD 53 million advance has been utilised.

Ref.	Observation	Potential Risk	Recommendations
11. (3.2.5)	<p><u>Operational status of the Mozambique Companies</u></p> <p>Kroll's analysis of bank statements and other related supporting information from the Bank of Mozambique / local Mozambique banks indicates that:</p> <ul style="list-style-type: none"> The Ministry of Finance has funded several principal and interest payments for the Mozambique Companies; The Ministry of Finance has made significant transfers to SISE and / or SISE controlled entities - the purpose of these funds is unknown and cannot be directly tied to the Mozambique Project. 	<p><i>There is a risk that:</i></p> <p>The principal and interest payments funded by the Ministry of Finance may not have been accounted for properly in the books and records of the Mozambique Companies. The funds transferred by the Ministry of Finance to SISE and / or SISE controlled entities are being used for unauthorised expenditure.</p>	<p>3. Formally approach SISE to better understand the source of funds used to make the payment.</p> <p><i>Kroll recommends that:</i></p> <ol style="list-style-type: none"> An in-depth audit of the financial contributions made by the Ministry of Finance to SISE and / or SISE controlled entities is undertaken to: <ol style="list-style-type: none"> Quantify the total value of the funds transferred for the benefit of the Mozambique Project. Quantify total payments made to SISE and/or SISE controlled companies by the Ministry of Finance; Identify the rationale for payments to SISE.
12. (3.2.5)	<p><u>Operational status of the Mozambique Companies (1/3)</u></p> <p>Kroll's analysis of the business plans and feasibility studies for the Mozambique Companies indicates that they were expected to generate combined operating revenues of USD 2.3 billion by December 2016.</p> <p>At the time of reporting, negligible revenue has been generated, and the Mozambique Companies can only meet debt obligations and operational expenses with the</p>	<p><i>There is a risk that:</i></p> <p>The business plans and feasibility studies completed for the Mozambique Companies are based on obsolete information, and do not therefore reflect realistic expected revenues.</p>	<p><i>Kroll recommends that:</i></p> <ol style="list-style-type: none"> An independent review of the business plans and feasibility studies for the Mozambique Companies is undertaken by an appropriately qualified expert to consider the viability of each business plan and feasibility study. The business plans and feasibility studies for the Mozambique Companies are rewritten and remodelled to reflect the findings of the Independent Audit undertaken by Kroll.

Ref.	Observation	Potential Risk	Recommendations
<p>13. (3.2.5)</p> <p>Operational status of the Mozambique Companies (2/3)</p> <p>The Independent Audit, through interviews with key individuals and the review of available documentation, identified that none of the Mozambique Companies are fully operational.</p> <p>Kroll was advised that the following records (or equivalent) should be available for a project of this nature (Kroll has not received any of these documents):</p> <ul style="list-style-type: none"> • A Statement of User Requirement, which outlines the Customer's requirements; • A Concept of Operations (recognizable Maritime Security Plan, which details: how the Monitoring and Protection Solution will work; the technical interaction required between the purchased assets; overview of required employees and related training needs; policy and procedures; and critically the approach to governance in the management and operation of a complex project. • An overview of the approach to systems engineering; and, • A Project Management Plan, which outlines how the Contractor will manage the project. 	<p>financial support of either shareholders, the Ministry of Finance or the Contractor.</p> <p><i>There is a significant risk that:</i></p> <p>The Mozambique Project will not become operational.</p> <p>In any event, it appears that considerable financial investment would be required to operationalise the acquired assets and services, and assuming that future revenues are generated by the Mozambique Companies, it is not known when profits might be realised.</p>	<p><i>Kroll recommends that:</i></p> <ol style="list-style-type: none"> 1. An independent review of the current condition of the assets and services delivered under the supply contracts is undertaken to identify the remedial actions necessary to operationalise the Mozambique Project. 2. A detailed project plan is prepared by a recognised systems integration provider that provides a clear strategy on how the assets and services can be operationalised, including the key dependencies, timeframe and anticipated cost of the actions proposed. 	

Ref.	Observation	Potential Risk	Recommendations
14. (3.2.5)	<p><u>Operational status of the Mozambique Companies (3/3)</u></p> <p>Kroll's analysis shows that shareholders have made transfers to the Mozambique Companies totalling USD 70 million, for interest payments and ... operational expenses.</p> <p>The source of the shareholders' funds has not yet been fully established as a court order is required to access shareholder bank accounts.</p>	<p><i>There is a risk that:</i></p> <p>The shareholders have borrowed funds from local Mozambique banks to service debt repayments or obtained the repayment funds from the Contractor.</p>	<p><i>Kroll recommends that:</i></p> <p>1. A specific document request for records from relevant banks and the Ministry of Finance is completed, followed by a full forensic review of the records undertaken to establish the source of the shareholders' funds to the Mozambique Companies.</p>
15. (3.2.6)	<p><u>Evidence of management failings</u></p> <p>The Independent Audit identified what appear to be considerable management failings in meeting contractual obligations and in establishing the local infrastructure required to enable the Contractor to deliver the intended assets and services, as well as a failure to undertake the required actions necessary to ensure the Mozambique Projects could operate as planned.</p> <p>Throughout the Independent Audit, Kroll made detailed information requests to the Mozambique Companies covering a broad range of financial data, supporting documentation and other information relating to the operations of the Mozambique Companies.</p> <p>The Mozambique Companies have provided limited financial data, including incomplete trial balances and bank</p>	<p><i>There is a risk that:</i></p> <p>The Mozambique Companies have intentionally restricted access to critical documentation.</p> <p>The Mozambique Companies are unable to maintain accurate and complete financial accounts, and are therefore in breach of local Mozambique law.</p>	<p><i>Kroll recommends that the PGR:</i></p> <p>1. Consider the merits of undertaking a full search and seizure exercise of the known business addresses of the Mozambique Companies, and further the known residential addresses of the Directors of the Mozambique Companies, to secure further documentation that may enable further investigation of the matters under consideration. (Note: this exercise should include the requisitioning of any electronic devices that can be imaged, processed and reviewed for relevant content).</p> <p>2. Consider whether the facts enclosed in this report are sufficient to pursue prosecutions of certain individuals for breach(es) of the Commercial Code.</p>

Ref.	Observation	Potential Risk	Recommendations
<p>16. (3.2.7)</p>	<p>Expanding role of the Contractor</p> <p>The Contractor, as well as Palomar, a Privinvest Group company, has had an expanding role in the Mozambique Project. The Contractor has had a role in: structuring the project; introducing Credit Suisse as a lender; agreeing the Contractor Fees (to discount the interest rate payable by the Mozambique Companies on the loans); providing funds to the Mozambique Companies to cover operational expenditure and share capital; and funding loan repayments.</p> <p>Palomar had a role in: arranging the MAM loan agreement alongside VTB Capital; contracting with the Mozambique Companies and the Ministry of Finance to restructure the Proindicus and EMATTUM loan agreement (and receiving fees for doing so); and (for Proindicus) taking responsibility for generating revenues and contracting to receive a proportion of any future revenues.</p> <p>The documents reviewed by Kroll confirm that Person B, Role B, was involved in the restructuring of the Proindicus loan agreement. Person B was previously [Redacted], and was involved in the initial</p>	<p>There is a risk that:</p> <p>The role of Privinvest and/or Palomar in the Mozambique Project does not provide value for money and is disadvantageous for the Mozambique State.</p>	<p><i>Kroll recommends that:</i></p> <ol style="list-style-type: none"> Further work is undertaken to assess the role of Palomar and Person B in regards to the Mozambique Project, especially to assess the value for money aspects of the contract. All existing contracts for services between the Mozambique Companies or the Government of Mozambique, and Privinvest or Palomar, are reviewed to consider their appropriateness and value for money.

