REPUBLIC OF MOZAMBIQUE

Presentation to Creditors - March 20th 2018

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Opening remarks

His Excellency Minister of Economy and Finance
Adriano Maleiane

Any questions during this presentation may be sent to the following email address:

MozambiqueIP@whitecase.com

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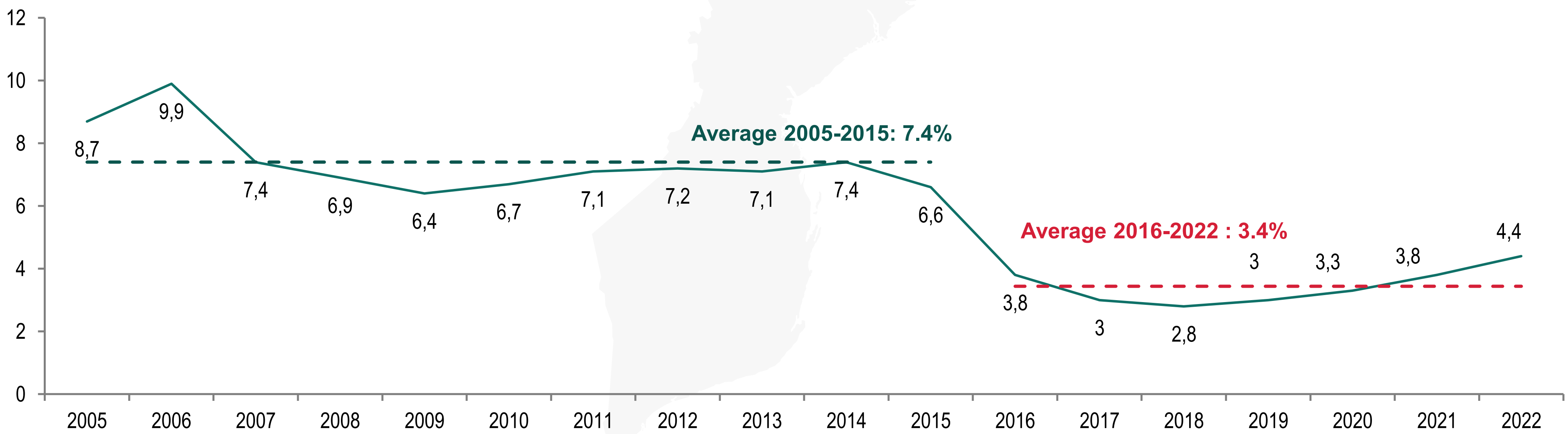
I Macro-fiscal outlook

Real GDP growth should pick up over the medium term

- **Growth potential has been shaken up by the recent developments**
  - Economic activity slowed down in 2016 due, among other things, to adverse developments in the commodity market, climate conditions and political environment
  - Real GDP growth is expected to recover gradually from 3% in 2017-2018 to 4.4% by 2022
    - Real GDP Growth is expected to remain significantly below historical performance, at an average of 3.4% over 2016-2022 vs. 7.4% over 2005-2015
    - Growth potential stemming form LNG project should kick in starting from 2023

Real GDP growth, although recovering, will remain below historical average

Real GDP growth (%)



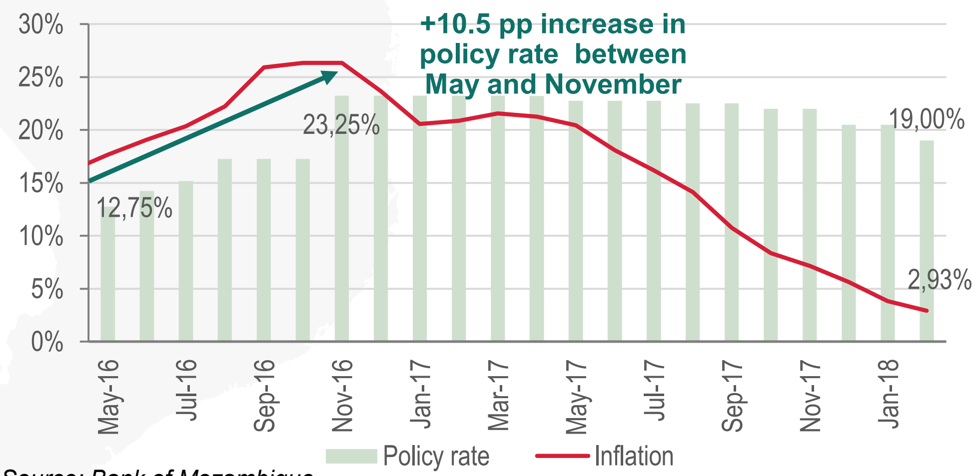
Source: IMF WEO, IMF article IV

Monetary policy successfully stabilized FX and eased inflationary pressures

- **Over the last two years, monetary policy succeeded in:**
  1. Bringing inflation to the single-digit area (2.9% y-o-y in Feb. 2018 versus a peak of 26.4% in Nov. 2016)
  2. Improving the balance of payments in 2017
  3. Stabilizing the exchange rate in the 57-63 MZN/USD range over the last 8 months versus 76 level in Nov.2016

1 Monetary policy curbed inflationary pressures…

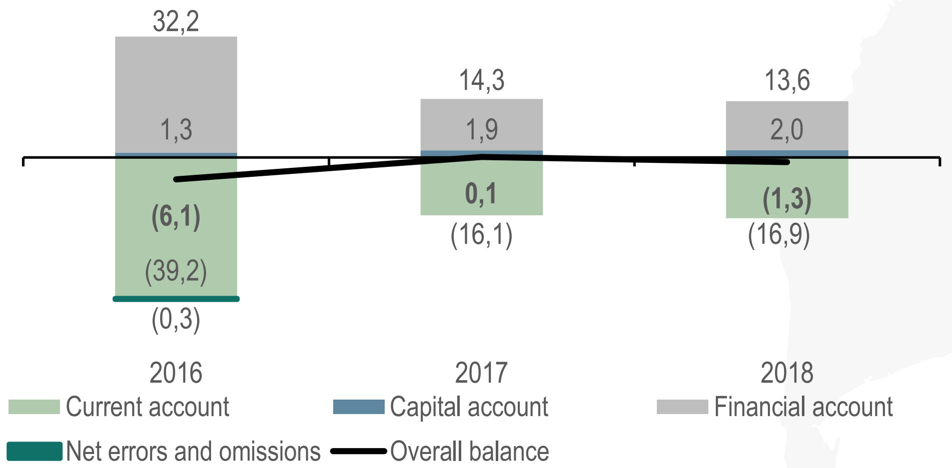
Policy rate (%) & inflation (% Yoy)



