Ministry of Mineral Resources and Energy

FINAL REPORT

THE STATE-OWNED ENTERPRISE SECTOR OF MOZAMBIQUE AND STRENGTHENING REPORTING ON STATE PARTICIPATION BY THESE COMPANIES AND EITI

October, 2021

List of Acronyms and Abbreviations

AMA1	Anadarko Mozambique Area 1
ANEA	National Atomic Energy Agency
AQUA	National Agency for Environmental Quality Control
AT	Tax Authority
BOE	Barrels of Oil Equivalent
CCPP	Research and Production Concession Contracts
CFM	Ports and Railways of Mozambique
CMG	Mozambican Gas Pipeline Company
CMH	Mozambican Hydrocarbon Company
CTRG	Ressano Garcia Thermal Power Station
DGA	General Directorate of Customs
DGI	General Directorate of Taxes
DNT	National Directorate of Treasury
EMEM	Mozambican Mining Company
ENH	National Hydrocarbon Company
IMF	International Monetary Fund
GJ	Gigajoule
LNG	Liquefied Natural Gas
IDE	Foreign Direct Investment
IFC	International Finance Corporation
IGEPE	Institute for the Management of State Participations
INAMI	National Institute of Mines
INE	National Statistics Institute
INP	National Petroleum Institute
EITI	Extractive Industry Transparency Initiative
ITIEM	Extractive Industry Transparency Initiative in Mozambique

VAT	Value Added Tax
KOGAS	Korean Gas Corporation
MEF	Ministry of Economy and Finance
MGC	Matola Gas Company, SA
MIREME	Ministry of Mineral Resources and Energy
MTA	Ministry of Land and Environment
MMAIP	Ministry of the Sea, Inland Waters and Fisheries
NUIT	Unique Tax Identification Number
OE	State Budget
GDP	Gross Domestic Product
REO	State Budget Execution Report
ROMPCO	Republic of Mozambique Pipeline Company
SASOL	Sasol Petroleum Mozambique Limited
SOE	State-Owned Enterprise
SPT	Sasol Petroleum Temane, Lda
TA	Administrative Court
AT	Autoridade Tributária
ACIS	The Association of Commerce, Industry and Services (ACIS)
USAID	United States Agency for International Development

Executive Summary

The Government of Mozambique has committed itself to implementing the Extractive Industry Transparency Initiative (EITI) in order to increase transparency and responsibility in the management of extractive resources. In June 2009, Mozambique became an implementing country, having been considered compliant in October 2012 and therefore admitted to the Club of EITI member countries.

EITI is a global standard that promotes transparency and accountability in the oil, gas and mining sectors. The EITI Standard has introduced new requirements for drafting reports of state-owned enterprises, including: disclosure of financial transfers between the state-owned enterprises and other government entities; and disclosure of income received on behalf of the government and spending on social services, public infrastructure or fuel subsidies.

It is in this perspective that the EITI launched a study to identify elements for SOE disclosure of strengthening the Extractive Sector. This report presents the results of this study, which analyzed data for state participation in the extractive industry and the role of the State Owned Enterprises under the requirements of the context (2.6, 4.2, 4.5 and 6.2) of the Standard EITI in 2019.

Mozambique has a vast potential and diversity of mineral and hydrocarbon resources, whose knowledge constitutes the key factor to ensure its sustainable management and exploitation, in order to better contribute to the country's development.

The main basins of Mozambique extend along the coastal plain of central and southern Mozambique, while the Rovuma Basin is located in the north of the country, from the coastal zone to the deep offshore waters. There are currently 10 exploration areas in these two basins, and ENH participates in these activities in partnership with other international operators.

In relation to mining, at the beginning of the year 2000 several Industrial Free Zones and Special Economic Zones were created in the country, with emphasis on the Moma Industrial Free Zone, where Kenmare's Moma Heavy Sands Project is operating; and the Moatize Industrial Free Zone, where the mega coal mining projects were installed (Companhia do Vale do Rio Doce called Vale de Mozambique and Riversdale Mining, called Riversdale Mozambique). These mega-projects have significant impacts on the Mozambican economy, environment, culture and social field.

The growth of the extractive industry has pressured the country to review, improve and elaborate regulatory instruments such as laws, resolutions, decrees, ministerial diplomas, policies, strategies and master plans. These instruments aim to accompany the dynamics of the developments of the extractive industry, in order to attract more investments to the sector, to ensure the competitiveness, transparency and protection of the holders of mining concessions and areas for the exploitation of hydrocarbons and, above all, to safeguard the national interest and community benefits.

In recent years, a legal and regulatory framework for the SOE has been produced, namely Law No. 3/2018, which enshrines the principles and rules applicable to the SOE and the Scope of the Decree No. 10/2019. The new diploma applies to companies or companies in which the State is the sole shareholder or is a majority shareholder. The new rules determine the role of the State as a shareholder, as well as the organization, operation and management of each governing body of the companies concerned. Law no. 2/81, of 30 September, Law no. 17/91, of 3 August and Law no. 6/2012, of 8 February, on the same matter were revoked.

Conclusions

State participation in the oil, gas and mining sector is complex and the rules that govern the sector are not yet accessible from the point of view of interpretation and practical application. This participation is verified through public entities and state-owned companies, and its financial relations with the State, supported by Law No. 3/2018 as well as by Decree No. 10/2019, occur through the payment of dividends and transfers of operating subsidies.

The legislation on the SOE is recent, which requires greater disclosure, monitoring of the implementation by the relevant entities, namely IGEPE audit and inspection institutions and debate entities to allow the improvement of their understanding and the identification of aspects that need improvement and revision.

The State as a shareholder and holder of capital, received a total of 2,339.16 million Meticais from its companies as dividends, of which more than 71% comes from CMH, however, EMEM was the only company that did not pay dividends in the period from 2016 to 2020.

Under Article 11 of Law No. 15/2018, of 20 December, the Government was authorized to issue in 2019, guarantees and sureties amounting to 151.250 million meticais. From the stipulated limit, 136.125 million Meticais were allocated to support the Extractive Industry of the Owned-State Enterprise, namely the participation of the Empresa Nacional de Hidrocarbonetos (ENH) in the LNG project in the consortium led by Total SA (also known as Golfinho - Atum in Area 1) in the Rovuma Block. The remaining 15.125 million meticais were allocated the remaining companies of the State-Owned Enterprise Sector, that are not part Extractive Industry.

The Government of Mozambique has the right to receive up to 5% of the natural and condensed gas produced and sold to be paid to the Government by the concessionaire, by way of payment in kind of the Petroleum Production Tax, which amount of gas is called “royalty”. Currently, the royalty paid in-kind natural gas received by the Government corresponds to the Petroleum Production Tax paid by Sasol Petroleum Temane (SPT). For the Petroleum Production Contract (CPP), related to the Pande and Temane fields, it corresponds to 5% of the gas produced and sold, and can be paid in kind or in cash.

According to the information provided by MIREME the total volume of natural gas royalty paid in kind allocated to the Government in the period amounted to 24,564,298.66 GJ, and the total gas condensate royalty paid in cash was 1,753,716.65 USD. Of the total gas paid in kind, 68% was allocated to Matola Gas Company, SA and the rest to Kuvaninga and Empresa Nacional de Hidrocarbonetos - ENH.

As for the selection of buying companies of gas, the government is granting allocation to customers, and through this allocation, ENH plays its role is to manage business operations (including the price of gas, transport rates and its assumptions, technical aspects such as the gas specification and quantities to be taken on a daily, monthly and annually). This selection process follows the criteria recommended in the Gas Allocation Policy contained in the Natural Gas Master Plan.

The Law that establishes the principles and rules applicable to the State-Owned Enterprise Sector (Law no. 3/2018, of 19 June) and the corresponding regulation (Decree no 10/2019, of 26 February), make no mention the requirement for state-owned companies to make expenditures on behalf of the government. In the analysis of the Financial Statements of the SOE companies in the extractive industry, there was no evidence of the occurrence of quasi-fiscal expenditures.

Recommendations

IGEPE must ensure the full extent of the State's direct and indirect participation in the extractive sector and define rules that oblige SOE to provide information on sovereign guaranteed financing (with emphasis on the interest rate and payment schedule), order to allow the analysis of the conditions to which the State is submitted to guarantee participation extractive projects.

Legislation on the SOE is recent, which requires greater disclosure, monitoring of implementation by the relevant entities, namely IGEPE and inspection entities, and debate to allow the improvement of its understanding and the identification of aspects that need improvement and revision.

Improve the process of disclosing the audited financial statements of the SOE companies in the extractive industry, mainly on the companies' websites, which may allow the society in general to learn about the benefits of the State's participation in the extractive industry through the SOE companies, including where the state is minority shareholders.

In relation to the allocation of royalty gas, the State must define and implement rules and / or criteria for the selection of gas purchasing companies, publicize sales contracts, as well as payment methods, with a view to maximizing the gains from payments in and greater transparency in the process.

Contribute to improving the understanding of requirement 6 of social and economic expenditures in general, and 6.2 of quasi-fiscal expenditures in particular, through the definition of rules that clarify whether or not such expenditures are permitted.

In order for ITIEM to improve understanding, there will need to be capacity building sessions for the MSG.

Continuing the struggle for full transparency in natural resource negotiation processes, awarding concessions, contract terms, transfers, payments, use of payments, the relationship between extractive explorations and other economic and social activities, environmental impacts, impacts in people's lives, systems and resource valuation, etc.

Establishment of a working system to discuss, evaluate and adopt the recommendations of the EITI report and other related evaluations, as well as monitor their implementation.

Review of systems for providing detailed information about the operations of public companies in the mining and hydrocarbons sector and the State.

Reviewing the compliance of appropriate laws and regulations and ensuring their full application.

Review of government participation in the extractive sector. Clarify or simplify equity participation and consider participation in profitable companies.

Model revision / assumptions (ENH debt and its participation), given the dynamics of change in the global energy market.

Revision of the laws to avoid conflicts of interest such as what happened with INAMI, which is a regulator and shareholder in the same company EMEM in the mining area.

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1. Introduction

The Extractive Industry Transparency Initiative (EITI) is a global standard that promotes transparency and governance in the extractive sector, enabling countries to better manage resources. By promoting transparency in the extractive industry, it helps to improve the economic, political and social environment, as subsequent effects of the initiative.

The EITI Standard has introduced new requirements for drafting reports of state-owned enterprises, including:

- Disclosure of financial transfers between the state-owned enterprises and other government entities, and
- Disclosure of income received on behalf of the government and spending on social services, public infrastructure or fuel subsidies.

Huge challenges remain to Mozambique with regard to transparency in the management of the extractive sector in the context of a strong economic dynamic focusing for the mining industry, with the focus on coal exploration projects in Moatize and Benga in Tete province; the Pande natural gas and Temane in Inhambane province; heavy sands in Moma, in Nampula province; and other metals, industrial minerals and precious and semi-precious stones.

To this economic dynamic join the high levels of exploration activities and research of mineral and petroleum resources, which led to the recent discoveries of natural gas in the Rovuma Basin that could put the country among the group of the largest producers and exporters in the world, after completion of construction and start-up of the Liquefied Natural Gas (LNG) project in Palma, Cabo-Delgado province.

The Pande / Temane fields in Inhambane province have natural gas reserves estimated at more than 3.5 trillion cubic feet. The total coal reserves are estimated at 6 billion tons and more abundantly occur in Tete.

In Mozambique, state-owned enterprises play a crucial role in representing the state in oil, gas and mining projects. These companies include the Empresa Nacional de Hidrocarbonetos [National Hydrocarbon Company] (ENH, acronym in Portuguese), the Companhia Moçambicana do Gasoduto [Mozambique Gás Company] (CMG, acronym in Portuguese). The mining sector has the Empresa Mozambican de Exploração Mineira [Mozambique Mining Exploration Company] (EMEM, acronym in Portuguese) and its affiliated companies such as Matola Gas Company.

The rules related to the participation of the state-owned enterprise sector in oil, gas and mining sectors are complex, and the rules that govern these sectors are also not simple. The various laws that regulate the matter also differ in their definition of state-owned enterprises. The Government of Mozambique has made efforts to tackle this issue, having recently approved a new law to clarify the laws that regulate the state-owned enterprise sector (Law 3/2018). The Government has made various other efforts and commitments in order to increase transparency within the country.

It is in this perspective that the EITI launched a study to identify elements for SOE to strengthen disclosure in the extractive sector. This report presents the results of this study.

2. Study Objectives and Methodology

2.1. Objectives

The study objective is to support EITI Mozambique in the collection and analysis of data relating to state participation in the extractive industries and the role of the state-owned enterprise sector, within the context of the EITI Requirements 2.6, 4.2, 4.5 and 6.2, of the EITI Standard 2019.

2.2. Methodology

The study methodology followed the orientation of the terms of reference, which consisted, in addition to the literature review, collect data relating to public undertakings and related institutions, namely: (i) Instituto de Gestão das Participações do Estado [State Participation Management Institute] (IGEPE, acronym in Portuguese); (ii) Instituto Nacional de Minas [National Institute of Mines] (INAMI, acronym in Portuguese); (iii) Instituto Nacional de Petróleo [National Petroleum Institute] (INP, acronym in Portuguese); (iv) Empresa Moçambicana de Exploração Mineira [Mozambique Mining Exploration Company] (EMEM, acronym in Portuguese); (v) Empresa Nacional de Hidrocarbonetos [National Hydrocarbon Company] (ENH, acronym in Portuguese) and its subsidiaries CMH, CMG; (vi) Direcção Nacional do Tesouro [National Directorate of the Treasury] (DNT, acronym in Portuguese); (vii) Ministério dos Recursos Minerais e Energia [Ministry of Mineral Resources and Energy] (MIREME, acronym in Portuguese); and the (viii) Ministério da Economia e Finanças [Ministry of Economy and Finance] (MEF, acronym in Portuguese).

There were also meetings with representatives of the State Business Sector and some institutions, to better understand the functioning and value chain in the extractive industry.

The study was carried out in the city of Maputo, where the institutions of the State Business Sector are located in the extractive industry.

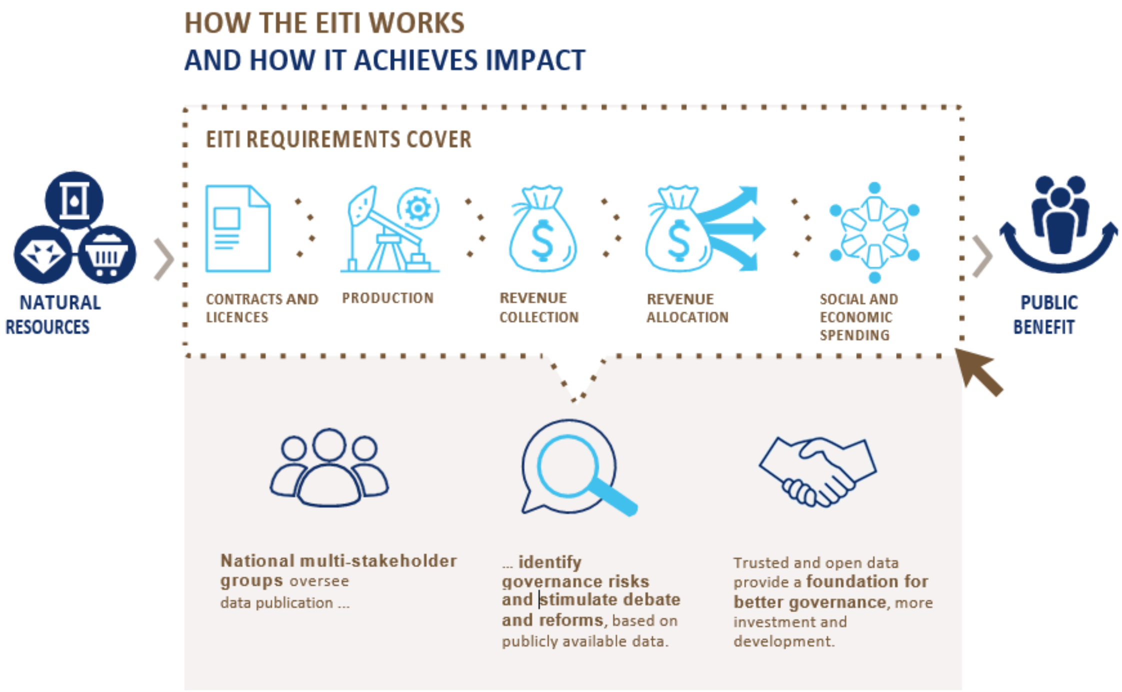
2.3. Brief description of the EITI Standard 2019

The EITI standard establishes requirements that must be followed by all countries implementing this initiative.

The standard brings important changes by including, for the first time, a set of expectations for companies that support the EITI and provisions on environmental, social and gender impacts. In addition, with regard to tax and legal aspects, data on commodity sales that were not previously published will now be released and new contracts will be published from 2021 onwards.

These requirements were created taking into account the value chain of the extractive industry.

Figure 1: Dimensions required by the 2019 Standard for the EITI Report



According to Standard 2019, the following requirements correspond to the five dimensions of the value chain of the Extractive Industry Standard.

3. Extractive Industry in Mozambique

Mozambique's Profile

Mozambique borders Tanzania, Malawi, Zambia, Zimbabwe, South Africa and Eswatini. Its 2,500 km long coastline along the Indian Ocean faces east towards Madagascar.

About two-thirds of its population of over 29 million (2018) live and work in rural areas. The country has arable land, water and energy in large quantities, as well as mineral resources and natural gas along the coast; three deep water seaports; and a potential relatively high reserve of labour. It also has a strategic location: four of the six countries with which it borders are inland and, consequently, dependent on Mozambique to access global markets. Mozambique's strong ties to the region's economic engine, South Africa, underline the importance of its economic, political and social development for the stability and growth of Southern Africa as a whole.

Figure 2: Mozambique's Profile

Area: 799,380 Km²

Climate: Tropical Humid

Population (2020): 30,066,648 Inhabitants

Average Life Expectancy: 59.31

GDP Per Capita USD 2019: 522

Main Exports: Mineral Coal, Aluminium Bars, Electric Power, Heavy Sands, Natural Gas, Tobacco, Rubies (sapphires and emeralds), Aluminium handles and Sugar.

Source: INE, BM

3.1. Macroeconomic Framework

Evolution of Macroeconomic Indicators

Data from the National Statistics Institute (INE) indicate that the last financial years (2016-2019) were marked by an adverse economic and social situation as a result of the effect of recorded economic and financial crisis in the country, which materialized in the devaluation of the metical and the significant increase in the general price level of staple products.

The slowdown in economic activity reflected the lower dynamism of the extractive industry, agriculture and the manufacturing industry. The climatic shocks that occurred in the fourth quarter of 2018 (severe rains in the north and drought in the south of the country), the fall in the prices of the main exported products and the weak domestic demand were the main factors that conditioned the performance of the economic activity.

