

# **REPUBLIC OF CAMEROON**

Ministry of Economy and Finance

Committee for the follow up of Cameroon Extractive  
Industries Transparency Initiative (EITI)

Reconciliation of the financial and physical flows as regards  
the Cameroon EITI for the year 2005

**Short form report**

**March 2007**



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**Committee for the follow up of  
Cameroon Extractive Industries  
Transparency Initiative**

In execution of the mission of reconciliation of the financial and physical flows as regards the Cameroon EITI for the years 2001 to 2004 and 2005 that has been entrusted to us by the agreement n°6/C/MINEFI/SG/C/EITI/ST and the decision n°000039/OS/MINEFI/SG/C/ST of July 27, 2006, here is the short form report of our work

## **1 GENERAL CONTEXT OF THE STUDY**

EITI aims to improve transparency and governance in the management of the incomes generated by the extractive sector and to maximize positive effects of this sector on the economic growth, in other to improve the lifestyle of the population. EITI has the shared conviction that a cautious use of the treasury in natural resources can potentially be the driving force of the economic growth and of sustainable development.

Since the launch of EITI, many countries have assumed this commitment to respect the transparency and the obligation to report in the management of public affairs.

The Republic of Cameroon joined this commitment in March 2005 and, in order to implement this initiative, has established the following organs:

- ✍ The EITI Follow Up Committee, created by decree N°2005/2176/PM of June 16th, 2005 from the Ministry of Economy and Finance, presided over by the Minister of Economy and Finances (MEF), which is the organ of decision and management;
- ✍ The Technical Secretary for the follow up and achievement of EITI principles created by decree N°002328/MINEFI/CAB on 15th September 2005 and put under the coordination of a Technical Counsellor of the Minister of Economy and Finance (MEF). It is the coordination organ of the follow up committee.

Those two structures which include the representatives of the State or parastatal sector, private sector and civil society, have adopted a working strategy. The collection and reconciliation of the data relating to figures and volumes is one of the main tasks to fulfil concerning this working strategy.

In order to help it achieve its objectives, the follow up committee has selected our offices to assist the Technical Secretary in the realization and the reconciliation of data for the year 2005.

The terms of reference of the study stipulated that the consultant should deliver to the EITI follow up committee, at the end of the study a detailed report with a statistical part, containing combined data of oil companies and analysis, comments and recommendations on the statistical part. This is the subject matter of the present report.

## **2 NATURE AND SCOPE OF THE WORK OF THE CONCILIATOR**

### **2.1 Nature of works**

This study deals with the undertaking, on behalf of the Extractive Industries Transparency Initiative in Cameroon, of data reconciliation of oil companies and the Cameroonian state, in terms of financial and physical flows.

### **2.2 Resources considered in EITI**

The working schedule of EITI implementation in Cameroon as well as the study terms of reference has clearly defined the area of the study in the oil sector. It is the only underground resource exploited in a modern manner

### **2.3 Incomes considered for EITI**

The selection of the oil industry incomes considered for EITI, for the year 2005 was on the sole responsibility of the follow up committee.

The accounting and financial definitions of these incomes are also the sole responsibility of the follow up committee. These definitions were settled on the basis of establishment conventions, association agreements, and accounting agreements attached to it.

The list of incomes considered for EITI is:

- ✍ Proportional Mining Royalty,
- ✍ Flat fees/Fix duties,
- ✍ Land Royalties/Area Royalties,
- ✍ Signature Bonuses,
- ✍ Production Bonuses,
- ✍ Oil companies Dividends,
- ✍ Company tax on profits

Besides, the study does not concern financial commitments. Only treasury flows (effective encashments and disbursements) have been compiled, in accordance with the requirements of EITI Source Book.

#### **2.4 Production considered for EITI**

All oil production in Cameroon was considered for EITI.

Standard physical definitions of production were adopted by the EITI follow up committee. Associated Gas is not considered for EITI.

#### **2.5 Oil companies covered by EITI**

The identification of oil companies covered by EITI is on the sole responsibility of the follow up committee. Oil companies covered by EITI are limited to exploration and production enterprises.

The oil companies covered by EITI are:

- ✍ Total Exploration & Production (E & P) Cameroon ;
- ✍ Pecten Cameroon ;
- ✍ Perenco Cameroon ;
- ✍ ExxonMobil Cameroon ;
- ✍ NHC Functioning,

- ✍ Euroil Ltd ;
- ✍ Addax Petroleum Cameroon LTD;
- ✍ Noble ;
- ✍ Turnberry Ressources INC ;
- ✍ Tullow Cameroon LTD ;
- ✍ Sterling Cameroon LTD ;
- ✍ RSM Production Corporation ;
- ✍ SONARA.

## **2.6 The period covered by the study**

The period covered by the study is the year 2005.

## **2.7 Recording basis of the incomes**

International accounting standards require the book-keeping of a year account or a commitment account.

In accordance with the requirements of the Source Book of EITI, incomes are recorded on a cash basis of accounting, which means the effective payments of the year. This is consistent with the public accounts used by the Government of Cameroon.