Source: Bank of Mozambique

2 …helped the improvement of the BoP…

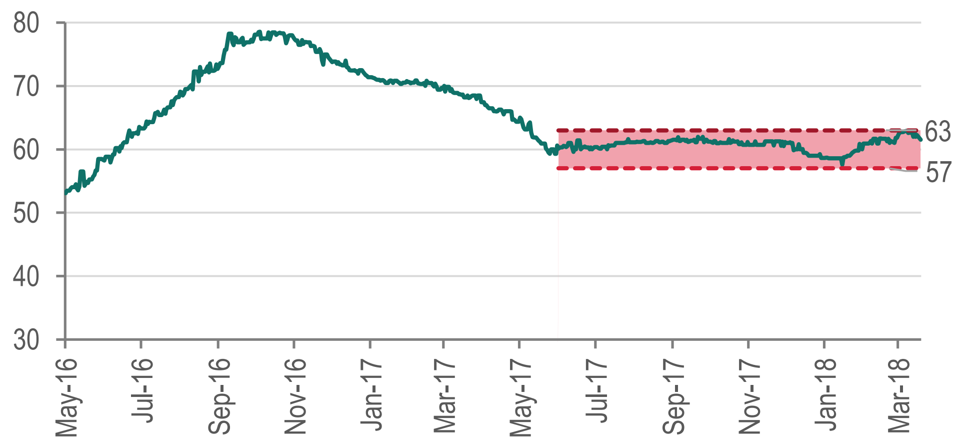
Balance of payments components (% of GDP)



Source: IMF article IV

3 …and stabilized the exchange rate

Exchange rate (USD/MZN)



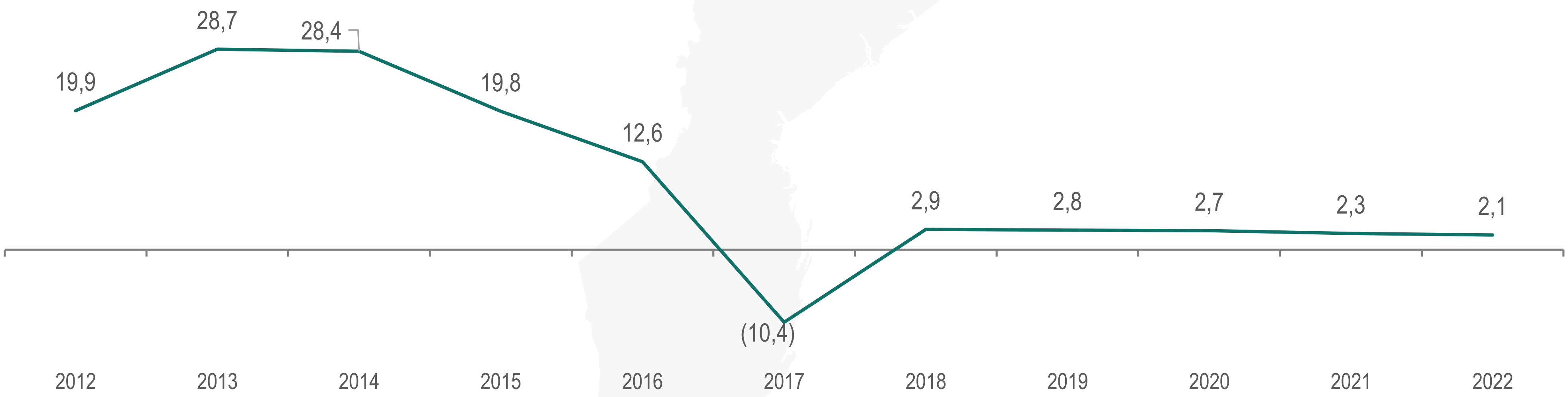
Source: Bloomberg as of 20/03/2018

Recent monetary stance has exerted significant pressure on the domestic economy

- **The external adjustment has negatively affected the domestic economy**
  - Decrease of credit to the economy by 10% y-o-y in 2017
  - Expected future growth of credit to the economy of 2.5% y-o-y in the medium term vs 24% y-o-y on average in 2012-2015
- **Maintaining current monetary stance would add further pressure on the local economy, as sustained high real interest rates are likely to affect economic output**

