

TERMS OF REFERENCE FOR CONTRACTING CONSULTING SERVICES FOR AUDITING THE RECOVERABLE COSTS OF AREA1 AND AREA 4 OF THE ROVUMA BASIN - MOZAMBIQUE

2018 AND 2019 ECONOMIC EXERCISES

1. Background

As a result of the discoveries of Natural Gas in the Rovuma Basin, Areas 1 and 4 concessionaires submitted the Development Plans for the monetization of these resources, having been approved by the Government of Mozambique in February 2016 (Coral Sul FLNG Project), February 2018 (Golfinho/Atum Project) and May 2019 (Rovuma LNG). Once all the legal, financial and commercial instruments necessary for the implementation of the aforementioned projects were completed, the concessionaires reached in 2017 and 2019 the Final Investment Decision for Golfinho/Atum and Coral FLNG Projects and, in 2019 the Initial Investment Decision of the Project Rovuma LNG.

At the moment, activities are underway to implement the above mentioned projects with investments estimated at US \$ 7 billion (Coral FLNG), US \$ 19.8 billion (Golfinho /Atum) and US \$ 23.6 billion (Rovuma LNG SA). In this sense, given the magnitude of the investments in progress, it is essential to assess the classification, reasonableness and veracity of the costs reported to the Government as recoverable, in line with the terms of the contracts inherent to these projects, as well as in accordance with the accounting and financial procedures of the respective Concession Contracts.

Therefore, within its competence, the Government of Mozambique, through the Ministry of Mineral Resources and Energy (MIREME) in coordination with the National Petroleum Institute (INP), intends to hire a consulting firm of recognized capacity and competence in auditing recoverable costs in the oil and gas sector.

2. Purpose of the Consultancy

The purpose of this consultancy is to audit the total recoverable costs reported by concessionaires in Area 1 and Area 4 for the years 2018 and 2019. Regarding Area 4, the audit must cover the costs incurred by the Specific Purpose Entity (SPE) Coral Sul FLNG. It is intended to assess whether the expenses incurred are aligned with the work programs and budgets, and whether the reported costs are eligible for recovery in accordance with the Accounting and Financial Procedures set out in Annex C of the respective Exploration Concession Contracts and Production (EPCC).

3. Scope of Work

The scope of the work must be in accordance with the relevant legislation that guides the hydrocarbon sector in Mozambique, the legislation and local contractual obligations in accordance with the terms of the Exploration and Production Concession Agreement (EPCC) signed and adhere to the Standards and internationally acceptable accounting and auditing procedures. The scope of work for the consultancy service includes:

- Conduct an independent and comprehensive audit of recoverable costs in Area 1 and Area 4 (including Coral Sul FLNG);
- Validate the type of cost in terms of the classification, definition and allocation provided for in the accounting procedures in the Contract;
- Assess the type of cost by its nature: (i) without additional approval from the Government; (ii) only with Government approval (iii) not recoverable under the Contract; (iv) recoverable and deductible; (v) Credits under the Contract; and (vi) Duplication of debts and credits;
- Measure the level of cost transparency and the fiscal year regarding expenses incurred;
- Check the reasonableness of costs according to industry standards;
- Train at least 10 staff of State institutions involved in this process (MIREME, INP and AT); and
- Develop an Internal Procedure Manual for Auditing recoverable costs based on best practices.

4. Expected Deliverables

The consultant must prepare and submit the following documents for each Area and Year:

- An **Initial Report** which should include, among others, a Work Plan, Audit and Training Methodology and, Work Tools to be used;
- a **Preliminary report** containing the preliminary audit findings, observations and recommendations;
- a **Final audit report** and training report; and
- An **Internal Procedure Manual** for Auditing Recoverable Costs.

In addition, all correspondence between the Consultant and the INP must be made in writing, and the submission of the aforementioned deliverables must be preceded by a workshop. All deliverables must be submitted to INP in Portuguese and English for analysis and approval in electronic and physical version within the deadlines to be agreed.

5. Duration of the Consultancy

The contractor will perform his duties within a period of 12 (twelve) months after signing the contract and the Administrative Court's visa, and may be renewable depending on the need, performance and availability of financial resources. The contract will be result oriented (deliverables) according to the schedule of activities presented.