Contrary to the trend of deceleration in economic activity, the acceleration of growth in the transport and communications sectors stands out as a result of investments made in the passenger transport and communications services sectors, followed by the financial services, hotel and restaurant, trade sectors and services, but still, below the average performance of the last five years.

The slowdown in inflation levels is in line with the measures that have been implemented by the Government in the monetary and foreign exchange sector, which aim to restore price stability and increase international reserves to cover imports and reduce inflationary pressures.

Table 1: Evolution of Macroeconomic Indicators (2016-2019)

Macroeconomic Indicators	2016	2017	2018	2019
Nominal GDP (Millions of MT)	689.213	807.873	887.806	965.382
Real growth rate (%)	3,8	3,7	3.4	2,2
Average annual inflation rate (%)	19,9	15,1	3,5	2,8
Average annual exchange rate (MZM / USD)	-	-	60,3	62,5
RIL (Months of Import Coverage)	3,6	7,3	6,3	6,9
Exports (Millions of USD)	3.328,2	4.725	5.197	4.718
Imports (Million USD)	-	-	61.619	6.799
Current Account Balance	-	-	-30.60%	-20%
Foreign Direct Investment (Million USD)	3.093,4	1.227,1	2.692	1.991
Primary Balance	-	-	0,70%	-2,40%

Source: INE

The Mozambican economy remains vulnerable to natural shocks as 2019 was influenced by the slowdown in economic activity, the passage of three cyclones in the first quarter, namely Desmond, Idai and Kenneth, which affected the central and northern areas of the country.

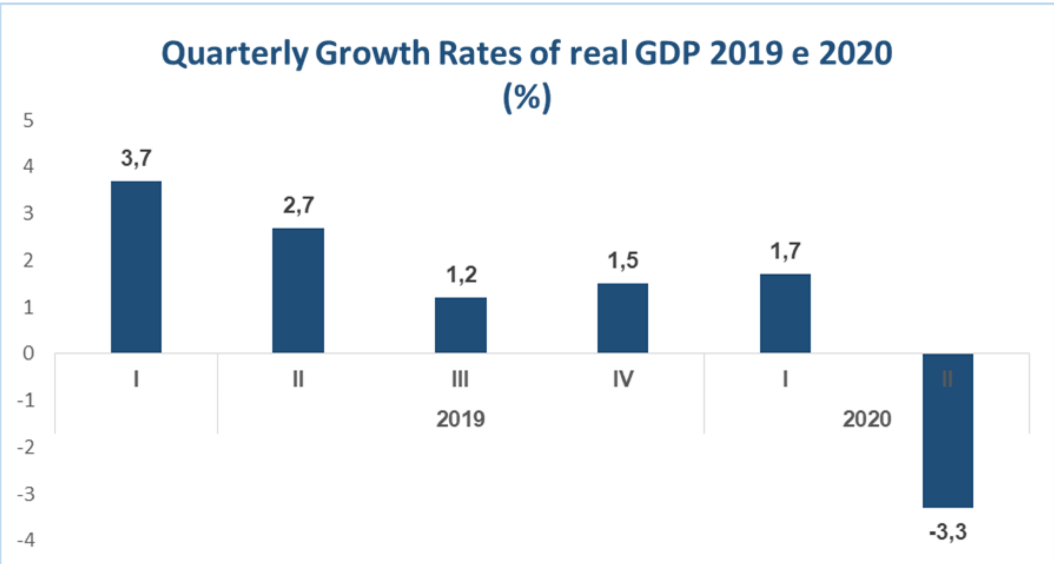
Current Macroeconomic Situation

The macroeconomic environment remains adverse, influenced by the deceleration of economic and social activity caused by the pandemic of COVID-19, military instability in the central and northern areas, reduction of foreign direct investment flows, reduction in the volume of imports and exports.

However, a gradual recovery in economic activity is expected, based on the improvement of activity in the Agriculture, Fisheries, Tourism and Infrastructure sectors, which will allow the inclusion of a significant portion of the population in the workforce by around 70%, thus enabling a rapid reduction in poverty levels.

Data released by the National Statistics Institute (INE), indicate that in the first and second quarters the economy grew by around 1.7% and -3.3%, respectively, which represents a decrease of 2.0 and 5, 6 pp compared to the same period last year. The combination of the 2 quarters, assumes a negative weighted average of the real growth of the economy of 0.8%, in the first half of 2020, as shown in the graph below:

Graph 1: Real growth rates of GDP for Quarter 2019



Source: INE, BM, MEF (2020)

The negative real growth reflects the negative effects of COVID-19 on economic activity during the second quarter, with the sectors that were most affected those of hotel and restaurant services (-35.8%), extractive industries (-25.6 %), trade (-5.7%), manufacturing (-5.3%), transport and communications (-4.7%).

This performance combined with weak global demand due to the continued spread of COVID-19 and the instability seen in the Central and Northern regions of the country, led to a downward revision of the economic growth prospects initially forecast for 2020.

In effect, the forecast for the year 2020, goes from the 2.2% foreseen in the Budget Law, to 0.8%, which means a decrease of 1.4 p.p. compared to the initial projection.

Projection of the main Macroeconomic indicators

Data from the National Statistics Institute (INE), indicate that the current GDP forecasts, point to a gradual recovery of 2.1% growth in real Gross Domestic Product in 2021. However, there is still an environment of great uncertainty. Due to the spread of COVID-19.

Regarding Foreign Direct Investment (FDI) in Mozambique, the projection for 2021 points to a net flow in the amount of USD 1,909.3 million, which corresponds to an increase of USD 440.6 million in relation to the 2020 projection However, FDI growth remains limited, reflecting among other factors, fears about making the final investment decision for the gas exploration area in the Rovuma Basin.

For 2021, the outlook is for the inflation rate to remain below 1 (one) digit, around 5.0%, the acceleration of 1 p.p. essentially reflects (i) the impact of the Metical depreciation; (ii) the upward revision of the oil price in the international market; and (iii) the inflation observed in July 2020, which was slightly above that previously forecast.

Table 2: Projection of Macroeconomic Indicators (2019-2021)

Macroeconomic Indicators	2019	2020	2020	2020	2021
	REAL	PROP	INITIAL	PROJ	
Nominal GDP (Millions MT)	956.786,0	1.058.222,0	1.018.955,0	892.958,0	1.133.867,0
Real growth rate (%)	2,3	4,0	2,2	0,8	2,1
Average annual inflation rate (%)	2,8	5,0	6,6	4,0	5,0
Average annual exchange rate (MZM / USD) *	62,6	62,0	66,6	69,0	69,0
Current Account Balance	(3.024,50)	(3.959,80)	(3.763,70)	(3.029,0)	(4.380,7)
Current Account Balance (% of GDP)	(0,20)	-	(0,25)	(23,4)	-26,70%

Source: INE, BM, MEF (2020)

The estimate of economic growth for 2021, points to a level of 2.1% that will be influenced by the positive performance of the sectors of Mining (1.5%), Public Administration (1.3%), Transport and Communications (2.5%), Agriculture (4%) and Health and Social Action (5.0%).

Table 3: Projection of the Gross Domestic Product for 2021 (%)

#	Branch of Activity	2019	2020	2021
		REAL	LEI	Proj
1	Extractive Industries	-3,7	1,5	1,5
2	Electricity and Gas	-1,1	1,5	3,7
3	Financial Activities and Insurance	4	2	1,3
4	Public administration, Defense and Social Security	4,1	2	1,3
5	GDP Growth Rate	2,3	2,2	2,1

Source: INE, MEF (2020)

3.2. Extractive Industry Sector in Mozambique

Mozambique has a vast potential and diversity of mineral and hydrocarbon resources, whose knowledge constitutes the key factor to ensure its sustainable management and exploitation, in order to contribute in a better way to the development of the country.

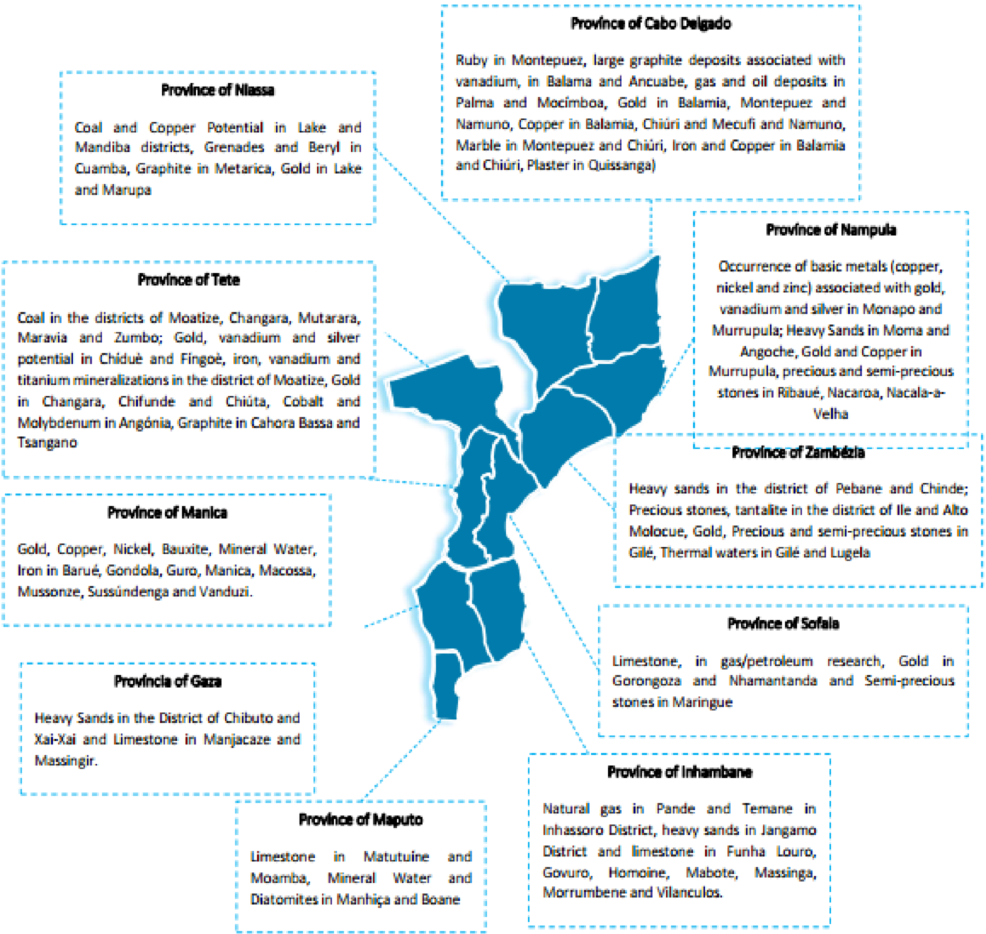
This potential includes reserves of mineral coal, heavy sands and other minerals and base metals, such as vanadium-iron, titanium, tantalite, tourmalines, bentonite, pegmatites, marbles, bauxite, graphite, diamonds, gold, precious and semi-precious stones, phosphates, limestone, among others, and more recently the huge reserves of natural gas discovered in the offshore Rovuma Basin that could turn Mozambique into one of the largest producers and exporters in the world, which will join the gas reserves of the Mozambique Basin.

The debates on the extractive industry in Mozambique center around industrial activities carried out by multinational corporations. In the literature, it is agreed that the extractive industry has been growing rapidly since the 2000s. This year (2000) marked the signing of the production sharing contract between the Government of Mozambique, the Mozambican National Hydrocarbon Company, Public Company (ENH) and the Sasol Petroleum Mozambique Limited (SASOL).

Of the mineral resources existing in the country, coal, gold, copper, iron, bauxite and heavy sands stand out. In turn, gas stands out from hydrocarbon resources.

Below is the map with the distribution of resources across the Mozambican territory:

Figure 3: Distribution of mineral resources



Source: INAMI

3.2.1. Mining Area

Mining in Mozambique dates back to the pre-colonial period when Mozambique was a territory reserved for the exploitation of natural resources. At the beginning of the second millennium, several Industrial Free Zones and Special Economic Zones were created in the country, with emphasis on the Moma Industrial Free Zone, where the Kenmare Heavy Sand Project of Kenmare is operating; and the Moatize Industrial Free Zone, where mineral coal mining mega-projects were installed (Companhia do Vale do Rio Doce called Vale de Mozambique and Riversdale Mining, called Riversdale Mozambique). These mega-projects have significant impacts on the Mozambican economy, environment, culture and social field.

In recent years, the country has registered the opening of new mines and the development of new projects in this area. This record comes from the extensive work carried out on geological mapping carried out throughout the national territory during the period from 2002 to 2007 and still in progress.

The table below presents the evolution of Mining Production in the period 2016 - 2019.

Table 4: Evolution of Mining Production

Products	U.M.	2016	2017	2018	2019
Metallic Minerals					
Gold	Kg	200,80	2.394,38	506,70	429,50
Tantalite	Ton	91.661,16	1.442.711,00	146.435,30	131.557,00
Ilmenite	Ton	1.339.330,00	1.326.944,00	1.283.075,50	1.442.711,00
Zircon	Ton	215.222,00	159.664,40	202.022,00	121.768,00
Rutile	Ton	7.781,00	9.137,00	8.830,00	8.264,00
Non-Metallic Minerals					
Beryl	Ton	180,72	53,16	0,00	0,00
Graphite	Ton	0,00	72.439,00	106.773,00	113.803,00
Various quartz	Ton	580,00	197.123,17	0,00	0,00
Treated Bentonite	Ton	322,30	0,00	0,00	77.734,40
Diatomite	Ton	130,50	178,80	60.890,30	72.439,00
Limestone	Ton	728.430,97	2.808.103,28	1.052.912,40	915.199,80
Construction Sands	M^3	1.632.657,54	4.536.033,25	2.648.715,40	3.525.856,00
Clay	Ton	336.415,18	171.211,18	476.990,30	1.833.682,00
Bauxite	Ton	1.450,79	4.262,00	9.911,70	8.024,30
Construction stone (gravel)	M^3	1.270.051,16	2.961.388,00	2.902.762,00	4.295.703,50
Precious and Semi-Precious Stones					
Tourmaline	Kg	75,60	0,00	2,40	4,50
Refuse tourmalines	Kg	11.059,20	190.887.439,08	6.262,90	4.262,00
Face table Grenade	Kg	33.804,60	33.804,60	0,00	0,00
Granada Refugee	Kg	91.273,20	0,00	153.864,00	128.738,00
Marine Waters	Kg	10,04	-	-	-
Marine waters Refuge	Kg	332,80	-	8,50	8,00
Ruby	Ct	8.160.080,00	5.502.800,00	2.963.687,50	2.260.691,80
Fuel Minerals					
Coal (Coke)	Ton	3.972.122,00	7.385.930,00	8.355.292,40	5.356.390,00
Coal (Burning)	Ton	2.214.199,00	4.391.833,00	6.891.201,00	4.983.145,50

Source: MIREME

Regarding Metallic Minerals, production stood at 1,704,729.5 tonnes in 2019. Compared to the previous year, production increased by 4%, with an emphasis on the production of 1,442,711.0 tonnes of Ilmenite.

With regard to the other extractive industries, in general, it registered a positive performance, as in the case of Mineral fuels, which registered their peak production in 2018, having reached 15,246,493.4 tons. These production levels result from the increase in prices in the international market and the restart of production of some units.

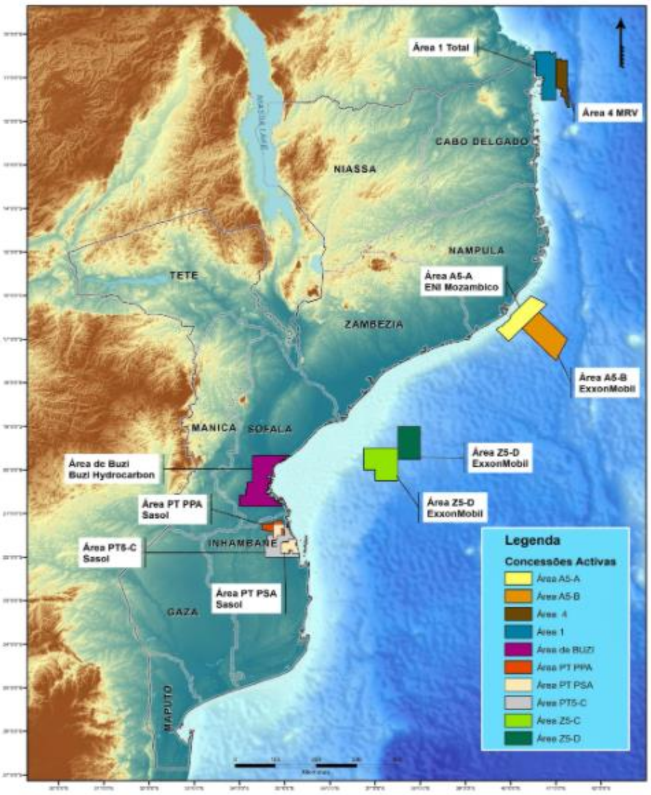
3.2.2. Hydrocarbons Area

Hydrocarbon research in Mozambique dates back to the early 1900s with the discovery of quite thick sedimentary basins on the mainland of Mozambique. Beginning in 1948, several foreign companies began hydrocarbon research work with a greater incidence in onshore areas. As a result of this research, it was the discovery of the Pande Gas field in 1961, followed by the discoveries of Búzi (1962) and the discovery of the Temane field (1967). Due to the political instability that the country went through after its independence, there was a reduction in research activities until the early 90s.

The main sedimentary basins, the Mozambique and Rovuma basins are located along the coast; therefore, most of the exploration takes place in the coastal and offshore areas. The Mozambique Basin extends along the coastal plain of central and southern Mozambique, while the Rovuma Basin is located in the north of the country, from the coastal zone to the deep offshore waters. There are currently 10 exploration areas in these two basins, and ENH participates in these activities in partnership with other international operators.

The map below presents the geographic occurrences of the concessions:

Figure 4: Map of Active concessions in the area of research and production of Hydrocarbons



Source: INP

The table below presents the evolution of Hydrocarbon Production (Natural Gas and Condensed Gas) in the period under analysis.

Table 5: Evolution of Hydrocarbon Production

Hydrocarbons	U.M.	2016	2017	2018	2019
Natural gas	Gj	194.225.468,80	192.602.304,29	192.468.156,45	190.887.439,00
Condensed	bbl	477.089,68	408.666,26	379.406,61	328.923,00

Source: MIREME

According to the INP, Mozambique has only one company in the gas production phase, which is SPT. In this sense, the total volume of gas produced by SPT in 2019 amounted to 190,887,439.08 GJ. Condensed gas decreased by 21% in the period from 2018 to 2019.

