REPUBLIC OF MOZAMBIQUE

Presentation to Creditors

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Presentation Framework

I Recent Macroeconomic Developments

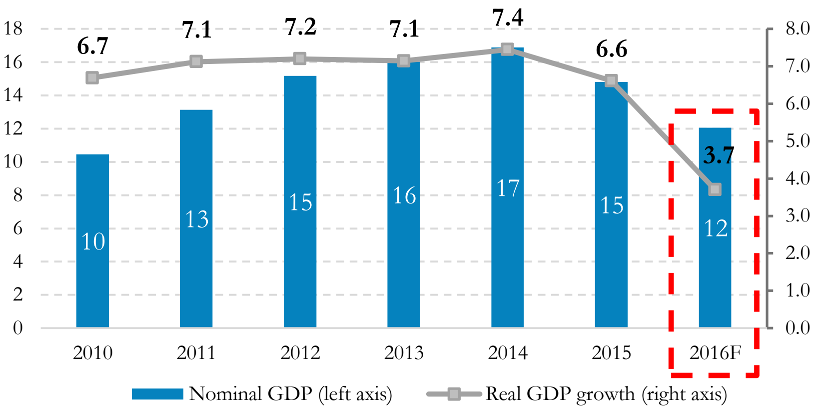
Mozambique has entered a period of subdued growth

Mozambique's economy has been negatively affected by the deterioration in the global commodity prices and this year's climate conditions

KEY CHARACTERISTICS

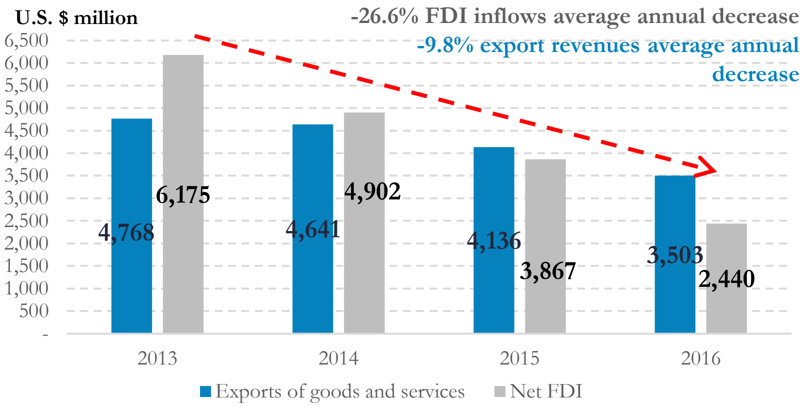
- Growth in Mozambique has eroded in 2016, with the latest forecast for real GDP growth downgraded to 3.7%. This is a result of:
  - Weaker export revenues due to subdued global commodity prices, especially aluminum and coal, the country's key export product
  - Lower FDI inflows due to the delay in megaproject investments amid low commodity prices
  - Lower agriculture output due to the "El Nino" drought, that has also resulted in increased inflationary pressure
  - Reduced government expenditures
  - Escalation of political tension

SLOWED ECONOMIC GROWTH



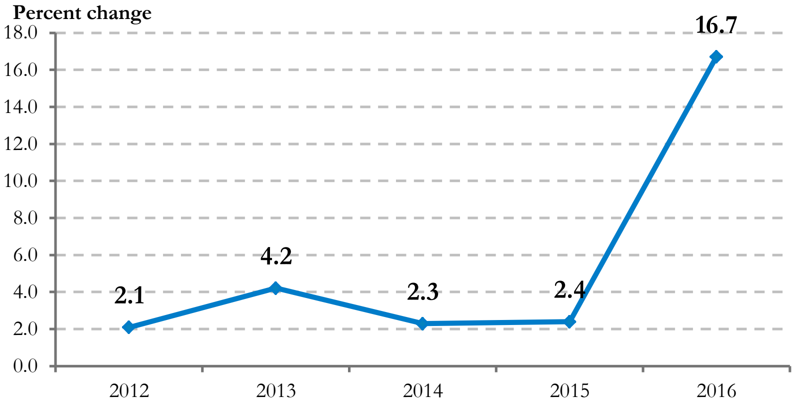
Source: IMF, World Economic Outlook, October 2016

LOWER FDI INFLOWS AND EXPORT REVENUES



Source: MoF, as of September 2016

INFLATIONARY PRESSURE MIGHT ENDANGER MACROECONOMIC STABILITY



Source: IMF, World Economic Outlook, October 2016

The external position has deteriorated sharply

The substantial depreciation of the metical and the decrease in foreign exchange reserves have exacerbated the economic crisis