Pressure on domestic credit

Y-o-y % change in credit allocated to the economy

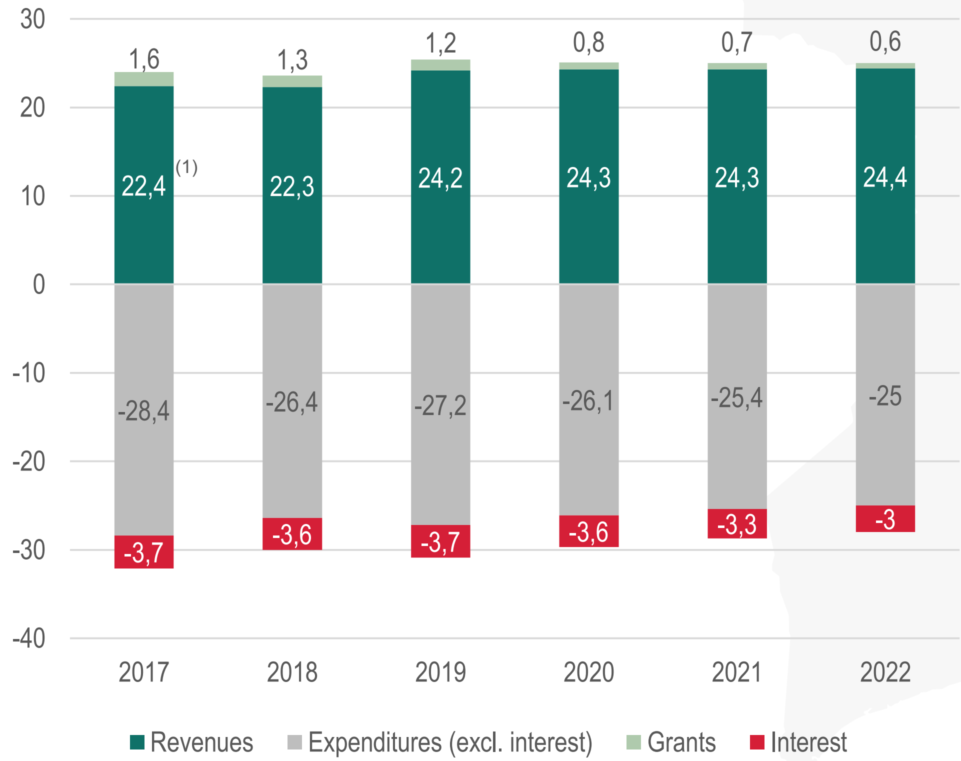


Source: IMF article IV, IMF WEO

Government of Mozambique is committed to achieving primary balance by 2022 in a challenging fiscal environment

- Mozambique's government expects to achieve primary balance by 2022, from a primary deficit of 4,5% in 2017
- The government is committed to fiscal consolidation notwithstanding a reduction in international support

Revenues, expenditures and grants (% of GDP)

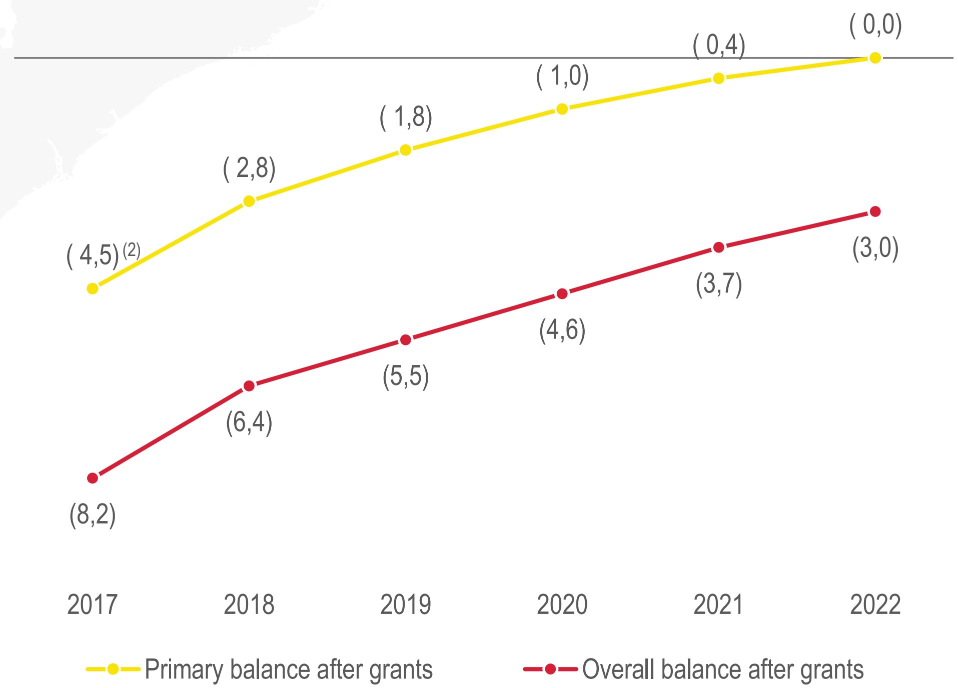


Sources: IMF article IV for 2017, Government of Mozambique for 2018 onwards

Note: (1) / (2) Excludes a 2.7% of GDP one-off 2017 capital gains tax revenues

Primary balance targets over the medium term

Evolution of primary and fiscal balance (% of GDP)



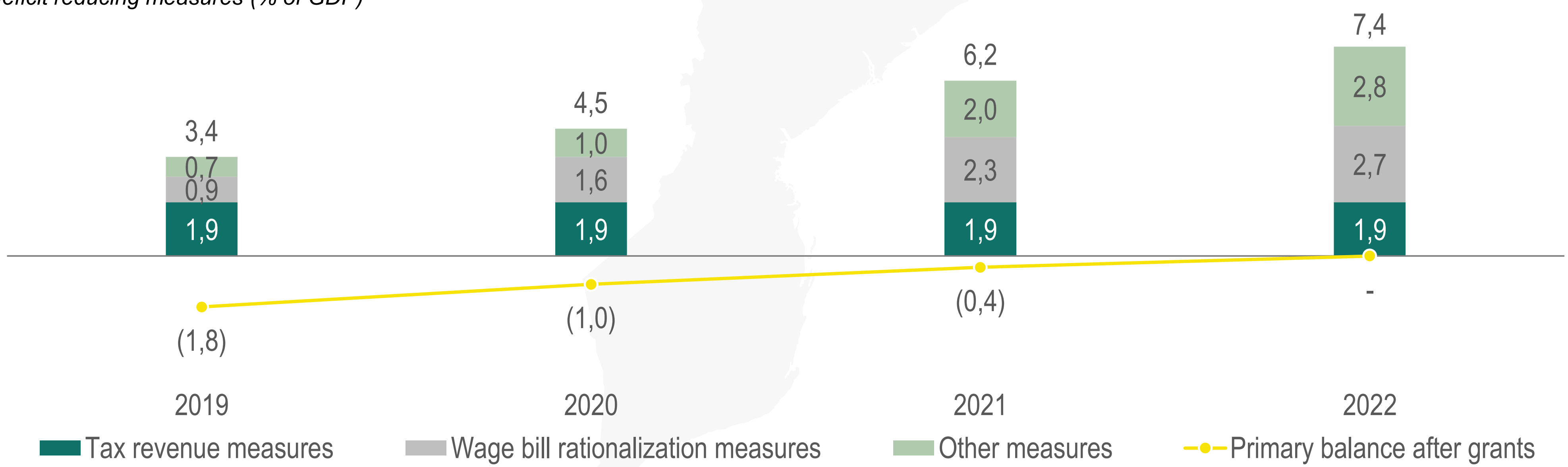
Sources: IMF article IV for 2017, Government of Mozambique for 2018 onwards