4. Legal and Regulatory Framework

Mozambique is a fast-growing country, to which it has contributed considerably to the dynamics of the extractive sector, given the high potential in the areas of mines and hydrocarbons.

The growth of the extractive industry has pressured the country to review, improve and elaborate regulatory instruments such as laws, resolutions, decrees, ministerial diplomas, policies, strategies and master plans. These instruments aim to accompany the dynamics of the developments of the extractive industry, in order to attract more investments to the sector, to ensure the competitiveness, transparency and protection of the holders of mining concessions and areas for the exploitation of hydrocarbons and, above all, to safeguard the national interest and community benefits.

In the context of financial relations between the State and the SOE, the following stand out:

Table 6: Legislative framework for financial relations between the State and the SOE

Type of legal instrument	Scope	Relevance
Law No. 3/2018, of 19 June, which establishes the principles and rules applicable to the State Business Sector.	This Law applies to the entire business sector of the State, hereinafter referred to as SOE. The State-Owned Enterprise Sector is made up of the set of productive and commercial units of the State, organized and managed in a business manner, comprising public companies and companies exclusively or majority-owned by the State.	Audit Rules and Procedures for the State-Owned Enterprise Sector; State participation in the Extractive Industry, specifically the current practices that govern the financial relations between the State and SOE companies in the extractive industry. The rules and practices governing transfers of financial resources between the government and companies, retained earnings, dividends, operating subsidies, reinvestments, and financing by third parties.Ownership structure including the degree of responsibility of the State and the SOE to cover expenses in several project cycles. (Paid-in capital, equity, and interest carried forward, free equity). Determine the existence of parafiscal

		expenses and, if applicable, describe them and provide a clear definition, in accordance with the definition of the IMF's Fiscal Transparency Manual and Requirement 6.2.
Decree-Law no. 10/2019, of 26 February: Regulation of the State Owned Enterprises Act.	Establishes the rules that aim to ensure the implementation of Law No. 3/2018, of 19 June, which establishes the principles and rules applicable to the State-Owned Enterprise Sector.	The rules and practices governing transfers of financial resources between the government and companies, retained earnings, dividends, operating subsidies, reinvestments, and financing by third parties; Determine the existence of parafiscal expenses and, if applicable, describe them and provide a clear definition, in accordance with the definition of the IMF's Fiscal Transparency Manual and Requirement 6.2.
Decree No. 77/2017, of 28 December - Approves the procedures for the issue and management of public debt and guarantees by the State; Decree No. 102/2019, of December 31 - Proceeds to issue a Financial Guarantee limited to a maximum amount of USD 2,250,000,000.00 (two thousand, two hundred and fifty million US dollars), to allow coverage of share of risk inherent in the participation of Empresa Nacional de Hidrocarbonetos, EP (ENH) in the financing to	Approval of procedures concerning to the issuance and management of public debt and guarantees by the State. Under the terms of the aforementioned Decree, the Government will provide, on a quarterly basis, through the Budget Execution Reports (REO) information to the Assembly of the Republic on the contracted debt, sureties and guarantees issued. According to article 3 of this Decree, the mobilization of financing that implies the contracting of public debt needs a mandate issued by the Minister who oversees the area of Finance.	Regulatory Framework for the Issuance of Loans and Loan Guarantees by the Government and the SOE to mining, oil and gas companies operating in the country.

be granted by the financiers to the Liquefied Natural Gas Golfinho / Tuna Project, in the Rovuma Block		
Ministerial Diploma no. 173/2014, of 10 October: Designates the Empresa Nacional de Hidrocarbonetos (ENH), as the entity that, within the scope of payment in kind of the tax on oil production, must receive the gas delivered by the producer as a production tax, manage and administer the gas resulting from the tax on oil production paid in kind by the concessionaires.	Designation of ENH for the management and administration of natural gas referring to the installment in kind paid as a tax on oil production, which includes the monetization of natural gas, whose purchase and sale contracts are entered into by ENH and are subject to authorization by the Minister which oversees the petroleum area, and the value, in cash of the tax paid, for the amount of gas received from the producer, at the market price on the date of receipt, must be delivered to the Public Treasury.	Sale of the State's production share or other revenues received in kind (Requirement 4.2).

Source: IGEPE

The State-Owned Enterprise Sector (SOE) plays an important role in the Mozambican economy. It consists of a set of productive and commercial units of the State, organized and managed in a business way, integrating public companies and companies exclusively or mostly owned by the State.

Several legislation has been produced in recent times regarding the State-Owned Enterprise Sector, the Public Companies Law (Law No. 6/2012, of 8 February, revoked by the current legal regime of the SOE in force), which was of paramount importance in the to the extent that this law made it possible to adapt the legal regime of public companies to the requirements and priorities facing the State in terms of management of the business sector.

Given not only the importance of the SOE in the context of the functioning of the economy and in providing citizens with an important set of essential goods and services, but also the specificities of transparency, rigor and respect for competition rules associated with public participation in capital, the SOE has its own legal framework, integrated in Law no. 3/2018, of 19 June, which establishes the principles and rules applicable to the State-Owned Enterprise Sector and by Decree no. 10/2019, of 26 February, which approves the regulation of Law No. 3/2018, of 19 June.

5. State Participation (REQUIREMENT 2.6)

The Mozambican state participates in the extractive industry through three vehicles, to ensure that the country's economic benefits are maximized in the extractive industry:

- Public entities;
- State entities present in the extractive industry as "Public Companies (EP)";
- State entities present in the extractive industry as “Anonymous society (SA)".

The table below presents a summary of the institutional framework of the State's participation in the extractive industry, the entities and the role played by them.

Table 7: State Participation in extractive industry

Entity	Function
Ministry of Mineral Resources and Energy (MIREME)	Establish the main industry policy guidelines in allusion and act in the negotiation of the specific terms of contracts with concessionaires.
Ministry of Land and Environment (MTA)	Establish and implement rules and procedures for the environmental licensing of development projects and for the management, protection, conservation, inspection and monitoring of the use of natural resources.
Ministry of the Sea, Inland Waters and Fisheries (MMAIP)	Coordinate the inspection of activities for the economic use of natural living and non-living resources, research, seismic studies and other activities related to the use of the sea and inland waters.
Ministry of Economy and Finance (MEF)	Through the Tax Authority (AT) and the National Directorate of Treasury (DNT), it is incumbent on collecting taxes, supervising and receiving all amounts due to the Mozambican State as well as receiving the values for the sale of royalty gas. In the case of specific taxes, particularly in the oil and gas sector, this work takes place in cooperation with INP, which is the institution responsible for monitoring production.
Institute for the Management of State Participations (IGEPE)	Manage and direct the affairs of state with the public and companies in which the State in order to strengthen the intervention capacity in the management of public business sector.
National Petroleum Institute (INP)	Regulate and supervise the activity of research, production and transportation of oil, as well as the development of development policies and standards regarding petroleum operations and the management of the National Petroleum Database.
National Mining Institute	Regulate mining activity in the country, responsible for managing the

Entity	Function
(INAMI)	licensing process for the granting of rights to use and benefit from mineral resources, as well as for updating the respective registry.
National Agency for Environmental Quality Control (AQUA)	Proceed audits and environmental monitoring; undertake research and environmental research and; carry out environmental monitoring in the areas of land, forests, land use and the environment..
Empresa Nacional de Hidrocarbonetos (ENH)	Responsible for research, prospecting, production and marketing of petroleum products and representing the State in oil operations..
Empresa Moçambicana de Exploração Mineira (EMEM)	Commercially represent the State in the mining sector, with the aim of carrying out geological mining, production and marketing of mineral products, prospecting and research of mineral resources, development of mining projects in partnership with other national or foreign companies..

Source: TA (Adapted)

For the purposes of the study, a state-owned company is defined as a company whose ownership is majority government-owned company that is engaged in extractive activities on behalf of the government. The definitions of state-owned enterprise in national laws and government structures are discussed below.

Law No. 2/81, of 30 September, established the rules for the organization and operation of state-owned enterprise. According to the same Law, in article 1 (definition) it states that "state companies are socioeconomic units, owned by the State that creates, directs and affects the material, financial and human resources appropriate to the application of their reproduction process in compliance with the plan, in the sense of consolidating and increasing a state sector that dominates and determines the national economy". The name of state-owned companies should be preceded or followed by the letters "E.E.", short for State-owned Company.

According to the preamble of Law 17/91, of 3 August, which repeals the aforementioned retro-law, due to the economic-financial circumstantialism at the time, namely, the Economic Rehabilitation Program, it was necessary to change the legal regime of state-owned companies as it is outdated. In this way, the introduction of new legal mechanisms was advocated in order to ensure greater efficiency and profitability of the public business sector. At the same time, the opportunity was taken to change the name of a state-owned company to a new name that, in addition to the purely formal aspect, brought about a profound change in the management of state-owned companies.

This law authorized the Council of Ministers to determine, within 90 days after its publication, the transformation of state-owned companies to public companies, that is, state-owned companies thus ceased to assume this designation, and also started to adopt a new definition and a new model of functioning and organization within the context of public companies.

With Law 17/91, public companies came to be defined as those created by the State, with equity capital or provided by other public entities, which carry out their activity within the framework of its socio-economic objectives, and this denomination should be followed by the words "Public Company" or the initials "EP", according to paragraph 2 of article 5 of the same Law.

Law 17/91 was in force until 2012, having been revoked by Law No. 6/2012, of 8 February, which approves the Public Companies Law. Law no. 6/2012 maintained the definition of Public Companies brought by Law 17/91, however, with the entry into force of Law no. 3/2018, it presents in its chapter IV, article 36 the new definition public company - "Public company is the entity exclusively owned by the State". This Law addresses other forms of State participation, such as majority and minority participation, compared to previous legislation.

For the purposes of implementing the EITI, the ITIE 2019 Standard defines state-owned enterprise (SOE) as those that are wholly or mostly controlled by the government that participate in extractive activities on behalf of the government. This definition proves to be comprehensive, insofar as it encompasses the definition of public companies and companies majority-owned by the State in accordance with the current legal regime of the SOE.

According to Law No. 21/2014, of 18 August, the Petroleum Law, in Article 20, on State participation, says that "the State reserves the right to participate in petroleum operations in which any legal person. The State's participation must occur at any stage of oil operations, under the terms and conditions to be established by contracts and the State must progressively increase its participation in oil and gas projects".

5.1. State-Owned Enterprise Sector in Extractive Industry

5.1.1. Mining Area

The Mining Law establishes the general principle that the expropriation of assets and private property rights within the scope of the mining title can only occur exceptionally and with justification for reasons of justified public interest and the expropriated party will always be entitled to receive fair compensation, under the terms of article 66 of Law no. º 20/2014[1].

The Mozambican State's right to participate in mining projects is established by law which states that “for the granting of exploration rights over natural resources, the State reserves the right to negotiate a free participation of at least 5 percent of the share capital during any phase of the project “according to Law no. 15/2011, of 10 August and Decree no. 16/2012, of 4 July. Likewise, the law also establishes an obligation for foreign mining companies to have a partnership with local companies (Law 20/2014, article 24).

The Mining Law establishes the participation of the state through a mining contract that is entered into between the government and the holder of mining rights, in particular in prospecting and research projects and in mining concessions. The mining contract also stipulates: the need to include minimal local content; local employment and technical and professional training plan; incentive for the addition of value of ores; actions to be carried out by the holder in the scope of social responsibility; memorandum of understanding between the government, the company and the community (s); dispute resolution mechanisms, including provisions relating to the resolution of the dispute by arbitration in accordance with Article 8 of Law No. 20/2014.

The main vehicle for the State's participation in the mining area is the Mozambican Mining Exploration Company (EMEM), which was established by Decree No. 29/2009, of 29 June, as an instrument of economic mining policy. EMEM has the mandate to boost the process of participation of the state in the revenues of mining activity, to promote a greater inclusion of local content, to develop initiatives with the objective of creating capacity for the local processing of these resources, generating added value / revenues and, thus, , boost the country's industrialization process.

EMEM is also directly involved in the mining activity, having, for this purpose, some mining licenses. EMEM has the role of promoting the commercialization of the most diverse minerals, such as: coal, gold, gems and construction materials through integrated channels, as shown in the table below:

[1] Law on Public-Private Partnerships, large-scale projects and business concessions

Table 8: Main business areas of EMEM

Business area	Description
Participation and Investment Management	Ensure the active participation of the Mozambican state in mining projects, as well as stimulate the growth of the national extractive industry.
National Geological Survey	Create mining capital through the identification and evaluation of mining deposits.
Mining Logistics and Services	Develop efficient and integrated solutions for mining logistics
Commercialization of mining products	Promote the acquisition of minerals produced in the national territory for internal consumption and exploration.

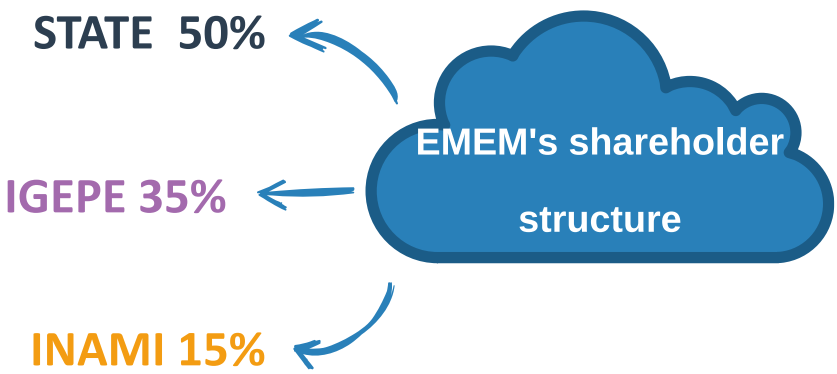
Source: EMEM

EMEM's shareholder structure

The mining area adopted a different structure from the hydrocarbon area, in that the State representative was created directly as a public limited company and not as a public company, to leverage the flexibility to operate commercially.

The participation structure in EMEM is mostly owned by the State (50%) and the State representative is IGEPE, followed by IGEPE (35%) and INAMI (15%) of interest, which are all public institutions. INAMI, being the regulator, in principle, should not participate in EMEM, because it can generate conflicts of interest with its regulatory function, as illustrated in the table below:

Figure 5: Main business areas of EMEM



Source: EMEM

The State as a shareholder its obligation is restricted to what is set out in the Mozambican commercial code. In this sense, EMEM does not benefit from a budget for exploration, so if there is a need for the implementation of EMEM projects, they must be financed with own resources or loans. According to the information provided by EMEM in relation to loans and taking into account the sector in which the company operates, it finds it difficult to the extent that the national bank does not finance research activities, which limits the company's ability to expand.

In 2014, there was an increase in share capital, a premise accepted by the shareholders at the time with a view to leveraging some of the company's activities and in this way the company created productive assets capable of generating cash flow. Of the increase in subscribed capital, only 15% of INAMI's participation was made, while that of the state and IGEPE was not, which limits the implementation of some projects.

EMEM subsidiaries and holdings

Additionally, EMEM has interest as a number of mining companies listed in the table below:

Table 9: EMEM, SA, interest in Mining Sector

Subsidiaries and Affiliates				
#	Company	Participation	Mineral	Company / Project Situation
1	Vale Mozambique	5%	Coal	Operational
2	Minas de Moatize (MML)	5%	Coal	In Judicial Recovery
3	Grafites de Ancuabe	10%	Graphite	Operational
4	Twigg Mining Exploration and Mining	5%	Graphite	Operational
5	Marsar Dimensional Stones, S.A	49%	Marble	Non-operational
6	Mozacimentos	25%	Cement	Non-operational
7	Dingsheng Minerals, S.A	10%	Heavy Areas	Non-operational
8	Emgemas	51%	Precious stones	Non-operational
9	Intergemas, Sa[2]	50%	Marketing of Gems and Precious Stones	Non-operational
10	Empresa Moçambicana De Gemas e Pedras Preciosas, S.A	40%	Marketing of Gems and Precious Stones	Non-operational
11	Emem Logística	100%	Mining Logistics	In operation
12	Midwest Resources	5%	Coal	Non-operational
13	Icvl	5%	Coal	Operational
14	Jindal	5%	Coal	Operational
15	Midwest Mine	10%	Coal	Non-operational
16	NCONDEZI	15%	Coal	Non-operational
17	ENRC	5%	Coal	Non-operational
18	KENMARE MOMA	5%	Heavy Sands	Operational

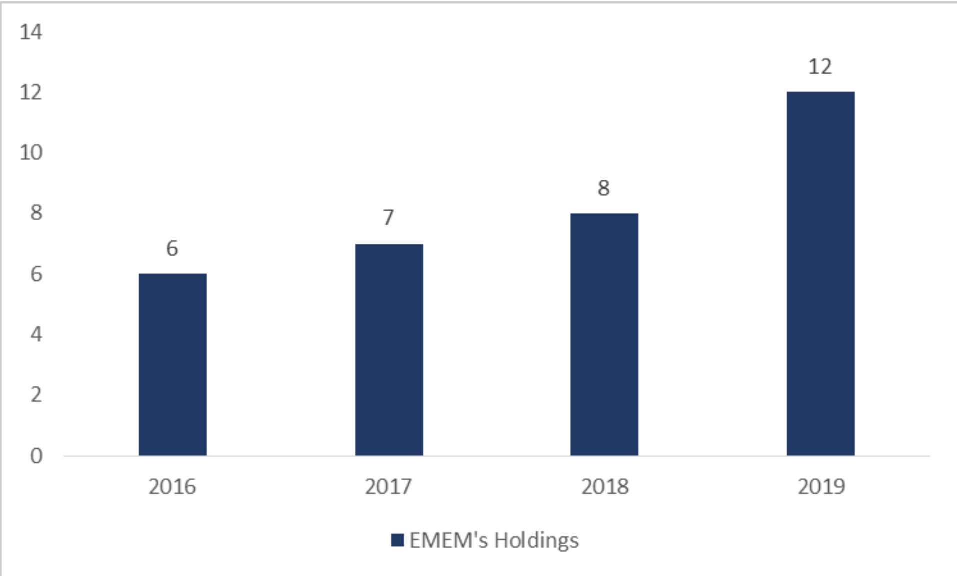
[2] *Joint Venture*

Subsidiaries and Affiliates				
#	Company	Participation	Mineral	Company / Project Situation
19	PECD	5%	Quarries	Non-operational
20	TGM -Tete Gas Metano	66,6%	Gas Distribution	Non-operational
21	CBM -Tete New Energy-Gas	20%	Methane gas	Non-operational

Source: EMEM, IGEPE

According to EMEM's Activity and Management Report for the period 2016, the company held six (6) interest[3] namely Vale Moçambique, Minas de Changara, MozaCimentos, Kingho Mozambique Mining, Marsar Dimension Stones, Grafites de Ancuabe and a subsidiary EMEM Logística, as shown in the graph below:

Graph 2: Evolution of EMEM's holdings (2016 - 2019)



Source: EMEM (Activity and Management Reports)

During the period 2016 to 2019, there was a positive variation of 100% in relation to the number of companies participated by the Mozambican State in mining projects, via EMEM, SA, that is to say a total of 6 in 2016, 6 were added to the portfolio. , adding up in the year of 2019, 12 companies.

