



S.S. Afemikhe & Co, (Chartered Accountants)

Nigeria Extractive Industries Transparency Initiative (NEITI)

2006-2008 EITI RECONCILIATION

FINAL REPORT

Issued

3rd February 2011

Presented to the National Stakeholder Working Group

by
Hart Nurse Ltd, Chartered Accountants
in association with
S.S. Afemikhe & Co, (Chartered Accountants)

The report and all appendices relating to the report are intended for the use of the National Stakeholder Working Group of the NEITI for the purpose of that initiative and are not to be relied upon by other parties.

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ACRONYMS USED

AFG	Accountant General of the Federation	NEPA	Nigerian Electric Power Authority
AFS	Audited Financial Statements	NGC	Nigerian Gas Company
AGO	Diesel oil	NGL	Non Gas Liquids
BPSD	Barrels per stream day	NLNG	Nigeria LNG Ltd
BS&W	Base Sediments & Water	NNPC	Nigerian National Petroleum Corporation
CBN	Central Bank of Nigeria	NPDC	Nigerian Petroleum Development Company
CIT	Companies Income Tax	OAGF	Office of the Accountant General of the Federation
COMD	Crude Oil Marketing Division of NNPC	OML	Oil Mining Lease
CPDD	Corporate Planning & Development Division	OPL	Oil Prospecting License
CTT	Custody Transferred Terminal	OPTS	Oil Producers' Trade Group (of the Lagos Chamber of Commerce)
DPK	Kerosene	PAYE	Pay As You Earn
DPR	Department of Petroleum Resources	PHCN	Power Holding Company Nigeria
ECOWAS	Economic Community Of West African States	PHRC	Port Harcourt Refinery
FAAC	Federation Accounts Allocation Committee	PMS	Petroleum motor spirit (petrol)
FCCU	Fluid Catalytic Cracking Unit	PPMC	Pipeline and Products Marketing Co Ltd
FCT	Federal Capital Territory	PPQC	Production Programming and Quality Control
FIRS	Federal Inland Revenue Service	PPT	Petroleum Profits Tax
GMD	Group Managing Director (of NNPC)	PTDF	Petroleum Training Development Fund
GED	Group Executive Director Finance & Administration (of NNPC)	RMAFC	Revenue, Mobilisation, Allocation and Fiscal Commission
GGM	Group General Manager (of NNPC)	RVSG	Rivers State Government
KRPC	Kaduna Refinery and Petrochemical Company	SWIFT	Society for Worldwide Interbank Financial Transactions
LNG	Liquefied Natural Gas	VAT	Value Added Tax
LPFO	Low pour fuel oil	WAGP	West African Gas Pipeline
NAPIMS	National Petroleum Investment Management Services	WHT	Withholding Tax
NDDC	Niger Delta Development Commission	WRPC	Warri Refinery Petrochemicals Company

Table of exchange rates used

	<u>2006</u>	<u>2007</u>	<u>2008</u>
£: Naira	244.13	257.32	222.51
Euro : Naira	166.4	176.07	176.71
Yen : Naira	1.13927	1.09221	1.16713
£ : US\$	1.84295	2.00181	1.85518
Euro : US\$	1.25622	1.37074	1.47134
Yen : US\$	0.0086	0.0085	0.0097
Naira : US\$	0.00805	0.00817	0.00854

These are the average rates for the year, as quoted by
Oanda

<http://www.oanda.com/currency/historical-rates>

1 REPORT TO THE NATIONAL STAKEHOLDER WORKING GROUP OF THE NIGERIA EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE

See following page



Hart Nurse Ltd, Chartered Accountants
The Old Coach House
Southern Road
Thame, Oxfordshire
OX9 2ED,
England



S.S. Afemikhe & Co (Chartered Accountants)
Plot 46, Ishawu Adewale Street
Off Modupe Johnson Crescent
Surulere P.O. Box 7612
Lagos, Nigeria

Nigerian Extractive Industries Transparency Initiative
No 1 Zambezi Crescent
Maitama,
Abuja, Nigeria

3rd February 2011

Hart Nurse Limited in association with SS Afemikhe & Co, (Chartered Accountants) were appointed, pursuant to the NEITI Act, by the National Stakeholder Working Group of the Nigeria Extractive Industries Transparency Initiative to undertake the EITI Reconciliation for Nigeria for the years 2006, 2007 and 2008 and to prepare a Report on this Reconciliation ("Engagement").

The Engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures performed were those set out in the Terms of Reference appended to this report, except where stated otherwise in this report including its appendices.

We set out our findings in report including its appendices. Because the procedures were not designed to constitute an audit or review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the transactions beyond the explicit statements set out in this report. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose of informing the National Stakeholder Working Group on the matters set out in the terms of reference and is not addressed to any other party or to be used for any other purpose.

This report relates only to the subject matter specifically set out herein and does not extend to any financial statements of any entity taken as a whole.

Hart Nurse Limited
Chartered Accountants

A handwritten signature in black ink that reads "Hart Nurse Ltd".

SS Afemikhe & Co
(Chartered Accountants)

A handwritten signature in blue ink, consisting of stylized initials and a long horizontal stroke.

2 INTRODUCTION

2.1 Introduction

This is the Nigeria Extractive Industries Transparency Initiative (NEITI) reconciliation report for the years 2006 - 2008. It has been conducted in accordance with the Terms of Reference mandated by the NSWG, set out in Appendix Q.

This report is intended for the use of the National Stakeholder Working Group of the NEITI for the purpose of that initiative and is not to be relied upon by other parties.

The objective of the engagement is to ensure the transparency and credibility of certain oil sector payments and receipts in Nigeria. To this end, the engagement entailed an analysis and reconciliation of material payments and receipts made by specified Covered Entities in the fiscal years 2006, 2007 and 2008 in the oil and gas sector.

2.2 Structure of the report

The report comprises:

- Reconciliation report
- Appendices (bound separately)

The Reconciliation report contains an Executive Summary and a brief overview of the extractive sector in Nigeria. It sets out for each material flow:

- An aggregation of the flows (payments and receipts; and in kind) reported
- Identification of unresolved differences, with information about the type of receipt/payment involved and the government and company covered entities whose reported figures remain unreconciled
- Comments, as appropriate.

Disaggregated reconciliations are set out in full in the accompanying appendices. Full details of initial differences, adjustments made and unresolved differences, analysed by type of financial / in kind flow, are reported, together with other supporting information.

Recommendations are presented in Section 8, for improvements in transparency and EITI processes, based on issues arising during the Engagement.

2.3 Scope of work

Hart Nurse Ltd and SS Afemikhe & Co (Chartered Accountants) (“the Consultants”) were required to undertake the work set out in the Terms of Reference (TOR) for the engagement. The assignment has been carried out under the TOR included as Appendix Q.

If there are material receipts or payments omitted from the reporting templates by both the paying and receiving entities, our work would not be sufficient to detect them. Any such receipts or payments would not therefore be included in our report.

This report reflects data and information received by Hart Group from covered entities up to 24th January 2011. Comments and adjustments received after that date have been taken into account where feasible but not all could be accommodated.

2.4 Participants in the Reconciliation

The government organisations and companies which are to be included are set out in the Terms of Reference.

2.4.1 Government

The government reporting entities are:

- The Office of the Accountant General of the Federation;
- The Central Bank of Nigeria;
- Niger Delta Development Commission;
- NNPC, including its relevant business units and associated entities;
- Petroleum Training Development Fund.

Additionally, we have sought to make use of data provided by:

- The Department of Petroleum Resources;
- The Federal Inland Revenue Service.

We have sought to confirm that payments to government were received into an account in the name of the AGF and / or the Central Bank of Nigeria on behalf of the Government, as set out in the Terms of Reference. In the case of signature bonuses, government also received payments in accounts identified by the AGF as CRF (Consolidated Revenue Fund), FG Ind Res account and PTDF Res account.

2.4.2 Companies

The Terms of Reference state that “All companies in the sector are to be included in the reconciliation. The definitive record of companies in the sector is maintained by the Department of Petroleum Resources (DPR) and is to be provided to Hart Group by DPR.”