# **3 RESPONSIBILITIES OF ENTITIES AND LIMITATIONS TO THE SCOPE OF THE MISSION**

## **3.1 Responsibilities of covered entities**

The declarations of data have been prepared under the respective responsibility of the state and its components and of oil companies. The availability and the quality of the information on the time allowed period, is the responsibility of the covered entities.

It is not our task to review the exhaustiveness of the sources of the considered incomes and of the oil companies covered into the reference.

### **3.2 Responsibilities of the conciliator**

It is our task to:

- ✍ Verify that the definitions of the considered incomes for EITI are in accordance with the one described in the Source Book of EITI and with the standard international definitions of the oil industry (reference coherence).
- ✍ Verify the good comprehension of these definitions by oil companies and the state, while completing their declarations. Receive and compile the data of declared incomes flows, received by the government on one hand, and on the other hand of declared incomes flows, made by oil companies under the basis of the reference defined above

Our intervention does not aim at carrying out an audit or a limited examination of oil incomes. The audit and certification of data are not included in our scope of work.

Our intervention does not aim at carrying out an audit or a limited examination of financial transfers or physical flows from the oil sector. The audit and certification of data are not included in our scope of work.

It is not our task to review the completeness of the sources of the considered incomes and of the oil companies covered into the reference. As much as our intervention does not aim discovering of errors, illegal acts or other irregularities, nor at verifying whether the sources of the oil companies incomes and the state and its organs, are actually comprehensive.

We issue, in aggregated and disaggregated form, for each type of the state takings or companies' payments, the compiled results of the declared income flows made by oil companies and of income flows received by the state.

### **3.3 Limitations of the scope of the mission**

As we said in point 3.2, our work does not consist in carrying out an audit or a limited examination of oil incomes. However, for the verification of the quality of the information provided, we have, when that has been possible, compared the

information provided in the response templates detailing the financial flows declared as paid by the petroleum companies and the financial flows declared as received by NHC with the data contained in the audited and certified financial statements.

We could not reconcile all the data included in the declaration tables, with the financial and accounting information appearing in the reports of auditors. Only the amounts regarding the profit tax, and the quantity of liftings by the state and the production of NHC could be reconciled.

However, the accounting system, recommended by EITI criteria being the cash accounting basis, we obtained all the justificatory supports (payment receipts, cheques copies, transfer orders, bank operations tenders etc) of the payments declared as made by the oil companies, and under this basis, we verified the reliability, but not the completeness, of the information declared by them.

## **4 SUCCINCT PRESENTATION OF THE OIL SECTOR IN CAMEROON**

Oil exploitation started in Cameroon in 1947. The first research licence for hydrocarbons was given on April 16, 1952 in the Douala basin to SEREPCA Company which became Elf SEREPCA in 1958.

After that date, the volume of exploration activities fell because of the profound international oil crisis, leading to a progressive decline of the national crude oil production of about 3% per year on average between 1986 and 1990.

Since 1999, a new oil code has been in effect. It should allow oil companies to invest more in research, so as to sustain the production, especially in the deep offshore zones of the Douala/Kribi – Campo basin and in the Logone Birni basin.

### **4.1 Natural hydrocarbon Reserves**

#### **4.1.1 Gas**

The Cameroonian gas reserves are split into 2 types: “associated” gas coming from crude oil production, and “non associated” gas. The proved natural gas reserves of the country are estimated at about 157 billion m<sup>3</sup> for a potential of 270 to 300 billions m<sup>3</sup>.

All the present production concerns associated gas, a great part (3 million m<sup>3</sup>) of which is flared each year, whereas another part is used for gas-lift and consumption at offshore platforms. (Source: quarterly newspaper of the National Hydrocarbon Company, N°19, December 2005).

#### **4.1.2 Oil**

After the first discoveries, the proved oil reserves rose rapidly and reached the level of more than 1000 million barrels. Since the slowness in oil research that took place in 1983, and with the rapid production of the deposits in development, the remaining proved reserves have been declining considerably.

The rhythm of crude oil production in Cameroonian basins continues decreasing during 2004. The production dropped from 36 million barrels in 2003, to 33 millions barrels while closing the 2004 financial year. Despite the discoveries of new deposits announced by TOTAL Exploration and PECTEN, the active promotion policy of the Cameroonian basins, has not yet shown, for the time being, a reversal of the decline. (Source: General report of the statutory auditor on NHC accounts as at December 31<sup>st</sup>, 2004). However, an increase of the production may arise in 2006 due to an increase of drilling oil wells.

### **4.2 Description of exploration research activities**

#### **4.2.1 Exploration**

This activity is the study of the substratum in order to establish if it contains hydrocarbons. To do this, oil companies request from Cameroon authorities a research licence to carry out research of oil traps (seismic acquisitions, exploration drill holes) and appreciate deposits in case of discovery (appreciation drill hole).

#### **4.2.2 Exploitation**

This activity consists into putting on production a deposit of hydrocarbon. It includes development and production stages.

The development stage consists in implementing substructures necessary for the extraction, the treatment and the forwarding to the storage point, of produced hydrocarbons. Generally, these substructures are shafts, drill holes and treatment sites, submarines pipes and storage tankers.

The production stage consists in insuring the extraction and the storage of crude after treating it (extraction of impurities to attain required standards).