Ref.	Observation	Potential Risk	Recommendations
17. (3.2.8)	<p>loan agreements between ProIndicus and Credit Suisse.</p> <p>Process for government guarantees</p> <p>Kroll's work has established that the process taken by the Ministry of Finance to assess and issue government guarantees is determined on a case by case basis. The weaknesses of the current process are documented in Section 8 of this report.</p> <p>Kroll's findings are supported by the CPI, which found that the government had violated the Budget Laws by exceeding the legal limits on guarantees, and should have resulted in the Assembly of the Republic providing legislative authority for the difference in the amount guaranteed, both in 2013 and 2014.</p>	<p><i>There is a risk that:</i></p> <p>The approach taken to evaluating a request for a government guarantee will potentially vary, which increases the risk that an inconsistent criteria is applied to assess the merits of each application.</p>	<p>Kroll recommends that:</p> <p>The Ministry of Finance implement a formal documented process for requesting, reviewing and approving applications for a government guarantee to ensure that a consistent criteria is applied to evaluating the merits of each application, and that decisions are made based on the strengths of each application without interference from third parties.</p> <p>An example approach would be to establish a workflow process which requires the requestor to complete an application form, which is supported by the following information (where applicable):</p> <ul style="list-style-type: none"> Rationale for requesting the government guarantee; Audited accounts for the last three years; Latest management accounts; Three-year business plan and forecast including cash flow forecast; An independent assessment of the business plan and forecast to consider the feasibility of the planned activities; and, Details of corporate structure.

Ref.	Observation	Potential Risk	Recommendations
			<p>Further, consideration should be given by the Ministry of Finance to requiring that the bank(s) providing financing also:</p> <p>Review the completed application form; Itemise the bank fees that will be incurred in relation to the loan agreement; and,</p> <p>Certify that the application form and supporting documentation has been reviewed and approved by the bank.</p> <p>The Ministry of Finance should develop clear criteria to ensure that a consistent approach is taken to assessing the completed application form and supporting data, including checking the eligibility of the requestor to receive a government guarantee, confirming that the application form has been completed satisfactorily, and assessing the overall viability and acceptability of the project.</p> <p>An independent and specialist assessment team should be formed to review, deliberate and decide on the outcome of applications for a government guarantee.</p> <p>Once implemented, the new process for reviewing applications needs to be checked periodically by an</p>

Ref.	Observation	Potential Risk	Recommendations
18. (3.2.9)	<p>Bank Account analysis (Mozambique Companies)</p> <p>Kroll's analysis of bank accounts has focused on:</p> <ul style="list-style-type: none"> Local Mozambique bank accounts for the Mozambique Companies; International payments into Mozambique from the Contractor (and entities related to the Contractor). <p>The observations and findings from Kroll's review of these bank accounts are enclosed in this report.</p> <p>Kroll has not had access to complete information for bank accounts of the Directors of the Mozambique Companies, or any other entity in which the Directors hold an interest, but it is understood that the PGR have requested and obtained bank account information for several individuals of interest.</p>	<p><i>There is a risk that:</i></p> <p>Banks accounts of the Directors of the Mozambique Companies or any other entity in which the Directors hold an interest have been used to improperly channel funds out of the Mozambique Companies.</p>	<p><i>Kroll recommends that:</i></p> <ol style="list-style-type: none"> An independent review is undertaken to gather, review and analyse banks accounts of the Directors of the Mozambique Companies, and any other entity in which the Directors hold an interest, to identify any connected fund flows between entities. An in-depth audit of the bank account information obtained by the PGR for individuals of interest is undertaken by Kroll to assess the rationale and purpose of transactions.
19. (3.2.9)	<p>Bank Account analysis (Prininvest Group companies)</p> <p>Kroll identified a total of 43 payments from Prininvest Group companies to individuals and companies in Mozambique totalling USD 20,418,970.</p> <p>Kroll requested further information for several transactions identified as requiring additional investigation, either because the</p>	<p><i>There is a risk that:</i></p> <p>Payments have been made for unintended and possibly improper expenditure which are not in accordance with the supply contracts agreed between the Mozambique Companies and the Contractor.</p>	<p><i>Kroll recommends that further work is undertaken to:</i></p> <ol style="list-style-type: none"> Establish the rationale for the payments, together with supporting documentation to evidence that the payments are bona-fide. Pursue local Mozambique banks for responses to outstanding requests for

Ref.	Observation	Potential Risk	Recommendations
20. (3.2.2)	<p>payment description was vague or the beneficiary of the payment did not appear to relate directly to the Mozambique Project. Kroll has received limited information relating to these transactions and the purpose of these payments remains unexplained:</p> <ol style="list-style-type: none"> 1. Quilua Holdings Investments SA 2. SEN Consultoria e Investimentos E.I. 3. Person AX 4. Person AZ <p>Kroll has not received responses to all requests for information from local Mozambique banks.</p> <p>Further, Kroll identified issues regarding the search criteria applied by some local Mozambique banks to identify relevant transactions. For example, responses provided did not include known payments to the Mozambique Companies which were identified in Kroll's original review of company bank accounts, which indicates that the search criteria applied by some local Mozambique banks is ineffective to identify relevant transactions.</p>	<p><i>There is a risk that:</i></p> <p>Payments for restructuring fees to certain parties do not represent value for money.</p>	<p>information regarding requested searches.</p> <ol style="list-style-type: none"> 3. Where relevant, instruct local Mozambique banks to re-perform searches to identify payments in any Mozambique bank account from i) known Contractor bank accounts; and ii) other Privinvest Group companies (for example Logistics International bank accounts).
	<p><u>Fees paid to advisors in relation to EMATUM loan restructure</u></p> <p>The Ministry of Finance provided Kroll with a document summarising all fees paid in relation to the April 2016 EMATUM debt restructuring. The document details payments totalling USD 31.4 million to twelve parties including:</p>		<p><i>Kroll recommends that:</i></p> <ol style="list-style-type: none"> 1. Further investigations are undertaken to understand the basis for the restructuring fees for the EMATUM loan.

Ref.	Observation	Potential Risk	Recommendations
	<ul style="list-style-type: none"> • USD 17.3 million to a Banco Nacional de Investimento Mozambique ("BNI Mozambique") and Ernst & Young consortium; • USD 4.1 million to Credit Suisse; • USD 3.8 million to Palomar; • USD 2.1 million to VTB Capital; and, • USD 4.1 million to several other parties. 		