Financial Statements Disclosure

[3] For the 2016 period, the participation of about 14 companies was under negotiation

Under Article 29 of the SOE Law, companies must annually prepare the report and accounts for the year, audited and subject to approval of the General Assembly by 31 March each year. The report and accounts for the year must contain: Consolidated balance sheet and accounts, whenever applicable; Activity report; Cash flow statement; Results report; Statement of changes in equity; The notes to the financial statements; Opinion of the fiscal council; Risk management report; External auditor's report.

After approval, the Financial Statements must be published in one of the most widely circulated newspapers and / or on the company's website, within 30 (thirty) days from the date of approval by the General Meeting.

In this sense, according to the information provided by EMEM, the publication of its audited Financial Statements, after approval by the General Assembly, is made on the website[4] and not in the most widely circulated newspapers. However, when preparing the report, the team of consultants found that the site was not functional.

Dividend Payment

Under Article 12 of the law of the State Owned Enterprises sector, it is the General Assembly who decide on the dividend policy and the application of net income of each financial year.

For the period under review, EMEM reported that it did not receive dividends from any investment and, therefore, did not pay in the State. Affiliated companies have recorded accumulated losses, a fact that reminds the company to rethink its investment strategy.

5.1.2. Hydrocarbons Area

The hydrocarbon area adopted a participation model in which we have a “parent company” constituted as a “public company”, in this case ENH, which in turn created several subsidiaries and affiliates such as Companhia Moçambicana de Hidrocarbonetos (CMH) and Companhia Moçambicana de Gasoduto (CMG) which are public limited companies (SA). This model allows responsibilities to be clearly defined, with public limited companies having greater financial and operational flexibility so that it can be listed on the Stock Exchange and

[4] www.emem.co.mz

have legal independence, which allows the State to mitigate the risk of carrying out different operations in the extractive industry.

These are public limited companies, created to represent ENH (the State) in a project or in any specific phase of a project in which the State cannot be directly responsible. In this way, ENH can concentrate on macros objective, such as market development, production of dividends for the country and effective management of royalty gas.

A. Empresa Nacional de Hidrocarbonetos, E.P.

Empresa Nacional de Hidrocarbonetos, E.P., also known as ENH, is a person of a public nature created by the State, endowed with legal personality, administrative, financial and patrimonial autonomy.

In 1981 Law No. 3/81, of 3 October, was approved, which granted the Empresa Nacional de Hidrocarbonetos (ENH) a monopoly on the concession of mining rights for the use, usufruct, management and disposal of Hydrocarbons. As a result of this law, ENH became the concessionaire with the right to all areas of oil research and production in the country, with the competence to enter into Production Sharing Agreements (APPs) with foreign companies (contracted), aiming at research and production in individual areas.

Through these agreements, the contractors were responsible for research and development, at their own risk and cost. The costs were recovered with the production of gas or oil and the profit was shared between ENH and the contracted company.

In 1997, ENH was transformed into a Public Company, through Decree No. 39/97, of 12 December, which gives it the role of the Mozambican Government's commercial arm in the Oil sector, thus making ENH in the equivalent, in the Mozambican context, to the well-known “National Oil Companies”.

In 2001, Law no. 3/2001, of 21 February, was approved, which removed ENH from the condition of sole concessionaire and introduced a new Concession Contract for Research and Production (CCPP´s). In 2004, the Government approved Decree no. 19/2004, of 2 June, which regulates Law no. 3/2001, mentioned above, having established rules for CCPP's and setting the amounts and payment methods for the Tax on Oil Production. Within the framework of these standards, in 2006, the companies Anadarko Mozambique, Área 1, Lda. (AMA 1, Lda.) And ENI East Africa (ENI), which operate in the Rovuma Basin, signed with the Government of Mozambique, individually, Concession Agreements for Research and Production.

The main mandate of ENH is the petroleum activity, namely the prospecting, research, development, production, transport, transmission and commercialization of hydrocarbons and their derivatives, including the import, reception, storage, handling, transit, export, transformation and refining of these products.

ENH is the concessionaire, in association with other entities, of licenses granted by MIREME to carry out research, development and oil production activities in areas subject to the jurisdiction of the Republic of Mozambique in which the exploration phase.

Within these concessions were concluded several agreements for joint operations and assigned participatory interests as presented in the following table:

Table 10: Participatory interest of ENH and Partners

Concession Area	% ENH's interest	Partners	Operations Phase
Rovuma - Area 1	15%	Total (26,5%) + Mitsui (20%) + BPRL (10%) + Oil India (10%) + ONGC Videsh (10%) + PTT (8,5%)	Development
Rovuma - Areas 2 & 5	10%	STATOIL (90%)	Research
Rovuma - Area 4	10%	MRV (70%) + Galp (10%) + Kogas (10%)	Development
Rovuma - Areas 3 & 6	10%	PETRONAS (90%)	Research
Rovuma Onshore	15%	Total (35,7%) + Cove Energy (10%) + MAUREL & PROM (24%) + WENTWORTH (15,3%)	Research
Blocks 16 & 19	15%	SASOL (50%) + PETRONAS (35%)	Research
Buzi Blocks	25%	Buzi Hydrocarbons (75%)	Research
Sofala Block	15%	SASOL (85%)	Research
Area A Block	10%	SASOL (90%)	Research
Area 5-A	15%	Eni Mozambique S.p.A (34%) + SASOL (25,5%) + Qatar Petroleum (25,5%)	Research
PT5-C block	30%	SASOL (70%)	Research
Area Z5-C	20%	Exxon Mobil (40%) + Rosnet (20%) + Qatar Petroleum (10%) + Eni (10%)	Research
Area Z5-D	20%	Exxon Mobil (40%) + Rosnet (20%) + Qatar Petroleum (10%) + Eni (10%)	Research
Area 5A-B	20%	Exxon Mobil (40%) + Rosnet (20%) + Qatar Petroleum (10%) + Eni (10%)	Research

Source: ENH, INP

Table 11: ENH's participation in gas projects - Status

Project	Development plan	Phase	Investment for Project Development	ENH Situation - 2019	ENH Financing Sources
Anadarko - Moz LNG	Approved - 8/2/2018	Development	USD 15 billion	Finance participation	Other project concessionaires

Project	Development plan	Phase	Investment for Project Development	ENH Situation - 2019	ENH Financing Sources
Area 1				(15%) = USD 2.25 billion	
Exxon Mobil / MRV - Área 4 Mamba onshore	Submitted - July 2018[5] Approved - 06/13/2019	Pre-Development	USD 25 billion[6]	Carry plus 10% of the investment value = USD 2.5 billion	Other project concessionaires
Eni – Área 4 Coral Sul FLNG / offshore	Approved and FID[7] Taken in 2017	Development	USD 7 billion	USD 700 million - in debt (10% of the investment)	Other project concessionaires

Source: intellica (Adapted)

Costs Associated with Participation

To guarantee ENH's participation in the Moz LNG project (Area 1) led by Anadarko, the Government of Mozambique had to issue a guarantee, included in the 2019 State Budget, in the amount of 136.21 billion meticais (about Usd 2.2 billion). Likewise, it needed Usd 700 million to ensure its participation in the FLNG Coral Sul project, an amount that resulted from indebtedness to concessionaires in 2017, and which should be paid gradually13 in the year the project starts production.

The amounts above represent ENH's debt. To this debt is added approximately Usd 300 million related to the financing granted to the company by other concessionaires to finance expenses incurred before the approval of the Development Plan, as provided for in the concession contract model for research and production.

Depending on the type of project, the involvement of ENH and the phase in the value chain, ENH created different entities to guarantee adequate commercial participation by the State. These are vehicle companies created to serve ENH in its main purpose.

Below, we present the description of ENH's subsidiaries and affiliates and their activities, according to the list provided by the ENH Group.

ENH subsidiaries and affiliates

CMH was created in 2000, with the aim of improving oil activities and coordination operations in the field of natural gas, Pende and Temane. Represents the State (ENH) in the

[5] The Exxon Mobil/MRV Development Plan, submitted in July 2018 to the Government, was returned to the concessionaires as it had many gaps and violated a number of requirements (see details at: http://opais.sapo.mz/dfi- no-natural-gas-government-backs-and-commits-deadlines).

[6] Investment projections - http://opais.sapo.mz/gas-do-rovuma-vai-atrair-cerca-de-usd-60-bilioes.

[7] FID (sigla inglesa) – Final Investment Decision.

upstream gas activities, namely exploration and production the 25% stake in the Pande - Temane investment extends to the participating capital, costs incurred and revenues received.

CMG is a vehicle for the Government's participation in the natural gas pipeline component, through a 25% stake in the company ROMPCO (PTY) Limited, which owns the exploration of the gas pipelines. CMG was created in 2002 with the aim of providing natural gas services through a pipeline and carrying out related or subsidiary activities of its main activity, as well as the provision of related services.

The PCD (Portos de Cabo Delgado) is the result of a partnership between the Ports and Railways of Mozambique (CFM) and ENH, with 50% each. The company was created to develop and implement infrastructures to support oil operations, including the design, construction, operations and management of specialized port terminals.

Below, we present the structure of ENH's subsidiaries and affiliates:

Figure 6: ENH's subsidiaries and affiliates

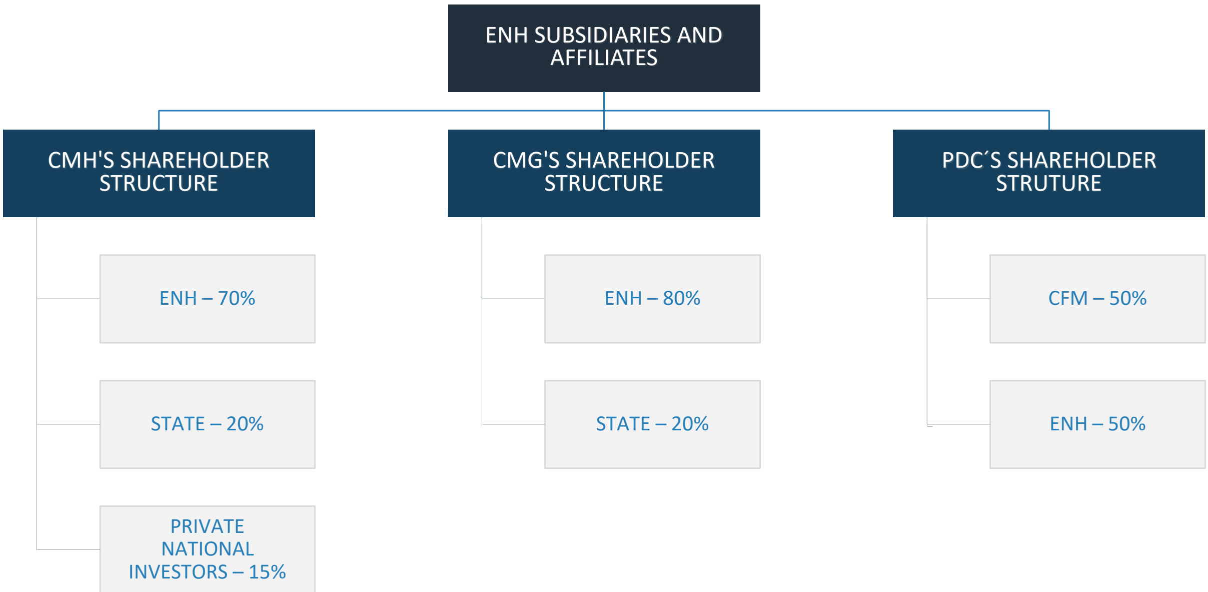
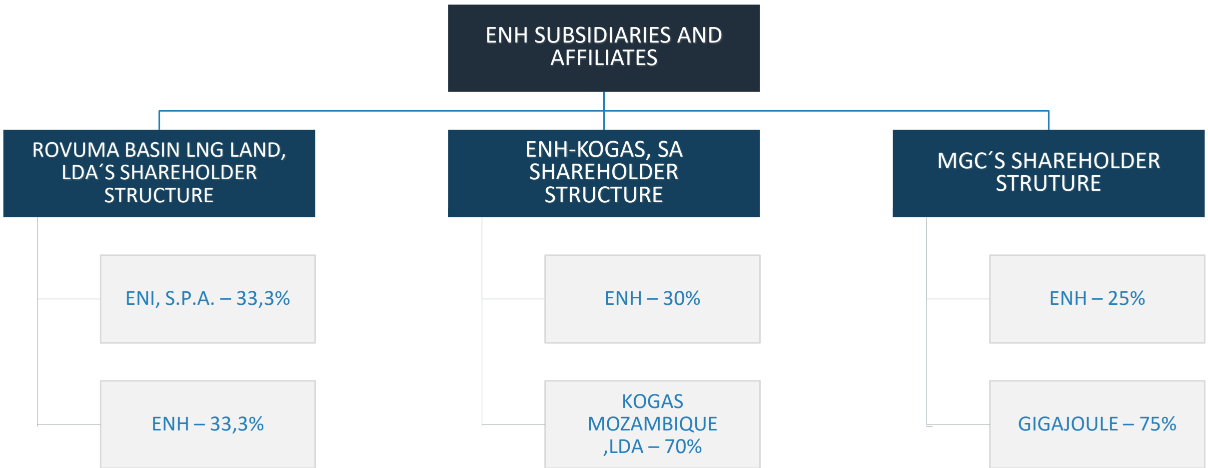


Figure 7: ENH's subsidiaries and affiliates



Source: ENH

Disclosure of Financial Statements

The public disclosure of ENH's audited financial statements, according to the information collected during the interview, is made in the country's most widely circulated newspaper and 2016-2019 AFS are available on the company's website[8].

Dividend Payments

For the period under review, ENH paid its State shareholder dividends in the global amount of 616.7 million Meticais, declared in the 2019/2020 fiscal year, as a result of its dividend distribution policy, as shown in the table below:

Table 12: Dividend payments of ENH

	Amount in millions of meticais				
Company	**Year**				
	2016	**2017**	**2018**	**2019**	**2020**
Empresa Nacional de Hidrocarbonetos, E.P.	-	-	-	100.0	516.7
Total					**616,7**

Source: ENH

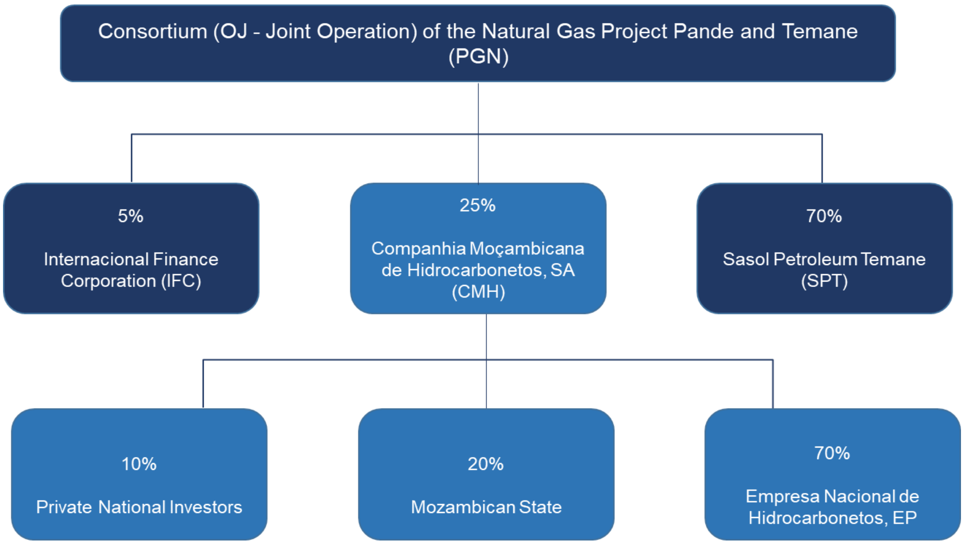
B. Companhia Moçambicana de Hidrocarbonetos, SA

Companhia Moçambicana de Hidrocarbonetos, SA (CMH) is the Mozambican partner in the Consortium (OJ - Joint Operation) of the Natural Gas Project Pande and Temane (PGN).

[8] www.enh.co.mz

Sasol Petroleum Temane (SPT) is an Operator in the Pande and Temane fields. JO partners are SPT, a Mozambican entity subsidiary of Sasol Exploration and Production International (SEPI), with a 70% stake, CMH, which is a subsidiary of ENH, a public company, with a 25% stake, and International Finance Corporation (IFC), a member of the World Bank Group, with a 5% stake.

Figure 8: Shareholder structure of the Pande and Temane consortium



Source: CMH

The consortium (JO) is managing and developing the natural gas fields at Pande and Temane, in Inhambane (Mozambique) and the Processing Center (CP). Natural and condensed gas have been produced in the Temane fields since February 2004 and Pande since June 2009. The gas processed at the CPF, the gas is then transported through an 865 km long pipeline, from underground transboundary transmission to the Sasol Gas terminal in Secunda, South Africa. In the Mozambican part of the pipeline, there are five outlet points for the domestic market.

In the initial project, CP had been designed to produce 120 MGJ / a to sell Sasol Gas, the main customer, through the First Gas Sale Contract (GSA 1). In March 2007, the partners agreed to expand the production of Pande and Temane and CP in Temane to increase the existing gas production and sales capacity by 50% and increase the capacity of the production facilities from 120 MGJ / a to 183 MGJ / a. Of the additional capacity of 63 MGJ / a, 27 MGJ / a was attributed to Sasol Gas, through the Second Gas Sales Contract (GSA 2), 27 MGJ / a was attributed to the following projects in the Mozambican market: ENH KOGAS with 6 MGJ / year, Ressano Garcia Thermal Power Plant (CTRG) with 11 MGJ / year, Matola Gas Company (MGC) with 8 MGJ / year. In 2015, ENH was awarded an additional 2

MGJ / a and a total of 9 MGJ / a was reserved for the tax on the production of gas in kind to be paid to the Mozambican Government. The condensate production is sold to Petromoc at CP and is currently transported to the port of Matola.

Disclosure of Financial Statements

The public disclosure of CMH's audited financial statements is made in the country's most widely circulated newspaper and on the website[9] from the company.