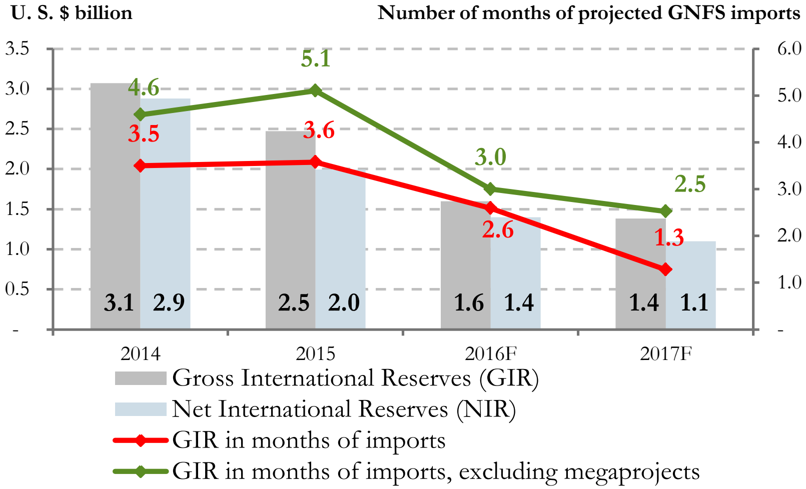
WORSENING EXTERNAL POSITION

- **The metical has depreciated by approximately 70% against the US dollar over the course of 2016, having already depreciated by 36% in 2015**
- **The Bank of Mozambique's (BdM) attempts to provide sufficient FX resources for the economy to continue functioning were not enough to limit the inflationary pressure and volatility**
- **The increase in external debt payments in a depreciating currency environment, combined with lower FDI inflows and weaker export growth, has contributed to a substantial decline in foreign reserves**
  - Gross foreign reserves have fallen from US$3.1 billion at end of 2014 to US$1.7 billion in 2016. Import cover is currently at 2.6 months, which well below the level recommended by the IMF, and is expected to continue decreasing

ACCELERATING DEPRECIATION OF THE METICAL

Source: Bloomberg, as of 12/10/2016

FOREIGN RESERVES AND IMPORT COVER RATIO



Source: MoF, as of September 2016
Note: GNFS stands for "Goods and Non Financial Services"

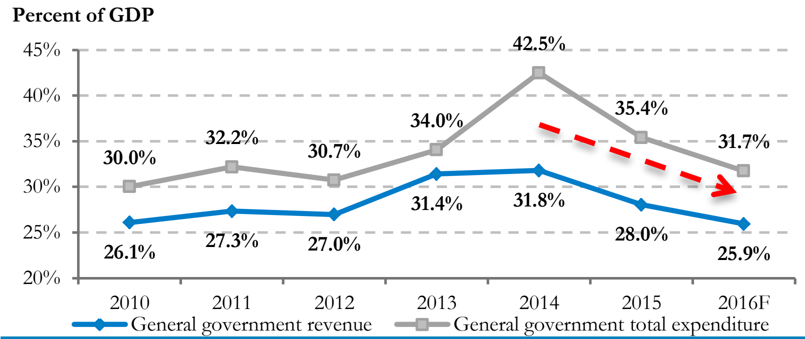
The pressure on public finances has significantly increased

The macroeconomic framework has been affected by (i) the suspension of IMF financing under the 2015 Standby Credit Facility (SCF), (ii) the withdrawal of aid from donor countries and (iii) the significant increase in general government gross debt. These factors have added pressure to the already very limited fiscal space and forced the government to make substantial cuts in public expenditure