Primary balance will be achieved through a mix of revenue enhancement and expenditure rationalization measures

- Tax revenue measures include the broadening of the tax base (notably through the removal of VAT exemptions on selected products) and the introduction of new excise taxes
- Wage bill rationalization targets reduction in specific allowances and bonuses (e.g. limitation of hiring of employees, limitation of government' subsidies for fuels and communication)
- Other tax policies and administration measures, the phasing out subsidies to SOEs and rationalization of spending will also contribute to reducing the fiscal deficit

Deficit reducing measures will start in 2019 and will average 5.4% per annum over 2019-2022

Deficit reducing measures (% of GDP)



Source: Government of Mozambique (in close coordination with the IMF)

Illustrative measures implemented to date by the Government

IMF recommendation	Action taken by the Government of Mozambique	Date
FISCAL		
Containment of the wage bill increase	*2018 budget proposal includes wage bill containment*	*December 2017*
Strengthening of fiscal monitoring and debt management	*Approval of a new framework for contracting public debt and issue guarantees, as well as submission of a new draft SOEs Law to Parliament*	*November 2017*
Reform of fuel and wheat subsidies, and reinstatement of an automatic fuel price adjustment mechanism	*Removal of fuel and wheat subsidies and reintroduction of an automatic fuel price adjustment mechanism*	*March 2017*
STRUCTURAL		
Development of a medium-term fiscal framework and formulation of a formal fiscal rule *Increased transparency in natural resources wealth management*	*Preparation of an Action Plan to strengthen governance, transparency and accountability including a fiscal responsibility law and steps towards a more transparent and efficient use of natural resources*	*Ongoing*
Improvement of the business environment	*Launch of a national strategy for financial inclusion*	*March 2016*
	Formation of a National Committee to steer initiatives with stakeholders	*November 2017*
	Promotion of E-money and banking infrastructure under Bank of Mozambique oversight	*Ongoing*

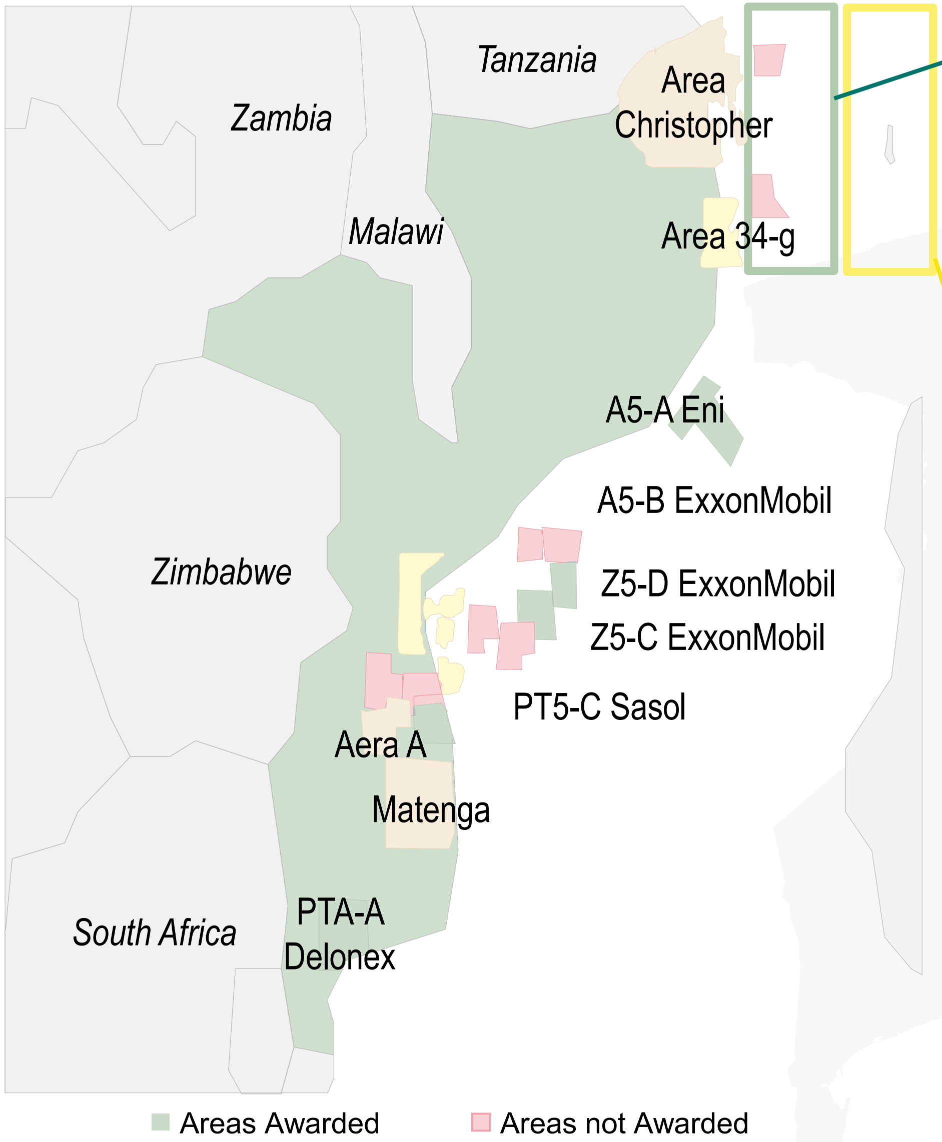
Other measures implemented by the Central Bank