13. Appendices

Appendix A | Glossary of common names and terms

Name	Description
Abu Dhabi Mar	Abu Dhabi Mar LLC , Contractor for the EMATUM supply contract
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]
Arrangement Fees	Fees charged by the Arranger for organising the financing (refer also to Loan Syndication)
Arranger	The bank or financing entities which agree to underwrite the overall loan. For syndicated loans, the Arranger will sell parts of the overall debt commitment made by them to other parties
Bank of Mozambique	Banco de Moçambique
BCI Mozambique	Banco Comercial e de Investimentos Mozambique
BIM Mozambique	Millennium Banco Internacional de Moçambique S.A.
BNI Mozambique	Banco Nacional de Investimentos
CMN	Constructions Mécaniques de Normandie , French shipyard of the PrivInvest Group
Commercial Code	Mozambique Commercial Code Decree Law 2/2005
Contractor	Privinvest Group, Privinvest Shipbuilding S.A.L, Abu Dhabi Mar LLC and Privinvest Shipbuilding Investments LLC (collectively and separately)
Contractor Fees	Upfront fees charged by the lender to account for below market -rate coupons (i.e. interest rate) on the bonds/notes. Contractor Fees are passed onto syndicate members through discounts on the face value of the debt instruments thereby increasing the yield on the bonds/notes to make the returns in line with that which would have been received had the coupon been set at a higher level
CPI	Mozambique Parliamentary Inquiry Commission
Credit Suisse	Credit Suisse International and Credit Suisse AG London Branch (together or separately)
[Redacted]	[Redacted]
EMATUM	Empresa Moçambicana de Atum S.A.
Ernst & Young	Ernst & Young Mozambique , auditors for ProIndicus and EMATUM in 2013 and 2014 financial years
[Redacted]	[Redacted]

Name	Description
EUR	Euro
Facility Agent	The entity that acts as the intermediary between the lenders and the borrower for a syndicated loan. In general, the facility agent is responsible for administrative tasks related to the loan including advising the borrower of repayments due, collecting interest and principal repayments from the borrower and distributing funds to syndicate members
Gestão de Investimentos, Participações e Serviços, Limitada	GIPS, wholly owned Mozambique company owned by SERSSE and a shareholder of ProIndicus, EMATUM and MAM
[Redacted]	[Redacted]
[Redacted]	[Redacted]
IMF	International Monetary Fund
Instituto de Gestão das Participações do Estado	IGEPE, a Government of Mozambique holding company and owner of Monte Binga
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]
Legacy Advisors Limited	Corporate advisor to the Ministry of Finance for the restructuring of the Mozambique Companies loans. Represented by Person K, a [Redacted] at [Redacted]
LIBOR	London Interbank Offered Rate, primary benchmark reference interest used for debt instruments
Loan Syndication	The process by which the Arranger raises loan funds from different parties or sells parts of the overall debt to other parties. (refer also to Arrangement Fees)
Logistics International	Logistics International SAL (Offshore) and Logistics International Investment (together or separately)
MAM	Mozambique Asset Management S.A.
[Redacted]	[Redacted]
[Redacted]	[Redacted]
Ministry of Defence	Mozambique Ministry of National Defence
Ministry of Finance	Mozambique Ministry of Economy and Finance
Monte Binga	Monte Binga, S.A. , Mozambique entity owned by IGEPE and under the authority of the Ministry of National Defence
Mozambique Project	The three supply contracts (including amendments) between the Contractors and the Mozambique Companies

Name	Description
MS Maputo	Maputo Shipyard Lda, Mozambique subsidiary of MAM
MZN	Mozambique Metical
[Redacted]	[Redacted]
Palomar	Palomar Capital Advisors Ltd. and Palomar Consulting LLC (collectively and separately)
PGR	Office of the Public Prosecutor of the Republic of Mozambique
Privinvest Investments	Privinvest Shipbuilding Investments LLC, Contractor for the MAM supply contract
Privinvest Presentation	Mozambique Maritime Projects Presentation , presentation provided to Kroll by the Privinvest Group
Privinvest Shipbuilding	Privinvest Shipbuilding S.A.L Abu Dhabi Branch , Contractor for the ProIndicus supply contract
ProIndicus	ProIndicus S.A.
PS Pemba	PS Pemba Shipyard Lda , Mozambique subsidiary of MAM
[Redacted]	[Redacted]
[Redacted]	[Redacted]
SERSSE	Serviços Sociais do Serviço de Informações e Segurança do Estado , state entity under the authority of the Director General of SISE
SISE	Mozambique State Information and Security Service
Subvention Fees	See Contractor Fees

Appendix B | Interviewees

Entity	Name	Role
Embassy of Sweden	[Redacted]	[Redacted]
Embassy of Sweden	[Redacted]	[Redacted]
Embassy of Sweden	[Redacted]	[Redacted]
Procuradoria Geral da Republica	[Redacted]	[Redacted]
Procuradoria Geral da Republica	[Redacted]	[Redacted]
Ematum, MAM and ProIndicus	[Redacted]	[Redacted]
ProIndicus	[Redacted]	[Redacted]
ProIndicus	[Redacted]	[Redacted]
MAM	[Redacted]	[Redacted]
EMATUM	[Redacted]	[Redacted]
Quinn Emanuel (Legal Advisor to Contractor)	[Redacted]	[Redacted]
Al Tamimi (Legal Advisor to Contractor)	[Redacted]	[Redacted]
Al Tamimi (Legal Advisor to Contractor)	[Redacted]	[Redacted]
Contractor	[Redacted]	[Redacted]
Allen & Overy (Legal Advisor to Credit Suisse)	[Redacted]	[Redacted]
Allen & Overy (Legal Advisor to Credit Suisse)	[Redacted]	[Redacted]
Allen & Overy (Legal Advisor to Credit Suisse)	[Redacted]	[Redacted]
Credit Suisse	[Redacted]	[Redacted]
Ministry of Finance	[Redacted]	[Redacted]
Ministry of Finance	[Redacted]	[Redacted]
Ministry of Finance	[Redacted]	[Redacted]
Ministry of Defence	[Redacted]	[Redacted]

Entity	Name	Role
Ministry of Interior	[Redacted]	[Redacted]
SISE	[Redacted]	[Redacted]
Bank of Mozambique	[Redacted]	[Redacted]
Ernst & Young	[Redacted]	[Redacted]
International Monetary Fund	[Redacted]	[Redacted]

Appendix C | ProIndicus - Utilisation details

Initial utilisation request (21 March 2013)

Utilisation request: The utilisation request, for USD 372 million, was signed by Person A and Person P on behalf of ProIndicus and authorised Credit Suisse to deduct any fees and transaction expenses pursuant to the facility agreement. The utilisation request also authorised Credit Suisse to withhold funds owed by Prinvest to "any financing party".⁴⁷¹

Banks fees: An Arrangement Fee letter for the original loan facility agreement, dated 8 March 2013, states that ProIndicus as the borrower, agreed to pay USD 6 million to Credit Suisse as the arranger of the loan, as well as transaction costs of USD 0.1 million.⁴⁷² These fees are consistent with the figures in an utilisation request dated 21 March 2013.⁴⁷³