#### 4.2.2.1 Commercialization of crude oil

The NHC in the scope of the mandate given to it by the State, intervene in the selling and buying of crude oil on international markets.

Four types of crude oil are actually produced in the Cameroonian basins, the daily volume produced is about 90 000 barrels, allocated as it follows:

Types of crude	Daily production	Temperature	Exportation Terminal
KOLE	60 000 barrels	32° API	SEREPCA
LOKELE	20 000 barrels	22° API	MOUDI
EBOME	9 000 barrels	34° API	EBOME
MOUDI	700 barrels	38° API	MOUDI
<b>Total</b>	<b>89 700 barrels</b>		

*Source : Interview with the commercial Manager of NHC*

The part of the national production belonging to Cameroon State is commercialized by the NHC by cargos of:

- 800.000 barrels for the Kolé,
- 500.000 barrels for the Lokélé,
- 400.000 barrels for the Ebomè, and
- 100.000 barrels for the Moudi.

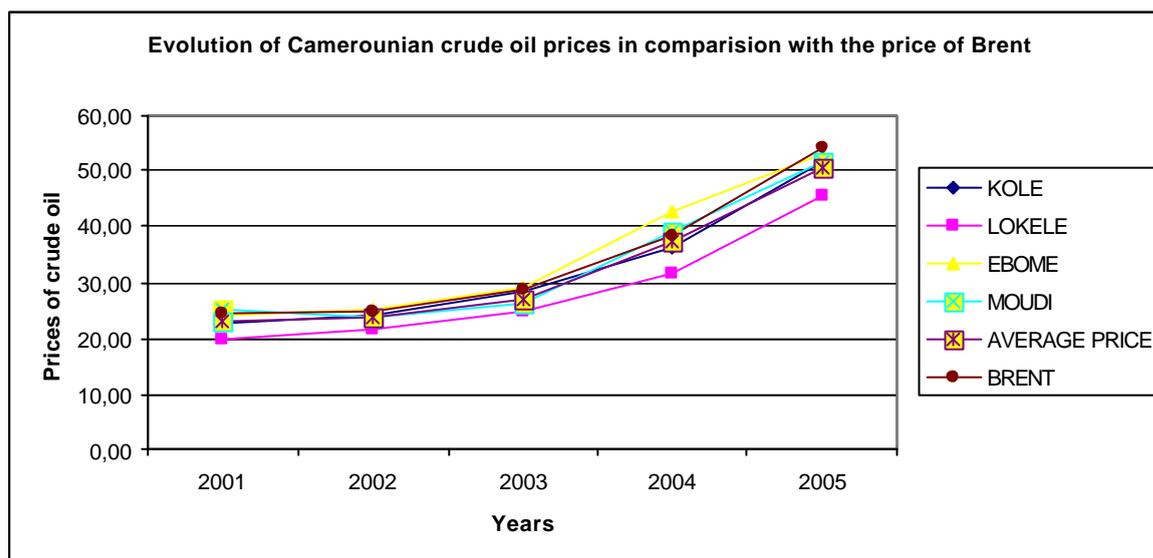
The main commercial partners of the NHC are: Addax BV, Omisa Resources Ltd, Elf Trading, Petrodiamond (representation of Mitsubishi Corporation), Vitol, Stag Energy Ltd, Trafigura, Taurus Petroleum Glencore, CFDI, SONARA, TRADEX, and SCDP.

✂ The official sale price of the crude oil which is used for fiscalisation of the volumes is determined by a commission comprising NHC and the oil companies, represented equally. A differential is determined for every type of crude and takes on account the selling prices used by each operator (official price = average price of the Brent + the differential). These official prices are then transmitted to the Presidency of the Republic for their promulgation..

The evolution of the official prices within the study period, of the different types of crude, sold by the State of Cameroon is presented as follows:

In USD per barril	<u>Average</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>KOLE</b>	27,83	22,81	24,11	28,25	36,15	51,35
<b>LOKELE</b>	24,49	20,03	21,66	24,79	31,46	45,61
<b>EBOME</b>	30,29	24,21	25,32	29,04	42,59	52,85
<b>MOUDI</b>	28,59	25,16	23,86	26,39	38,94	51,60
<b>Average Price</b>	<b>27,80</b>	<b>23,05</b>	<b>23,74</b>	<b>27,12</b>	<b>37,29</b>	<b>50,35</b>
<b>BRENT</b>	<b>29,12</b>	<b>24,46</b>	<b>24,98</b>	<b>28,84</b>	<b>38,22</b>	<b>54,38</b>

Graphically this evolution can be presented as follows:



## 5 LEGAL, CONTRACTUAL, AND TAX SCOPE OF OIL EXPLORATION AND PRODUCTION ACTIVITIES

### 5.1 Legal scope

Since 1964, oil legislation has been modified or reviewed on many occasions. The law n°99-013 of December 22, 1999 carrying on oil Code abrogated all the aforesaid texts, except the law n°78-14 of December 29, 1978 establishing the obligations of mining companies to conclude Association Agreements with the State.

### 5.2 Contractual scope of exploration and exploitation activities

In Cameroon, research and exploitation activities are regulated by two systems:

- ✍ The system of the guaranteed mining income, regulated by the establishment conventions;
- ✍ The new oil code.