Dividend Payments

The payment of CMH's dividends is subject to certain financial ratios calculated on a semi-annual basis, without prejudice to compliance with the company's statutes, the approved dividend distribution policy and the existing commitments with the Financiers. For the period under review, CMH paid the total amount of 1,655.9 million Meticais as dividends to the State, as shown in the table below:

Table 13: Dividend payments of CMH

					Amount in millions of meticais
Company	**Year**				
	2016	**2017**	**2018**	**2019**	**2020**
Companhia Moçambicana de Hidrocarbonetos, SA	120.00	282.80	198.69	394.05	660.40
Total					**1,655.9**

Source: CMH

C. Companhia Moçambicana de Gasoduto, SA

In 2000, the Government of Mozambique expressed interest in processing and bringing the existing gas in the country to markets. On October 26, 2000, the Government of the Republic of Mozambique signed a Pipeline Agreement with Sasol Ltd:

- With the intention of granting an authorization to Sasol Ltd: build, own and operate a gas pipeline in Mozambique for the transport of high pressure gas; and
- Providing for the subsequent acquisition by the states of Mozambique and South Africa of shareholding in the company to be created to own and operate the said gas pipeline.

Companhia Moçambicana de Gasoduto, SA is a Mozambican law firm, created the June 3, 2002, as a vehicle for participation of the Mozambican state in the transport component (via pipeline) of natural gas venture Pande and Temane.

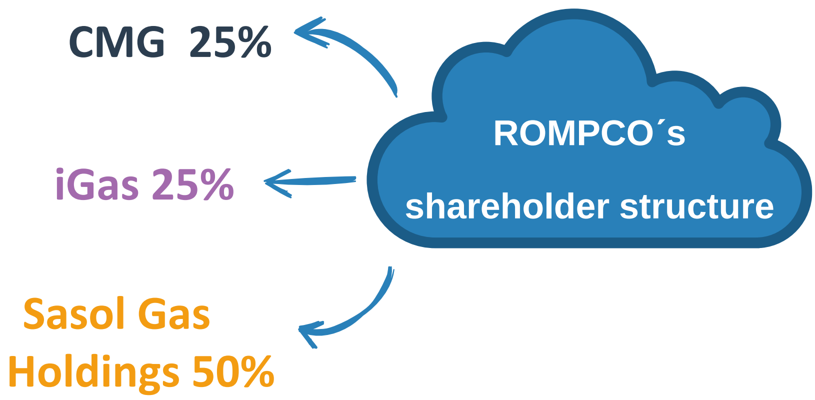
[9] http://www.cmh.co.mz/images/Relatorio&Contas/Relatorio_&_Contas_AF19.pdf

The Company emerged as a vehicle for the Government's participation in the gas pipeline component in the natural gas venture of Pande and Temane, having acquired, in 2007, a share of the capital of the Republic of Mozambique Pipeline Investments Company (Pty) Ltd. (ROMPCO) where it holds 25% of the capital represented by 2,500,000 preferred shares.

On January 20, 2003, a Shareholders Agreement was signed, which created the Republic of Mozambique Pipeline Investments Company (Pty) Ltd. - (ROMPCO) with the following shareholders:

- CMG, representing the interest of the Mozambican State;
- South African Gas Development Company - iGas, representing the interest of the State of South Africa; and
- Sasol Gas Holdings (Pty.) Ltd.

Figure 9: ROMPCO's shareholder structure



Source: CMG

ROMPCO transports natural gas for export and to the domestic market through an 865-kilometer gas pipeline from Temane (Inhambane, Mozambique) to Secunda (Mpumalanga, South Africa). It generates revenue by applying transport tariffs to its customers, per unit of natural gas heating. CMG receives 25% of dividends paid by ROMPCO in foreign currency, which in turn constitutes its only revenue.

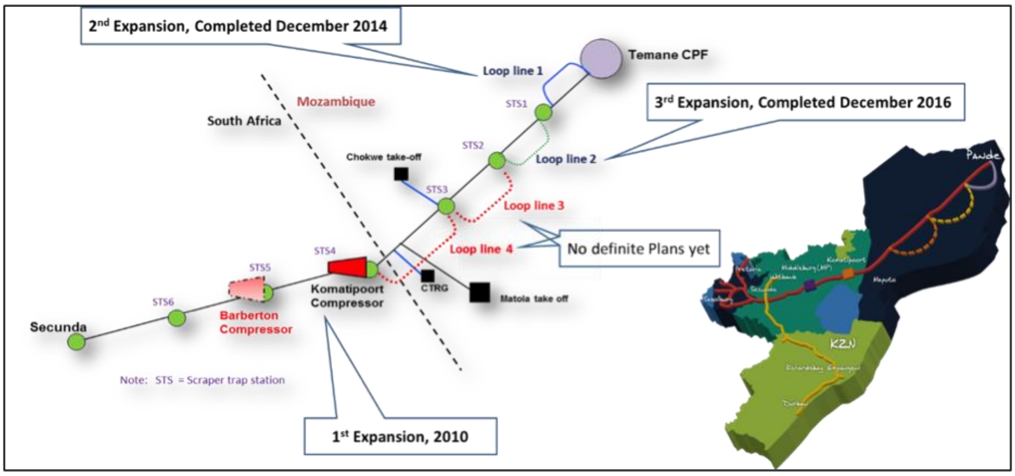
The management of ROMPCO is done with the direct involvement of its shareholders, in bodies established for the discussion and treatment of various matters, at the strategic, tactical and operational levels, directed and supporting the management team of ROMPCO.

Under the terms of ROMPCO's shareholders' agreement, the Chairman of the Board of Directors is appointed on a bi-annual basis by any shareholder who holds at least 15% of the company's shares. In this context, being eligible and according to the rotation schedule, CMG assumed the presidency of ROMPCO on July 1, 2016 for 2 years. Thus, the Chairman of the Board of Directors of CMG assumed the Presidency of the Board of Directors of ROMPCO during this period.

The gas pipeline between Temane - Secunda, which started operating in 2004, is the main asset of ROMPCO. After the construction of the main gas transmission line with the capacity to transport 120 million Giga joules per year (MGJ / a), ROMPCO embarked on three projects to expand transport capacity, namely:

- A first expansion, in 2010, allowed for the additional transport of 29 MGJ / a, through the installation of a comprehension station in Komatipoort (in Mpumalanga, South Africa), to supply gas to the South African market;
- A second expansion, in 2014, allowed for the additional transport of 36 MGJ / a, through the construction of a parallel pipeline (loopline 1) from Temane to Funhalouro (in Inhambane) to supply gas to projects in Mozambique;
- A third expansion, in 2016, allowed for the additional transport of 24 MGJ / a, via a second parallel pipeline (loopline 2) between Funhalouro (in Inhambane) and Chigubo (in Gaza), to supply gas to consumers in Mozambique and South Africa.

Figure 10: Expansion of gas transport capacity



Source: CMG

Dividend Payments

CMG reported positive net income in the last three consecutive fiscal years (2017 - 2020), and the 2018/2019 fiscal year was marked by the transition from accumulated income from negative to positive, allowing the payment of dividends to shareholders. Due to the positive income obtained by CMG in fiscal year 2019, dividends were paid to shareholders in the total approved amount of 183.0 million Meticais, 20% of which was paid to the State in an amount equivalent to 36.6 million Meticais, as shown in the table below:

Table 14: Dividend payments of CMG

	Amount in millions of meticais				
Company	**Year**				
	2016	**2017**	**2018**	**2019**	**2020**
Companhia Moçambicana de Gasoduto, SA	-	-	-	36,60	30,0
Total					**66,6**

Source: CMG

Disclosure of Financial Statements

According to the information made available by the company, the public disclosure of the audited financial statements is made by the ENH Group, after obtaining results in the companies in which it holds interests, that is, the companies send the individual financial statements to the ENH Group and this ENH consolidates them in their accounts and is then published in the most widely circulated newspaper in the country[10]. Up to the date of preparation of the report, the company did not have a website for the public disclosure of its audited financial statements.

5.1.3. Financial Relations with the State

The financial relationship between the State and its business sector was governed by program contracts and through the exercise of power of sectorial tutelage according to the activity that integrates its mandate, without prejudice to the principle of autonomy of the respective management and of its own competences and tutelage financial exercised by the Minister who oversees the area of Finance, before the entry into force of the SOE Law.

According to the new SOE Law, in its article 21, program contracts are limited to covering the costs of the social component of the public service to be provided, to be approved by the minister who oversees the finance area, and the SOE company is responsible present the proposal for the program contract to the SOE managing and coordinating entity for its appreciation. Also under the terms of article 21 of the SOE Law, the program contract must

[10] Statutes of the National Hydrocarbon Company, E.P., Article 30 of paragraph 2, and Article 31 of paragraph 3

contain the setting of criteria for determining State Budget subsidies and their correlation with the programmed objectives and goals.

The current practices that govern the financial relations between the State and the SOE companies in the extractive industry, that is, the rules and practices that govern the transfers of financial resources between the government and the companies, retained earnings, reinvestments and the financing by third parties are described in Law No. 3/2018, SOE Law, as well as in the respective regulation (Decree No. 10/2019 of 26 February). The table below summarizes the rules and practices of financial relations between the State and SOE companies in the context of the Mozambican extractive industry:

Table 15: Standards and practices that govern the financial relationship between the state and the companies in the SOE

Type of Financial Relationship	Standard Description
Dividends, retained earnings and reinvestments	Article 12, paragraph k), states that it is incumbent upon the General Meeting to assess and deliberate on the dividend policy as well as the application of the results of each financial year. There is compliance with this fiscal rule.
Operating subsidies	The financial difficulties faced by companies that are owned by the State are often overcome by granting "benefits" granted by the same State, in the most diverse forms, such as subsidies, capital increases (made in cash or in kind). The transfer of operating subsidies by the State to SOE companies is made on the basis of the program contract provided for in Article 21 of the SOE Law and the respective regulation.
Third-party financing	Without prejudice to the specific competencies of the Minister who oversees the finance area, the indebtedness or the assumption by the SOE companies of responsibilities of a similar nature, including the issuance of commercial debt securities, must be approved by the General Meeting, with the prior opinion of the Treasury Public, in accordance with article 30 of the regulation of the SOE Law. Exceptionally, short-term debt to support treasury is approved by the Board, in accordance with prudent cash management practices. Nevertheless, SOE companies must develop financial control instruments that include the annual debt plan and submit annually to the entity that manages and coordinates the SOE and the sectoral Minister.

Issuance of guarantees	Paragraph 2 of article 30 of the Law's regulation says that the indebtedness or the assumption by companies of the SOE of responsibilities of a similar nature, must observe the procedures related to the issuance and management of public debt and guarantees by the State, approved by Decree no. 77/2017, of 28 December, and other applicable legislation on the matter. Of the four companies considered material for the purposes of the report, only ENH benefited from a sovereign guarantee in 2019. The details of the guarantees are covered in subchapter 5.1.6.

Source: intellica (Adapted)

According to the information collected from the parties, we conclude that there is compliance with the law with regard to financial relations between companies in the SOE´s in the extractive sector.

5.1.4. Standards and practices related to operating expenses and Investment, Acquisition of Goods and Services

Recently, several legislation related to the SOE has been produced. In this context, under the terms of Law no. 3/2018, of 19 June, and the regulation (Decree No. 10/2019 of 26 February) that establishes the principles and rules applicable to the State Business Sector, the rules and practices related to operating and investment expenses, acquisition are described of goods and services, corporate governance, which are applicable to SOE companies in the Extractive industry.

Operating and Investment Expenses

Under the terms of article 5 of Law no. 3/2018, of 19 June, companies that are part of the State-Owned Enterprise Sector are endowed with personality and legal capacity, with administrative, financial and patrimonial autonomy. In this regard, without prejudice to the provisions of the applicable legislation, the Board of Directors has the necessary powers to ensure and control the day-to-day management and the development of the company's activity, namely: i) implementing the company's management policies; ii) manage human, material and financial resources, respecting the company's mission; iii) prepare and submit for deliberation by the General Assembly, the annual and multi-annual activity plans and the respective budgets that include operating expenses, in accordance with article 14 of the State-Owned Enterprise Sector Law.

Investments by SOE companies are approved by the General Meeting, in accordance with article 31 of the regulation of the SOE Law. If the investments of SOE companies are destined for public projects and that involve foreign capital, they must obey the criteria established by the coordination and selection committee for public projects, provided for in Decree No. 77/2017, of 20 December.

Acquisition of Goods and Services

The acquisition of goods and services by SOE companies is governed by public tender and under the terms to be regulated in the company's statutes, and must comply with the other applicable public law principles, the following: legality, economy, and proportionality, pursuit of the public interest, transparency, advertising, competition, impartiality, responsibility and speed, under the terms of article 25 of Law no. 3/2018, of 19 June, of the SOE.

In turn, under the terms of article 32 of the same SOE Law in the acquisition of goods and services by companies of the SOE, the following regimes apply: General, Special and Exceptional.

The General Regime says that for the acquisition of goods and services by the companies of the SOE it is based on the public tender, according to article 33 of the regulation.

Under Article 34 of Law no. 3/2018, of 19 June, the special arrangements SOE Company may adopt the following conditions:

a) Hiring resulting from a treaty or form of international agreement between Mozambique and another state or international organization, which requires the adoption of specific rules;

b) Contracting carried out within the scope of financed projects, with recourse from financing or donation from official foreign cooperation agencies or multilateral financial body, when the adoption of different rules is expressly stated as a condition of the respective agreement or contract.

The adoption of the special contracting regime requires prior approval by the General Meeting, pursuant to the regulation of the SOE Law.

The Contracting Entity may adopt the exceptional regime in situations of force majeure and when it is not possible to carry out the public tender, and must inform the company's General Assembly, in accordance with article 35.

The SOE Company must provide the contestants with the tender documents which are made up of the tender program, specifications, project, and qualification requisition of the tenderers.

The documents that make up the process of purchasing goods and services must be written in Portuguese. The SOE Company can simultaneously publish the advertisement and document in Portuguese and in another language, with documentation in Portuguese always prevailing.

Each SOE company must prepare the specific Regulation for the acquisition of goods and services to be approved by the General Assembly containing the procedures and requirements for acquisition.

5.1.5. Regulatory Framework for Issuing Government and SOEs Loans and Loan Guarantees

The issuance of State loans and loan guarantees to companies of the SOE must comply with the procedures relating to the issuance and management of public debt and State guarantees approved by Decree No. 77/2017, of December 28, and other legislation applicable to the matter.

Under the terms of the aforementioned Decree, the Government will provide, on a quarterly basis, through the Budget Execution Reports (REO) information to the Assembly of the Republic on the contracted debt, sureties and guarantees issued.

According to article 3 of this Decree, the mobilization of financing that implies the contracting of public debt needs a mandate issued by the Minister who oversees the area of Finance, the following requirements being cumulatively fulfilled:

- Identification of the creditor;
- Proposed terms and conditions;
- Purpose of the operation;
- Project description;
- Economic and / or social impact of the Project;
- Economic and financial pre-feasibility study.

The payment of interest and / or capital amortization of loans forming part of the public debt are ensured by the State Budget (OE).

The limits on indebtedness and the issuance of guarantees must take into account the annual medium-term debt strategy and the Government's sustainability analysis.

In the granting of guarantees by the State, the maximum limit, fixed for each year, in the Law that approves the OE, which cannot be exceeded, must be observed. This concession is subject to risk analysis and is only valid upon dispatch from the approval of the Minister who oversees the Finance area. If the concession is in foreign currency, it requires prior authorization from the Council of Ministers in accordance with article 3 of Decree.

In granting guarantees, the State adopts the following modalities:

- The guarantee, for loans represented by contracts in which the State is the guarantor;
- The guarantee, for secured loans, in which the State is the guarantor.

The guarantees are intended to ensure the performance of credit operations or other financial operations, national or international, from which national public companies or other companies majority-owned by the State are beneficiaries. These credit or financial operations are related to projects or projects of manifest interest to the national economy, which contribute to the Five Year Program, growth and economic and social well-being.

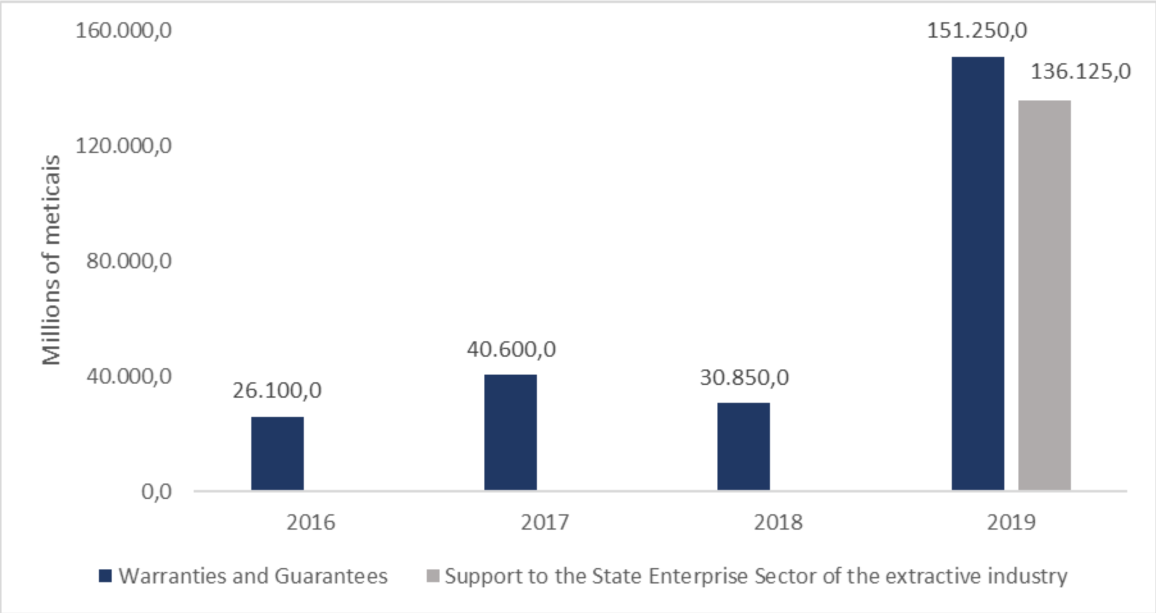
Regarding the conditions for authorization, Article 18 of the aforementioned Decree states that guarantees can only be authorized or approved when the following conditions are cumulatively fulfilled:

a) The State has a stake in the company or an interest in the undertaking, project or financial operation that justifies the granting of the guarantee;
b) There is a concrete investment project and a study that shows the feasibility of the operation to be guaranteed, as well as a strict financial schedule;
c) Present the beneficiary of the guarantees of economic, financial and organizational characteristics that offer sufficient security to face the responsibilities that it intends to assume;
d) The granting of guarantees is essential for the realization of the credit or financial operation, namely due to the lack or insufficiency of other guarantees;
e) Submit an express commitment to provide information on the financing stage, on a monthly basis.