INCREASED FISCAL PRESSURE

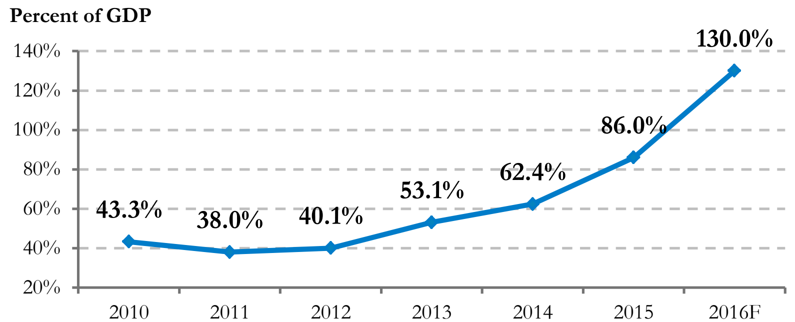
- **The freeze of IMF/donor budget support following the misreporting to the IMF of MAM and ProIndicus loans in early 2016, with no clear timeline for reinstatement, has seriously hurt the government accounts**
  - Donor funds historically accounted for around 10% of government's revenues
- **Gross public debt has substantially increased as a result of Mozambique's deteriorating external and fiscal positions**
  - At the current exchange rate, gross public debt (including liabilities under MAM and ProIndicus loans) is expected to reach 130.0% of GDP by end 2016,
  - External debt currently represents over 80% of total gross public debt, increasing the country's vulnerability to external shocks
- **With only limited near-term opportunities to boost revenues, the government's fiscal consolidation efforts have focused on reducing public expenditure**
  - The level of government expenditure has considerably decreased in the last three years

GOVERNMENT REVENUES AND EXPENDITURE HAVE DECREASED



Source: IMF, World Economic Outlook, October 2016

GROSS PUBLIC DEBT HAS SIGNIFICANTLY INCREASED



Source: IMF, World Economic Outlook, October 2016

- **Financing fiscal expenditures is set to be an issue in the short to medium term**

Downside risks might further deteriorate Mozambique's short to medium term prospects

Three main risks could further deteriorate Mozambique's fiscal and economic situation in the short and medium term

1 Further depreciation of the local currency

- The exchange rate assumptions used in preparation of the government budget (capped at MET 88.5 per USD 1 in the coming five years) may be too optimistic
- The country's high level of external debt and the significant volume of imports make it extremely vulnerable to further shocks in the exchange rate

2 Risk related to systemic state-owned enterprises (SOEs)

- four key SOEs (M-Cel, LAM, Petromoz and EDM.) are facing important financial challenges, which represent potential contingent liabilities for the government

3 Risks related to fuel subsidies

- Further delays in the implementation of fuel subsidy reform may constitute an additional fiscal risk considering their current levels

4 Financial sector instability

- Potential government intervention in troubled domestic banking sector may entail additional burden for the budget

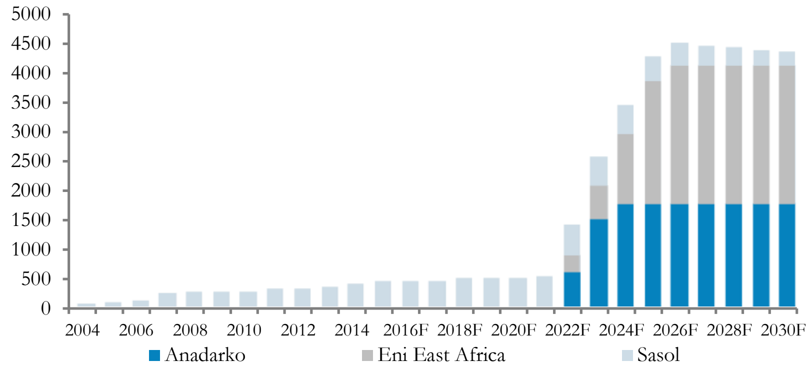
Mozambique's long-term growth prospects are still promising

As the country develops its nascent energy sector, it will generate greater export revenues, more attractive opportunities for foreign investors, and higher GDP growth

KEY INVESTMENT DECISIONS

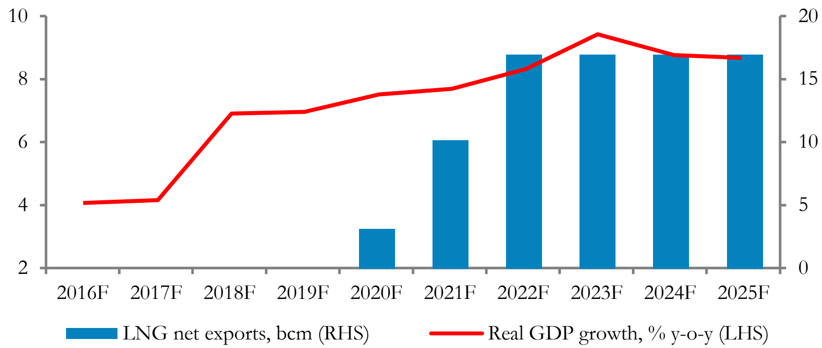
- **Two final investment decisions in the gas sector are expected to be taken by the end of this year (Eni) and during 2017 (Anadarko)**
  - **Eni**'s Coral FLNG project is estimated at approximately US$8.0 billion, while **Anadarko**'s development is estimated at approximately US$12.0 billion
- **Investment into these projects will see significant inward flows of capital**
  - On the back of affirmative final investment decisions, other investments are expected to follow as the country boasts abundant natural resources, particularly coal and natural gas
  - Moreover, since the economy is expanding from an extremely low base, there are investment opportunities in many sectors
- **Once the offshore gas projects start generating export revenues in the early 2020s, the economy is expected to significantly expand, potentially yielding some of the highest rates of real GDP growth in Sub-Saharan Africa**
  - Growth could reach double digits after 2022, assuming gas projects become operational in 2022/2023