Contractor Fee: According to a Contractor Fee letter signed between Credit Suisse and Prinvest Shipbuilding on 21 March 2013, Prinvest Shipbuilding agreed to pay a Contractor Fee of USD 38 million to Credit Suisse for providing the finance. The agreement authorised Credit Suisse to deduct the Contractor Fee from the Contractor Portion.⁴⁷⁴

Actual payment: A SWIFT payment record confirms that on 21 March 2013, Credit Suisse made a payment of USD 327.9 million to the designated bank account of Prinvest Shipbuilding in Abu Dhabi.⁴⁷⁵

Second utilisation (25 June 2013)

Utilisation request: The utilisation request for the second tranche of USD 100 million was signed by Person A and Person P on behalf of ProIndicus and authorised Credit Suisse to deduct any fees and transaction expenses pursuant to the facility agreement. The utilisation request also authorised Credit Suisse to withhold funds owed by Prinvest to "any financing party".⁴⁷⁶

Banks fees: A supplemental fee letter, dated 14 June 2013, signed by Person A and Person P on behalf of ProIndicus, and Person B and Person BB on behalf of Credit Suisse, states that ProIndicus, as the borrower, should pay Credit Suisse, as the arranger, a fee of 1.61% (USD 1.6 million) on any increased loan facility.⁴⁷⁷ These fees are consistent with the figures in the utilisation request dated 21 March 2013.

⁴⁷¹ Document Reference: 2013-03-21 - ProIndicus Utilisation Request - USD 372 million (Clause 6, page 2).

⁴⁷² Document Reference: 2013-03-08 - CS Arrangement Fee Letter (page 1 - 2).

⁴⁷³ Document Reference: 2013-03-21 - ProIndicus Utilisation Request - USD 372 million.

⁴⁷⁴ Document Reference: 2013-03-21 - Contractor Fee Letter (21 March 2013).

⁴⁷⁵ Document Reference: 2013-03-21 - SWIFT Prinvest USD 327.9 million.

⁴⁷⁶ Document Reference: 2013-06-25 - ProIndicus Utilisation Request - USD 100 million (Clause 6, page 2).

⁴⁷⁷ Document Reference: 2013-06-14 - CS Supplemental Arrangement Fee Letter (Clause 4, page 1).

Contractor Fee: According to a Contractor Fee letter signed between Credit Suisse and Prinvest Shipbuilding on 25 June 2013, Prinvest Shipbuilding agreed to pay a Contractor Fee totalling 8.2% of the utilisation amount, equivalent to USD 8.2 million, to Credit Suisse for providing the finance. The agreement authorised Credit Suisse to deduct the Contractor Fee from the Contractor Portion (i.e. the total amount payable to Prinvest).⁴⁷⁸

Actual payment: A SWIFT payment record confirms that on 25 June 2013, Credit Suisse made a payment of USD 90.2 million to the designated bank account of Prinvest Shipbuilding in the United Arab Emirates.⁴⁷⁹

Third utilisation (14 August 2013)

Utilisation request: The utilisation request for the third tranche of USD 32 million was signed by Person A and Person P for ProIndicus and authorised Credit Suisse to deduct any fees and transaction expenses pursuant to the facility agreement. The utilisation request also authorised Credit Suisse to withhold funds owed by Prinvest to "any financing party."⁴⁸⁰

Banks fees: Pursuant to the supplemental fee letter dated 14 June 2013, a fee of USD 515,200 was payable to Credit Suisse for the increased facility. These fees are consistent with the figures in the utilisation request dated 14 August 2013.

Contractor Fee: According to a Contractor Fee letter signed between Credit Suisse and Prinvest Shipbuilding on 12 August 2013, Prinvest Shipbuilding agreed to pay a Contractor Fee totalling 8.2% of the utilisation amount, equivalent to USD 2.6 million, to Credit Suisse for providing the finance. The agreement authorised Credit Suisse to deduct the Contractor Fee from the Contractor Portion.⁴⁸¹

Actual payment: A SWIFT payment record confirms that on 14 August 2013, Credit Suisse made a payment of USD 28.9 million to the designated bank account of Prinvest Shipbuilding in the United Arab Emirates.⁴⁸²

Fourth utilisation (15 November 2013)

Utilisation request: The utilisation request for the final tranche of USD 118 million was sent to Credit Suisse, however the funds were provided by VTB Capital. The request was signed by Person A and Person P for ProIndicus and authorised Credit Suisse to deduct any fees and transaction expenses, owed to Credit Suisse or VTB, pursuant to the facility agreement or other related

⁴⁷⁸ Document Reference: 2013-06-25 - Contractor Fee Letter (25 June 2013).

⁴⁷⁹ Document Reference: 2013-06-25 - Payment Prinvest - USD 90.19 million.

⁴⁸⁰ Document Reference: 2013-08-12 - ProIndicus Utilisation Request - USD 32 million (Clause 6, page 2).

⁴⁸¹ Document Reference: 2013-08-12 - Contractor Fee Letter (12 August 2013).

⁴⁸² Document Reference: 2013-08-14 - Payment Prinvest - USD 28.8 million.

documents. The utilisation request also authorised Credit Suisse to withhold funds owed by Prinvest to "any financing party."⁴⁸³

Banks fees: A facility fee letter dated 15 November 2013 stated that ProIndicus, as borrower, agreed to pay VTB Capital as arranger a fee equal to 1.6% of the facility increase, equating to USD 1.9 million, which is consistent with the utilisation request.

Contractor Fee: According to a Contractor Fee letter signed between VTB, ProIndicus, Prinvest Shipbuilding and Credit Suisse on 15 November 2013, Prinvest Shipbuilding agreed to pay a Contractor Fee totalling 13.22% of the utilisation amount, equivalent to USD 2.6 million, to VTB Capital for providing the finance. The authorisation for withholding the Contractor Fee is addressed to Credit Suisse.⁴⁸⁴

Actual payment: A SWIFT payment record confirms that on 15 November 2013, Credit Suisse made a payment of USD 100.5 million to the designated bank account of Prinvest Shipbuilding in the United Arab Emirates.⁴⁸⁵

⁴⁸³ Document Reference: 2013-11-15 - ProIndicus Increase Notice USD 118 mi (Clause 6, page 2).

⁴⁸⁴ Document Reference: 2013-11-15 - VTB Contractor Fee Letter.

⁴⁸⁵ Document Reference: 2013-11-15 - Payment Confirmation - USD 100.5 million.

Appendix D | ProIndicus - Details of supply contract annexes

Contract Annexes

Kroll has only been provided with copies of the annexes to the Original ProIndicus Supply Contract and to Change Order № 04. The Annexes to Change Order № 04 are dated October 2013, indicating that the documents were prepared after the final change order between ProIndicus and Prinvest Shipbuilding was signed on 28 June 2013.

Annex 01 | Project Description

Annex 01 is a technical project description for the delivery of a Monitoring and Protection Solution for the Mozambique Exclusive Economic Zone.

Annex 01 as provided for the Original ProIndicus Supply Contract is dated "October 2012" and appears to be the proposal presented by Prinvest Shipbuilding to the Government of Mozambique. The document provides an overview of the project, summarizing the key assets to be delivered and indicating an estimated implementation work plan. There are no references to individual prices for the assets.