6. Implementation Provisions

INP will designate a Focal Point to work with the Consultant and his team. The Consultant will make its own arrangements for the performance of its services, including the reproduction of documents, printing and reproduction of all reports.

The Focal Point will be able to provide documentation regarding this work and organize meetings with operators whenever necessary. However, the Consultant will be responsible for obtaining all the information necessary to perform the tasks included in this TOR.

7. Consulting Service Conditions

The main members of the Consultant's team proposed at the time of selection should not be changed during the entire duration of the Contract. Any change in the team must be formally communicated to INP for approval. The consultant's recommendations should be consistent with the sector's legislation.

8. Expected Consultant Experience

The Consultant is expected to demonstrate deep experience in the oil and gas industry, in particular in recoverable cost auditing, and must demonstrate at least 10 years of proven experience in jurisdictions with a similar contractual regime.

The Consultant can propose the best team combination to achieve the objective, which must present, at a minimum, the following knowledge in the oil and gas sector: gas value chain, legal framework for the sector, cost audit, tax regime, transfer pricing, accounting and taxation and financial risk management. To be considered suitable for the performance of the tasks indicated above, the proposed team members must submit their respective resumees. If the Consultant has no representation in Mozambique, he/she must join a National company that provides similar services.

It is essential that the consultant is familiar with all the legislation in the sector, including the terms of the concession contracts, sector specific tax regime, oil law and respective regulation, among others, since these include determinant of cost recoverability.

Below is a summary of the specialties and minimum qualifications expected by each member of the consultant team:

MAIN EXPERTS	QUALIFICATIONS / EXPERIENCE
Team Leader	<p>Training in Engineering, Management or other relevant training and with more than 10 years of experience in the Oil and Gas Industry. The leader must demonstrate knowledge in the following areas:</p> <ul style="list-style-type: none"> ▪ Oil and gas value chain particularly in research and development; ▪ Engineering design and development plans including cost estimates (facilities and infrastructure); ▪ Development of cost models in upstream infrastructure; ▪ Experience with cost estimation tools / software; ▪ History of team leadership with demonstration of experience in Project Management.
Petroleum Engineer	<p>Training in Petroleum Engineering or other relevant disciplines and with more than 10 years of experience in the Oil and Gas Industry, with the following knowledge:</p> <ul style="list-style-type: none"> ▪ Cost optimization (CAPEX and OPEX); ▪ Upstream cost study; ▪ Cost and Benchmarking modeling and estimation; ▪ Project Management Skills ▪ Knowledge of the upstream value chain ▪ Experience in research activities and their cost components <p>It is preferable for one of the specialists to demonstrate experience in Research and Production operations.</p>
Financial Specialist	<p>Training in Finance, Economics and Management or other related disciplines with more than 10 years of experience in oil and gas auditing, with the following knowledge:</p> <ul style="list-style-type: none"> ▪ Production sharing contracts and their tax terms; ▪ Joint Venture operations; ▪ Classification and categorization of costs; ▪ Analysis of budgets and financial statements; ▪ Familiarization with gas and oil project finance ▪ Cost allocation, taxation, transfer pricing, etc. ▪ Financial and economic modeling of oil and gas in upstream; ▪ Skills in working with different types of models and software's; ▪ Solid knowledge of IFRS with a focus on the extractive industry
Legal Specialist	<p>Law training with more than 05 years of experience in the oil and gas industry with the following knowledge:</p> <ul style="list-style-type: none"> ▪ Interpretation of relevant sector legislation; ▪ Experience in production sharing contracts; ▪ Joint Venture operations. <p>It is preferable for one of the proposed legal experts to demonstrate experience and understanding of the Mozambican legal framework applicable to upstream operations, as well as relevant regulations and the Concession Contract for Research and Production in Mozambique.</p>

9. Conflict of Interest Statement

The Consultant must disclose any potential conflicts of interest in the course of his duties and detail any measures that may be necessary to avoid conflicts of interest and to guarantee the confidentiality of the information received in connection with the implementation of this service.

10. Deadlines:

Description of the action	Deadline
To request clarifications to the terms of reference	Until 3:30 pm of 05/06/2020
Response to requests for clarification	Until 3:30 pm on 10/06/2020
For the submission of the Expression of Interest and respective qualification documents	Until 3:30 pm of 15/06/2020

11. Contacts:

Responsible Unit	UGEA / Procurement
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