GAS PRODUCTION PROJECTIONS



Source: Wook Mackenzie, August 2016

LNG EXPORTS AND ECONOMIC GROWTH



Source: BMI, September 2016

- **Mozambique's growth prospects are promising in the long term, on the back of progress in the development of its nascent energy sector**

II Assessment of the government's payment capacity

IMF pre-requisites for a new fund program

Two pre-conditions must be met in order for the IMF to resume discussions with Mozambique authorities on program financing support: (i) an effective initiation of the audit process and (ii) the removal of the country debt distress classification

1. **Significant progress on international and independent audit process**
   - Considerable progress on the drafting of the audit terms of reference (TOR) has been made
   - The audit will focus on EMATUM, Proindicus and MAM
2. **Restoring debt sustainability**
   - The IMF debt sustainability framework for low income countries uses **5 policy-dependent thresholds** to assess a country's debt-related vulnerability and therefore the risk of debt distress

IMF DEBT SUSTAINABILITY FRAMEWORK THRESHOLDS FOR MOZAMBIQUE

PV of debt as a percent of			Debt service as a percent of	
GDP	Exports	Revenue	Revenue	Exports
40	150	250	20	20

Source: IMF, Debt Sustainability Framework for Low Income Countries
Note: CPIA stands for the World Bank's Country Policy and Institutional Assessment index. Mozambique's CPIA stands at 3.5 (countries are rated on a scale of 1 (low) to 6 (high)).

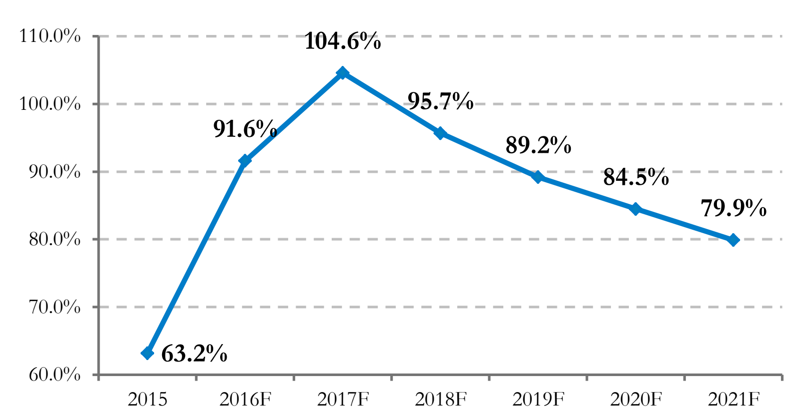
- **Mozambique's primary objective is to resume relations with the IMF in order to stabilize the economy and restore confidence of the international community**
- **IMF discussions can only resume if Mozambique is no longer in "debt distress" category, which entails putting the government of Mozambique's public and publicly guaranteed debt on a sustainable path (i.e., meeting the medium CPIA thresholds)**

Mozambique's external public and publicly guaranteed (PPG) debt profile is not sustainable

UNSUSTAINABLE METRICS

- **The local currency depreciation has exacerbated the increase of the debt stock and its servicing costs**
  - The level of public and publicly guaranteed external debt to GDP is expected to exceed 100% of GDP in 2017
  - Total normal PPG external debt servicing costs (including arrears) are projected at US$826 million on average over the period 2017-2021, i.e. approximately 6.9% of GDP per year
  - In particular, servicing of commercial debt represents a heavy burden for the country
- **Mozambican debt remains predominantly concessional debt, with more than 80% of debt stock due to multilateral and bilateral creditors**