The process of identifying the companies, the difficulties encountered with DPR and the list of companies included are set out in Appendix R.

2.5 Financial Flows examined

The following payment streams are included as Material Payments for the purpose of this report:

- 1 Petroleum Profits Tax (PPT)
- 2 Royalty
- 3 Signature Bonuses
- 4 Contributions to Niger Delta Development Commission
- 5 Withholding taxes
- 6 PAYE
- 7 Education tax
- 8 VAT
- 9 Company Income Tax

The receipt of these payment streams by Government, together with the realisation of liftings of oil and gas by the Federation and dividends and loan interest received by NNPC from NLNG, are included as Material Receipts.

2.6 Data Sources

Company data is taken from data collection templates returned to us by the companies.

In the case of NDDC flows, government data is taken from templates returned by NDDC.

Government information for PPT, royalty, signature bonuses, withholding taxes¹ and Company Income Tax is taken from templates submitted by CBN.

Information on oil and gas sales has been supplied by NNPC and confirmed with CBN.

PAYE, VAT, withholding tax² and education tax information has been provided to us by companies and does not require confirmation with receiving government departments as part of this exercise.

2.6.1 International Auditing Standards - companies

In accordance with EITI Criterion No. 2, data is to be taken from accounts that have been audited to international standards.

Copies of audited accounts covering the calendar years 2006 – 2008 were requested from all reporting companies. A listing of the accounts provided is included as Appendix O. All financial statements submitted to us had been audited without qualification. Nigerian Chartered Accountants are required to audit in accordance with Nigerian auditing standards; we understand that these are similar to International Auditing Standards.

We have requested confirmation from companies that the data supplied by them in template form was consistent with their financial statements audited to international standards. The NSWG determined that the representation from company senior management was sufficient for this purpose. Confirmations from some companies are awaited (Appendix P).

2.6.2 International Auditing Standards – government

In accordance with EITI Criterion No. 2, data provided by government is to be taken from accounts that have been audited to international standards.

Following consultations between the NEITI secretariat, Hart Group and the Auditor General, it has been established that government accounts and the financial statements of state agencies and state-owned companies are prepared and are subject to various forms of audit in accordance with Nigerian Law. The Auditor General informed us that government, state agencies and state-owned companies' accounts are prepared in accordance with generally accepted accounting standards.

The NSWG understands that the audit standards applied in government audit are similar to International Auditing Standards.

The template data provided by government reporting entities has been attested by the Auditor General as being consistent with the government accounts that have been audited.

¹ paid to the Federation

² paid to state governments
Hart Group

2.7 Material differences

The Terms of Reference for the EITI reconciliation report state that:

- every difference between figures reported by receiving/paying entities in respect of any transaction should be set out in the NEITI report;
- where the total net difference for an individual Flow is \$5m or less, no further investigation is required;
- the permissible margin of error for aggregate reporting is zero point five percent of the aggregate value of all flows encompassed within the audit's scope, otherwise the Consultant shall report that the data has not been confirmed.

The aggregate value of all flows is reported as follows (section 4 of this report) and the calculated materiality level for differences is calculated as follows:

	Aggregate flows US\$ m (rounded down)	0.5% of aggregate flows US\$ m
2006	45,000	225
2007	43,000	215
2008	59,000	295

The result of the reconciliation is that flows were materially reconciled except for the following:

2.7.1 Royalty in 2006

The report shows an unreconciled difference of US\$ 437 million. This includes \$ 370 million from Shell that was however fully reconciled shortly after the report was prepared. The unreconciled amount is US\$ 67 million and the transactions making up that amount are set out in paragraph 6.2.

2.7.2 Signature Bonus in 2006, 2007 and 2008

The government has reported higher receipts of signature bonus than companies reported paid. It should be noted that, with one exception, all companies that reported agreed on the figures that government reported; the unreconciled difference has occurred because some companies did not report at all. This situation arose because of DPR's late provision of data on company participation in the sector so that new companies were identified at a very late stage of the reconciliation work.

2.7.3 In kind flows of oil and gas

The financial flows arising from the realisation by government of oil and gas that the government states it lifted have been fully reconciled. However, the volumes lifted by government have not been fully confirmed by reconciliation to the volumes that companies reported that government lifted. The unreconciled difference at the date of this report is 3.1 million bbl over the 3-year period, as set out in section 5 of this report. This represents 0.25% of government liftings in the period. The amount cannot be valued as the dates of the component liftings have not been identified; based on a simple average, however, the value could be in the region of US\$ 240 million.

The NSWG has instructed that we should continue work on these items with a view to fully explaining the differences. A supplementary report is planned by 31st March 2011.

2.8 Acknowledgements

The Consultants would like to express sincere thanks to the Chairman of the NSWG, Professor H Asobie and the Executive Secretary, Mrs Zainab Ahmed for their enthusiastic support in the execution of this reconciliation.

3 INDUSTRY STRUCTURE

In this section, we describe the institutional arrangements in the sector:

- Government agencies
- Nigerian National Petroleum Corporation
- The Private sector

3.1 *Government agencies*

The government agencies involved in the areas of:

- regulation of the oil and gas sector;
- assessment and collection of major financial flows such as PPT and royalties;
- monitoring of government finances;
- maintenance of government bank accounts;
- marketing of government crude oil and gas; and
- monitoring of the oil production activities in terms of technical commercial viability
- monitoring of the oil production activities in which the government participates either as Joint Venture Partner or Production Sharing Concessionaire

are described briefly below. The description relates to the period 2006 – 2008.

3.1.1 DPR

The Department of Petroleum Resources is responsible for the supervision of all petroleum industry operations being carried out under licences and leases in Nigeria. This includes processing all applications for licences, monitoring the timeliness and adequacy of all rent and royalty payments and maintaining records on the operations of the petroleum industry, particularly those relating to petroleum reserves, technical viability of production and exports of crude oil, gas and condensate, licences and leases.

Further details on DPR can be found at www.dprnigeria.com.

DPR is responsible for providing information for the EITI reconciliation concerning holders of licences to prospect or extract hydrocarbons, the bidding process and signature bonuses. This is an essential part of determining the business entities which are covered by the NEITI reconciliation.

3.1.2 FIRS

FIRS is governed by the Federal Inland Revenue Service (Establishment) Act 2007, and is responsible for the collection and assessment of, and the accounting for, revenues accruable to the Government of the Federation and for related matters.

Further details can be found at www.firs.gov.ng/Home.aspx.

It is not a requirement under the terms of reference for the EITI reconciliation that government receipts be checked to the records held by FIRS.

3.1.3 OAGF

The Accountant General of the Federation serves as the chief accounting officer for the receipts and payments of government of Federation, supervises the accounts of Federal Ministries and Extra-Ministerial department, maintains and operates the accounts of the Consolidated Revenue Fund and other public funds and maintains and operates the federation account.

Further details can be found at <http://oagfnig.org>.

The AGF is responsible for providing information for the EITI reconciliation on Domestic Crude Oil Sales Proceeds, PPT, Royalty, Signature Bonus, Withholding Tax, VAT, Education Tax, Company Income Tax and contributions to NDDC. The AGF also reports on aggregate Federation income.

3.1.4 CBN

The mandate of the Central Bank of Nigeria is derived from the 1958 Act of Parliament, as amended in 1991, 1993, 1997, 1998, 1999 and 2007. Amongst other responsibilities, CBN is mandated to act as banker and financial adviser to the Government.

Further details can be found at www.cenbank.org.

CBN has been requested to provide confirmation of receipt of various flows, as evidence that the amounts have been received by government. CBN is responsible for providing information for the EITI reconciliation on Crude Oil Sales Proceeds, PPT, Royalty, Signature Bonus and Withholding Tax.

3.1.5 NDDC

The Niger Delta Development Commission is a Federal Government agency established in the year 2000 with the sole mandate of developing the oil-rich Niger Delta region of southern Nigeria. In September 2008, the Niger Delta Ministry was formed and became a parastatal under that ministry.

Further details can be found at <http://www.nddc.gov.ng>.

Its stated mission is the “facilitating the rapid, even and sustainable development of the Niger Delta into a region that is economically prosperous, socially stable, ecologically regenerative and politically peaceful”.