Without prejudice to the guarantees that are stipulated in each case, the State enjoys general furniture privilege over the assets of the beneficiary entities guarantee the amounts that have actually spent, in any way, because of the guarantee.

The guarantees to public companies and subsidiaries by the Mozambican state, grew from 26,100.0 million meticais in 2016 to 151,250.0 million meticais in 2019, which corresponds to an increase of 579.5%, as illustrated in the graph below:

Graph 3: Issue of Guarantees and commitments authorized by the Government



Source: General State Account (2016 - 2019)

In 2019, under the terms of article 11 of Law no. 15/2018, of 20 December, the Government was authorized to issue guarantees and sureties, in the amount of 151,250.0 million Meticais. From the stipulated limit, 136,125.0 million Meticais (equivalent to USD 2,250.0 million) were allocated to support the Extractive Industry SOE and the remaining 15,125.0 million Meticais were allocated to the rest of the SOE companies, having been guarantees were issued in the global amount of 146,948.4 million Meticais corresponding to 97.2% of the fixed limit, according to the 2019 State General Account.

In 2018, ENH requested the Government to grant a sober guarantee to take out a loan to finance its participation in the Rovuma Basin Area 1 natural gas project (equivalent to 15% of the total quota), being the only one SOE company in the extractive industry upon request and the beneficiary is granted a sober guarantee during the period under review.

The requested guarantee, in the amount of USD 2,250.0 million, is provided to Guarantee Agents on behalf of the consortium made up of Export Credit Agencies and other national and international financial institutions involved in the financing of the project. However, the guarantee is provided for the construction period of the natural gas project and remains in effect until all completion tests specified in the Financing Documents are completed, as identified in articles 4 and 6 of Decree No. 102/2019 of 31 December, the issuance of the sovereign guarantee.

In compliance with the provisions of the Decree above, the guarantee issued on April 24, 2020, takes effect from March 31, 2019, that is, to be reported in 2019, given that the balance for its issuance is provided for in the 2019 Budget Law and in line with Decree No. 102/2019, approval granted by the Council of Ministers. The following table shows the terms of the guarantee issued.

Table 16: ENH loan guaranteed by the State

Creditor	Beneficiary	finality	Issue date	Date of maturity	Exchange	Original currency	Guarantee Amount (million)	
							Original currency	MZN
Dealers of the Golfinho-Tuna Area 1 project	ENH	Funding for participation in the Golfinho-Tuna Area 1 project	24-04-2020	1 year after completion of construction	60,5	USD	2.250,0	136.125,0

Source: Public Debt Report 2019 - MEF

The financial statements of ENH and no other publicly available documents do not mention the interest rate that will be considered in the reimbursement of 136,125.0 million Meticais by ENH, which would allow the analysis of the costs and financing conditions to which the State is submitted for guarantee participation in this project, in particular, and in gas projects, in general.

In addition to the guaranteed loan, ENH has resorted to additional financing to support its participation in the LNG projects in Area 1 and Area 4 offshore, where the company holds 15% and 10% respectively. The table below shows the loans obtained in order to finance the exploration and development costs for each project:

Table 17: ENH loans obtained to finance the exploration and development costs

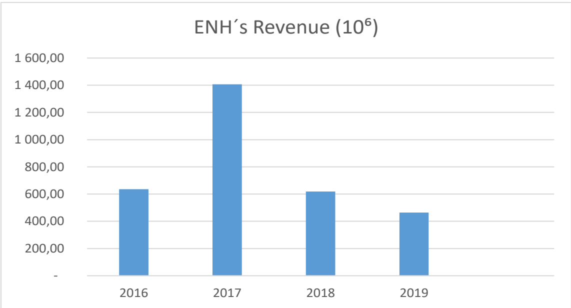
Creditor	Purpose	Agreement Year	Currency	Amount committed	Maturity Year	Interest Rate	First Amortization	Balance in the Company's Balance Sheet at the end of 2019	Note
Golfinho Atum Project Concessionaires, Area 1	Finance the development costs of the equity portion ENL (15%) in Golfinho Atum Project	2016	USD	1.050	December 31, 2032	i) Up to one year after completion date: 9%; ii) One year after completion date: 13%	December 1, 2023	102,28	Loan includes interest capitalization
Area 4 Concessionaires - FNLG Coral Project	Finance the development costs in the equity portion of ENH (10%) in the Coral FLNG project	2017	USD	44.132	April 5, 2027	8,7%	June 1, 2023	250,81	Loan includes interest capitalization

Source: Public Debt Report 2019 – MEF

5.2. SOE's Financial Performance Analysis

According to the Financial Statements provided by the SOE's, we will analyse the performance of each of the companies, in the period from 2016 to 2019, based on the following indicators: Sales made in the period, Operating result and net income for the year of each company, according to the graphic below:

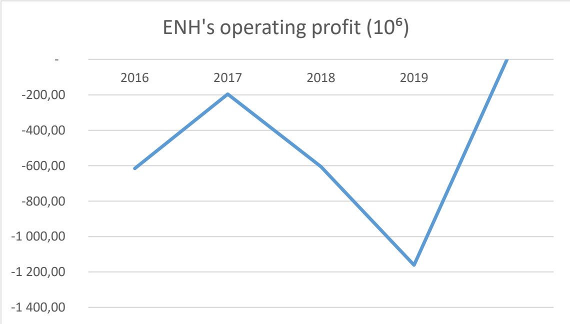
Graph 4: ENH´s Revenue



Source: ENH's financial statements

Gas sales correspond to the sale of gas explored in the Pande and Temane areas in partnership with Sasol. The variation in 2017 compared to 2016 results from the increase in transport costs that had an impact on the sale price. From 2018 to 2019 there was a decreasing trend over the period, as shown in Graph 4 above.

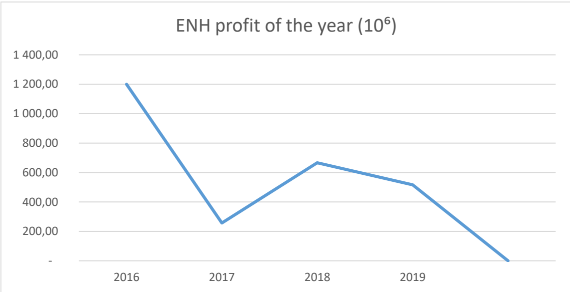
Graph 5: ENH´s operating profit



Source: ENH's financial statements

The analysis of ENH's operational performance reveals a deterioration of results over the entire period 2016-19, as can be seen from the analysis of the graph 5 above.

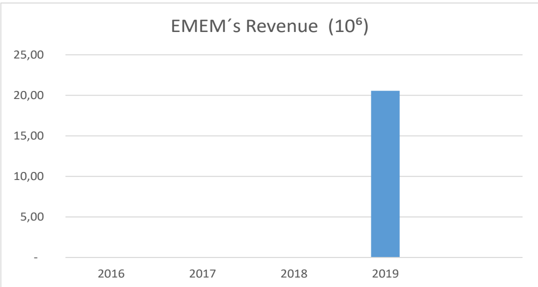
Graph 6: ENH profit of the year



Source: ENH's financial statements

Despite the fact that ENH has generated negative operating results, it presents a positive profitability resulting from the income from the rents from the properties of the JAT – V Building, which was transferred from ENH Logística to ENH at the end of 2016, and the significant decrease in exchange differences, compared to the previous year, graph 6 above.

Graph 7: EMEM´s Revenue

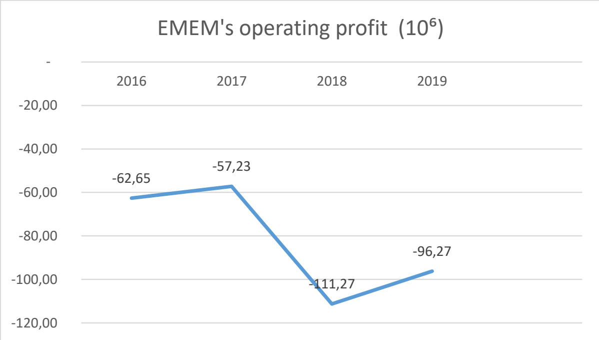


Source: EMEM's financial statements

EMEM, during the period under review 2016-2019, has no sales in its production structure, except for 2019 with 20,561 million meticais.

EMEM did not produce any ore in the period under review, due to difficulties in financing an activity in the face of unfair competition. The declared revenue results from the activity of buying and selling gold, even so under unfair competition conditions promoted by foreigners and without minimum requirements for this purpose.

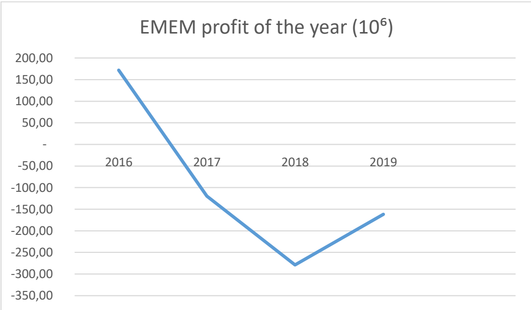
Graph 8: EMEM´s operating profit



Source: EMEM's financial statements

The analysis of EMEM's operational performance reveals a deterioration of results over the entire period 2016-19, as can be seen from the analysis of Graph 8 above.

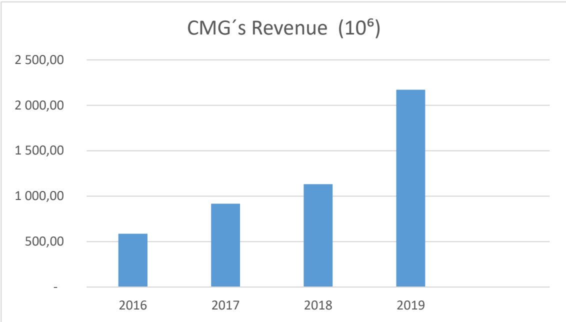
Graph 9: EMEM´s profit of the year



Source: EMEM's financial statements

EMEM presents a negative profitability in the period under analysis, as a result of the financial charges resulting from the high weight in its productive structure and indebtedness that ended up reducing/exhausting the possibility that they were profitable.

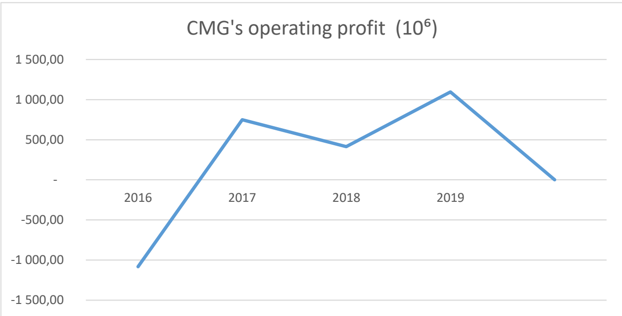
Graph 10: CMG´s Revenue



Source: CMG's financial statements

With regard to CMG, it is worth highlighting the growing trend in turnover throughout the period under review. In general, the company presents positive results, as can be seen in graph 10 above.

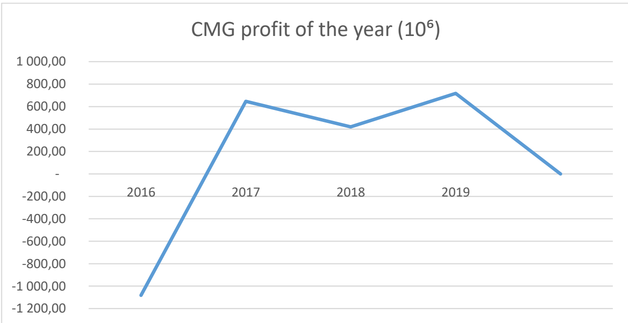
Graph 11: CMG´s operating profit



Source: CMG's financial statements

The analysis of operating performance reveals that CMG obtained a positive result over the period, except for 2016, which presents a negative result, as can be seen from the analysis of graph 11 above.

Graph 12: CMG profit of the year



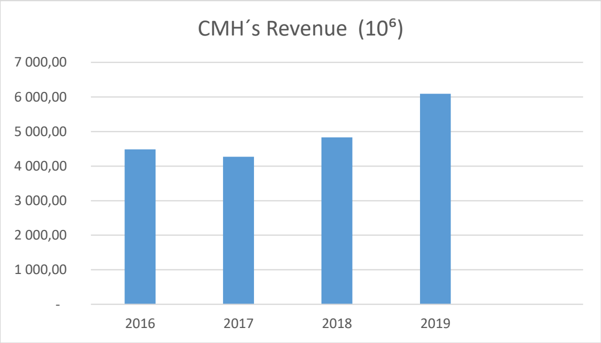
Source: CMG's financial statements

In CMG's analysis, it reveals a positive profitability, except for the year 2016. It should be noted that CMG does not export, nor does it produce any type of product. But yes, it holds a financial stake in the Republic of Mozambique Pipeline Investment Company (Pty). Ltd (ROMPCO) represented by 25% of the share capital.

ROMPCO is responsible for the management and operation of the transboundary gas pipeline (Mozambique and South Africa).

According to CMG's business model, the company's sole source of revenue is the dividends annually distributed by ROMPCO, which are subsequently allocated to the debt service under the terms of the financing agreements.

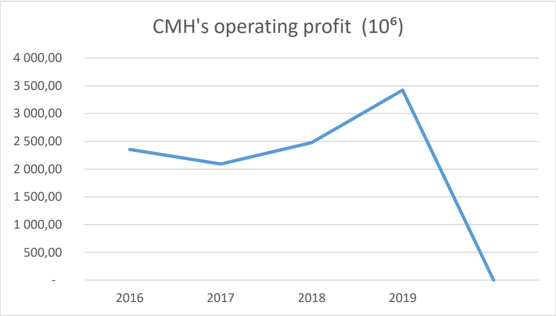
Graph 13: CMH´s Revenue



Source: CMH's financial statements

With regard to CMH, it is worth highlighting the growing trend in turnover throughout the period under review. In general, the company presents positive results, as can be seen in graph above.

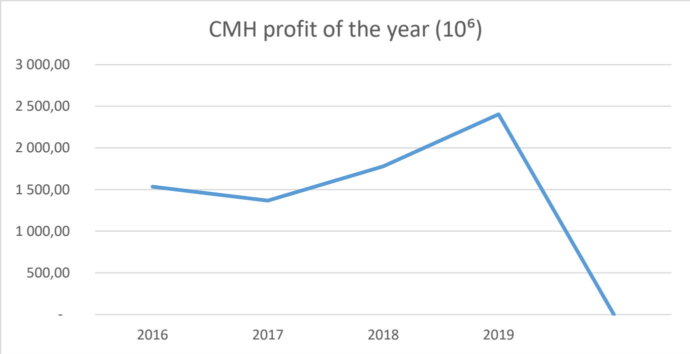
Graph 14: CMH´s operating profit



Source: CMH's financial statements

The analysis of operating performance reveals that CMH obtained a positive result over the period under review 2016-2019, as a result of natural gas sales being higher than in the previous period, as can be seen from the analysis of graph 14 above.

Graph 15: CMH profit of the year



Source: CMH's financial statements

The analysis of CMH's profitability reveals that the company was profitable throughout the period under review. The chart above illustrates the evolution of the company's net results during the period 2016-19.

In relation to other companies, they were not analyzed because they are not part of the extractive sector.

5.3. Activities Developed by IGEPE

SOE companies are subject to financial control, internal control, external audit and risk management. These companies must adopt internal control and internal audit procedures that ensure a high level of quality and reliability, regularity of accounts and other financial information, in accordance with article 23 of the regulation of the SOE Law. The level of compliance is assessed through the monitoring that IGEPE does to SOE's institutions.

Financial Control: SOE companies must prepare financial control instruments and submit annually to the entity that manages and coordinates the SOE and to the sectoral Minister, namely the following documents:

a) Annual and multi-annual activity plans;

b) Annual budgets, including the estimate of financial transactions with the State;

c) Annual debt plan;

d) Financial reports, including the Balance Sheet, Income Statement and Cash Flow Map accompanied by the respective annexes and the report of the supervisory body;

e) Reports to the Board of Directors, which should include, among others: i) the analysis of the activities carried out, reporting on how the Company's objectives were achieved; ii) level of budget execution; iii) execution of the program contract; iv) detailed loan information, including loan terms, lender, and maturity.

f) Any other information and documents requested to monitor the situation and the company and its activity with a view in particular to ensure the sound management of public funds and the evolution of its economic and financial situation.

The referred documents must be sent to the Minister responsible for finance, for approval within 30 (thirty) days after receipt.

Internal Control: SOE companies must have an internal control sector, without prejudice to the powers of the supervisory board and other internal and external control sectors. The internal control sector is, in general, responsible for controlling the internal institutional procedures.

External Audit: The accounts of the SOE companies must be subject to external audits by independent auditors, without prejudice to the powers of the Audit Committee and the internal audit body. The hiring of external auditors by the SOE companies is by public tender, and must comply with the hiring procedures defined in the regulation of the SOE Law.

SOE companies can be audited by the same external auditor, for a period not exceeding 4 (four) consecutive years. Without prejudice to the external audit, the General Meeting may establish or adopt other types of audits.

Risk Management: The managing and coordinating body of the SOE defines the risk control mechanisms of companies and ensures their monitoring. SOE companies are responsible for providing risk information to entities that manage and coordinate the SOE and ensure the prevention and mitigation of the occurrence of economic and financial risks, among others, the following:

a) Financial and exchange rate risks inherent to the enterprise;

b) Fiduciary risks, resulting from the improper use of financial resources made available for application in the company;

c) Risks of unsustainability of the company's debt;

d) Tax risks, arising from tax evasion and evasion or from the assumption and enjoyment of extensions not provided for in the applicable tax legislation in force;

e) Operational and corporate risks.

Specialized Committees: Pursuant to Article 10 of the SOE Law, specialized commissions are statutory bodies of companies. The specialized committees are independent bodies of the Board of Directors that ensure, among others, compliance with the good management and corporate governance practices of SOE companies, in matters of remuneration, perks, audit, internal control, compliance and risk management.

CONTROL OF PARTICIPATIONS

According to the IGEPE Activity Report for the year 2018, the following activities were planned:

a) Ensure the increase in capital revenues, by 10% for the Public Treasury;

b) Consolidate the restructuring process of the State Business Sector, ensuring that 10 companies are restructured with a view to their viability and sustainability;

c) Strengthen company supervision and control measures and consolidate their monitoring through:

i. Introduction of the economic-financial performance matrix to help assess the economic-financial performance of companies;

ii. Introduction of the management contract in evaluating the performance of public managers in companies;

iii. Analysis and endorsement of the approval of the companies' planning and reporting instruments: strategic plan, business plan, activity plan and budget, and management report and accounts;

iv. Monitoring of the Risks of Participated Companies; and

v. Control of indirect State shareholdings (shareholdings held by state-owned companies).

d. Recovery of credit resulting from the sale of shares or assets.