EXTERNAL PPG DEBT HAS SIGNIFICANTLY INCREASED



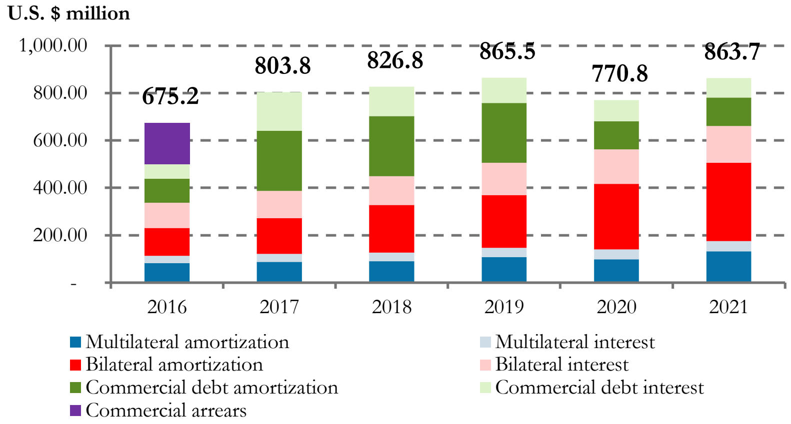
Source: MoF, as of September 2016 ; Lazard calculations

EXTERNAL PPG DEBT STRUCTURE, AS OF END-2016

	US$ MILLION	% OF TOTAL
Multilateral	**4,138**	**40.9%**
o/w IMF	*227*	*2.2%*
o/w World Bank	*2,635*	*26.0%*
Bilateral	**4,255**	**42.1%**
o/w on-budget	*3,878*	*38.3%*
o/w off-budget ("on-lending")	*377*	*3.8%*
Commercial debt	**1,725**	**17.0%**
o/w on-budget ("former Ematum")	*727*	*7.2%*
o/w budget (guaranteed debt MAM & Proindicus)	*998*	*9.8%*
Total debt	**10,118**	**100%**

Source: MoF, as of September 2016

CONTRACTUAL EXTERNAL PPG DEBT SERVICE (INCLUDING ARREARS)



Source: MoF, as of September 2016; Lazard calculations

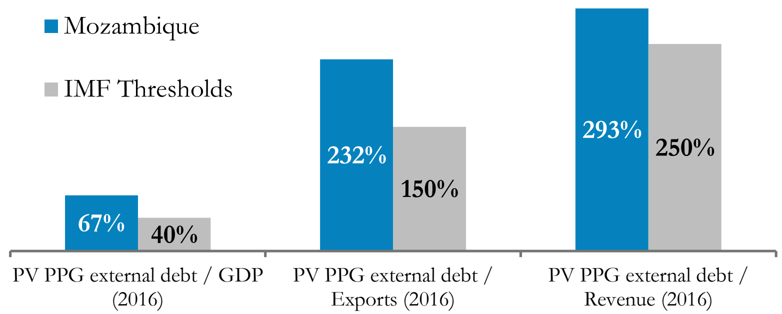
According to IMF's debt sustainability framework for low income countries, Mozambique is in "debt distress"

External PPG debt sustainability analysis demonstrates that Mozambique is in breach of all five of the IMF's debt sustainability thresholds

IMF DEBT SUSTAINABILITY FRAMEWORK

- **The IMF uses five different debt burden indicators to assess the country's debt repayment capacity**
- **Currently, all thresholds have been breached and Mozambique is likely to remain in breach of most of the IMF thresholds in the medium term**