NDDC has been requested to provide details of contributions received from companies, required under legislation to provide funding for the activities of the Commission.

3.2 NNPC

NNPC is a corporation established by statute, owned 100% by the Federal Government of Nigeria, with responsibility to the Ministry of Energy for participating on behalf of the Federation in the exploration and exploitation of hydrocarbon reserves, and the processing, import/export and sale of hydrocarbons.

Information about the Corporation may be found at www.nnpcgroup.com/Home.aspx.

NNPC and its subsidiaries are responsible for providing information for the EITI reconciliation on all the covered flows (see Section 2.4).

The activities of NNPC on behalf of the Federation are carried out by NAPIMS. NNPC also undertakes commercial operations in its own right: in the upstream through its subsidiary the Nigerian

Petroleum Development Company (NPDC); through the three refineries; and in the downstream through the Pipeline Products & Marketing Company (PPMC) and Nigerian Gas Company (NGC)

3.2.1 NAPIMS

National Petroleum Investment Management Services (NAPIMS) in the Exploration & Production (E&P) Directorate of NNPC is the upstream arm of NNPC that oversees the Federation investment in the Joint Venture Companies (JVCs,) Production Sharing Companies (PSCs) and Services Contract Companies (SCs).

NAPIMS is, therefore, set up to earn margin arising from investments in the JVCs, PSCs, SCs, with the multinationals and also protect the nation's strategic interests in the joint ventures. In addition, NAPIMS engages in frontier exploration services in basins where the multinationals hesitate to venture, like the Chad Basin.

Further details can be found at <http://dev.nnpcgroup.com/napims/Home.aspx> and at <http://www.nnpcgroup.com/NNPCBusiness/Subsidiaries/NAPIMS.aspx>

3.2.2 Operations

NPDC is the operator of 3 onshore fields and one offshore field, and a participant in a number of exploration and development licences. As its capacity and capability grow it is expected to take on the operatorship of more existing Joint Venture fields as NNPC exercises its pre-emptive right to appoint the operator under the JOA.

NNPC has refineries at Kaduna, Port Harcourt and Warri. These have a combined design capacity of 445,000 bpd

A network of pipelines and depots located throughout Nigeria, managed by the Pipelines and Products Marketing Company (PPMC), facilitates the supply of refined product, supplemented as necessary by imports, to customers throughout the country, both in bulk and also through NNPC's own retail outlets

The Nigerian Gas Company Limited (NGC) is charged with the responsibility of developing an efficient gas industry to fully serve Nigeria's energy and industrial feedstock needs through an integrated gas pipeline network and also to export natural gas and its derivatives to the West African Sub-region. NGC gathers, treats, transmits and markets Nigeria's natural gas and its by-products to major industrial and utility gas distribution companies in Nigeria and neighbouring countries.

NNPC participates on behalf of the Federation in other gas distribution and downstream activities, such as Nigeria Natural Gas Limited (NLNG) (see <http://www.nlng.com/NLNGnew/default>), where it has a 49% shareholding; and West African Gas Pipeline Company Limited, where it has a 25% shareholding (see <http://www.wagpco.com/>).The WAGP was in the build phase during the period of this reconciliation]

The downstream and processing activities are not included in the scope of the reconciliation.

3.3 Private Sector

3.3.1 Introduction

The rights to win and carry away petroleum, including natural gas, in Nigeria are granted to investors by the Minister through the Oil Prospecting Licence (OPL), which is converted to the Oil Mining Lease (OML) once commercial quantities of hydrocarbon have been discovered.

An OPL or OML is held by NNPC, by companies in joint venture with NNPC, or by companies as a sole risk operation. Since the early nineties, all new areas have been governed by Production Sharing Contracts (PSC), which allow NNPC (as licence holder) to contract with investors to bear exploration and production risks in return for cost oil and part of profit oil.

3.3.2 Joint Ventures

There are 6 Joint Venture Operations producing Oil and Gas. Five of these are with IOCs and one (POOC JV) is with an indigenous company.

SPDC JV	NNPC (55%) Shell Petroleum Development Company Ltd (30%) Total Exploration & Production Nigeria Ltd (10%) [formerly EPNL] Nigerian Agip Oil Company Ltd (5%)
CNL JV	NNPC (60%) Chevron Nigeria Ltd (40%)
TEPNG JV (formerly EPNL JV)	NNPC (60%) Total Exploration & Production Nigeria Ltd (40%)
MPNU JV	NNPC (60%) Mobil Producing Nigeria Unlimited (40%)
NAOC JV	NNPC (60%) Nigerian Agip Oil Company Ltd (20%) Phillips Oil Company Nigeria Ltd. (20%)
POOC JV	NNPC (60%) Pan Ocean Oil Company Ltd. (40%)

The JVs operate according the Joint Operating Agreement (JOA), the main principles of which are that:

- One of the partners is designated the operator.
- All parties share in the cost of operations (agreed annually and financed through cash calls)
- Each partner can lift and separately dispose its interest share of production subject to the payment of Petroleum Profit Tax (PPT) and Royalty.

During the Reconciliation period, through its subsidiary NPDC, NNPC has begun to take over the operatorship of some fields from JVs, starting with Orede and Oziengbe South.

3.3.3 Production Sharing Contracts (PSCs)

PSCs are agreements between NNPC and a company (the Contractor). NNPC is granted the licence and must fulfil the licence obligations to pay taxes. The Contractor bears all the costs and risks of development. The produced oil is shared between NNPC and the Contractor to cover Royalty, Production Costs (including capital) and PPT. The remaining (profit) Oil is shared.

PSCs do not cover the exploitation of gas, except to state that where gas is discovered in quantities which may be commercially exploited, a separate Gas Development Agreement is to be agreed between the NNPC and respective investors.

The entitlement to oil produced under PSCs differs from JV arrangements. The state is entitled to royalty as a first call on production; development costs may then be recovered by the contractor, any PPT liability is then settled to the state and any remaining oil is shared between NNPC (for the government) and the contractor under percentages set out in the PSC.

During the Reconciliation Period, six PSCs were producing, four of which were undergoing trial marketing at some point during the period:

Main Field	Contractor
Abo	Operated by Nigerian Agip Energy Ltd
Agbami	Operated by Star Deepwater Petroleum Ltd (a subsidiary of ChevronTexaco) (Agbami is a unitisation between two PSCs)
Antan	Operated by Addax Production Development Nigeria Ltd
Bonga	Operated by Shell Nigeria Exploration & Production Co Ltd
Erha	Operated by Esso Exploration & Production Ltd
Okwori/Izombe	Operated by Addax Petroleum Exploration Nigeria Ltd.

3.3.4 Sole Risk Operations

The following indigenous companies are participating in Sole Risk operations that were producing in 2006 - 2008:

Amni International
Atlas Petroleum
Brass Exploration Unlimited*
CAMAC*
Cavendish
Conoil Producing/Continental Oil & Gas
Dubri
Express Petroleum
Moni Pulo
Midwestern Oil & Gas*
Niger Delta Petroleum Resources*
Newcross Petroleum*
Platform Petroleum
Shebah Exploration & Production Co Ltd
Waltersmith Petroman

Companies marked with an asterisk are partners to a producing field, not operators.

In addition, NPDC is the Operator of the Okono (Mystras FPSO) field, until 2006 operated under a Service Contract by Agip Energy & Natural Resources Ltd (AENR).

3.3.5 Unitisation Agreements

Where a single hydrocarbon reservoir is found to cross the boundary of two or more licence areas, it becomes necessary to reapportion the rights between the participants in each licence. For purposes of efficient reservoir exploitation a single operator is appointed.

In addition to the local unitisation agreements, there is one cross-border unitisation agreement (Ekanga/Zafiro). This is operated by Mobil Equatorial Guinea Inc and the TEPNG JV is the Nigerian unitisation partner.

3.3.6 Marginal fields

The Marginal Field programme was instituted by the Government to promote the local indigenous sector and develop discovered fields that had not been exploited by the JVs. So far only three of these fields have commenced production (identified* below).