Annex 01 as provided for Change Order № 04 is an updated and summarised version of the first version, and provides a project overview, listing the assets to be acquired as per amendments to the contract. The document does not include any references to individual prices for the assets.

Annex 02 | Corporate Guarantee

Annex 02 does not appear to have been changed since the Original ProIndicus Supply Contract. The document refers to the contract guarantee provided by Abu Dhabi Mar in relation to the Original ProIndicus Supply Contract.

Kroll was provided with an undated copy of Annex 02 stating the amount to be guaranteed was USD 366 million which was the initial price of the contract.

The absence of changes to Annex 02 indicates that the contract guarantee provided by the supplier was not amended to address changes in the overall contract price to USD 616 million - Person A has confirmed this in a written statement.

Annex 03 | Scope of Supply

Annex 03 in the Original ProIndicus Supply Contract and Change Orders is a Scope of Supply for the Exclusive Economic Zone Monitoring and Protection Solution.

Kroll has only been provided with different copies of Annex 03 for the Original ProIndicus Supply Contract and Change Order № 04.

The main difference between the versions provided to Kroll is related to the quantities of assets and services, as well as models of the Offshore Patrol Vessels and Maritime Patrol Aircraft.

Further, Annex 03 to Change Order № 04 lists a different quantity of WP18 Interceptor vessels than the quantity listed in the asset table and does not include any references to the HSI32 Interceptor vessels.

Annex 04 | Statement of Work

Annex 04 refers to the contractual Statement of Work which defines the tasks, responsibilities and works to be undertaken by Prinvest, and the obligations for ProIndicus.

Annex 04 appears to have been amended in all four Change Orders.

Annex 05 | Technical Specification - HSI32 Interceptor

In the Original ProIndicus Supply Contract, Annex 05 referred to the technical specifications for Offshore Patrol Vessels, although the model of the vessel was not specified in the document. The document summarises the main physical characteristics of the vessel as well as details of the propulsion, electrical and communication systems.

Annex 05 of the original contract also lists the weapons that are fitted to the Offshore Patrol Vessels.

ProIndicus subsequently provided Kroll with a copy of a document which was purported as being Annex 05 (titled "001-D-953-D-10100-02"). The document outlines technical specifications for the HSI32 Interceptor vessels including details of propulsion, electrical and communication systems.

Contrary to the initial Annex 05, the document does not include any references to weapons being fitted to the vessels.

Annex 06 | Technical Specification - DV15 Interceptor

Annex 06 summarises the technical specifications of the DV15 Interceptor vessels. Based on the document control number, the details of Annex 06 were updated in Change Order № 04.

Annex 07 | Technical Specification - Maritime Patrol Aircraft

Annex 07 refers to technical specifications for the Maritime Patrol Aircraft.

The Original ProIndicus Supply Contract stated that two F406 maritime patrol aircrafts would be acquired by ProIndicus and the original annex detailed specifications for this aircraft.

The aircraft quantities and model were changed to six "Seeker" aircraft in Change Order № 01, and Annex 07 was amended to provide details of an unspecified Maritime Patrol Aircraft.

Annex 08 | Technical Specification - WP18 Interceptor

Annex 08 refers to the technical specifications of the WP18 Interceptor vessels and was unchanged from the Original ProIndicus Supply Contract.

Appendix E | EMATUM - Utilisation details

First Utilisation (5 September 2013)

Utilisation request: The utilisation request for the first tranche of USD 500 million was signed by Person A and Person Z and authorised Credit Suisse to deduct any fees and transaction expenses pursuant to the facility agreement.⁴⁸⁶ A 'Notice of Payment account' letter sent by EMATUM to Credit Suisse provided details of the Contractor Portion amount of USD 492 million and also authorised Credit Suisse to withhold funds owed by the Contractor to "any financing party."⁴⁸⁷

Bank fees: A fee letter dated 30 August 2013 stated that EMATUM would pay Credit Suisse an arrangement fee of 1.6% of the total utilisation amount and USD 100,000 in transaction fees.⁴⁸⁸ The bank fees of USD 8.1 million, being the difference between the utilisation amount of USD 500 million and the Contractor Portion of USD 492 million, is consistent with this figure. However, it appears that when signing the utilisation request EMATUM did not factor in USD 100,000 transaction fees and provided the Contractor Portion amount as USD 492 million.⁴⁸⁹

Contractor Fee: According to the EMATUM Contractor Fee letter, the Contractor agreed to pay a Contractor Fee of 9%, equivalent to USD 45 million, of the total utilisation amount to Credit Suisse for providing the finance. The agreement authorised Credit Suisse to deduct the Contractor Fee from the Contractor Portion.⁴⁹⁰ The USD 45 million difference between the Contractor Portion and the amount actually paid to the Contractor represents this Contractor Fee withheld by Credit Suisse.

Actual payment: A SWIFT payment record confirms that on 11 September 2013, Credit Suisse made a payment of USD 446.9 million to the designated bank account of the Contractor in the United Arab Emirates.⁴⁹¹

Second Utilisation (30 September 2013)

Utilisation request: The 'Notice of Payment' request, dated 30 September 2013, for the second tranche of USD 350 million, was signed by Person A and an unknown Executive Director of EMATUM.⁴⁹² The request authorised Credit Suisse to apply the loan proceeds until the Contractor Portion amounted to USD 836.4 million, and to deduct any fees and transaction expenses pursuant to the facility agreement.⁴⁹³

⁴⁸⁶ Document Reference: 2013-09-05 - EMATUM Utilisation Request.

⁴⁸⁷ Document Reference: 2013-09-06 - EMATUM Notice of Payment Account.

⁴⁸⁸ Document Reference: 2014-04-03 - Credit Suisse Fee Letter to MoF.

⁴⁸⁹ Document Reference: 2013-09-06 - EMATUM Notice of Payment Account.

⁴⁹⁰ Document Reference: 2013-08-00 - Contractor Fee Letter (August 2013).

⁴⁹¹ Document Reference: 2013-09-11 - SWIFT Confirmation Record - Credit Suisse USD 447 million.

⁴⁹² Note: Kroll was unable to ascertain the signature on this document.

⁴⁹³ Document Reference: 2013-09-30 - EMATUM Notice of Payment for Upsize.

Banks fees: The fee letter dated 30 August 2013 stated that EMATUM would pay Credit Suisse an arranger fee of 1.6%, equivalent to USD 5.6 million, of the total utilisation amount equivalent. Pursuant to the EMATUM Assignment Agreement, these fees were ultimately paid to VTB Capital as the "New Arranger". The New Arranger is not defined in the EMATUM Assignment Agreement however according to a Credit Suisse fee letter dated 3 April 2014 the New Arranger was VTB Capital for the second tranche.⁴⁹⁴

Contractor Fee: According to the EMATUM Contractor Fee Letter, the Contractor agreed to pay a Contractor Fee of 9%, equivalent to USD 31.5 million, of the total utilisation amount to Credit Suisse for providing the finance. The agreement authorised Credit Suisse to deduct the Contractor Fee from the Contractor Portion.⁴⁹⁵ Pursuant to the EMATUM Assignment Agreement, these fees were ultimately paid to VTB Capital as the "New Arranger". The New Arranger is not defined in the EMATUM Assignment Agreement, however according to a Credit Suisse fee letter dated 3 April 2014, the New Arranger for the second tranche was VTB Capital.⁴⁹⁶

Actual payment: A SWIFT payment record confirms that on 11 September 2013, Credit Suisse made a payment of USD 312.9 million to the designated bank account of the Contractor in the United Arab Emirates.⁴⁹⁷

⁴⁹⁴ Document Reference: 2014-04-03 - Credit Suisse Fee Letter to MoF.