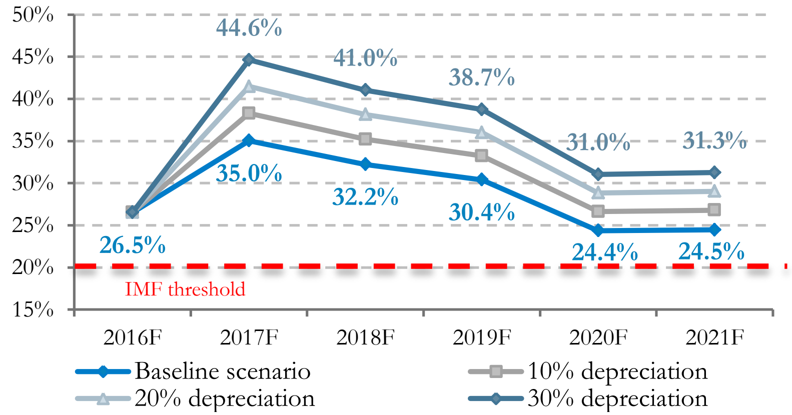
EXTERNAL PPG DEBT EXCEEDS ALL THE IMF THRESHOLDS



Source: MoF, as of September 2016 ; Lazard calculations

EXTERNAL PPG DEBT SERVICE / GOVERNMENT REVENUES

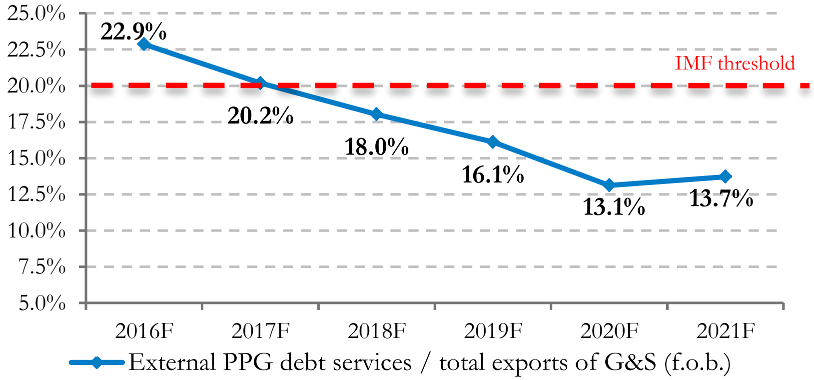
Percent of government revenues



Source: MoF, as of September 2016 ; Lazard calculations

EXTERNAL PPG DEBT SERVICE / EXPORTS

Percent of exports (f.o.b.)



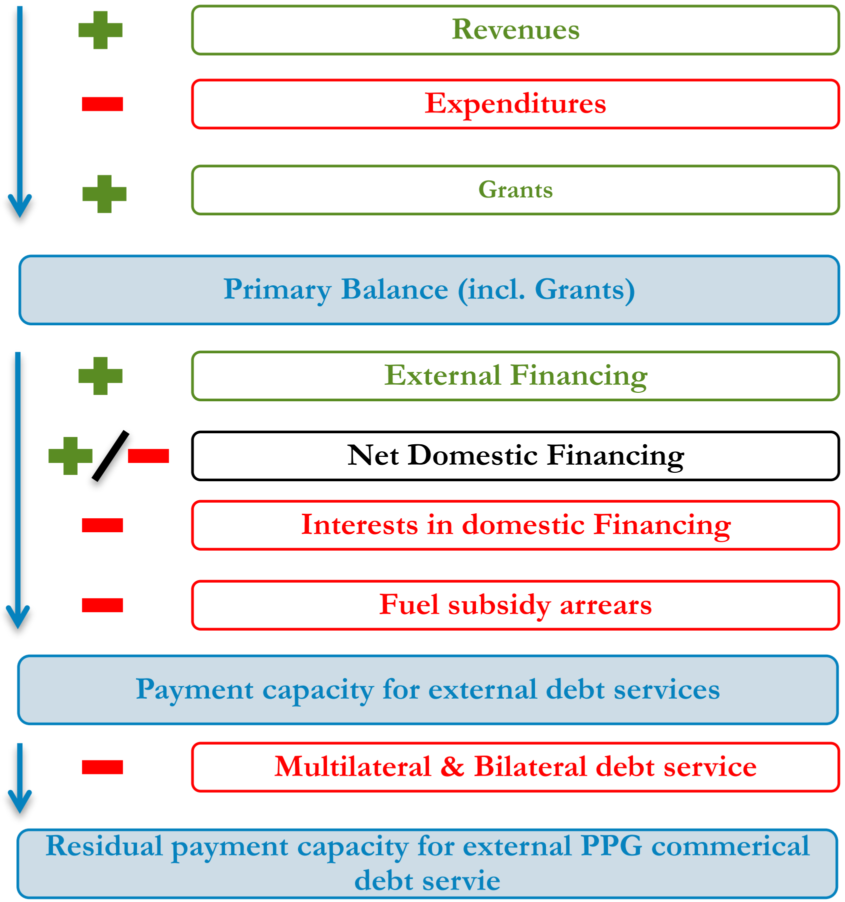
Source: MoF, as of September 2016 ; Lazard calculations

Assessment of the government's residual payment capacity for commercial debt service

METHODOLOGY

- **The government's payment capacity to service external public and publicly guaranteed commercial debt is derived from the primary balance (incl. grants), net of new government financings (external and domestic) and domestic debt service (amortization and interest)**
  - New external financings follow the currently envisaged multilateral and bilateral disbursement schedule
  - New domestic financings are constrained by the level of "Net Credit to the Government", currently at 12.7 billion meticals but expected to decrease and be negative over the coming years, following IMF's requirements
- **From the result of this calculation, we deduct the multilateral and bilateral debt service (amortization and interests) included in the budget debt**
- **The residual payment capacity in USD is presented on the next slide, under our best-case scenario**