IMF recommendation	Action taken by the Central Bank	Date
MONETARY		
Containment of inflation through monetary policy tightening	*Implementation of a prudent monetary policy that brought inflation to a single digit level*	*2016-2017*
Stabilization of the exchange rate by addressing FX market distortions	*Implementation of a new foreign exchange market regulation*	*December 2017*
Strengthening of analytical tools and monetary policy operations framework	*Strengthening of monetary policy framework through the adoption of a new indirect monetary policy instrument (the MIMO)*	*April 2017*
FINANCIAL		
Strengthening of the Bank of Mozambique bank prudential supervision and crisis management tools	*Preparation of a new bank resolution framework*	*Ongoing*

Downside risks remain, with potential impact on the targeted fiscal trajectory

	Downside risk	Actions taken to mitigate risk
1	*Depreciation of the local currency and deterioration of the balance of payments*	• *Tight monetary policy* • *Commitment to fiscal consolidation*
2	*Contingent liabilities stemming from major SOEs and potential impact on the banking sector*	• *SOEs draft law sent to Parliament* • *Decree on state guarantees*
3	*Delays in mega-projects*	• *Legal steps taken towards the adoption of FID*

Progress is continuing on LNG projects in 2018



Source: Government of Mozambique

AREA 1

2017

Jul. 2017
Anadarko announces it has finalized two agreements with the GoM ("marine concessions")

Aug. 2017
Eni, Anadarko and GoM entered into a contract for LNG terminals in Area 1

2018

March 2018
Ongoing negotiations between Anadarko and potential buyers for SPA on new LNG plant in Area 1
Agreement on commercial terms for LNG off-take deals from Mozambique

Q1 2019 FID expected

AREA 4

2016

Feb. 2016
GoM has approved Eni's development plan for its Coral FLNG Project in Area 4

2017

March 2017
ExxonMobil signed a agreement with Eni to buy 25% share

June 2017
FID taken on the Coral South FLNG Project

Aug. 2017
Eni, Anadarko and GoM entered into a contract for LNG terminals

Nov. 2017
Eni/ExxonMobil-led consortium have closed financing for the Coral South FLNG Project

2018

2018-19 Expected FID on onshore projects

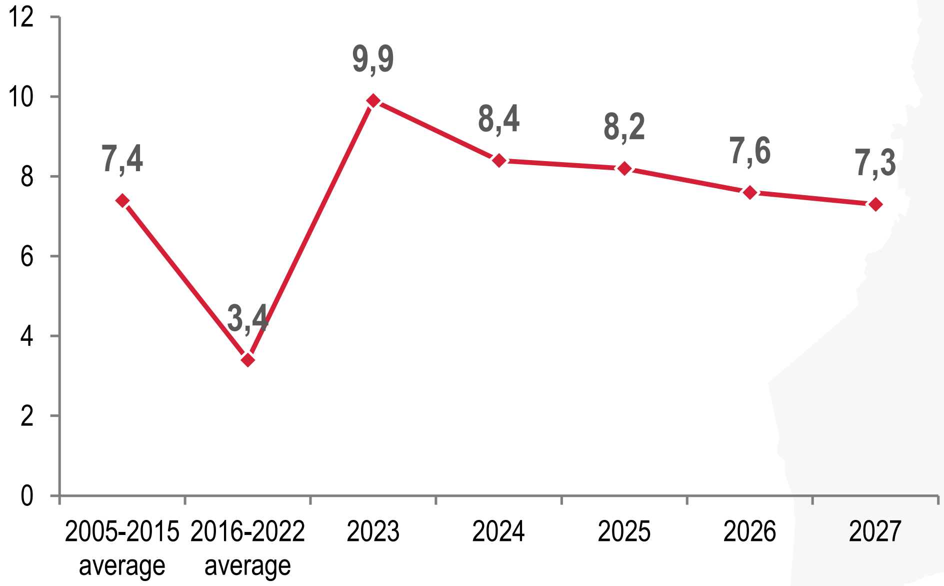
Coral Project production expected to start in 2022

LNG projects are expected to boost Mozambique's GDP growth and external accounts

- **The Coral project, East Africa's first LNG facility, is expected to start producing LNG in H2 2022**
  - Mozambique's gas exports should reach 18 bcm by 2024, generating over USD 7 bn of LNG net exports
  - Real GDP growth is expected to reach the 8-10% range by 2023 (vs. 3.4% on average in 2016-2022)

Growth stimulus derived from LNG activity to kick in only after 2023

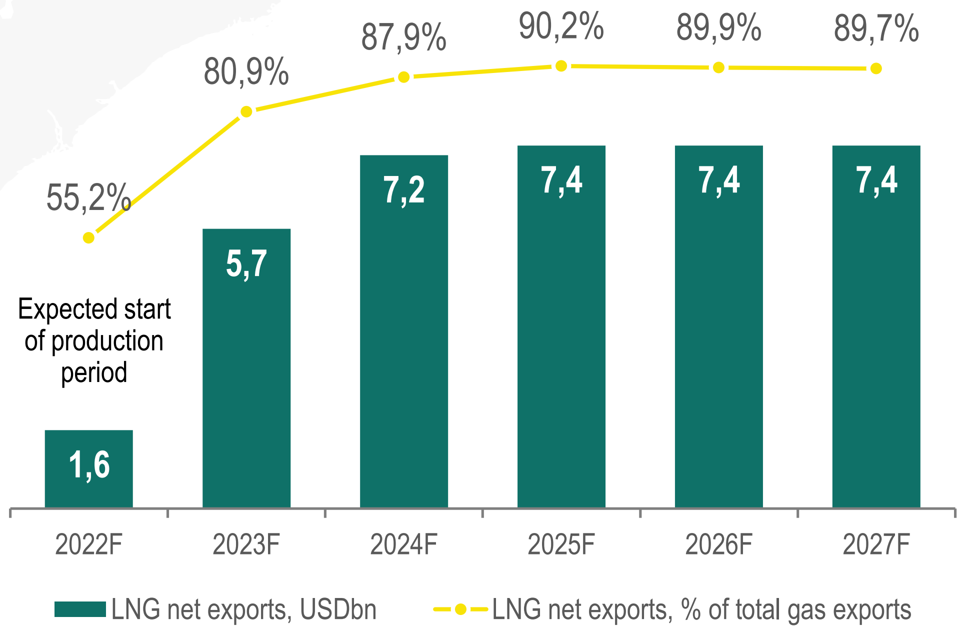
Real GDP Growth Forecasts (YoY % Change)



