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

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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.

Contents

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 "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.

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:

- Obtaining comprehensive debriefs from key stakeholders;
- Requesting and obtaining relevant information from the Mozambique Companies and relevant Mozambique authorities;
- Meeting certain individuals deemed appropriate by the PGR; and,
- 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 additional to the information requests to the Mozambique Companies, Kroll issued formal letters of request, with the assistance of the PGR, to the following parties:

- The Contractor;
- Credit Suisse and VTB Capital;
- The Bank of Mozambique (and certain local Mozambique Banks);
- The Mozambique Ministry of Finance; and,
- Other parties, including Ernst & Young (the external auditors to the Mozambique Companies), the Ministry of Defence and the State Information and Security Service ("SISE").

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 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 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 100,000[1]: not considered further for the Independent Audit;
- Round number transactions above USD 100,000 but below USD 250,000[2]: submitted for further review; and,
- All transactions above USD 250,000[3]: submitted for further review.

[1] Note: USD value or MZN equivalent.

[2] 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.

[3] Note: USD value or MZN equivalent.

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.

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.

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 "Privinvest Presentation") by the Contractor. The Privinvest 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 Privinvest Presentation set out the following objectives for the Mozambique Companies:

ProIndicus: To acquire an Exclusive Economic Zone monitoring and protection solution from the Privinvest Group. ProIndicus signed a supply contract with Privinvest 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 Privinvest 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. The Privinvest Group, in the Privinvest 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.

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)[4]	-	(140,923,600)
Total Paid to Contractor	**547,463,200**	**759,800,000**	**500,000,000**	**1,807,263,200**

[4] 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.

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.[5] 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 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 Palomar[6] (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") and Ernst & Young consortium;
- USD 4.1 million to Credit Suisse
- USD 3.8 million to Palomar
- USD 2.1 million to VTB Capital

[5] Note: This was broken down as USD 554 million under the ProIndicus contract, USD 763 million under the EMATUM contract and USD 459 million under the MAM contract.

[6] Note: Throughout this report, "Palomar" refers to Palomar Capital Advisors Ltd and Palomar Consultants LLC.

- USD 4.1 million to several other parties

The Ministry of Finance informed Kroll that the BNI 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.

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. The 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 has been 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 an 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, 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 2014 audited financial statements, 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 18 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 value 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 Privinvest 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; funding loan repayments; arranging the MAM loan agreement alongside VTB Capital; contracting with the Mozambique Companies and the Ministry of Finance to restructure the loan agreements (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 [Redacted]). 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 the 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, 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 Non-Executive Director 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 I 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 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 former [Redacted] employee.

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%). 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") and guaranteed by the Ministry of Finance. The second payment was solely funded by GIPS through transfers from SISE to a GIPS BNI 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 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.[7] 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 values. An extract of the ProIndicus Invoice is provided at Figure 1.

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

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 how the limited invoice documentation potentially breaches certain Articles in the Mozambique Commercial Code in Section 9 of this report.

Table 3 summarises the scope of supply and corresponding values.

Table 3 I 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,[8] stated that the Vigilante 400 CL vessels (which were subsequently removed from the contract) would be fitted with a [Redacted] and [Redacted], and that DV15 Interceptor vessels would be fitted with a [Redacted] designed to accommodate a [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]*."*

[8] Note: Original supply contract provided by ProIndicus, not the Contractor.

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 partnershi*p" 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 "*Privinvest 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 e de Investimentos Mozambique ("BCI") bank account held by ProIndicus received an amount of USD 12,999,958 from an account in the United Arab Emirates held by the Contractor.

The notes to ProIndicus' audited financial statements for 2013 state "*…on 23 October 2013,*[9] *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."*[10]

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."*

[9] 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.

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

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 Privinvest 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 impended 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 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 I 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)
Sub-Total ("Contractor Portion")		*836,300,000*
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 Suisse[11] 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 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.

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

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 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:

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

Ref.	Advisor	Role	Amount (USD)[12]
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

[12] 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."

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 has been 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 amount debt raised (2%);
- for the amount of notes exchanged (2%); and,
- for the amount of equity if raised (2%).

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 audited financial statements, 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, [13] a Privinvest Group company. The 2013 and 2014 audited financial statements of 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 EMATUM 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.