DETAIL



Assessment of the government residual payment capacity for commercial debt service *(cont'd)*

Assessment of the government payment capacity under our best-case scenario

IN MET BILLION, UNLESS OTHERWISE INDICATED

	2017	2018	2019	2020	2021
Total revenue	186.3	213.6	241.8	274.4	312.5
Total expenditure	(222.4)	(254.2)	(282.9)	(311.4)	(345.9)
Grants	14.0	25.5	28.8	27.4	26.0
Primary Balance	**(22.1)**	**(15.2)**	**(12.2)**	**(9.6)**	**(7.4)**
External financing	50.8	64.0	72.2	80.6	87.5
Net domestic financing ("Net Credit to Government")	12.7	(5.0)	(10.5)	(15.3)	(16.1)
Interests in domestic financing	(9.0)	(10.4)	(11.8)	(12.5)	(13.0)
Fuel subsidy arrears accruing from 2016	(6.9)	-	-	-	-
Payment capacity for external debt service	**25.5**	**33.5**	**37.7**	**43.1**	**51.0**
Multilateral/Bilateral debt service	(26.2)	(29.0)	(34.2)	(38.1)	(47.9)
Residual payment capacity, after concessional external debt service	(0.8)	4.5	3.5	5.0	3.2
Residual payment capacity, after concessional external debt service (US$ million)	**(9.7)**	**54.3**	**40.7**	**57.2**	**35.8**
Exchange rate assumption (MET per USD)	*81.2*	*83.3*	*85.0*	*86.8*	*88.5*

Considering that the fuel subsidies reform is undertaken in 2017

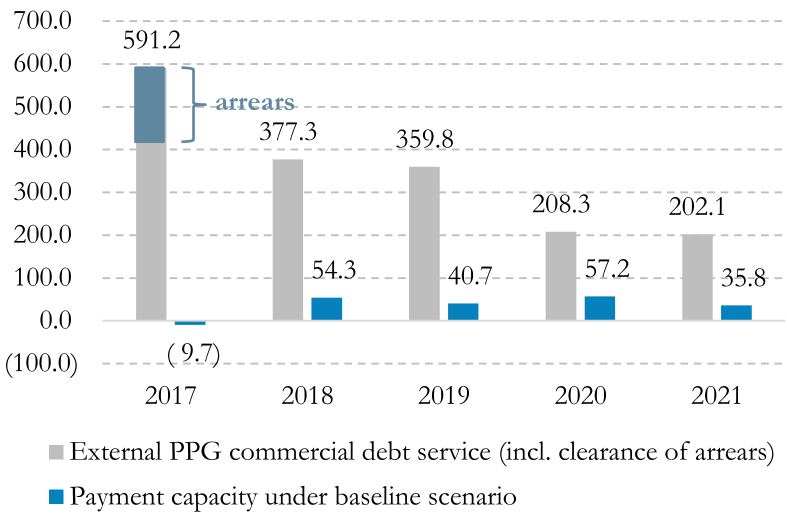
Source: MoF, as of September 2016 ; Lazard calculations

Assessment of the government residual payment capacity for commercial debt service *(cont'd)*

- **The residual payment capacity assuming the contractual payments due to our external commercial creditors**
  - This assumes MAM and Proindicus generate no revenue to support debt service and that the debt service of these two loans covered from the government's budget
- **In addition, risks related to a further depreciation of the Metical, the government's contingent liabilities and the failure to remove the subsidies, would further negatively affect Mozambique's payment capacity**

MOZAMBIQUE'S EXTERNAL PPG COMMERCIAL DEBT SERVICE COMPARED TO THE GOVERNMENT RESIDUAL PAYMENT CAPACITY UNDER THE BASELINE SCENARIO

U.S. $ million



Source: MoF, as of September 2016 ; Lazard calculations

RESIDUAL PAYMENT CAPACITY IN USD

U.S. $ million

	2017	2018	2019	2020	2021	TOTAL
Baseline scenario	(9.7)	54.3	40.7	57.2	35.8	178.3
10% depreciation	(23.8)	33.8	18.0	31.7	5.4	65.1
20% depreciation	(35.5)	16.7	(0.8)	10.4	(20.0)	(29.1)
30% depreciation	(45.4)	2.3	(16.8)	(7.6)	(41.5)	(108.9)
Without the fuel subsidies reform	(9.7)	(206.3)	(292.3)	(334.5)	(432.0)	(1,274.6)
Potential SOEs debt service burden	N/A	N/A	N/A	N/A	N/A	N/A
Potential recapitalization of domestic banks	N/A	N/A	N/A	N/A	N/A	N/A