Many contracts have been signed according to this new oil code, but up to this date, only research activities are realized within the scope of this code. All the exploitation activities are regulated by the old contractual scope which is concession contracts.

Two (2) systems actually coexist in practice. The table below shows the different notions according to the system:

	<b>Old system</b>	<b>New oil code system</b>
Mining certificates	Research/exploration licence (PH) Mining concession	Associated or non associated autorization Exploitation authorization
Contractual system	Establishment Convention Association contract/agreement	Concession contract Production sharing contract

#### 5.2.1 Calculation examples for the mining income (classical case)

The calculation of the Mining income is done in four steps:

##### ✍ **Step 1 : calculation of the crude income**

The turnover and the technical costs are allocated according to contractual conditions. We then obtain a crude allocation of the income as the following:

Items	Associates	State	Total
turnover	30 30%	70 70%	100
Technical costs	(15) 50%	(15) 50%	30
<b>Crude income</b>	<b>15</b>	<b>55</b>	<b>70</b>

### ✂ Step 2 : Calculation of the net income

This step aims the determination of the net income of the associates (here 13%) as it follows:

Total crude income	70
Parts of the associates	13% x 70 = 9,1

### ✂ Step 3 : Calculation of the tax and of the result before taxation

After step 2, we have to calculate the tax and the result before taxation, as to make the result after taxation, equals to the net income as it follows:

Calculation of the income before tax (petroleum tax)	$9,1 / (1 - 57,5\%) = 21,41$
Calculation of company tax (petroleum tax)	$21,41 \times 57,5\% = 12,31$

### ✂ Step 4 : Calculation of the royalty by difference

The proportional mining royalty is determined by difference between the crude income and the result before taxation as it follows:

Items	Associés
Crude income	15
Result before taxation	21,41
Royalty (negative royalty)	(6,41)

## 5.3 Overview of the tax system applicable to oil exploration and production activities

During the period of the study, the legal scope administrating the tax system of oil operations should have be constituted only on dispositions, established by the law n° 99/013 of December 22, 1999 related to the oil code and to the statutory regulations, used for its application.

Well, the article 118 of the so said law 99/013, stipulates that « the law is applicable to oil contracts which will be signed as from its promulgation »... « the holders of establishment conventions and of association agreements in force at the promulgation date of the present code are still subject to the dispositions included

in the so said contracts and conventions, such as they can be subsequently modified by the entities during the duration of the so said contracts and conventions »

But still, the oil tax system of these establishment conventions of companies we are interested in, is subject to the tax system dispositions of the laws in force before the adoption of the oil code, notably to the dispositions of the law n° 64/LF/4 of April 6, 1964 setting the requirements, the rates and recovery methods of flat fees, royalties and mining taxes and the law n°78/24 of December 29, 1978 also setting requirements, rates and recovery methods of flat fees, royalties and mining taxes.

### ***5.3.1 Legal scope of the oil tax system before adoption of the oil code***

Before adoption of the oil code in 1999, two texts were setting specific tax system dispositions to which companies operating in the hydrocarbons sector are subject: they are the laws n°64/LF/4 of April 6, 1964 and n°78/24 of December 29, 1978, both setting the requirements, the rates and the recovery methods of flat fees, royalties and mining taxes.

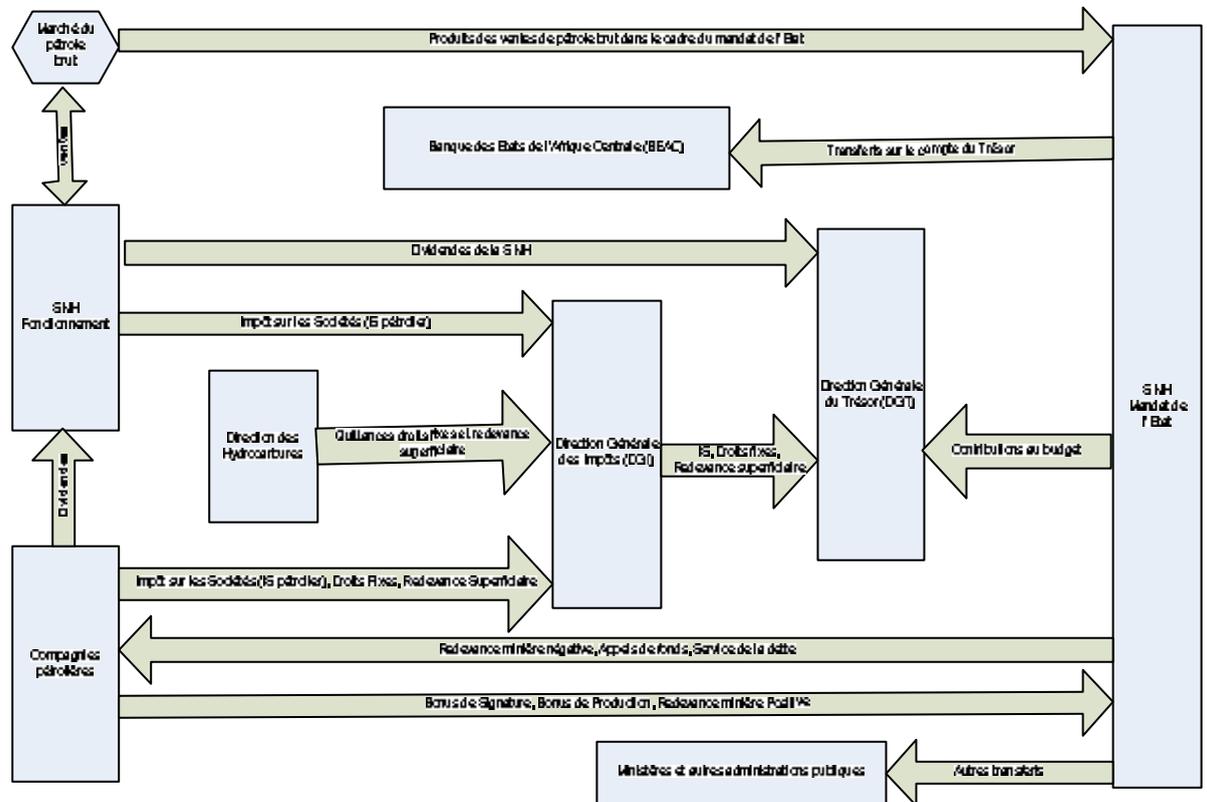
### ***5.3.2 Specific tax system dispositions resulting from establishment conventions***