[13] Note: Logistics International refers to Logistics International SAL (Offshore) and Logistics International Investments.

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 audited financial statements for 2014 for EMATUM 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."*

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 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 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 value 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 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 how the limited invoice documentation potentially breaches certain Articles in the Mozambique Commercial Code in Section 9 of this report.

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 I 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
Ocean Eagle vessels[14]	*Est. 73,410,000*	*3*	*Est. 220,230,000*
Equipment Centre	Unstated	1	80,822,000
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 Privinvest 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 ProIndicus regarding the location of the remaining Camcopter drone which was purportedly delivered to Mozambique in September 2014. The value of each Camcopter drone is not known.

[14] 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.

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.

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. 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 was 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."*[15]

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

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.

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.

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 Longliner 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 I 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 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 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. 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."[16] 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:

- Construction and fit out of a shipyard in Pemba;
- Construction of eighteen DV15 Interceptor vessels;

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

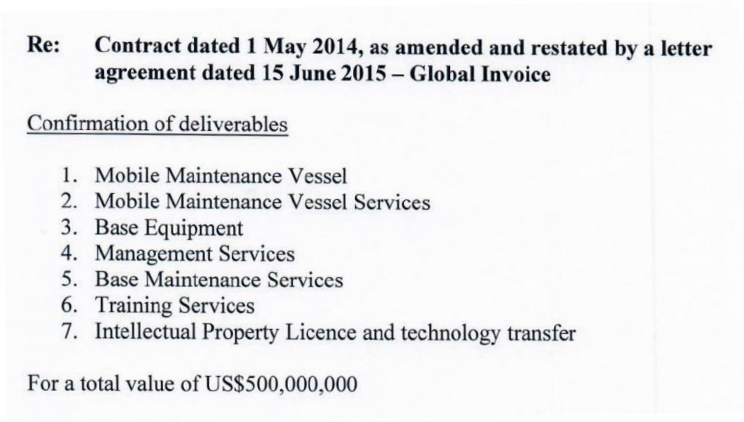
- Upgrade of two existing facilities in Maputo and Beira to provide maintenance and servicing to the ProIndicus and EMATUM vessels, as well as offshore oil and gas vessels;
- Management of the Pemba Shipyard and the Maputo and Beira facilities for a two year period;
- Transfer of the intellectual property 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);
- Provision of a Dual Purpose Vessel, and associated crew, for a period of two years; and,
- 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 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 value 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 how the limited invoice documentation potentially breaches certain Articles in the Mozambique Commercial Code in Section 9 of this report.

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. It is noted that ProIndicus, not the Contractor, appears to have received and paid invoices from Spectre for the services delivered.

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 clear 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 account in Mozambique from a Logistics International 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 Privinvest Presentation that the key issues included:

- **Sites:** MAM was severely delayed in procuring access and control of the sites required for the project.
- **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).

- **Visas:** MAM had not procured valid work visas for Contractor personnel.
- **Customs Clearance:** MAM had not paid the customs duties due on certain containers, holding equipment and materials, or otherwise procured their timely release.
- **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	№	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	№	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	№	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 values 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* [Privinvest] *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	№	ProIndicus Invoice - 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).

3.6.5.2 Price comparison of EMATUM assets

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	№	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	№	ProIndicus Invoice - 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 Privinvest Group and Palomar

3.7.1 The Privinvest Group and Palomar

The Contractor stated in the Privinvest Presentation that they introduced ProIndicus to Credit Suisse following a written request from the Person C. From 2013 the Privinvest 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 Privinvest Group. The Palomar corporate website describes itself as providing financial advisory and asset management services.[17]

Person B is a Role B[18] and documents show that he/she advised the Ministry of Finance and the Mozambique Companies on behalf of Palomar from 2013 onwards in relation to the loan restructure. Person B was previously an employee of [Redacted] and was involved in negotiating and approving 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.

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.

[17] Source: http://www.plmr.com/.
[18] Note: Palomar Capital Advisors Ltd

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.

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 unclear.

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 clear 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. Kroll requested further information from the Contractor for this transaction – at the time of reporting no further information had been provided to Kroll.

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 I 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 C, 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 Minister of Finance 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"*[19] 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.

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

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 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.[20] 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):
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

[20] 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.

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.

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