There are 26 such companies involved, many of whom are partnered with international companies to provide technical expertise and finance:

Associated Oil & Gas Ltd
Bayelsa Oil Company Ltd
Bicta Energy Management Services Ltd
Brittania U-Nig
Chorus Energy
Dansaki Petroleum Unlimited
Del Sigma
Energie
Eurafric Energy Ltd
Excel
Frontier Oil Ltd
Goland Petroleum Development Co Ltd
Guarantee Petroleum Ltd
Independent Energy Ltd
Midwestern Oil & Gas*
Millenium Oil & Gas Ltd
Movido Exploration & Production Ltd
Network Exploration & Production Ltd
Niger Delta Petroleum Resources Ltd
Pillar Oil Ltd
Platform Petroleum Ltd*
Prime Exploration & Production
Sahara
Sogenal Ltd
Universal Energy Resources Ltd
Waltersmith Petroman*

4 SUMMARY OF FINANCIAL FLOWS

4.1 Financial flows to Government

Financial flows to Government from the oil and gas sector captured by the EITI reconciliation are set out in this section. In addition, companies make payments to government (both Federal and States) which are not sector specific – e.g. PAYE, some withholding taxes – as well as contributions to NDDC. These payments are also set out in this section.

Flows are primarily received in US dollars; where flows have been received in Naira or other currencies, they are expressed in the table below in US dollars, converted at the average exchange rate for the year. Details of these flows can be found in the sections dealing with individual flows.

The financial flows to Government during the period from the oil/gas sector, as reported by the Central Bank of Nigeria, except where noted, are shown in summary in the following table.

	2006	2007	2008
	US\$ m	US\$ m	US\$ m
Income from oil and gas	27,543.0	29,106.0	40,150.0
PPT	10,626.6	8,084.1	10,957.3
Royalty	4,834.6	3,880.0	5,425.1
Signature bonuses	985.1	509.8	180.1
Withholding taxes	450.2	676.4	775.1
VAT	89.6	216.2	398.1
PAYE	0.4	0.9	1.8
Education Tax	430.1	522.7	698.4
Company Income Tax	137.3	193.9	215.3
Dividends & loan interest from NLNG	0.0	0.0	0.0
Sub-Total - Federation	45,096.9	43,190.0	58,801.2
Withholding taxes	5.2	32.3	62.4
PAYE	106.3	151.2	196.6
Sub-Total - states	111.5	183.5	259.0
Contributions to NDDC	256.0	305.0	338.0
Total	45,464.4	43,678.5	59,398.2

Table 4.1

The main financial flows are set out in the remainder of this section.

The tables in this section summarise the results of the process to collect, reconcile and adjust the flows reported by government and companies. Each table starts with the figures initially submitted by the government and companies, shows the adjustments made to these figures (initially reported by government and those reported by companies) after a process of meetings with the reporting entities and examination of evidence for changes proposed to the initial template data, concluding with the adjusted figures and any differences remaining unresolved.

4.1.1 Income from oil and gas

Income is primarily received in US dollars; where income arises in Naira, it is expressed in the table below in US dollars, converted at the average exchange rate for the year. Details of such income can be found in Section 4.

The volumes of oil transferred by companies to government were reconciled subject to the differences set out in Section 5.2.1. the value attributed to the volumes is set by the methodology explained in section 5.1.1.

The government's income from oil and gas is set out below.

	2006	2007	2008
	US\$ m	US\$ m	US\$ m
Income from oil designated by COMD as settlement of royalty and PPT	2,133	1,677	7,040
Other crude oil & gas income	25,410	27,429	33,110
Total proceeds	27,543.0	29,106.0	40,150.0

Table 4.2

These figures for income were reported by NNPC.

Section 5 gives further details concerning proceeds from oil and gas sales.

4.1.2 PPT, Royalty, Signature Bonus and other oil/gas sector specific flows

Other flows arising from the extractive sector and specific to that sector, as reported initially by government and by companies, together with the adjustments made during the reconciliation and any differences remaining unresolved, are shown below:-

2006								
	Initial templates			Adjustments		Adjusted figures		
	Govt US\$ m	Company US\$ m	Difference US\$ m	Govt US\$ m	Company US\$ m	Govt US\$ m	Company US\$ m	Unresolved Difference US\$ m
PPT	10,395.2	9,428.2	967.0	231.4	1,198.5	10,626.6	10,626.7	-0.1
Royalties	4,399.6	4,350.2	49.5	435.0	47.6	4,834.6	4,397.8	436.8
Signature bonus	888.1	12.6	875.6	97.0	708.2	985.1	720.7	264.4
Total	15,682.9	13,790.9	1,892.0	763.4	1,954.3	16,446.3	15,745.2	701.1
2007								
PPT	7,995.3	8,620.1	-624.7	88.8	-535.4	8,084.1	8,084.7	-0.6
Royalties	3,944.9	5,060.5	-1,115.6	-64.9	-1,154.5	3,880.0	3,906.0	-26.0
Signature bonus	700.2	115.3	584.9	-190.4	268.1	509.8	383.4	126.5
Total	12,640.5	13,795.8	-1,155.4	-166.5	-1,421.7	12,473.9	12,374.1	99.9
2008								
PPT	9,463.9	9,844.2	-380.3	1,493.4	1,117.2	10,957.3	10,961.4	-4.1
Royalties	5,207.9	5,217.8	-10.0	217.2	237.1	5,425.1	5,454.9	-29.8
Signature bonus	45.3	0.0	45.3	134.8	30.1	180.1	30.1	150.0
Total	14,717.0	15,062.0	-345.0	1,845.4	1,384.3	16,562.5	16,446.4	116.1

Table 4.3

4.1.3 Dividends & other income from NLNG

See Section 7 for details of dividends and other income from NLNG.

4.2 Company payments to the Niger Delta Development Commission

Companies declared that they made certain payments to NDDC during the period and NDDC declared the amounts it received from companies, in US dollars and Naira respectively, as follows:-

	Initial templates			Adjustments		Adjusted figures		
	NDDC US\$ m	Company US\$ m	Difference US\$ m	NDDC US\$ m	Company US\$ m	NDDC US\$ m	Company US\$ m	Unresolved Difference US\$ m
2006	164.9	161.4	3.5	-2.1	0.6	162.8	162.0	0.8
2007	178.5	196.7	-18.2	8.4	-18.1	186.9	178.6	8.3
2008	187.5	159.6	27.9	0.0	27.9	187.5	187.5	0.0
	N m	N m	N m	N m	N m	N m	N m	N m
2006	11,524.2	12,887.1	-1,362.8	22.3	-1700.3	11,546.6	11,186.8	359.8
2007	14,546.7	14,838.6	-291.9	109.9	-1228.3	14,656.6	13,610.4	1,046.2
2008	18,292.4	15,712.9	2,579.6	440.2	1123.7	18,732.6	16,836.6	1,896.0

Table 4.4

4.3 Non sector specific flows from company covered entities

Companies in the oil and gas sector, in common with other businesses, make payments of Withholding Tax to the Federation and to state governments. They also make deductions of tax from employees' remuneration – Pay As You Earn – and pay this to the states in which their operations are located, along with certain withholding taxes.

The amounts declared by companies as having been paid during the period were:-

2006					
	Flows to Federation			Flows to states	
	In US\$	Other currencies	In Naira	In US\$	In Naira
	US \$ 000	US \$ 000	N 000	US \$ 000	N 000
Withholding taxes	402,574	3,623	5,469,445	2,191	370,526
VAT	87,551	88	243,027	0	0
PAYE	0	0	52,282	0	13,202,973
Education Tax	430,092	0	0	0	0
Company Income Tax	137,326	0	0	0	0
	1,057,543	3,711	5,764,754	2,191	13,573,499
2007					
Withholding taxes	620,520	2,667	6,509,747	28,692	439,353
VAT	188,260	91	3,414,143	0	0
PAYE	0	0	106,087	0	18,511,703
Education Tax	522,687	0	0	0	0
Company Income Tax	193,879	0	0	0	0
	1,525,346	2,758	10,029,977	28,692	18,951,056
2008					
Withholding taxes	697,327	1,436	8,943,953	58,312	480,425
VAT	283,329	62	13,434,409	0	0
PAYE	0	0	215,032	0	23,016,010
Education Tax	698,376	0	0	0	0
Company Income Tax	215,263	0	0	0	0
	1,894,295	1,498	22,593,394	58,312	23,496,435

Table 4.5

These taxes have been reported by companies but the terms of reference for the assignment did not require us to obtain details of amounts received by the receiving States or government agencies, nor to carry out any validation of the figures reported.