⁴⁹⁵ Document Reference: 2013-08-00 - Contractor Fee Letter (August 2013).

⁴⁹⁶ Document Reference: 2014-04-03 - Credit Suisse Fee Letter to MoF.

⁴⁹⁷ Document Reference: 2013-12-11 - SWIFT Confirmation Payment - Credit Suisse USD 313 million.

Appendix F | EMATUM - Details of supply contract annexes

Annex 01 | Equipment for Co-ordination Center

This document is an undated one page document describing the assets to be provided in relation to the Co-ordination Center.⁴⁹⁸ The asset list includes radar and communication systems. The document states that initial training would also be provided in relation to the Co-ordination Centre, but notes that all necessary infrastructure, facilities and other materials were the responsibility of EMATUM.

Annex 02 | Ocean Eagle – Logistic and Training Specification

This document is a 17 page document that summarises the logistical support to be made available to EMATUM for the operation of the Ocean Eagle vessels.⁴⁹⁹ The annex states that the supplier would provide:

- Equipment vendor documentation and shipbuilder's drawings;
- í Ship handbook and pre and post mission check list;
- í On board spare parts; and
- í Basic operators training.

The annex states that any documents and training to be provided in relation to the support package would be in the English language.

Annex 03 | Ocean Eagle – Technical Specification

This document is a summary of the technical specifications for the Ocean Eagle vessels, outlining the main physical characteristics of the vessel as well as details of the propulsion, electrical and communication systems.⁵⁰⁰

The annex provided indicates that ammunition lockers would be present in the vessels.⁵⁰¹ According to an email dated 4 November 2013 from Person G, on behalf of the Contractor, to Person A, the reference to ammunition lockers was included in error.⁵⁰² Subsequent emails indicate that the reference to ammunition lockers was removed from the annex.⁵⁰³

⁴⁹⁸ Document Reference: Undated - Equipment for Coordination Center (page 2).

⁴⁹⁹ Document Reference: Undated - Technical Specifications - Ocean Eagle.

⁵⁰⁰ Document Reference: Undated - Technical Specifications - Ocean Eagle - Annex 7.

⁵⁰¹ Document Reference: Undated - Technical Specifications - Ocean Eagle - Annex 7 (page 20).

⁵⁰² Document Reference: Undated - Change to Technical Specifications - Ocean Eagle.

⁵⁰³ Document Reference: Undated - Change to Technical Specifications - Ocean Eagle.

Annex 04 | 23.5m Bait Trawler – Vessel Technical Specification

This document sets out the technical specifications of the 23.5m Bait Trawlers.⁵⁰⁴

Annex 05 | 23.5m Longliner – Vessel Technical Specification

The document sets out the technical specifications of the 23.5m Longliner.⁵⁰⁵

Annex 06 | Bait Trawler and Longliner Logistic and Services Specifications

This document sets out details of the technical publications which would be provided for logistical support for the vessels as well as the training details for vessel crew.⁵⁰⁶

Annex 07 | Privinvest Holding Guarantee

This document is the contract guarantee provided by PrivInvest Holding SAL in relation to the contract.⁵⁰⁷ Kroll was provided with an undated and unsigned copy of the guarantee showing the amount to be guaranteed was USD 750 million, which according to the document was the same amount to be paid by EMATUM.

Annex 08 | PrivInvest Shipbuilding Guarantee

According to a letter dated 1 September 2014 from the Contractor to EMATUM,⁵⁰⁸ Privinvest Holding was replaced as guarantor by PrivInvest Shipbuilding.⁵⁰⁹ The letter states that the guarantee would take effect upon signature by both parties, however the copy supplied to Kroll has only been signed by a representative from the Contractor. The guarantee was attached as an annex to the letter and stated that the total guarantee would be USD 785.4 million, reducing over time.

⁵⁰⁴ Document Reference: Undated - Technical Specifications - 23.5 m Trawler.

⁵⁰⁵ Document Reference: Undated - Technical Specifications - 23.5 m Longliner.

⁵⁰⁶ Document Reference: Undated - Technical Specifications - 23.5 m Trawler and 23.5 m Longliner.

⁵⁰⁷ Document Reference: Undated - Corporate Guarantee - Privinvest Holding SAL.

⁵⁰⁸ Document Reference: 2014-09-01 - Abu Dhabi Mar Letter - Changes in Privinvest Contract Guarantee.

⁵⁰⁹ Document Reference: 2014-09-01 - Abu Dhabi Mar Letter - Attachment - Privinvest Shipbuilding Guarantee.

Appendix G | MAM - Utilisation details

First Utilisation Request (23 May 2014)

Utilisation request: A VTB Capital loan disbursement confirmation dated 11 June 2014 stated that an Utilisation Request was sent by MAM on 23 May 2014 for USD 435 million.⁵¹⁰ Kroll was not provided with a copy of the MAM First Utilisation Request for the USD 435 million.

Bank fees: The VTB Capital loan disbursement confirmation states that an amount of USD 28.5 million was withheld by VTB Capital in settlement of fees.⁵¹¹ This is consistent with the terms of a VTB Arrangement Fee Letter dated 23 May 2014.⁵¹²

Actual payment: A SWIFT payment record confirms that on 23 May 2014, VTB Capital made a payment of USD 406.5 million to the designated bank account of the Contractor in the United Arab Emirates.⁵¹³

Second Utilisation Request (11 June 2014)

Utilisation request: The utilisation request for the second tranche of USD 100 million was signed by Person A and Person M and authorized VTB Capital to deduct any fees pursuant to the facility agreement. The utilisation request provided the amount of the Contractor Portion to be paid to the Contractor as USD 93.5 million.⁵¹⁴

Banks fees: An amount of USD 6.5 million was withheld by VTB Capital, being the difference between the utilisation request amount and the Contractor Portion, which was consistent with the terms of an Arrangement Fee Letter dated 23 May 2014.⁵¹⁵

Actual payment: A SWIFT payment record confirms that on 11 June 2014, VTB Capital made a payment of USD 93.5 million to the designated bank account of the Contractor in the United Arab Emirates.⁵¹⁶

⁵¹⁰ Document Reference: 2014-06-11 - VTB Disbursement confirmation & Payment Notice ⁵¹¹

Document Reference: 2014-06-11 - VTB Disbursement confirmation & Payment Notice ⁵¹²

Document Reference: 2014-05-23 - VTB Arrangement Fee Letter.

⁵¹³ Document Reference: 2014-05-23 - SWIFT Confirmation Payment - VTB USD 406.5 million.