ACTIVITIES CARRIED OUT

Ensure the increase in capital income, and for the year 2018 the collection (only of dividends and disposals) of 1,006,636,496.61 MT of capital revenue was planned, having collected 950,002,542.83 MT, which corresponds to a level of execution of 94.3% of the planned (ANNUAL REPORT OF ACTIVITIES CARRIED OUT IN 2018).

5.4. Governance

- **General Assembly**

Under Article 7 of Law nº 3/2018 of 19 June, the General Assembly is the deliberative organ of the SOE. The General Meeting is constituted by the holders of statutory capital. In the General Assemblies of public companies, representatives of the ministries or entities that supervise the sector of activity that is part of the object of the company participate, to be appointed by the minister of the sector. The General Assembly is functional and operative for the SOE´s.

- **Board of Directors**

The Board of Directors is the company's management body, made up of an odd number of members, with a maximum of seven members, one of whom is the President. Pursuant to Article 9 of the Regulations, the Board of Directors is executive and may include non-executive members. The number of members of the Board of Directors, including the Chairman, varies depending on the nature, size and complexity of the company.

The members of the Board of Directors are elected at the General Meeting, on the proposal of the shareholders or holder of statutory capital, harmonized with the related sectors. Except the Chairman of the Board of Directors of the Public Company.

The members of the Board of Directors are appointed for an individual term of four years and may be renewable. The term of office of the members of the Board of Directors begins with the investiture. Another shorter term can be fixed by the term of possession in a situation of substitution, intervention, convenience of services, among others. Members with executive and non-executive functions must sign with the entity that manages and coordinates the SOE the mandate contract inherent to the functions they exercise. Boards are properly constituted for SOE's.

- **Chairman of the Board of Directors**

The Chairman of the Board of Directors of the public company is an executive, being appointed by the Council of Ministers, on a proposal from the minister of the sector in which the company operates, after hearing the minister who oversees the area of economics. The Chairman of the Board of Directors of the Participating Company is an executive, being elected by the General Meeting.

The Chairman of the Board of Directors signs the management contract with the entity that manages and coordinates the SOE or with the shareholders, on behalf of the Board of Directors.

- **Fiscal Council**

The Fiscal Council is the company's supervisory body, composed of three members, one of whom is chairman and two members, of which a certified accountant or auditor. The members of the Fiscal Council are appointed by the General Meeting.

The Fiscal Council's duties may be performed by an audit or accounting firm, distinct from the external auditor. The term of office of the members of the company's Fiscal Council is three years, in accordance with article 16 of the SOE Law.

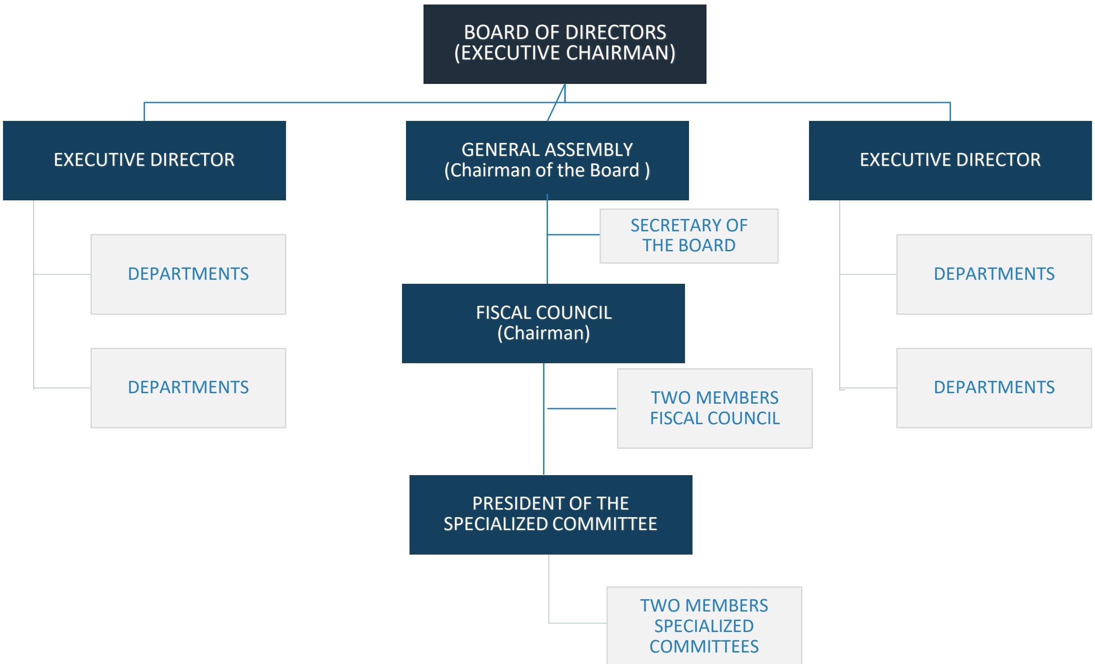
- **Code of ethics**

Companies in the State-Owned Enterprise Sector must, within the scope of their management, adopt, among others, the Code of Ethics. The same must be approved at the General Assembly. The established rules are fully complied with in accordance with the regulation.

Governance Organizational Chart

In the Governance model we have the following Organizational Chart:

Figure 11: Governance model



Source: IGEPE

The Board of Directors which is led by the Chairman of the Executive Board of Directors and Executive Directors. On this Board of Directors, the number of members must be unique, for example an Executive Chairman and two Executive Directors.

For the General Assembly table, we have a Chairman of the Board and a Secretary of the Board.

For the Fiscal Council we have the Chairman of the Fiscal Council and two members.

For the Specialized Committees, we have the President of the Specialized Committee and two Members. This is the model for public companies under the SOE´s law.

6. Receipt of Revenues

6.1. Sale of the State's Share of Production or Other Revenues Collected in Kind (Requirement 4.2)

Royalty Gas Management and Allocation

According to Law No. 27/2014, oil and gas production is subject to a tax, namely "tax on oil production "[11]. In Mozambique, this tax is referred to as "royalty" and this term will be used in this chapter to describe the share of production that belongs to the State as a tax in kind.

This tax is equivalent to 5% of the gas or oil that is transported and sold through the pipeline from the Mozambican territory, provided for in the production sharing contract for the Pande and Temane Blocks.

Currently, Mozambique has only one company in the gas production phase, which is Sasol Pande Temane (SPT) and the payment in kind received by the State corresponds to the tax on oil production produced by this company.

The tax on oil production can be paid in kind at the option of the State, in part or in full, upon notification by AT, after hearing the competent services of the Ministry that oversees the oil area, pursuant to article 12 of Decree no. 32/2015.

ENH is the designated entity that, in connection with the payment in kind of the tax on oil production, must receive the gas delivered by the producer (SPT) as a production tax, paid in kind, and carry out the management and administration of the natural gas resulting from the tax on oil production paid by concessionaires, under the terms of Ministerial Diploma 173/2014 of 10 October.

The administrative management of natural gas related to the instalment in kind paid as a tax on oil production, includes the monetization of gas, whose purchase and sale contracts entered into by ENH, are subject to authorization by the Ministry that oversees the oil area. , and the amount, in cash, of the tax that would be paid, for the quantities of gas received from the producer, at the market price, the date of receipt should be delivered to the public treasury.

[11] It is important to note that although the tax name indicates that it refers to oil, it also applies to gas and its calculation is based on the volume "transported" or transmitted by the pipeline, which is less than the total production.

The data provided by MIREME show the allocation of the gas produced by the SPT concession, namely, the quantities exported, the quantities sold on the national market and the quantities of gas paid in kind, as shown in the table below:

Table 18: Allocation of the gas produced

Description	UM	2016	2017	2018	2019
Natural gas					
Total natural gas produced	GJ	194.225.468,81	192.602.304,29	192.468.156,45	190.887.439,08
Total natural gas exported to RSA	GJ	156.826.942,25	158.909.099,07	159.007.373,09	155.226.956,71
Total natural gas sold on the national market	GJ	25.735.971,43	24.762.752,97	23.015.896,20	24.442.943,66
Total royalty natural gas paid in kind	GJ	6.966.191,86	4.620.428,08	6.137.350,46	6.840.328,26
Total royalty natural gas paid in cash	USD	2.505.574,92	5.125.915,13	3.864.225,71	2.974.640,07
Condensed					
Total condensed gas produced	bbls	477.089,68	408.666,26	379.406,61	328.923,21
Total condensed gas sold	bbls	495.547,23	408.508,59	379.147,61	330.412,14
Total royalty condensed gas paid in cash	USD	186.083,66	348.072,42	677.422,33	542.138,24

Source: MIREME

Gas paid in kind is allocated according to the policy defined by MIREME, which takes into account the impact on the national development of the projects of entities subject to receiving this gas, taking into account the availability and proposals for monetization of natural gas presented by companies. Therefore, the allocation of gas paid in kind for the years under analysis was made for the companies and in the quantities indicated in the table below:

Table 19: Allocation of gas paid in kind

Entities / Projects	UM	2016	2017	2018	2019
ENH (GJ)	GJ	552.401,86	566.482,08	605.053,15	653.297,26
MGC (GJ)	GJ	6.413.790,00	3.649.729,00	2.996.318,00	3.584.298,00
Kuvaninga (GJ)	GJ	—	404.217,00	2.535.979,31	2.602.733,00

Source: MIREME

In exceptional circumstances where an entity is not using the royalty gas, ENH has the power to redirect that gas to a different project until the original user has a favorable environment to use the royalty gas again.

Payment methods are defined in each gas purchase and sale contract (GSA), and customers issue a consumption certificate to ENH (this certificate consists of verifying the quantities received by the customer at the designated delivery point) at the end of each month and from the same, the invoice is generated which is submitted within a maximum period of five days to the customer, and must be paid 100% in a period of twenty days, by the bank. Failure to do so may result in the application of default interest.

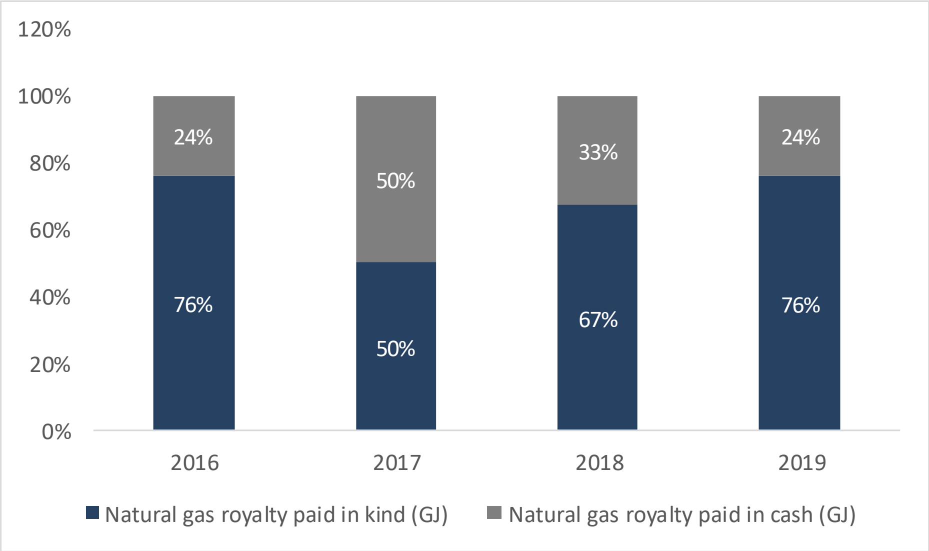
Allocation of gas in kind versus cash

Pursuant to Law No. 27/2014, which approves the Specific Regime for Taxation and Tax Benefits of Petroleum Operations, the Government through a written notification 12 (twelve) months in advance, instead of receiving the tax on the production of Petroleum, may require the contractor to pay monthly a specified portion of this tax in cash.

Upon notification of payment of the tax on the production of Petroleum in kind, the quantities mentioned in the notification must be delivered to the entity designated by the Government, in the specific case ENH, at the point of delivery. This payment in kind in the amount specified in the notification, remains until the Government makes a new notification, providing the contractor with revised instructions.

Of the total royalty paid in the period under review, more than 60% was paid in kind with the exception of the year 2017, which was around 50%, as shown in the graph below:

Graph 16: Amount of Gas in cash versus cash



Source: MIREME

In-kind Gas Allocation Criteria

The selection of companies purchasing the gas is made by the Government, which grants the allocation to customers, upon presentation of project proposals. This selection and allocation process follows the criteria recommended in the gas allocation policy contained in the Natural Gas Master Plan. The criteria to determine the qualified projects are presented in the table below. Each submitted project will be evaluated and ranked in quantitative and qualitative terms.

Table 20: Royalty gas allocation criteria

Nº	Criteria	Description
1	Priority of projects	Projects that produce electricity, fertilizers, gas for liquids and methanol, which produce in the country, other by-products, have a higher priority than other projects.
2	Gas price higher than PMD	Bidders must provide a bid price for the gas at which they are willing to buy gas. This price must be higher than the PMD (minimum domestic gas price). A mega-project that submits an application with a higher gas price receives a higher rating, considering other elements, including the impact of the Project on the national economy.
3	Quantity of gas requested by the promoter	The volume of gas must be sufficient for the developer, individually or together with other developers, to support the construction of a gas pipeline to the proposed facilities. The developer will have to justify the economic assumptions for the connection to be ensured by the gas pipeline and propose a plan for its construction.

Nº	Criteria	Description
4	Timetable for development of the project	The Government gives priority to those projects that can be built and start operating as soon as the gas becomes available. Project developers that can use domestic gas as soon as possible will receive a higher rating. Project developers must submit an estimated timetable for the construction and operation of the project, along with a list of required licenses and expected timeframes for obtaining them.
5	Location of mega-projects	Preferably, mega-projects should be located close to population centers, to maximize the potential use of local labor in the mega-project and so that supporting industries can grow around the mega-projects, supporting the construction of the pipeline infrastructure.
6	Technical and financial qualifications of the proponent and the project	All proposals are evaluated on the merits of their technical and commercial development plans. Bidders must demonstrate their technical qualifications, including their previous experience, as well as the specific technical and engineering plans for the proposed mega-project; demonstrate that they have the necessary financial resources to carry out the investment in Mozambique and prove their creditworthiness, requiring them to present letters of credit and other supporting financial documents. Proponents will also provide the commercial basis for your project.
7	Prosecutor's commitment to employ Mozambicans	All mega-project proposals must have action plans to employ Mozambican citizens. Such plans should include a description of how the mega-project proposes to increase the number of Mozambicans in skilled labor categories over time. Project promoters must submit employment plans to the relevant Ministry, which will then be analyzed by the Ministry of Labour.
8	Commitment of the promoter to use Mozambican goods and services providers for the facilities	Promoters must have action plans demonstrating how they will use existing SMEs to provide services and goods to the mega-project. Those that propose realistic action plans and provide guidelines to the Government will receive a higher rating.
9	Commitment of promoters to mitigate social and environmental impacts	Project promoters must carry out the necessary environmental studies and commit to implementing the necessary mitigation measures, as well as environmental management plans, as approved by the Ministry of Land and Environment.
10	Corporate Social Responsibility	Promoters need to provide some initial plans for the types of activities they can undertake as part of their corporate social responsibility, taking into account the concerns and needs of the local community. Proposals that have realistic and reasonable plans to promote social benefits to the local community will receive a higher rating.
11	Benefits for Mozambique	The promoters' proposals must demonstrate how their projects will broadly benefit the country. Benefits could include increases in employment, education, tax revenues, infrastructure development and environmental improvements. Proposals are expected to include a list of both quantitative and qualitative benefits.

Nº	Criteria	Description
12	National interest	The proposals must have, in their capital structure, an initial national interest of at least 10%, which must evolve over time through the placement of shares on the Mozambique Stock Exchange, with their holders assuming the commitment not to transfer them. it for foreign interest.
13	Sales price of the final product in the national market	Compared to similar imported products, the price of the final product in the domestic market should be lower.

Source: Natural Gas Master Plan

The Government, in accordance with the Natural Gas Master Plan, assigns the highest rating to qualified energy projects that aim to supply electricity to the domestic markets in Mozambique and further ensures that all companies adhere to the same rules and criteria outlined above, in order to allow them to be evaluated fairly, consistent with transparency.

Royalty payments from Sasol Petroleum Temane (SPT)

The table below shows the payment of royalty gas reported by SPT in the period under review:

Table 21: Royalties gas paid in kind

Year / month	2016		2017		2018		2019	
	Q (GJ)	Amount (MT)[12]	Q (GJ)	Amount (MT)	Q (GJ)	Amount (MT)	Q (GJ)	Amount (MT)
January	591.076,73	-	395.406,87	31.478.400,48	609.396,76	17.452.566,12	616.288,48	14.309.008,21
February	660.734,11	-	354.716,78	29.524.099,63	524.714,35	16.801.138,85	580.882,17	9.879.108,07
March	422.412,98	-	379.637,84	22.167.864,55	518.217,22	14.834.231,26	534.753,17	10.282.757,62
April	505.572,43	-	293.105,54	36.568.769,57	464.827,81	25.618.058,03	519.294,31	21.675.769,84
May	574.783,36	-	130.016,11	48.222.485,84	354.163,04	37.776.467,70	559.486,74	24.952.060,21
June	542.833,83	-	113.275,90	48.363.367,65	301.104,17	38.963.410,57	542.822,15	19.727.413,39
July	655.254,41	-	387.060,30	27.352.255,72	558.486,36	22.039.876,17	567.657,59	20.677.094,30
August	618.903,23	-	431.814,63	26.122.871,56	540.553,44	24.391.830,50	570.083,61	22.891.786,64
September	577.602,72	-	330.836,90	31.175.855,76	473.428,15	27.535.120,41	515.612,13	26.854.832,12
October	620.126,73	19.248.741,09	452.185,49	21.884.402,44	575.210,39	23.510.233,96	620.773,21	18.260.296,25
November	576.099,16	18.989.027,15	502.438,18	13.855.584,13	578.814,74	20.187.478,29	594.977,04	15.453.225,89
December	620.792,17	15.307.619,77	445.716,55	11.863.961,86	638.434,03	9.714.796,65	617.697,65	18.558.062,21
Total	**6.966.191,86**	-	**4.216.211,09**	**348.579.919,19**	**6.137.350,46**	**278.825.208,51**	**6.840.328,26**	**223.521.414,76**

Source: MIREME

[12] Total royalty paid (gas + condensate)

6.2. Transactions Related to State-Owned Enterprises (Requirement 4.5)

According to the ITIE 2019 Standard, transactions related to state-owned companies must cover the role of state-owned companies that was explicitly presented in requirement 2.6, disclosure of comprehensive and reliable information on relevant payments made by state-owned companies, transfers of state-owned companies to government agencies and transfers made by the government to state-owned companies.