Establishment conventions existed before between the State and oil companies covered by the study, specific tax system dispositions of the convention were adopted in application of the laws n°64/LF/4 of April 6, 1964 and n°78/24 of December 29, 1978, specifying the requirements, the rates and recovery methods of Flat fees, royalties and mining taxes.

## 6 PRINCIPLES OF RECORDING OF FINANCIAL FLOWS, PRESENTATION OF THE FINANCIAL FLOWS BETWEEN THE NHC AND THE NATIONAL TREASURY

### 6.1 Flows of financial data relative to Oil activities

The graphic bellow presents the movements of financial flows between the Oil companies, State and its components and Central Bank:



### 6.2 Principles of recording financial flows by the NHC and the Public Treasury

The NHC manages the State interests according to the mandate that the State granted to it as regards oil production and exploitation activities. It ensures commercial, movable and unmovable operations directly and indirectly relate to its social purpose.

Commercial operations principally concern the sale and the buying of crude oil on international markets. The incomes generated from the sale are then transferred to the Public Treasure in order to contribute to the financing of the State budget.

The transfers are done monthly on the basis of the forecasts made and included in the Table of Oil Operations and the State (TOPE).

The TOPE has been conceived by the Government of Cameroon and validated by the International Monetary Fund (IMF).

The TOPE has the following columns:

✍ Production

We can distinguish the total production and the production sold.

- The oil total production is divided in NHC share and associates' share according to the nature of the crude;
- The production sold is equally divided in NHC parts and associates parts;

✍ Receipts

- The value of production sold is obtained by multiplying the volumes by the average official price of the Brent (standard oil in the international market) within the period and the average official price of the US Dollar. Because of the heaviness of the Cameroonian crude oil compared to the Brent, a decrease is applied during the selling on international market ;
- The turnover is determined by multiplying the production sold, the official price and the average rate of the US Dollar ;
- The official price is used for the valuation of all the crude sold by the NHC and oil companies. This price is settled after a meeting including both representatives of the NHC and of oil companies;

✍ Expenditures

- Oil production generates the expenditures which follow :
  - ✍ Associative expenditures: they are constituted of tendering funds and of the debt service. They are invoiced by the operators.

Associative expenditures are settled on the basis of a budget through a work plan settled by the technical committee. At the end of the period, the operators settle an invoice balance which is the difference in comparison to the forecasts of the budget, tenderings and the debt service;

- ✍ Other expenditures: they are done by the NHC and deal with offshore insurances, the cost of the follow up of the NHC engineers and the portion of the pipes expenditures and the expenditures of restoration of sites in other to take into account the sustainable environment..

#### ✍ Transferable balance

- The TOPE permits determination of the transferable balance, which is the difference between receipts and expenditures. The transferable balance is provisional; it is determined quarterly.

The transferable balance deals with the transfers to the public treasure as contribution to the State budget via the BEAC and other transfers made by the order of the senior management of NHC.

The definitive balance is determined at the end of the month which follows each quarter on the basis of definitive realizations settled by the representative committee.

## **7 SUMMARY OF THE METHODOLOGY IMPLEMENTED TO CARRY OUT THE STUDY**

### **7.1 Collection and conciliation of financial data**

We visited oil companies and concerned administrations and collected the information necessary for the comprehension of the sector. We have made proposals of financial and accounting definitions of the considered incomes and drawn up templates, detailing the financial and physical flows declared made by oil companies to the State and its components.

The data collected by the consultants have been verified then reconciled.