⁵¹⁴ Document Reference: 2014-06-11 - MAM Utilisation Request USD 100 million. ⁵¹⁵

Document Reference: 2014-06-11 - MAM Utilisation Request USD 100 million. ⁵¹⁶

Document Reference: 2014-06-11 - MAM Utilisation Request USD 100 million.

Appendix H | MAM – Detail of supply contract annexes

Annex 01 | Shipyard Overview

This document provides an overview of the proposed scope of supply for the construction of the shipyard, which was subject to changes at the discretion of the Contractor.⁵¹⁷ The document indicates the facilities that would be part of the shipyard and the respective details of each. According to the document, the shipyard would have departments for maintenance and repairs, design and engineering, steel fabrication, mechanical and electrical works.

Annex 02 | Dual Purpose Vessel

This document is a summary of the technical specifications for the Dual Purpose Vessel outlining the main physical characteristics of the vessel as well as the vessel's general arrangement and accommodation details.⁵¹⁸

The document also sets out the purposes of the Dual Purpose Vessel stating that its primary function would be *"to provide additional maintenance and support for the bases for a period of 24 months starting at EDC + 6 months."* The secondary function would be *"to be used, if and when needed, in certain locations due to extra ordinary conditions that require additional focus and concentration of vessels and maintenance resources."*

Annex 03 | DV15 Interceptor specification

Kroll has not been provided with any copies of Annex 3, however copies of specifications were provided for ProIndicus. It cannot be confirmed if these specifications remained the same.

Annex 04 | WP18 Interceptor specification

The document sets out the technical specifications of the WP18.⁵¹⁹

Annex 05 | HSI32 Interceptor specification

The document sets out the technical specifications of the HSI 32.⁵²⁰

⁵¹⁷ Document Reference: Annex 1 - Shipyard Overview.

⁵¹⁸ Document Reference: Annex 2 - Dual Purpose Vessel.

⁵¹⁹ Document Reference: Annex 4 - Technical Specification WP 18.

⁵²⁰ Document Reference: Annex 5 - HSI Technical Specification.

Appendix I | Government guarantee approval process

The process for the issuance of the government guarantees to ProIndicus, EMATUM, and MAM can be summarised as follows:

13.1.1 Step 1: Request for government guarantee

Kroll was informed that the first step in the government guarantee process was that the Role C, Person C, was approached by the Role E, Person E to discuss the request for the government guarantee.

Person E sent letters to the Role C formally requesting the issuance of government guarantees for the loan facilities.⁵²¹ The letters included the amount to be financed by the companies, as well as the rationale for the financing. As explained below, no formal request letter has been provided by the Ministry of Finance or ProIndicus for the original ProIndicus government guarantee.

Kroll was informed that once government guarantee requests are acknowledged by the Ministry of Finance, they are forwarded to the [Ministry of Finance] for further assessment.

13.1.2 Step 2: Assessment by Ministry of Finance

Kroll was informed that two committees were created for the assessment of the government guarantee requests submitted by SISE. The committee members were representatives from the Ministry of Finance, SISE and the Mozambique Companies. There is no indication that other individuals were involved in the assessment process.

The members of the first committee consisted of Person C, on behalf of the Ministry of Finance, and Person E, on behalf of SISE. The first committee discussed the importance of the underlying project. The second committee reviewed the technical aspects of the government guarantees and feasibility studies for the companies. The second committee was formed by Person A, on behalf of both SISE and the Mozambique Companies, and Person D, who was then Role D. In respect of the first government guarantee issued to ProIndicus, an individual named Person L also sat on the second committee as an employee of the Ministry of Finance.

Kroll was provided with documents indicating that for the issuance of the first government guarantee in relation to the ProIndicus facility, discussions with Credit Suisse were also part of the assessment conducted by the Ministry of Finance.⁵²² The documents indicate that the discussions were related to negotiations about the terms and conditions of the guarantees and loans.

⁵²¹ Document Reference: 2013-05-10 - SISE Request Gov Guarantee Increase USD 250 mi, 2014 -11-13 - SISE Request Gov Guarantee Loan Restructuring USD 278 mi, 2013-08-16 - SISE Request for Gov Guarantee USD 850 mi, and 2014 -04-25 - SISE Request Gov Guarantee.

⁵²² Document Reference: 2013-02-26 - MoF Opinion Issuance of Gov Guarantee.

Kroll was informed, and documents indicate, that the technical assessments included an analysis of the Mozambique Companies' corporate information, the terms of the underlying loan agreements and guarantees, an assessment of the feasibility studies provided by the companies and the importance of the projects for Mozambique's national security.⁵²³ Kroll was not provided with documentation to evidence that the assessment included consultations with third parties to confirm the accuracy of information provided by the requestor, advice on the legal terms of the loan agreements and government guarantees, or to independently verify the impact of the government guarantees on the State of Mozambique.

Documents provided by the Ministry of Finance show that the Ministry of Finance's assessment of the companies' feasibility studies indicated that those entities would be able to generate enough revenue to meet their financial obligations in relation to the loans.⁵²⁴ According to Person C, his/her understanding was that because of the anticipated revenue generation, the government guarantees would never be used for the payment of loan interest and principal. Additionally, Person C stated, and documents support, that the Ministry of Finance also considered the secret nature of the projects when conducting its assessment of the requests.⁵²⁵

13.1.3 Step 3: Approval by the Role C

Once the assessment was completed, the Ministry of Finance issued an opinion on the guarantee request that was then sent to the Role C. No further reports or meeting minutes were prepared in relation to the assessment conducted by Ministry of Finance.

The Role C then had the right to accept or reject the application for the government guarantee.

⁵²³ Document Reference: 2013-02-26 - MoF Opinion Issuance of Gov Guarantee, and 2014 -04-30 - MoFs Opinion on SISE Gov Guarantee Request.

⁵²⁴ Document Reference: 2014-04-30 - MoFs Opinion on SISE Gov Guarantee Request.

⁵²⁵ Document Reference: 2013-02-26 - MoF Opinion Issuance of Gov Guarantee, and 2014 -04-30 - MoFs Opinion on SISE Gov Guarantee Request.

Appendix J | Sample photographs from field visits

13.1.4 Fishing vessels (Maputo)

Image 1 | Alalunga II



Image 2 | Alalunga III



Image 3 | Albacares III



Image 4 | Albacares II



13.1.5 Floating pontoons (Maputo)

Image 5 | Pontoons (Panoramic)