Source: IMF until 2022, selected research after 2022

Potential exports in the medium term will likely strengthen Mozambique external accounts

Evolution of LNG net exports in the medium term



Source: Selected research, International Gas Union

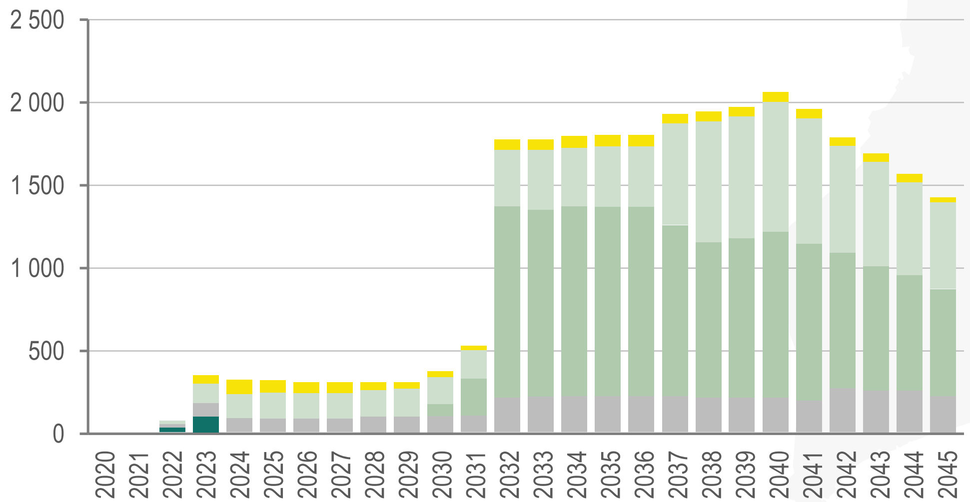
However, government revenues derived from LNG production are not expected to be significant until late 2020s / early 2030s

- Initial government revenues derived from LNG production will initially consist in withholding tax and profit sharing agreements and therefore will remain limited
- Significant revenues derived from corporate income tax should kick in late 2020s / early 2030s under a best case scenario
- Key downside risks could delay the projects and thus adversely impact revenue collection by the State, notably:
  - *Operational risks*
  - *Changing investor environment for mega-project investments in Mozambique*
  - *Global oversupply of LNG*

Expected government revenues

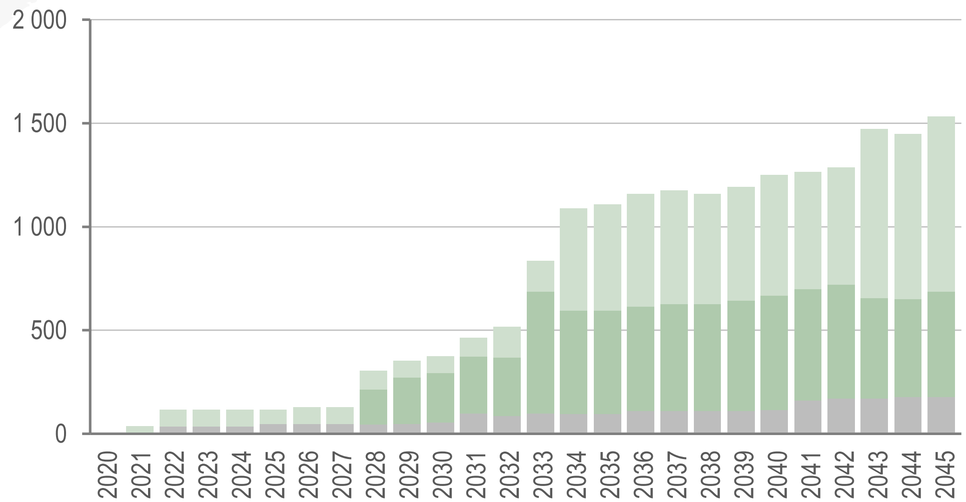
AREA 1

USD m



AREA 4

USD m



Bonus Royalty IRPC (Corporate Income Tax) Profit Petroleum Withholding Tax on Dividends Withholding Tax on Interest

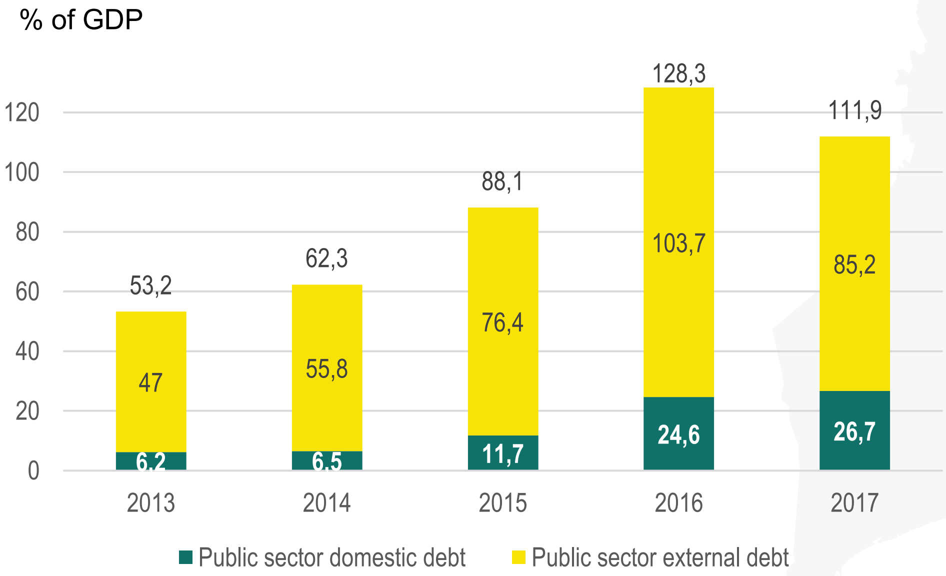
Source: National Petroleum Institute of Mozambique