At this time those fiscal risks are difficult to assess, but may materialize

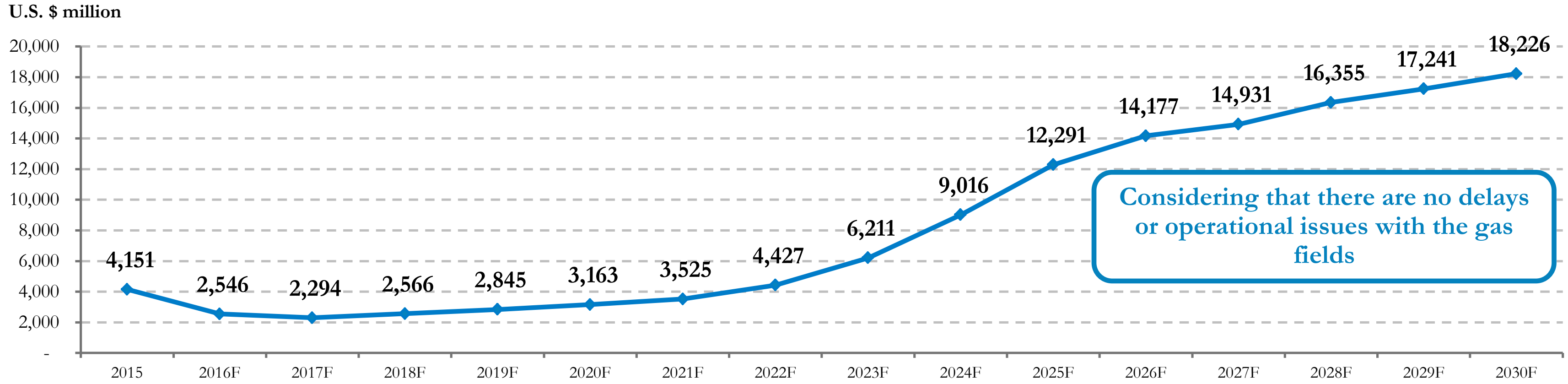
Source: MoF, as of September 2016 ; Lazard calculations

Significant streams of revenues will increase the fiscal space after 2021

Government revenues are expected to significantly increase in the early 2020s, when the energy sector projects start generating export revenues

- **Significant revenues will be derived in the form of royalties and other taxes from the projects in the energy sector**
  - Government revenue is expected to increase by an average US$2,000 million per year between 2021 and 2025
  - Preliminary estimations indicate revenues as high as US$6,211 million starting from 2023

GOVERNMENT REVENUE PROJECTIONS ASSUMING POSITIVE INVESTMENT DECISIONS IN THE ENERGY SECTOR



Source: MoF, as of September 2016

- **The government payment capacity is therefore expected to significantly increase after 2021, subject to a timely implementation of the offshore gas projects**

III Next Steps

Principles for interaction with creditors and proposed timeline

A collaborative process is of paramount importance to engage in a constructive dialogue with creditors with a view to restore Mozambique's debt sustainability in the medium to long term and ensure the resumption of an IMF financed program

- **Mozambique is committed to undertake consultations with its creditors in line with the following principles:**

Transparency

Good faith efforts for a collaborative approach

Inter-creditor equity

- **Mozambique would welcome formation of one (or several) representative creditors' committee(s) to engage in discussions with the Ministry of Economy and Finance and its advisors**
- **The Government would like to reach an agreement with the IMF on a new program in early 2017. To this end, we look forward to reaching agreement with creditors on terms compatible with IMF debt sustainability criteria as soon as possible**

Investors' meeting in London
Presentation of the government payment capacity and begin dialogue with creditors

IMF Staff mission in Maputo

Discussion with investors
Regarding optimal format for creditors engagement

Agreement in principle with creditors on a debt resolution proposal

Implementation of the agreed debt resolution strategy

Next steps

Mozambique has appointed Lazard Frères (financial advisor) and White & Case LLP (legal advisor) as its exclusive advisors to support the debt solution process. Mozambique's authorities, Lazard and White &Case remain at the disposal of Mozambique's commercial creditors to discuss the content of this presentation and will be holding consultations regarding the optimal framework for ongoing engagement with Mozambique's commercial creditors in the coming days

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