Details of the payments made by each company which reported are contained in Appendix J

5 PROCEEDS OF SALE OF CRUDE OIL AND GAS

5.1 Introduction

5.1.1 Crude Oil

5.1.1.1 Entitlement

The Federation is entitled to oil:-

- from its participation in upstream Joint Venture operations (equity crude); and
- as payment in kind for Royalty, and PPT from PSCs; and
- as payment in kind for its share of profits arising from PSCs.

The Federation's crude oil entitlement is divided into two parts:

- Crude that is sold internationally (Export Crude)
- Crude that is allocated for domestic use (Domestic Crude)

5.1.1.2 Marketing

Export Crude is marketed on behalf of the Federation by NNPC Crude Oil Marketing Division (COMD) and Domestic Crude is sold to NNPC to be refined at its refineries for domestic consumption. The Domestic Crude allocation has remained unchanged at 445,000 bpd since it was fixed by Government in 2003; this volume is the design capacity of the refineries in Nigeria. Any Domestic Crude allocation purchased by NNPC in excess of the refineries' day-to-day operational requirement is sold in the export market by COMD, on behalf of NNPC.

5.1.1.3 Pricing

The price at which Export Crude is sold is determined by COMD in accordance with laid down procedures, which result in an official selling price (OSP) – the price at which oil is sold. The OSP consists of three elements, which added together form the price to be charged:

- Benchmark Crude Price* – the base price is the price for the benchmark crude selected by NNPC, i.e. the Platts average for Dated Brent as published for the dates covered by the specified pricing period (see below).
- Quality Differential* – this is set monthly in advance by NNPC for each of the main Nigerian crude oil grades, vis. Bonny Light, Forcados, Escravos, Brass Blend, Qua Ibo, OSO Condensate, Yoho and Amenam.
- Pricing Period Option Premium* – a premium the purchaser can opt to pay for the privilege of selecting either the Advanced or the Deferred pricing basis.

Domestic crude is purchased by NNPC from the Federation at the lowest of the three pricing options; NNPC calculates its best option retrospectively in the light of market movements whereas all other buyers are required to select their pricing option in advance. NNPC is taking advantage of its position as both buyer and agent for the seller (the Federation) to make profit at the expense of the Federation.

Domestic Crude allocation which is exported is priced, when sold, in the same way as Export Crude.

We have reviewed the process of pricing and the application of the pricing procedure set out, above. We have confirmed on a sample basis that the procedure is applied in practice.

5.1.1.4 Credit period allowed

The standard credit period allowed to export purchasers of Nigerian government crude is 30 days from the Bill of Lading date.

NNPC is allowed formally a period of 90 days to pay for the domestic crude allocation. This is notwithstanding that part of the domestic crude allocation is exported on 30-day terms. Our work indicates that NNPC in practice takes longer to pay and there are some amounts that remain unpaid for several years.

5.1.1.5 Proceeds of sale

Commencing in 2007, export crude designated by COMD as settlement of royalty and tax in respect of PSCs was paid into separate bank accounts controlled by DPR and FIRS respectively. Otherwise, proceeds from sales of Export Crude are paid by the customer into a US\$ account in the joint names of CBN and NNPC, while payments for Domestic Crude are paid by NNPC into a Naira account in the joint names of CBN and NNPC.

All monies from the US\$ and Naira accounts are swept into a Federation bank account, except for amounts required by NNPC to fulfil Cash Call obligations arising from its joint venture participations. These Cash Call amounts, once approved by Government, are paid from the US\$ account to the joint venture partner; where the cash calls are in Naira, CBN monetises the appropriate value of US\$ and settles the liability in Naira.

The approvals from government for amounts paid during the period have been checked; and joint venture partners have confirmed receipt of all amounts paid (see Appendix M).

5.1.1.6 Determination of entitlement

The entitlement of each party to lift oil is set out in the joint venture agreement or the PSC. In a joint venture, each party's entitlement relates to its equity participation. In a PSC, oil produced is allocated – in this order - to settlement of royalty, recovery by the Operator of their capital and operating costs (usually with a maximum in any period), settlement of PPT liability and any remaining oil is shared between the Contractor and NNPC according to the terms of the PSC.

It should be noted that there is a dispute between NNPC and the PSC operators as to the calculation of PSC royalty and PPT liabilities and hence as to the calculation of the quantities of oil that should be lifted in order to settle royalty and PPT, and the remaining profit oil. PSC operators claim that NNPC has over-lifted. Consequently, some operators did not provide the comprehensive information, particularly as to oil valuation, that we requested for the purpose of this reconciliation.

The reconciliation of volumes lifted is considered to be reliable in relation to the volumes but cannot be considered definitive in terms of the purpose of the lifting. Our work shows that companies and NNPC broadly agree on the volume lifted by NNPC but do not agree whether the lifting represents PPT or Profit Share or Over-lifting.

The decision by the Government in 2007 to require proceeds of oil relating to royalties and tax to be paid into separate bank accounts encountered considerable teething problems in implementation, for example:

- disagreement with the companies as to the amount of tax that was due (as noted above)

- small quantities of oil (less than full cargoes) due to be lifted by the government from each operation, leading to many cargoes being 'split'
- the introduction of new accounting systems to track the tax oil
- the practice of selling entire individual cargoes and instructing the purchaser to remit the proceeds to the DPR account (for royalty) or the FIRS account (for tax oil) as the case may be.

Such factors rendered it practically impossible to designate oil from each operation as, say, tax oil, at the point of lifting. Instead, COMD adopted a policy of designating a cargo as 'tax oil' from its pool of available cargoes at any one time, regardless of the physical origin of the oil. There is therefore no physical linkage between a lifting from a PSC and the sale of a cargo for credit to the tax oil account.

Many cargoes, particularly from complex terminal such as Brass where oil from a number of partners is exported, are lifted as "split cargoes" – that is a single vessel will contain parcels for a number of different accounts.

Having identified that there are disputes over the calculation of entitlement, the focus of this assignment has been to confirm that all oil transferred to government, as evidenced by liftings, has been accounted for. Government income has been reported as the value of the oil lifted by the government, based on the amount realised (or to be realised) from those liftings.

However, no inference may be drawn from this that the government was in fact entitled to that value. Adjustments might be required later, as the companies and government resolve their dispute.

We comment further on this area in our recommendations.

5.1.1.7 Data and reconciliation issues

We gave templates approved by the NSWG to COMD for completion, but these were not returned.

Instead, COMD provided schedules which are used as part of the COMD operational control. These did not provide all the information needed and required a significant amount of cross-correlation to obtain a complete picture.

5.1.2 Gas

The Federation is entitled to gas from its participation in upstream Joint Venture operations and from its engagement in PSCs.

In fact, the PSCs signed to date do not themselves make any provision for how the parties to the PSC should deal with any gas which is available for commercial exploitation, except to say that the parties should conclude a separate agreement.

Gas is commercially exploited by the following organisations in which the Federation, through NNPC, participates:-

- i. SPDC joint venture
- ii. NAOC joint venture
- iii. TEPNG joint venture
- iv. CNL joint venture
- v. SNEPCO - Bonga

NNPC was requested to provide a copy of the agreements pertaining to its gas operations, but has not done so. We are, therefore, not able to comment on the commercial arrangements relating to the Federation's entitlement to gas.

NLNG is a major customer of several of the operations and pays NNPC and the other JV partners directly for their share of gas provided. PHCN and NGC also pay the partners directly. Other customers, from the SPDC JV operation, pay the JV operator (SPDC), who pays over to each partner their share of the sales proceeds.