II Debt situation and restructuring guidelines

Recap of Mozambique' debt situation as of today

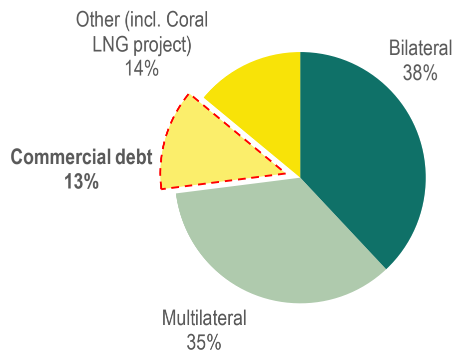
- **The stock of debt to GDP has significantly increased over the last years**
  - Debt to GDP increased from 88% to 128% of GDP between 2015 and 2016, before decreasing to 112% in 2017 mainly owing to the stabilization of the exchange rate
- **External commercial debt service represents a disproportionate amount with respect to its share of total external debt stock**
  - While external commercial debt represented only 13% of total stock of external debt in 2017, it consisted in over 40% of debt service

Evolution of the stock of debt to GDP over the last years

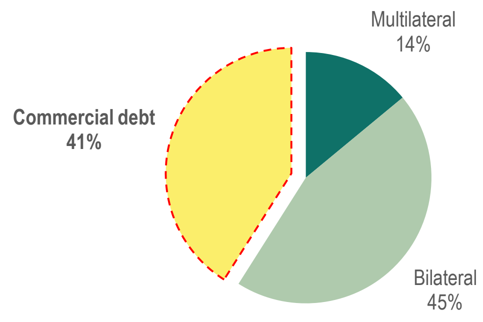


Source: IMF article IV

Snapshot of external PPG debt stock and service as of end 2017



Source: IMF article IV



Source: Government of Mozambique

Mozambique is in debt distress and has accumulated arrears on external PPG commercial debt

- As of end-2017, all DSA indicators of Mozambique (except debt service to exports) were above the prudent threshold for medium-ranking CPIA countries
- As of March 20th 2018, Mozambique had accumulated arrears on Mozam2023, MAM, and ProIndicus instruments amounting to approx. USD 636 m

Overview of Mozambique's DSA situation vs IMF thresholds as of end-2017

Indicator	Level (2017)	IMF Threshold for Medium CPIA Ranking Country	
		Current Framework	New Framework[1]
PV of debt to GDP	67	40	40
PV of debt to Exports	177	150	180
PV of debt to Revenues	266	250	250
Debt Service to Exports	18	20	15
Debt Service to Revenues	27	20	18

Source: Government of Mozambique
Note: [1] The new DSA framework for LIC countries will come into force as of July 1st 2018

Snapshot of arrears on external commercial debt as of March 20th 2018 (USDm)

Instrument	Arrears Amount (USDM)		
	Total	*o/w principal*	*o/w interest*
MOZAM2023	136	-	*136*
MAM	345	*268*	*78 (approx.)*
PROINDICUS	154	*119*	*35 (approx.)*
Total	636	*387*	*249*

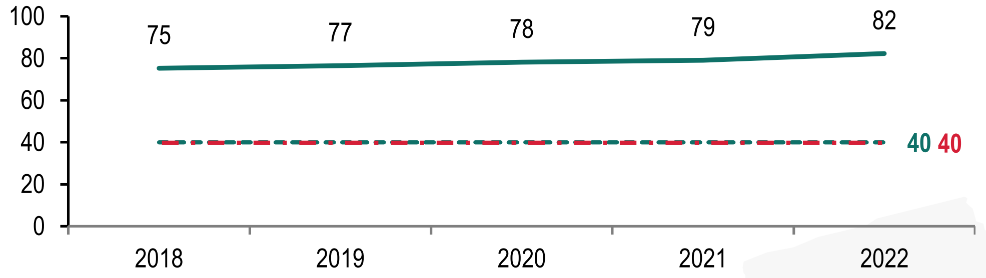
Source: Government of Mozambique

Key features of the "adjustment scenario" underlying the debt sustainability analysis

Growth	***Subdued medium term growth projections*** *due to the recessive impact of the accumulation of government arrears on the private sector – Growth to stabilize at approx. 4.4% by 2022*
Deflator	***Deflator stable at 6% from 2018*** *on the back of prudent monetary policy*
Fiscal Policy	*While the framework does not reflect the implementation of an IMF programme from 2018, it reflects the government's fiscal consolidation commitment aiming at achieving* ***primary balance by 2022***
Exchange Rate	*Gradual depreciation to reach alignment with real effective exchange rate*
Exports	*Exports are expected to increase* ***from USD 4.2 billion in 2017 to USD 5.6 billion in 2022***

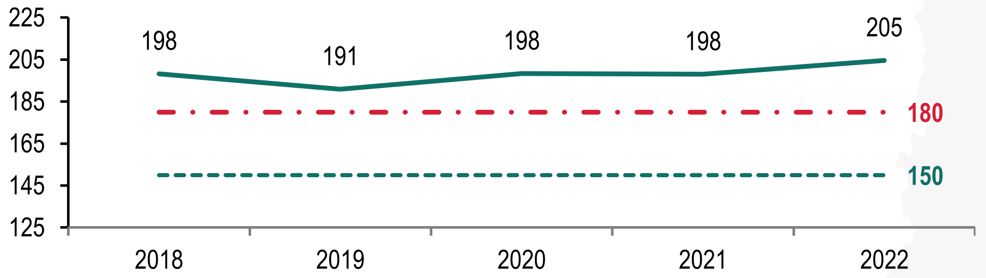
Mozambique's debt trajectory will remain unsustainable in the medium term in spite of fiscal adjustment

PV of External Debt-to-GDP Ratio (%)