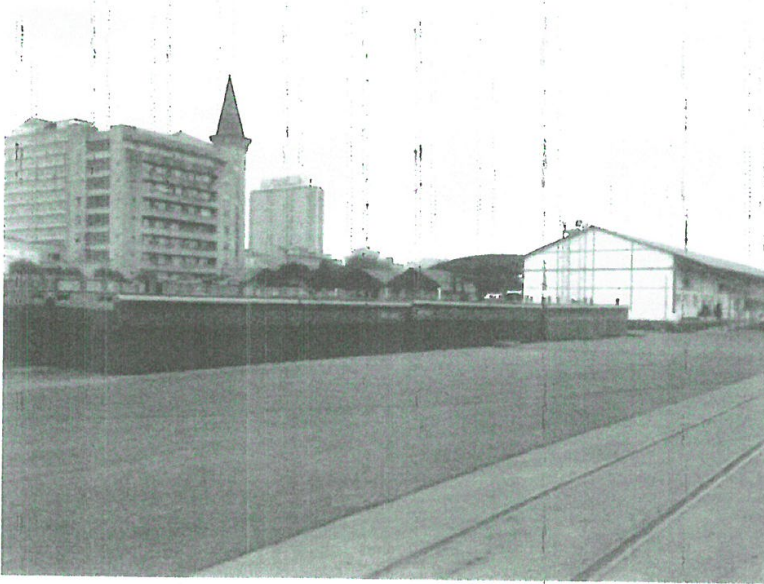
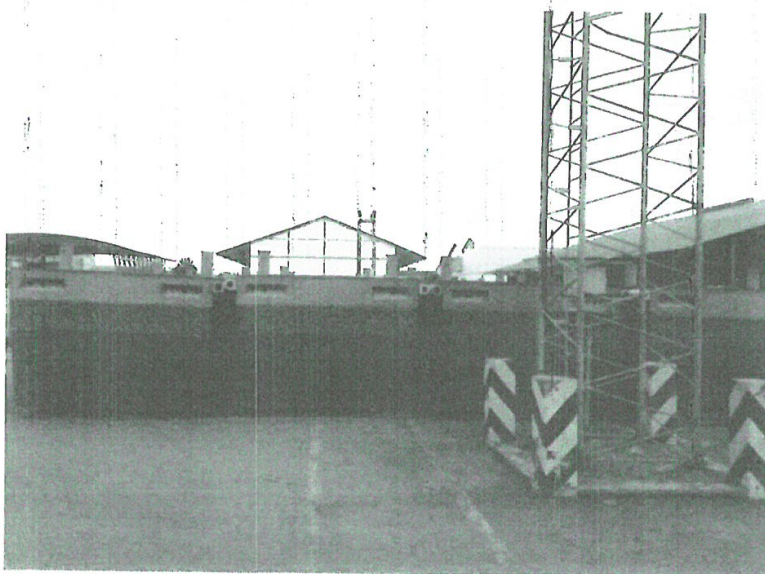


Image 6 | Pontoons (Close up)



13.1.7 Pemba Facility (Pemba)

Image 9 | Pemba Facility (Entrance)



Image 10 | Pemba Facility (Workshops)



13.1.6 WP18 Interceptor Strike Craft / DV15 Interceptor (Maputo)

Image 7 | WP18 Interceptor (Rear)



Image 8 | DV15 Interceptor (Front)

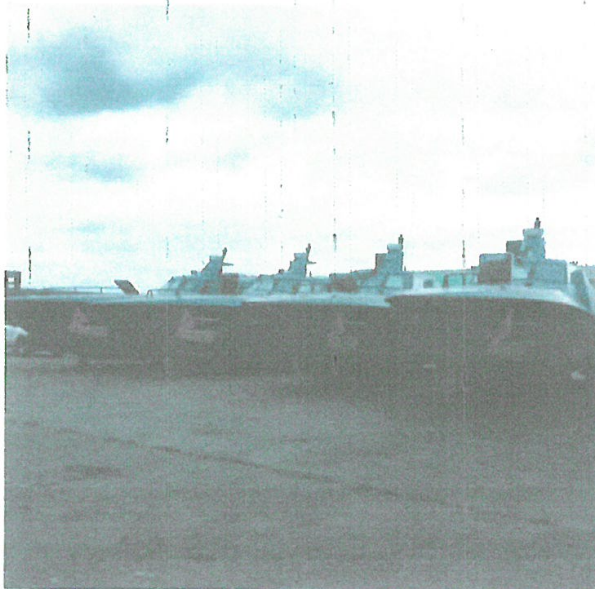


Image 13 | Pemba Facility (Workshop equipment)

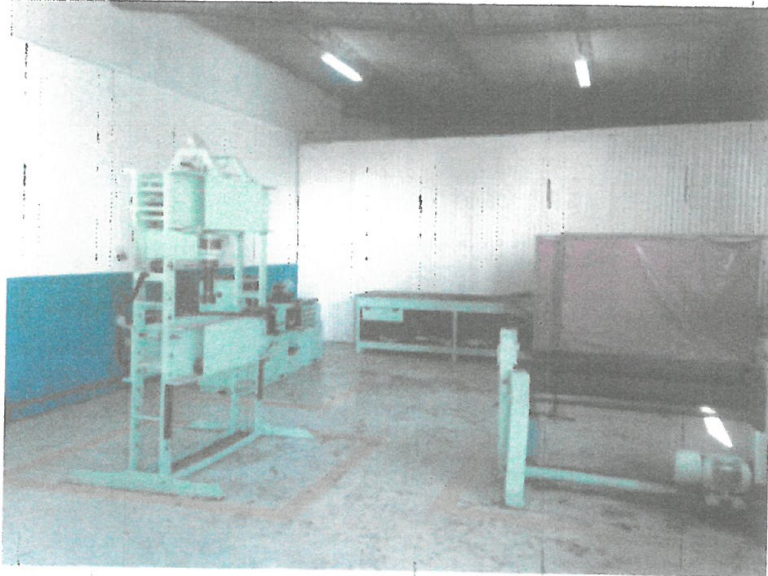


Image 14 | Pemba Facility (Workshop equipment)

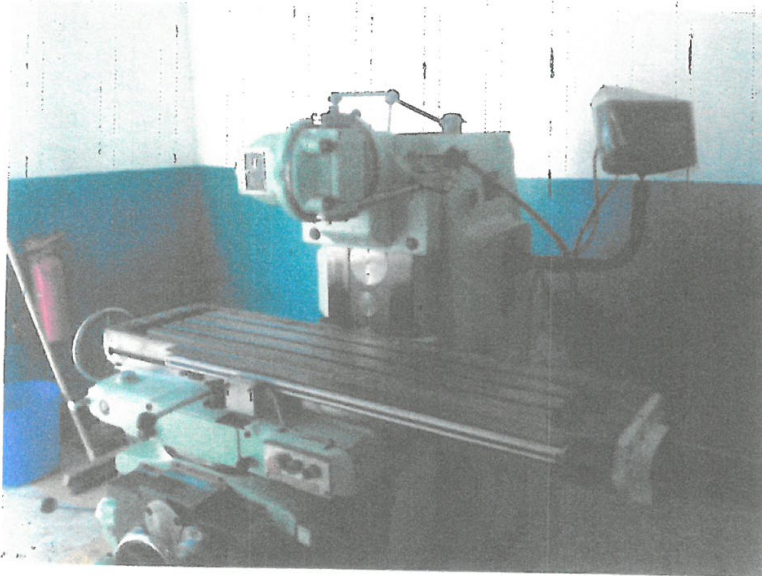


Image 11 | Pemba Facility (Panoramic)



Image 12 | Pemba Facility (Work shed)



13.1.8 Ocean Eagle, HSI32 Interceptor and DV15 Interceptor (Pemba)

Image 15 | Ocean Eagle, HSI32 Interceptor and DV15 Interceptor (Panoramic)



Image 16 | DV15 Interceptor (African Storm in background)