Gas proceeds are received into the CBN US\$ and Naira accounts used for proceeds from the sale of crude oil, which are managed by COMD. We have reconciled these accounts (Appendix B)

5.2 Federation Income

5.2.1 Oil liftings

Oil lifted during the period, as reported by NNPC and the companies, is shown in the following table. Federation liftings from JVs and those Federation liftings from PSCs not designated by COMD as settlement of royalty or tax, nor lifted during the TMP for a PSC, are described as "Other", since as noted above, the Federation's entitlement is not agreed by the companies, nor is the amount lifted yet fully reconciled.

Bbls	Federation liftings			NPDC	Total liftings		Difference
	PSCs (below)	Other	Sub Total		NNPC	Companies	
2006	31,928,027	385,753,851	417,681,878	15,522,336	433,204,214	434,098,421	-894,207
2007	20,092,910	359,830,351	379,923,261	13,395,410	393,318,671	395,882,810	-2,564,139
2008	72,326,816	332,132,807	404,459,623	9,944,702	414,404,325	414,038,283	366,042

Table 5.1

Companies report higher liftings than government has accounted for, as set out in the preceding table. The differences between NNPC liftings according to the records of NNPC and according to the information reported by companies have not been explained. Liftings by terminal are shown later in this section.

The Federation liftings from PSCs were allocated by COMD as shown in the following table:-

Bbls	<u>PPT (FIRS)</u>	<u>Royalty (DPR)</u>	<u>TMP</u>	<u>Total</u>
2006	0	0	31,928,027	31,928,027
2007	14,066,266	699,954	0	14,766,220
2008	53,086,910	4,294,014	6,818,661	64,199,585

Table 5.2

5.2.2 Gas sales (volume)

NNPC share of gas sold during the period was:-

NNPC Share of Gas Sales by Customer (mmscf)			
	2006	2007	2008
NLNG (excl Bonga)	395,041	523,035	534,807
NGC	93,029	87,522	97,584
IPP	15,253	17,621	15,640
NEPA (SPDC)	13,950	14,170	8,338
EPCL	4,888	5,890	6,100
SPDC (Direct Sales)	1,791	2,661	2,740
Total (excl Bonga)	523,952	650,900	665,208
(Total Bonga)	46,719	50,731	44,599

There is no GSA in place for Bonga gas. It is currently unclear what the terms of supply are to NLNG.

Table 5.3

Gas volumes by customer are shown in the following table:

Total Natural Gas Sales Volumes (mmscf)				
Supplier	Customer	2006	2007	2008
Bonga	NLNG	46,719	50,731	44,599
SPDC JV	NLNG	362,884	520,538	525,341
NAOC JV	NLNG	223,961	186,904	170,820
TEPNG JV	NLNG	101,797	207,661	238,963
SPDC JV	NGC	157,922	159,132	122,203
CNL JV	NGC	10,287	0	50,621
SPDC JV	IPP	1,996	537	1,219
NAOC JV	IPP	23,591	28,876	24,950
SPDC JV	NEPA	25,364	25,764	15,159
NAOC JV	EPCL	8,147	9,817	10,166
SPDC JV	<SPDC>	3,256	4,839	4,982
Total		965,925	1,194,798	1,209,021

Table 5.4

5.2.3 Value of oil lifted and gas sold

In the following table, Federation liftings from JVs and those Federation liftings from PSCs not designated by COMD as settlement of royalty or tax, nor lifted during the TMP for a PSC, are described as "Other".

The value of oil lifted during the period by or on behalf of the Federation was:-

\$m	PSCs			Other	Total
	PPT (FIRS)	Royalty (DPR)	TMP		
2006	0	0	2,133	25,011	27,144
2007	1,613	64	0	26,853	28,530
2008	6,296	378	366	32,316	39,356

Table 5.5

The value of gas sold during the period was:-

<u>\$m</u>	<u>Gas</u>	<u>Feedstock</u>	<u>Total</u>
2006	-	392	392
2007	-	540	540
2008	-	753	753
<u>N m</u>			
2006	899	-	899
2007	4,352	-	4,352
2008	4,752	-	4,752

Table 5.6

5.2.4 Reconciliation of crude oil liftings

It was noted above that the volumes reported by NNPC for crude oil liftings differed from those reported by the companies operating the terminals.

Bbls	NNPC	Total liftings Companies	Difference
2006	433,204,214	434,098,421	-894,207
2007	393,318,671	395,882,810	-2,564,139
2008	414,404,325	414,038,283	366,042

Table 5.7

The differences have not been explained.

The following table contains an analysis of the liftings reported by NNPC and the companies respectively for each terminal and shows that the differences arose primarily at Brass, Bonny, Yoho and Forcados terminals:-

ABO	<u>NNPC</u>	<u>Terminal</u>	<u>difference</u>	FORCADOS	<u>NNPC</u>	<u>Terminal</u>	<u>difference</u>
2006	3,462,931	3,462,931	0	2006	7,279,342	7,234,379	44,963
2007	4,151,421	4,151,421	0	2007	7,405,969	7,405,969	0
2008	2,091,526	2,091,526	0	2008	38,526,782	37,336,782	1,190,000
AGBAMI	<u>NNPC</u>	<u>Terminal</u>	<u>difference</u>	FORC COND	<u>NNPC</u>	<u>Terminal</u>	<u>difference</u>
2006	0	0	0	2006	1,220,353	1,220,353	0
2007	0	0	0	2007	1,891,675	1,834,629	57,046
2008	6,818,661	6,818,661	0	2008	116,059	27,467	88,592
AMENAM	<u>NNPC</u>	<u>Terminal</u>	<u>difference</u>	OKONO	<u>NNPC</u>	<u>Terminal</u>	<u>difference</u>
2006	28,280,936	28,280,936	0	2006	15,272,638	15,272,638	0
2007	23,632,183	23,632,183	0	2007	13,097,910	13,097,940	-30
2008	23,450,801	23,450,801	0	2008	8,067,202	8,066,752	450
ANTAN	<u>NNPC</u>	<u>Terminal</u>	<u>difference</u>	OKWORI	<u>NNPC</u>	<u>Terminal</u>	<u>difference</u>
2006	8,673,218	8,673,218	0	2006	2,848,005	2,848,005	0
2007	13,168,445	13,168,445	0	2007	11,194,427	11,194,427	0
2008	9,999,851	9,999,851	0	2008	8,062,804	8,062,804	0
BRASS	<u>NNPC</u>	<u>Terminal</u>	<u>difference</u>	OSO	<u>NNPC</u>	<u>Terminal</u>	<u>difference</u>
2006	38,507,106	41,427,910	-2,920,804	2006	17,025,989	17,025,989	0
2007	30,888,014	31,754,310	-866,296	2007	11,263,452	11,263,452	0
2008	31,939,451	33,955,980	-2,016,529	2008	9,418,149	9,418,149	0
BONNY	<u>NNPC</u>	<u>Terminal</u>	<u>difference</u>	PENNINGTON	<u>NNPC</u>	<u>Terminal</u>	<u>difference</u>
2006	95,465,148	95,993,731	-528,583	2006	3,747,473	3,747,473	0
2007	75,353,463	76,166,537	-813,074	2007	948,073	948,073	0
2008	52,321,258	52,023,119	298,139	2008	1,963,641	1,963,641	0
BONGA	<u>NNPC</u>	<u>Terminal</u>	<u>difference</u>	QIT	<u>NNPC</u>	<u>Terminal</u>	<u>difference</u>
2006	26,747,454	26,747,454	0	2006	81,995,261	81,995,261	0
2007	24,466,089	24,466,089	0	2007	71,024,684	71,024,684	0
2008	26,897,884	26,897,884	0	2008	59,951,270	60,062,569	-111,299
EA	<u>NNPC</u>	<u>Terminal</u>	<u>difference</u>	YOHO	<u>NNPC</u>	<u>Terminal</u>	<u>difference</u>
2006	1,865,460	1,865,460	0	2006	15,455,790	13,616,767	1,839,023
2007	0	0	0	2007	24,557,580	25,499,365	-941,785
2008	0	0	0	2008	25,186,291	24,269,602	916,689
ERHA	<u>NNPC</u>	<u>Terminal</u>	<u>difference</u>	ZAFIRO	<u>NNPC</u>	<u>Terminal</u>	<u>difference</u>
2006	16,160,215	16,160,215	0	2006	0	0	0
2007	12,728,066	12,728,066	0	2007	949,894	949,894	0
2008	43,118,737	43,118,737	0	2008	1,948,605	1,948,605	0
ESCRAVOS	<u>NNPC</u>	<u>Terminal</u>	<u>difference</u>	ALL TERMINALS	<u>NNPC</u>	<u>Terminal</u>	<u>difference</u>
2006	69,746,054	69,746,054	0	2006	433,753,373	435,318,775	-1,565,401
2007	66,597,326	66,597,326	0	2007	393,318,671	395,882,810	-2,564,139
2008	64,525,353	64,525,353	0	2008	414,404,325	414,038,283	366,042

Table 5.8

6 DISAGGREGATED FINANCIAL FLOWS TO THE FEDERATION

Sales of crude oil and gas are dealt with separately in section 5.