The transfer of the operating subsidy, as already mentioned, is made within the scope of the program contract, an agreement signed between the Government and the SOE. In this sense, according to the information provided by IGEPE, no SOE in the extractive industry has a program contract, under these terms none of them received an operating subsidy during the period under review.

ENH's Financial Statements for the period under review (2016 to 2019), under the heading Other operating gains and losses, includes government subsidies. According to the company, these Government subsidies refer to:

- Funds from the PPA (Petroleum Production Agreement) with SASOL, according to which paragraphs b) and c) of Art. 14.5 establish that the Operator would pay 50,000 USD per year as institutional support and another 50,000 USD for training, during the phases of Development and Production; and

- Amortization of the SAP Software, which its use only started in 2013. The SAP Software was acquired by funds from NORAD for the acquisition of Capital Investments. According to the PGC NIRF (NCRF 26) An income must be recognized as it is consumed, hence we recognize the income annually (as a Government subsidy) based on the Software amortization. It should be noted that the remaining assets acquired up to the period under review were already fully amortized and the SAP amortized until 2017.

Table 22: Government subsidies received by ENH (in Meticais)

Entity	Year				
	2016	2017	2018	2019	Total
ENH	8.695.756,0	7.293.970,0	3.058.000,0	3.030.750,0	**22.078.476,0**
Variation	N/A	-16%	-58%	-1%	-

Source: ENH

Regarding the transfer of dividends, according to the information provided by IGEPE, during the period under analysis there were dividend transfers to the State as shown in the table below:

Table 23: Dividends paid to the State (amount in Millions of Meticais)

Entity	State				
	2016	2017	2018	2019	2020
EMEM	-	-	-	-	-
ENH	-	-	-	100,00	516,6
CMH	120,02	282,80	198,69	394,05	660,4
CMG	-	-	-	36,60	30,0
Total	**120,02**	**282,80**	**198,69**	**530,65**	**1.207,0**

Source: IGEPE

The table below shows the revenues paid to the State and to IGEPE as Dividends, pursuant to the order of the Minister of Finance dated August 14, 2012:

Table 24: Dividend income paid to the State and IGEPE (Amount in Million Meticais)

Entidade	2016		2017		2018		2019		2020	
	State	IGEPE	State	IGEPE	State	IGEPE	State	IGEPE	State	IGEPE
EMEM	-	-	-	-	-	-	-	-	-	-
ENH	-	-	-	-	-	-	100,00	-	516,6	-
CMH	90,02	30,01	212,10	70,70	149,00	49,69	295,54	98,51	495,3	165,1
CMG	-	-	-	-	-	-	27,45	9,15	22,5	7,5
Total	**90,02**	**30,01**	**212,10**	**70,70**	**149,00**	**49,69**	**422,99**	**107,66**	**1.034,4**	**172,6**

Source: IGEPE

According to the order mentioned above is set 25%, the percentage of the assignment IGEPE on the amount of revenue paid to the state dividends, the resulting held by the State IGEPE under management. The referred revenues must be paid in full to the Public Treasury, without prejudice to the subsequent assignment of the percentage fixed to IGEPE.

7. Social and Economic Spending

7.1. State-Owned Enterprise Quasi-fiscal Expenditures (Requirement 6.2)

According to the EITI 2019 standard, when state participation in the extractive industries generates significant revenue payments, implementing countries must include disclosures by state companies about their quasi-fiscal expenditures.

The multipartite group is required to develop an information disclosure process that offers the same level of transparency as required for other payment and revenue streams and must include state subsidiaries and joint ventures.

Para-fiscal expenditures include agreements whereby state-owned companies assume public social expenditures such as payments for social services, public infrastructure, fuel subsidies, public debt service, etc., outside the national budget process. Implementing countries and multipartite groups may wish to take into account the definition of quasi-fiscal expenditures adopted by the IMF when determining whether an expenditure is considered to be quasi-fiscal.

Comparative Analysis: In many countries, there are state-owned companies and other public entities in the extractive industries that carry out quasi-fiscal expenditures on behalf of the state, such as payments for social services, public infrastructure, fuel subsidies and national debt service, which are outside the budget process. State, as shown by the examples of some countries below:

Table 25: Comparative Analysis of Quasi-fiscal Expenditures

Country	Description
Nigeria	There were deductions from SOE for government participation in production, withholding a part of the domestic crude oil (Naira) allocations to cover the part of the subsidy paid by the NNPC (Nigerian National Petroleum Corporation) without being recorded in the national budget. Nigeria's Oil and Gas EITI Data Collection Model, reporting models cover disclosures of the quasi-fiscal component of fuel subsidies, deducted by the national oil company NNPC to cover subsidies that exceed those covered by the national budget (Guidance Note: EITI REQUIREMENT 6.2, P.12);
Republic of the Congo	In recent years, allocation of oil revenues in kind, the SNPC (Société nationale des pétroles du Congo) has retained a portion of the proceeds from the sale of the state's in-kind proceeds to pay infrastructure loans without offsetting the national budget (Guidance Note: EITI REQUIREMENT 6.2, P.13);

Ivory Coast	In natural gas subsidies, the government subsidizes sales of natural gas to domestic energy producers for expenses above XAF 50 billion, without this being recorded in the national budget. Subsidies are withdrawn from the state's "profitable gas" in kind under CPP, which are processed internally to produce electricity (Guidance Note: EITI REQUISITE 6.2, P.15).
India	In the Transparency of quasi-fiscal activities, the central bank, Reserve Bank of India, publishes regular reports on fiscal transparency, together with quarterly and annual reports on quasi-fiscal the activities (Guidance Note: EITI REQUIREMENT 6.2, P.17);
Ghana	In the SOE management of oil revenues, the Statutory Public Interest and Responsibility Committee publishes semi-annual reports on the management and use of oil revenues. These clearly highlight the quasi-fiscal expenses of the national oil company GNPC (Ghana National Petroleum Corporation) (Guidance Note: EITI REQUIREMENT 6.2, P.17);
Madagascar	Quasi-fiscal expenditures with infrastructure and ministerial expenses. EITI reports and SOE OMNIS online releases (Office des Mines Nationales et des Industries Strategiques) provided details of payments for travel by employees abroad and road rehabilitation carried out by OMNIS (Guidance Note: EITI REQUIREMENT 6.2, P.23).

Source: intellica (Adapted)

The great challenge for state companies is that quasi-fiscal expenditures are characterized by greater risks of fraud, lack of auditing of expenses incurred by quasi-public entities and expenses incurred at a loss or below the normal profit rate.

The existence of a considerable number of quasi-fiscal activities complicates the formulation of fiscal policy. It diminishes the relevance of the budget balance as an indicator of the government's financial position and means that information about the magnitude of the State's revenue and expenditure is not a good indication of the effective size of the government.

They are often considered less than ideal compared to tax expenditures recorded in the national budget, which generally has parliamentary oversight.

Types of Quasi-fiscal Activities[13]

Transactions related to the financial system

- Subsidized loans
- Under-remuneration of mandatory reserves
- Credit limits
- Rescue operations

[13] Fiscal Transparency Manual (2007), P.85

Transactions related to the exchange and commercial system

- Multiple exchange rates
- Import deposits
- Deposits on purchases of foreign assets
- Exchange guarantees
- Subsidized foreign exchange risk insurance
- Non-tariff barriers

Transactions related to the private commercial sector

- Price collection below the market
- Provision of non-commercial services (e.g. social services)
- Price fixing for budget revenue
- Payment of above-market prices to suppliers

For the case of Mozambique, the Law establishing the principles and rules applicable to the SOE (Law no. 3/2018, of 19 June) and the corresponding regulation (Decree no 10/2019, of 26 February), make no mention of the requirement for state-owned companies to make expenditures on behalf of the government. In the analysis of the Financial Statements of the SOE companies in the extractive industry, there was no evidence of the occurrence of quasi-fiscal expenditures.

The same Law no (article 21 of Law no. 3/2018), through the program-contract, describes the existence of guarantees for companies in the State's business sector, with the approval of the Minister who oversees the finance area, to cover costs of the social component of the public service, which is not the same quasi-fiscal expenditure.

8. Audit Rules and Procedures for the State-Owned Enterprise Sector

Mozambican legislation referred, for the first time, to the exercise of the functions of auditor in Decree No. 32/90, of 7 December, which took effect from the 1992 financial year. This standard, in its article 1, established the obligation of companies, especially publicly-held companies, to present the respective balance sheets and statement of annual results certified by an independent and professionally qualified auditor.

Article 4 of Decree no. 32/90, of 7 December and Resolutions no. 5 / GB / 2014 and Resolution no. 6 / GB / 2014 of 16 April of OCAM (2014), which approve the Code of Ethics and Professional Ethics and the OCAM Disciplinary Regulation refer to the adoption of rules and auditing practices that are in accordance with international standards and the legal and institutional framework of the respective activity in Mozambique. The resolution that approves the code of ethics mentions, in the introduction, that it constitutes an adaptation in full of the IFAC Code of Ethics.

Mozambique, like many countries, has been adopting International Standards on Auditing (ISA), issued by the International Auditing and Assurance Standards Board (IAASB)[14] through the International Federation of Accountants (IFAC), with a view to improving and standardizing its auditing practices. Thus, the adoption of International Auditing Standards is a fundamental element for companies that want to guarantee the credibility of financial information and to ensure better communication with the markets.

In the case of international standards, their interpretation and implementation in different countries can give rise to ambiguous situations, giving rise to different results. In this way, the International Auditing and Assurance Standards Board (IAASB), in order to make auditing standards more understandable and easy to interpret and implement, carried out in 2009 the clarity project[15], which culminated in the publication of 36 updated, revised standards and a quality control standard (ISQC). Mozambique, being a developing country, has found in international auditing standards a tool to guarantee the credibility of financial information, as well as the attraction of foreign investment.

In a context of development and framing the country in the best international practices, Mozambique adopted the International Financial Reporting Standards (IFRS), reflecting

[14] Manual of International Standards for Quality Control, Auditing, Review, Other Assurance and Related Services (2015 Edition - Part I)

[15] https://www.iaasb.org/projects/clarity-iaasb-standards

them in its General Accounting Plan that entered as into force by the Decree No. 70/2009, of 22 December.

SOE companies do not have specific audit rules and procedures, and their audited financial statements are subject to the International Auditing Standards (ISA) adopted by the country.

According to article 28 of the SOE Law, SOE companies must create an internal audit body and their accounts must be subject to an external audit, to be carried out by independent auditors, without prejudice to the powers of the Audit Committee and of the internal audit body. Decree no. 10/2019, of 26 February, in its article 26 refers, although, the SOE companies can be audited by the same external auditor, for a period not exceeding 4 (four) consecutive years.

After approval, as mentioned above, the Report and audited accounts of the exercise shall be published in major newspapers and / or on the company website, within thirty (30) days from the date of approval by the General Assembly.

The periodicity with which EMEM, ENH, CMH and CMG carry out audits is annual and for the case of ENH, CMH and CMG the fiscal year is from July to June. Therefore, the results of the external audits of the Companies' statutory financial statements are published in the most widely circulated newspaper and they can be accessed on the websites of the respective companies with the exception of EMEM because the website were inoperative at the time of writing this report. And CMG that does not have a website. EMEM audits as a company are annual, the same is true for mining enterprises, since most projects are being promoted by listed companies, financial and audit information follows internationally accepted standards and audits ordered by companies are independent and sufficient to assess the degree of operation and effectiveness of the projects and these are annual.

Regarding the existence of parliamentary oversight of the SOE's financial statements, Law No. 6/2012, the Public Companies Law, revoked, determined that in the presentation of the General State Account to the Assembly of the Republic, under the terms of article 153 of Law no. 17/2007, of 18 July, the Government must include information on the economic and financial situation of all companies, however, the new SOE Law does not provide for parliamentary supervision of companies in the sector. In addition, the entity that manages and coordinates the SOE reaffirmed that there is currently no legal mechanism for this purpose.

All SOEs made their financial statements (ASF) physically available, conforme a tabela abaixo:

Table 26: Audited and Publication of annual financial statements (ASF) of SOE for the period 2016-2019

SOE´S	Availability of Audited AFS	Publication on the website
Mozambican Mining Exploration Company (EMEM)	Yes	No
Institute for the Management of State Participations (IGEPE)	Yes	Yes
Mozambican Company and Hydrocarbons (HCM)	Yes	Yes
Mozambican Gas Pipeline Company (CMG)	Yes	Yes
National Hydrocarbon Company (ENH)	Yes	Yes

Source: intellica (Adapted)

Under Article 29 of the SOE Law, companies must annually prepare the report and accounts for the year, audited and subject to approval of the General Assembly by 31 March each year. In relation to this law, it should be noted that companies comply fully.

9. Conclusions and Recommendations

9.1. Conclusions

The implementation of the standard requirements shows that although SOE-related financial transactions have become more transparent, there is still a long way to go to achieve greater transparency on the way the SOE operates, its ownership structures and how do they deal with the risks of corruption.

The Mozambican State participates in the extractive industry through public institutions and companies. The companies of the State-Owned Enterprise Sector, namely the Mozambican Mining Exploration Company (EMEM), the Empresa Nacional de Hidrocarbonetos (ENH) and its subsidiaries, such as the Companhia Moçambicana de Hidrocarbonetos (CMH) and the Companhia Moçambicana do Gasoduto (CMG) constitute the vehicle of participation and the entrepreneurial arm of the State in the extractive industry. Through these companies, the State has minority interests in several companies in the extractive industry.

The financial relations between the State and the SOE in the extractive industry, supported by Law No. 3/2018 as well as by Decree No. 10/2019, were not clearly defined when compared with the previous legislation of Public Companies, or that is, previously the transfer of profits to the OE occurred on a proposal from the State apparatus body to which the state company was subordinate and the Ministry of Finance determined in each the amount to be transferred, being that, currently, the General Assembly of the companies is responsible. State companies deliberate on the dividend policy and the application of results for each financial year. This situation results from the Government's efforts to improve the corporate governance of its companies, delegating powers to the social and management bodies of companies in the SOE.

During the period under analysis, in the hydrocarbon area, there were no changes in the state participation and shareholder structure of its subsidiaries and affiliates. EMEM, the only commercial representative of the State in the mining area, reported changes in its shareholding, having evolved from 6 equity participation in 2016 to 12 in 2019.

This means that there was an effort on the part of the Government to guarantee additional revenues in the mining area.

In relation to dividends, CMH, reported payments to the State in the entire period under analysis, in contrast to EMEM, which did not report any payments to the State in the same period, since it's financial have not generated the expected returns.

Regarding the issuance of loans and loan guarantees by the government of the four companies considered material for the study, only ENH benefited from the sovereign guarantee in the amount of USD 2,250.0 million, however, according to ENH the information on the cost of financing is not public, which does not allow analyzing the financing conditions to which the State has submitted itself to assure participation in this operation.

Of the total royalty-paid natural gas paid in kind in the period under review, the Government was allocated approximately 24,564,298.66 GJ and 12,028,864.02 USD of condensed gas paid in cash.

Regarding the selection process for companies to purchase royalty gas, it complies with the criteria established in the Gas Allocation Policy contained in the Gas Master Plan. The Government has received proposals from several promoters to build and operate mega-projects, granting licenses for the development of projects based on a transparent qualification process. However, gas purchase and sale contracts were not found, nor were the terms of payment for it.

The disclosure of the audited financial statements of the companies is made only in the most widely circulated newspaper. As it was not possible to assess whether the same disclosure is also made on their websites, since it was not in operation at the time of the study, with the exception of the CMH website.

The Law that establishes the principles and rules applicable to the State-Owned Enterprise Sector (Law no. 3/2018, of 19 June) and the corresponding regulation (Decree no 10/2019, of 26 February), do not mention the obligation of state-owned enterprises perform spent on behalf of the government.. In the analysis of the Financial Statements of the SOE companies in the extractive industry, there was no evidence of the occurrence of quasi-fiscal expenditures.

9.2. Recommendations

Based on the above links, we present the following recommendations:

Recommendation	Responsible

Ensure dissemination throughout its extent of direct participation and indirect state in the extractive sector to maximize transparency, including minority shareholding, on the financial statements. Considering that SOE legislation has been recently changed, there is a need for further improvement of its interpretation and application, through greater dissemination, monitoring of implementation by IGEPE and inspection entities, which will allow the identification of aspects that need improvement.	IGEPE /
Define rules that oblige SOE companies, provide information on sovereign guaranteed financing (with emphasis on the interest rate and the payment schedule), in order to allow the analysis of the conditions and risks associated to which the State is submitted itself to obtain financing, this can be materialized through full compliance with the rules of financial reporting provided for in Decree No. 70/2009, of 22 December.	IGEPE
Improve the process of disclosing the audited financial statements of the companies of the SOE in the extractive industry, including on the websites, which may allow the society in general to know about the benefits of the State's participation in the extractive industry and minority shareholding. The disclosures of the financial statements will also allow transparency in relation to gains and losses on minority shareholding, including dividends received.	IGEPE
Disclose royalty gas purchase and sales contracts in order to make them accessible to the public.	MIREME / INP
Review of oil and mining legislation the requirement to provide information relating to payments made to the state by companies (dividends, taxes, royalties, etc.).	INP / INAMI
Ensure greater disclosure of all existing legal instruments for the SOE and the mining industry, the portals of state institutions that deal with SOE.	MIREME / MEF / IGEPE

Contribute to improving the understanding of requirement 6 of social and economic expenditures, in general and 6.2 of para-fiscal expenditures in particular, through the definition of norms that clarify whether these expenditures are permitted. In order for ITIEM to improve undertsnding, there will need to be capacity building sessions for the MSG.	ITIEM
Continuing the struggle for full transparency in natural resource negotiation processes, awarding concessions, contract terms, transfers, payments, use of payments, the relationship between extractive explorations and other economic and social activities, environmental impacts, impacts in people's lives, systems and resource valuation, etc.	ITIEM
Establishment of a working system to discuss, evaluate and adopt the recommendations of the EITI report and other related evaluations, as well as monitor their implementation.	ITIEM
Review of systems for providing detailed information about the operations of public companies in the mining and hydrocarbons sector and the State.	IGEPE/ ITIEM
Reviewing the compliance of appropriate laws and regulations and ensuring their full application.	ITIEM
Review of government participation in the extractive sector. Clarify or simplify equity participation and consider participation in profitable companies.	IGEPE / MEF
Model revision / assumptions (ENH debt and its participation), given the dynamics of change in the global energy market.	MEF / IGEPE
Revision of the laws to avoid conflicts of interest such as what happened with INAMI, which is a regulator and shareholder in the same company EMEM in the mining area.	MIREME / INP

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