## 7.2 Currency used for the conciliation of the financial data

All the declarations of oil companies have been made in US Dollars and in FCFA. Declarations of some components of the State (Public Treasury, NHC) are made only in FCFA. However, the terms of reference foresee the possibility for the conciliator to use the FCFA, or the American US Dollar as conciliation currency. The US Dollar has then been chosen by the conciliator in the scope of the study. Indeed The principal reason of the choice of the Dollar as declaration and conciliation currency is that the Source Book of EITI recommends the US Dollar as declaration currency for all the liquid derived advances; moreover, the crude oil is negotiated on international markets with an official price in US Dollar.

Thus, the following official courses, communicated by the NHC have been used by the conciliator in the scope of the study:

US\$	2000/2001	2001/2002	2002	2003	2004	2005
Conversion rate for the FCFA	708,001	731,04	660,771	581,662	527,327	529,301

## 8 PRESENTATION OF THE RECONCILIATION BETWEEN THE DECLARATIONS OF OIL COMPANIES AND THOSE OF THE STATE AND ITS COMPONENTS

The presentation of the reconciliation between the declarations of the State and its components, and the declarations of oil companies, is aggregated for the year 2005. The amounts are in thousands USD.

Concerning the financial aspect, four reconciliation levels were carried out. These conciliations are:

- ✍ Reconciliation between oil companies and the State and its components;
- ✍ Reconciliation between the NHC and the Treasury Headquarters;
- ✍ Reconciliation between the taxes headquarters and the Treasury Headquarters;
- ✍ Reconciliation between the taxes headquarters and the Hydrocarbons Subdirection.

Concerning volumes, three reconciliation aspects were carried out:

- ✍ Reconciliation between the companies and the NHC;

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- ✍ Reconciliation between the NHC data and the certified financial statement;
- ✍ Reconstitution of the volumes of the whole covered entities.

## 8.1 Reconciliation of financial flows

### 8.1.1 Summary table of differences on the financial flows declared made by oil companies and the financial flows declared received by the State and its components

*In thousand USD*

Wordinds	2005
<b><u>Company tax</u></b>	
Oil Compnies	145 312,57
State	143 923,55
Difference	<b>1 389,01</b>
<b><u>Flat Fees</u></b>	
Oil Compnies	1 444,32
State	1 450,97
Difference	<b>-6,65</b>
<b><u>Proportional mining Royalty</u></b>	
Oil Compnies	15 307,08
State	15 287,08
Difference	<b>20,00</b>
<b><u>Royalty proportionate to the production</u></b>	
Oil Compnies	0,00
State	0,00
Difference	<b>0,00</b>
<b><u>Land Royalty</u></b>	
Oil Compnies	398,71
State	430,24
Difference	<b>-31,53</b>
<b><u>Signature Bonuses</u></b>	
Oil Compnies	2 000,00
State	2 000,00
Difference	<b>0,00</b>
<b><u>Production Bonuses</u></b>	
Oil Compnies	0,00
State	0,00
Difference	
<b><u>Dividends paid to NHC</u></b>	
Oil Compnies	40 391,70
State	40 391,70
Difference	<b>0,00</b>
<b><u>TOTAL</u></b>	
Oil Compnies	<b>204 854,38</b>
State	<b>203 483,54</b>
Difference	<b>1 370,84</b>

The difference between Oil companies and State and its components amounted to 1 370. 84 KUSD and principally concerns the difference on Company Tax which is 1 389.01 KUSD.

### **8.1.2 Summary tables of the differences between the NHC and the Public Treasury**

#### **8.1.2.1 Summary table of the differences between the transfers declared made by the NHC to the Public Treasury as contribution to the State budget, and the amounts declared encashed by the Public Treasury**

In thousands USD

DECLARATION OF THE PUBLIC TREASURY	<b>2005</b>
<b>TOTAL (1)</b>	<b>579 539,81</b>
TRANSFERS OF THE NHC TO PUBLIC TREASURY	<b>2005</b>
<b>TOTAL (2)</b>	<b>579 539,81</b>
Global difference (1) - (2)	<b>0,00</b>

#### **8.1.2.2 Summary Table of the differences between the tranfers declared made by the NHC as Direct interventions and the amounts declared by the Public Treasury**

In thousands USD

DECLARATION OF THE PUBLIC TREASURY	<b>2005</b>
<b>TOTAL (1)</b>	<b>115 716,77</b>
DIRECT INTERVENTIONS DECLARED BY NHC	<b>2005</b>
<b>TOTAL (2)</b>	<b>125 338,36</b>
<b>Difference (1) - (2)</b>	<b>-9 621,60</b>

### 8.1.3 Summarize table of the differences on the company tax declared by the Taxes Headquarters and by Public Treasury

In thousands USD

DECLARATIONS OF THE PUBLIC TREASURY	<u>2005</u>
<b>TOTAL (1)</b>	<b>134 517,03</b>

DECLARATION OF THE TAX DEPARTMENT	<u>2005</u>
<b>TOTAL (2)</b>	<b>143 923,55</b>

<b>Difference (1) - (2)</b>	<b>-9 406,52</b>
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#### 8.1.3.1 Summary table of Differences between Tax Department and Hydrocarbons Direction