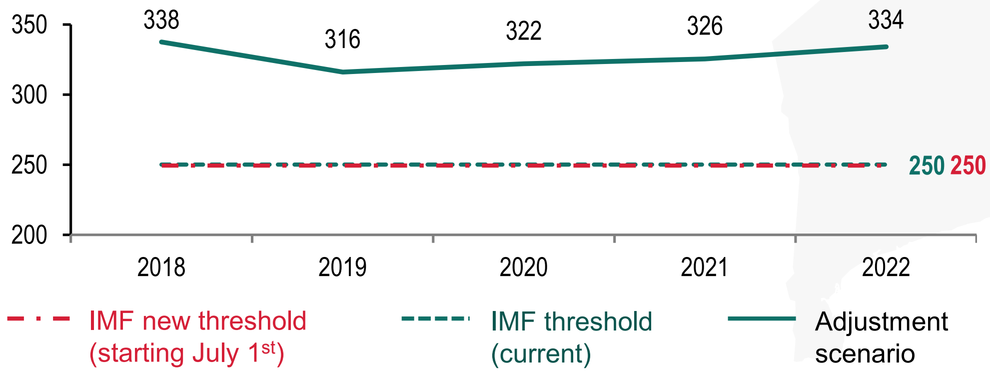
- The PV of external debt in terms of GDP is expected to remain far above the threshold of 40% in the absence of a debt treatment, at over 80% in the adjustment scenario by 2022

PV of External Debt-to-Exports Ratio (%)



- PV of debt to exports is expected to remain at approx. 200% in the medium term

PV of External Debt-to-Revenue Ratio (%)

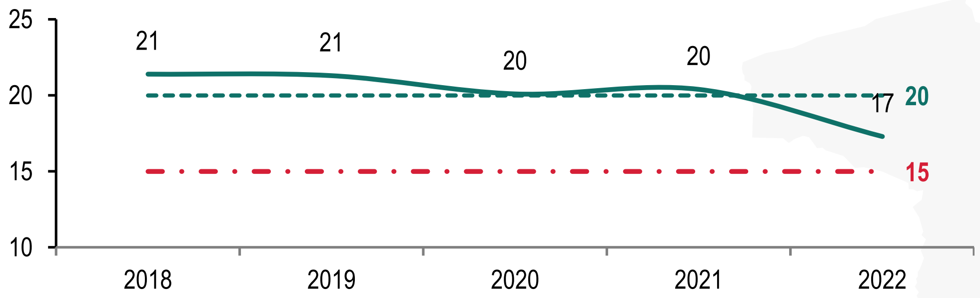


- PV of debt in terms of revenue is expected to remain far above the threshold of 250%, at over 310% over the period

Source: Government of Mozambique

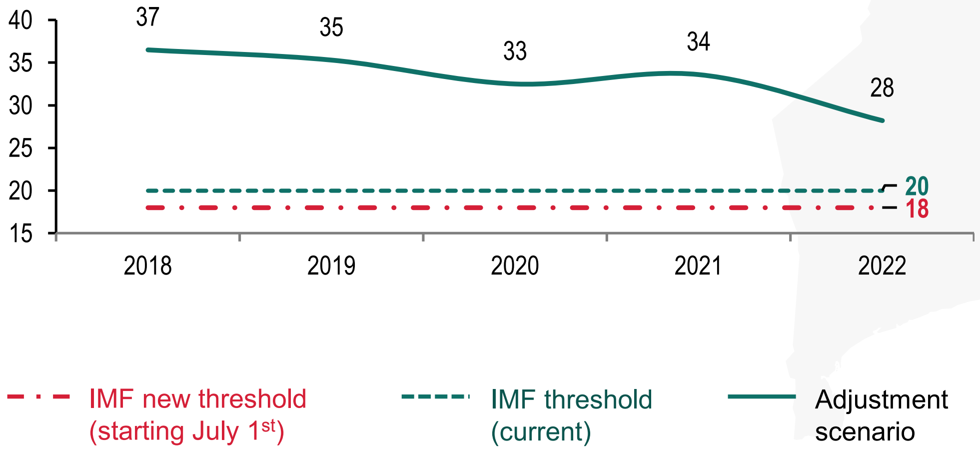
Mozambique's debt trajectory will remain unsustainable in the medium term in spite of fiscal adjustment *(cont'd)*

External Debt Service-to-Exports Ratio (%)



- External debt service in terms of exports is expected to remain over the threshold of 20% for most of the period in the adjustment scenario

External Debt Service-to-Revenue Ratio (%)



- External debt service in terms of revenue is expected to remain significantly above the threshold of 20% in the adjustment scenario

Source: Government of Mozambique

Restructuring guidelines

1	Very low coupon / interest rate through 2023
2	Coupon / interest rate beyond 2023 at moderate level to address debt service constraints
3	Haircut on past due interests (and penalties as the case may be) and capitalization of balance
4	Limited principal amortization through 2028
5	Instrument in local currency to be offered to domestic holders

Illustrative restructuring scenarios

- 50% haircut on Past Due Interests (“PDIs”) and penalties (as the case may be)
- Exchange of the resulting eligible amount (principal + balance of PDIs and penalties as the case may be) against one – or a mix – of the following instruments

Illustrative options

	Currency	Exchange ratio of the eligible amount	Final Maturity	Repayment	Coupon	Frequency of coupon payment
Option #1	**USD**	**1**	**16 year**	**Equal principal instalments on year 14,15,16**	• **Until Y5 : 2.0%** • **Between Y5 and Y10: 3.0%** • **After Y10 : 6.0%**	• **Semiannual**
Option #2	**USD**	**0.9**	**12 year**	**Equal principal instalments on year 10,11,12**	• **Until Y5 : 1.5%** • **After Y5 : 5.0%**	• **Semiannual**
Option #3	**USD**	**0.8**	**8 year**	**Equal principal instalments on year 6,7,8**	• **2.8%**	• **Semiannual**

Participation to option #3 capped in consideration of limited payment capacity

Next steps

- ***A collaborative process*** *is paramount to ensure Mozambique's debt sustainability in the medium to long term*

- ***Mozambique's consultations*** *with its creditors are based on:*
  - *Transparency*
  - *good faith*
  - *and a collaborative approach*

- *The Government of Mozambique, and its advisors Lazard Frères SAS and White & Case remain at the disposal of Mozambique's commercial creditors to discuss the content of this presentation using the following email address : moz.debtholders@lazard.fr*