This section compares the other financial flows to the Federation reported by government and companies, summarises the results of reconciliation work on the differences and sets out by company any unresolved differences.

Full details of the reconciliation by company are contained in the Appendices.

6.1 Petroleum Profits Tax

The PPT payments initially reported by CBN and the PPT payments initially reported by the companies, together with adjustments made as a result of the reconciliation and any unresolved differences remaining, are shown below.

PPT Summary	Initial templates			Adjustments		Adjusted figures		Unresolved Difference US\$ 000
	Govt US\$ 000	Company US\$ 000	Difference US\$ 000	Govt US\$ 000	Company US\$ 000	Govt US\$ 000	Company US\$ 000	
2006								
Total	10,395,167	9,428,208	966,959	231,421	1,198,238	10,626,588	10,626,446	142
2007								
Total	7,995,316	8,620,055	-624,739	88,833	-536,461	8,084,149	8,083,594	555
2008								
Total	9,463,900	9,844,206	-380,306	1,493,354	1,108,866	10,957,254	10,953,072	4,182

Table 6.1

Unresolved differences remain for the following companies:-

PPT	Confirmed only to Coy's Records	Confirmed only at CBN	Comments
Company	Amount USD'000	Amount USD'000	
2006 - PPT			
CAMAC	(50)		Payment confirmed to copy of swift advise from coy's bankers but not yet traced to CBN bank statement
Conoil	(93)		This unresolved difference relates to CBN reported payment of \$12,468 and Conoil reported payment of \$12,511. Both the CBN and Conoil figures were confirmed to CBN bank statement treasury receipt issued by FIRS respectively
2007 - PPT			
Conoil	(555)		Payment confirmed to copy of swift advise from company's bankers but not yet traced to CBN bank statement
2008 - PPT			
Pan Ocean	(4,182)		Payment confirmed to company documentation but not traced to CBN bank statement

6.2 Royalty

The Royalty payments initially reported by CBN and the Royalty payments initially reported by the companies, together with adjustments made as a result of the reconciliation and any unresolved differences remaining, are shown below.

Royalty Summary	Initial templates			Adjustments		Adjusted figures		Unresolved Difference
	Govt US\$ 000	Company US\$ 000	Difference US\$ 000	Govt US\$ 000	Company US\$ 000	Govt US\$ 000	Company US\$ 000	
2006								
Total	4,399,610	4,350,153	49,457	-403,949	82,279	3,995,661	4,432,432	-436,771
2007								
Total	3,944,914	5,060,474	-1,115,560	-60,599	-1,202,130	3,884,315	3,858,344	25,971
2008								
Total	5,207,856	5,217,831	-9,975	250,331	210,623	5,458,187	5,428,454	29,733

Table 6.3

Note that the SPDC difference of US\$ 370 million, in 2006, has been resolved subsequent to the approval of this report by the NSWG. SPDC has confirmed that it made these payments and the OAGF / CBN template is therefore in agreement.

Unresolved differences, above, arise in transactions between the following companies and CBN:-

Royalty	Confirmed only to Coy's Records	Confirmed only to CBN's Bank Statement	Comments
2006 - Royalty			
Company	Amount USD'000	Amount USD'000	
Atlas Summit	(1,224)	(404)	Payment reported by coy but not confirmed to CBN statement. However, the company provided treasury receipt issued by DPR
Express	(5,957)		Payment confirmed only to copy of swift advise issued by Coy's bankers but not yet traced to CBN bank statement
Conoco Phillips	(8,382)	(25,707)	Payments reported by coy but not confirmed to CBN statement. The company provided treasury receipt issued by DPR as well as the coy's bank statements; other items found in CBN but not by company.
Conoil	(7,000)		Payment confirmed only to company's bank statement and not in CBN bank statement
Moni Pulo		(2,583)	Differences between amounts reported by company and by CBN
SPDC		(370,817)	Payment confirmed only to CBN bank statement but not in SPDC record. SPDC promised to revert on whether the payment was actually made by SPDC. This may be non oil revenue credited by CBN in error
NDPR	(212)		This payment was confirmed only to company's bank statement. CBN claimed that the payment did not hit CBN Bank account
NPDC	39,989	(19,852)	Payments reported by NPDC but not found in CBN
TEPNG		(183)	Payment reported by CBN not confirmed by TEPNG. However, during the reconciliation meeting, it was agreed that the payment should be taken off CBN as it may have been introduced in CBN template in error
2007 - Royalty			
Atlas Summit	(6,664)		Payment reported by company not confirmed to CBN statement. The company provided treasury receipt issued by DPR to substantiate the payment
Conoco Phillips	(8,544)	7,952	Unreconciled differences
Express	(2,615)		Payment confirmed to the swift advise from Coy's bankers but not in CBN bank statement
NDPR	(196)		Payment confirmed to company's bank statement. CBN claimed that the payment did not reach CBN Bank account
2008 - Royalty			
AMNI	(3,500)		Payment reported by coy not confirmed by CBN. The company provided swift advise from their bankers to substantiate the payment
Atlas Summit	(9,242)		Payment reported by company not confirmed by CBN. The company provided treasury receipt issued by DPR to substantiate the payment
Moni Pulo		16,533	Differences between amounts reported by company and by CBN
Platform	(458)		Payment reported by company not confirmed by CBN. The company provided trace document from its bankers to substantiate the payment

6.3 Signature Bonus

6.3.1 Introduction

Signature bonuses are the responsibility of DPR, which provided incorrect information to the Reconciler, resulting in the issue of templates to companies being significantly delayed because the entities liable to pay signature bonuses and contact details for these entities were not known.

As a result, not all these additional companies have returned their templates on signature bonus paid..

The data used in the initial comparison in respect of the government came from CBN records. We subsequently received details from DPR and AGF, whose office is responsible for independently monitoring their receipt. The adjusted government figures are those reported by OAGF/DPR.

Further details on signature bonuses are contained in Appendix E.

A disaggregated listing of Signature Bonuses is set out on the following pages.

2005 Signature Bonus Payments Confirmed by Companies, OAGF & DPR			
Name of Companies	2005		
	Company	OAGF/DPR	Unresolved
	USD'000	USD'000	USD'000
AMNI	1,030	1,030	
Elf	37,600	37,600	
Monipulo	26,500	26,500	
New Nigeria Development Company	1,020	1,020	
OANDO	25,500	25,500	
Orient Petroleum	1,000	1,000	
SNEPCO	10,000	10,000	
Gas Trans and Power Limited	370	370	
Domon Oil Services	1,750	1,750	
NPDC	22,925	22,925	
Sub Total	127,695	127,695	-
2005 Signature Bonus Payment Confirmed Only by OAGF & DPR			
Name of Companies	2005		
	Company	OAGF/DPR	Unresolved
	USD'000	USD'000	USD'000
Charlton Oil & Gas		125	125
Energia Ltd.		150	150
Midwestern Oil&Gas		150	150
Technical Sys Engr.Ltd		21,000	21,000
Ascon Oil Exp. Co Ltd.		18	18
Boston Energy Res. Ltd.		1,000	1,000
Sub Total		22,443	22,443
2005 Total	127,695	150,138	22,443