##### 8.1.3.1.1 Summary table of differences on Land tax declared by Tax Department and Hydrocarbons Direction

In thousands USD

DECLARATION OF TAXATION DEPARTMENT	<u>2005</u>
<b>TOTAL (1)</b>	<b>430, 24</b>

DECLARATIONS OF HYDROCARBONS DIRECTION	<u>2005</u>
<b>TOTAL (2)</b>	<b>430, 24</b>

<b>Difference I (1) - (2)</b>	<b>0,00</b>
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##### 8.1.3.1.2 Summary table of differences on Flat fees declared by Tax Department and Hydrocarbons Direction

In thousands USD

DECLARATION OF TAXATION DEPARTMENT	<u>2005</u>
<b>TOTAL (1)</b>	<b>1 450, 97</b>

DECLARATIONS OF HYDROCARBONS DIRECTION	<u>2005</u>
<b>TOTAL (2)</b>	<b>1 450, 97</b>

<b>Ecart Global (1) - (2)</b>	<b>0,00</b>
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## 8.2 Aggregated physical data

### 8.2.1 Total Production

The declared volumes shows the production being 30,1 millions barrels in 2005, (from 39,4 millions barrels in 2001).

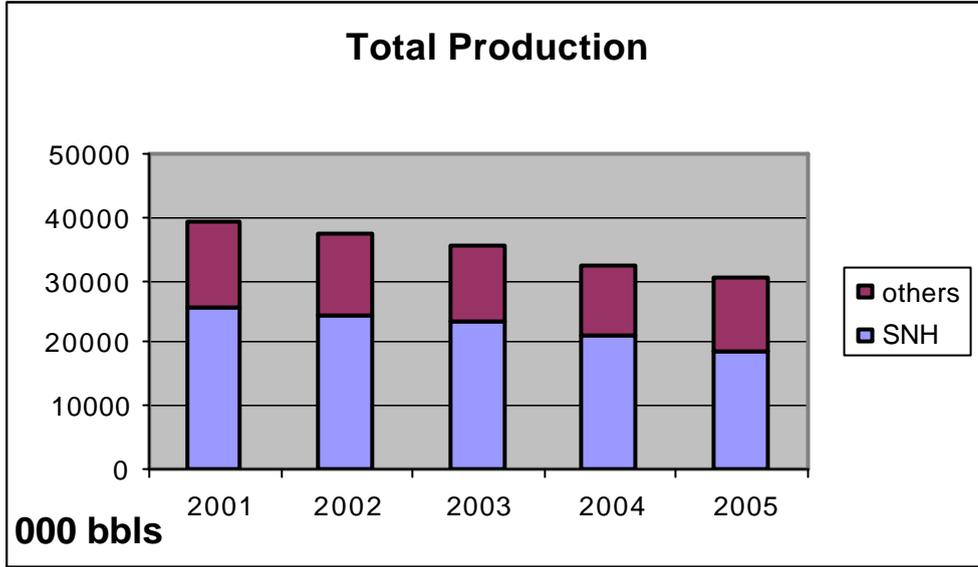
Bbls 000	<u>2005</u>
Total Production	30,083

The State share, represented by the NHC has fallen slightly to 63% of the whole production (from 65% in 2001).

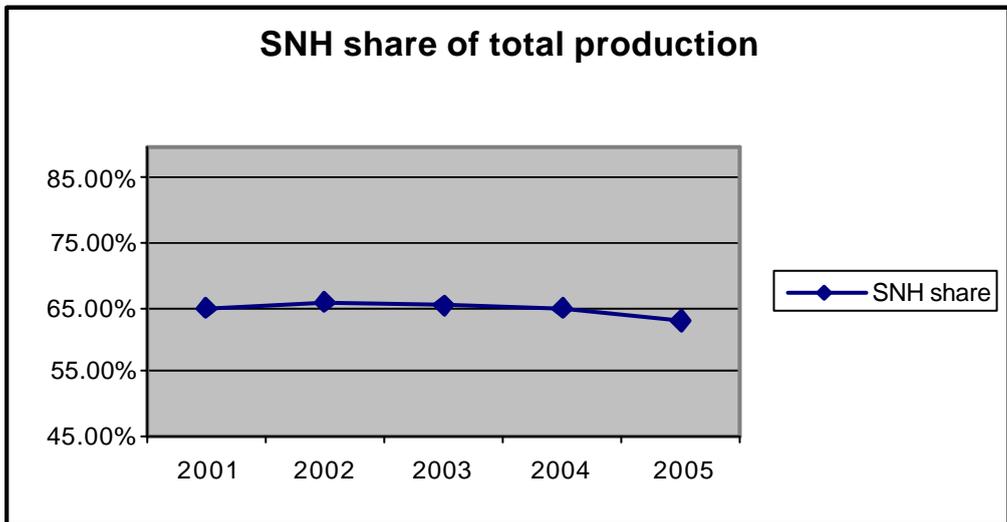
### 8.2.2 Overview of the total production within the period

Bbls 000	
	<u>2005</u>
Opening stock	667
Production	30,083
Liftings	29,591
Roundings	0.0
Ending stock (unaudited)	1,159

Total production can be presented graphically as follows:



The interest of NHC in total production is as follows:



## 8.2.3 Volume reconciliation between the NHC and oil companies

### 8.2.3.1 SNH Production levels

Bbls 000	2005
<b>Reported by SNH</b>	
Serepca	13,492
Moudi	5,539
Ebome	553
<b>Total</b>	<b>19,583</b>
<b>Reported by oil companies</b>	
Serepca	13,492
Moudi	5,539
Ebome	553
<b>Total</b>	<b>19,583</b>
<b>Differences</b>	
Serepca	0
Moudi	0
Ebome	0
<b>Total</b>	<b>0</b>

(unaudited)

### 8.2.3.2 Volume reconciliation between the NHC and oil companies: SNH Liftings

Bbls 000	2005
<b>Reported by SNH</b>	
Serepca	12,957
Moudi	5,069
Ebome	384
<b>Total</b>	<b>18,410</b>
<b>Reported by oil companies</b>	
Serepca	12,957
Moudi	4,969
Ebome	558
<b>Total</b>	<b>18,484</b>
<b>Differences</b>	
Serepca	0
Moudi	+100
Ebome	-174
<b>Total</b>	<b>-74</b>

Differences reported on liftings from Moudi and Ebome have not been reconciled.

#### 8.2.4 Volume reconciliation between the NHC and Sonara Refinery

Date of lifting	Quantity Bbl 000
reported by SNH	
30-Mar-05	451
29-Sep-05	<u>452</u>
	903
Reported by Sonara refinery	
05-Apr-05	451
04-Oct-05	<u>452</u>
	903
Differences	
Lifting #1	0
Lifting #2	0

The volume of crude oil lifted by SNH and sent to / received by the Sonara refinery amounted to 3% of total production / liftings for the year 2005, and 5% of the SNH share of total production / liftings for the year 2005.

#### 8.2.5 Reconciliation of the volumes of the NHC with the data of certified financial statements

##### Production volumes (Cameroon total)

In thousands barrels	Year ending
	<b>31/12/05</b>
NHC audited accounts	30,332
NHC DECLARATIONS	30,094
<b>DIFFERENCE</b>	<b>238</b>
(unaudited)	

##### Liftings (SNH only)

In thousands barrels	Year ending
	<b>31/12/05</b>
NHC audited accounts	18,830
NHC DECLARATIONS	18,410
<b>DIFFERENCE</b>	<b>420</b>
(unaudited)	

## 9 Comments of the conciliator

Under the basis of information transmitted to us by the follow up committee, the Government and oil companies, we make the statement that:

- ✍ Accounting and financial definitions are in coherence with the definitions of the source book published by the general secretary of EITI and with the definitions generally admitted in oil industry;
- ✍ Accounting and financial definitions have been shared by the State and its components on one hand, and oil companies on the other hand;
- ✍ The reconciliation between the combined declarations of all the oil companies on one side, and of the State and its components on the other side has put in prominence differences, which have been subjects of analysis and justifications by the entities covered by the study. The following exploration companies have not answered on time: RSM Production Corporation, Sterling Cameroon LTD and Noble Energy Inc.

*Douala March 28, 2007*

**Mazars Cameroun**



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Lucien RIQUIER  
*Partner*

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**Hart Group**



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Chris NURSE  
*Managing Director*

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## **10 APPENDICES**

### **10.1 Accounting and financial definitions**

#### **Area royalty**

This is an annual tax over the area amount deposited by the oil contract holders and oil operation authorizations.

#### **Proportional mining royalty**

This is the amount that permits to every partner in the process of oil production to profit a guaranteed percentage on the “Rente minière” for each year as defined in the convention of establishment and the contract of association. This royalty could be negative or positive.

When it is negative, it is the amount due by the Government to oil companies in order to allow to them the real guaranteed percentage of the “Rente Minière” for each year.

When it is positive, it is a payment made by the oil companies to the Government.

#### **Royalty proportional to the production**

This is the percentage of the total production available from the defined zone (area). It depends on the daily average of the total production of the limited zone for one civil month. It is due monthly. Its rate is specified in the concession contract. It is settled in kind or in cash.

#### **Flat fees/Fix duties**

It is the amount to be paid for any application, for attribution, renewal, concession or transmission of oil contracts and or prospecting authorisation. The amount is fixed by the financial law applied within the year considered.

#### **Signature bonus**

Allowance deposited to the State at the execution of an oil contract, in conformity with the terms of that contract.

#### **Production bonus**

Allowance deposited to the State related to the quantities of hydrocarbons produced

### **Additional oil withholdings**

It is a sampling calculated on the profits obtained from oil operations. The modalities of calculation are mentioned in the contracts and can exceed 50%.

### **Company tax**

The company tax is due to the net profits drawn from all research and exploitation activities.

The net result taxable is formed by the difference between the values of the commercialised production, the quota share transferred to the State for the royalty proportional to the production and the incomes from the stocking, the processing, hydrocarbons transportation and all the charges for the needs of oil operations.

The rate of company taxes applied to the incomes drawn from research and exploitation operations is stated in the concession contract or the establishment convention and is between the rate of commodities in the general taxes code and 50%.

### **Dividends paid from oil participations**

Those dividends are deposited to the NHC as part of its participation in the oil companies' capital. Those dividends are not paid to the State; they are used for the financial running of the NHC.

The dividends paid by the NHC to the Cameroonian State as the single shareholder will be considered as payments carried out for the study.