2006 Signature Bonus Payments Confirmed by Companies, OAGF & DPR			
Name of Companies	2006		
	Company	OAGF/DPR	Unresolved
	USD'000	USD'000	USD'000
BG Exploration & Production	106,500	106,500	
China National Petroleum	15,530	15,530	
Conoil	100,000	100,000	
Global Energy	23,000	7,000	(16,000)
Equator Exploration Nigeria limited	161,666	161,666	
Korea National Oil Corporation	92,333	92,333	
NAOC	10,000	10,000	
New Nigeria Development Company	1,020	1,020	
Petrobrass	172,800	172,800	
Sahara Energy Exploration and Production	28,150	28,150	-
Sterling Global Oil Resources	3,500	3,500	
VP Energy	1,611	1,611	
Gas Trans and Power Limited	4,631	4,631	
Sub Total	720,741	704,741	(16,000)
2006 Signature Bonus Payment Confirmed Only by OAGF & DPR			

Name of Companies	2006		
	Company	OAGF/DPR	Unresolved
	USD'000	USD'000	USD'000
CENTRICA		11,010	11,010
STAR CREST/ADDAX		55,000	55,000
TECHNICAL SYSTEMS ENG. LTD/STERLING GLOBAL OIL		21,000	21,000
ALLEN E & P		611	611
INC NATURAL RESOURCES		6,000	6,000
INC NATURAL RESOURCES		7,000	7,000
INC NATURAL RESOURCES		7,000	7,000
CLEAN WATERS		9,988	9,988
NIGDEL UNITED		11,000	11,000
ONGC MITTAL ENERGY		65,000	65,000
ONGC MITTAL ENERGY		50,000	50,000
TRANSCORP		7,500	7,500
TRANSCORP		13,750	13,750
PETRODEL LTD		12,500	12,500
PLATINUM PETR. LTD		3,000	3,000
Sub Total		280,359	280,359
2006 Total	720,741	985,100	264,359

Global appears to have reported the payable of \$23 million instead of actual payment of \$7 million made into the PTDF account. DPR provided bank statement to substantiate the \$7m payment reported by OAGF & DPR.

The payment made by Equator Exploration Nigeria limited in June 2006 related to Block No. 321. However, owing to a disagreement between the company and FGN, the signature bonus payments were purportedly refunded to the company by FGN in 2009. Please go to:
<http://www.equatorexploration.com/operations/nigeria.aspx>

2007 Signature Bonus Payments Confirmed by Companies, OAGF & DPR			
Name of Companies	2007		
	Company	OAGF/DPR	Unresolved
	USD'000	USD'000	USD'000
China National Petroleum	25,000	25,000	
Coscharis	55,000	54,673	327
Continental	110,000	110,000	
Energy Resources Limited	50,000	50,000	
Global Energy	23,000	23,000	
Monipulo	18,000	18,000	
NAOC	16,000	16,000	
OANDO	11,495	11,495	
Orient Petroleum	9,000	9,000	
Panocean	10,000	10,000	
Sahara Energy Exploration and Production	28,850	28,850	
Sterling Explorati on limited	9,500	9,500	
Sterling International Resources	7,500	7,500	
Oil World	10,051	10,051	
Sub Total	383,396	383,069	327

2007 Signature Bonus Payment Confirmed Only by OAGF & DPR

Name of Companies	2007		
	Company	OAGF/DPR	Unresolved
	USD'000	USD'000	USD'000
SAHARA ENERGY		6,250	6,250
TENOIL		12,000	12,000
BAYELSA OIL/TNHP CONSORTIUM		10,600	10,600
ESSAR ENERGY EXPL & PROD.		37,000	37,000
TECH SYS ENG.LTD/ STERLING GLOBAL OIL RES.		36,055	36,055
ONGC MITTAL ENERGY LTD/EMO		24,875	24,875
Sub Total		126,780	126,780
2007 Total	383,396	509,849	127,107

The Coscharis payment was made in Naira draft and paid into CRF. The company alleged that the difference of \$327,000 relates to a difference on exchange. DPR however denied this. DPR claimed that the difference of \$327,000 is outstanding which the company is yet to pay.

2008 Signature Bonus Payments Confirmed by Companies, OAGF & DPR			
Name of Companies	2008		
	Company	OAGF/DPR	Unresolved
	USD'000	USD'000	USD'000
Express	10,000	10,000	
Optimum Petroleum	10,000	10,000	
Oil World	10,051	10,051	
Sub total	30,051	30,051	-
2008 Signature Bonus Payment Confirmed Only by OAGF & DPR			
Name of Companies	2008		
	Company	OAGF/DPR	Unresolved
	USD'000	USD'000	USD'000
AFREN ENERGY SERV./ORIENTAL		150,000	150,000
2008 Total	30,051	180,051	150,000

6.3.2 Regime for managing signature bonuses

Signature Bonus is a negotiated amount agreed paid by a prospective investor or group of investors in a block. The bonus for a block is determined by a competitive process but must not be less than the minimum signature bonus benchmark assigned by DPR to the block.

The Upstream and the Revenue Units of the Department of Petroleum Resources (DPR) coordinates the tendering process and the signature bonuses arising from bidding rounds. The Upstream Unit sets the procedures to be followed while the Revenue Unit is responsible for ensuring that companies pay the signature bonus to which they committed.

The legislation requires that signature bonuses should be paid to the Petroleum Training Development Fund (PTDF) but in practice DPR has instructed companies to make payments to different accounts. For the 2006 round, the account details were notified to companies after they had been successful whereas for the 2007 round, the account details were set out in the guidance notes for prospective bidders, as 'CBN/Accountant General FGN account'.

The Central Bank of Nigeria (CBN), on receipt, credits the signature bonus into the designated Bank Accounts. Receipt of payments is monitored by the Office of the Accountant General of the Federation, who identified recipient accounts as CRF (Consolidated Revenue Fund), FG Ind Res account and PTDF Res account, as well as CBN.

Terms of payment were set out in the guidance information for prospective bidders.

For the 2006 round, the terms of payment are:

- 25% by bank draft included with the bid package; and
- the balance immediately after the award, at the PSC signing.

For the 2007 round, the terms of payment are:

- 50% by bank draft at the bidding conference
- 50% by Telegraphic transfer, on or before the date of signing the PSC.

6.4 NDDC contributions

The NDDC Act provides that in addition to monies from the Federal Government, the NDDC is to be funded by an annual contribution equating to 3% of the total annual budget of any oil producing company operating, on shore and off shore, in the Niger-Delta area, including gas processing companies (these latter are not included in the 2006 – 2008 EITI reconciliation).

Contributions are made either in US\$ or in Naira. The payments to NDDC initially reported by the Commission and the payments to NDDC initially reported by the companies, together with adjustments made as a result of the reconciliation and any unresolved differences remaining, are shown below.

	Initial templates			Adjustments		Adjusted figures		Unresolved Difference
	Govt US \$ 000	Company US \$ 000	Difference US \$ 000	Govt US \$ 000	Company US \$ 000	Govt US \$ 000	Company US \$ 000	
2006	164,897	161,393	3,503	-2,145	603	162,752	161,996	756
2007	178,454	196,694	-18,240	8,412	-18,098	186,866	178,596	8,270
2008	187,511	159,612	27,899	0	27,899	187,511	187,511	0

	Initial templates			Adjustments		Adjusted figures		Unresolved Difference
	Govt N 000	Company N 000	Difference N 000	Govt N 000	Company N 000	Govt N 000	Company N 000	
2006	11,524,222	12,887,051	-1,362,828	22,332	-1,700,260	11,546,554	11,186,791	359,763
2007	14,546,747	14,838,634	-291,887	109,862	-1,228,260	14,656,609	13,610,374	1,046,235
2008	18,292,447	15,712,895	2,579,552	440,191	1,123,739	18,732,638	16,836,634	1,896,004

Table 6.7

Unresolved differences remain for the following companies:-

NDDC \$	
Company	Unresolved differences US\$ 000
2006	
NAE	756
Total	756
2007	
NAE	-2,241
TEPNG	10,511
Total	8,270
2008	
Total	0

Table 6.8

NDDC Naira	
Company	Unresolved differences N 000
2006	
Panocean	359,763
AENR	0
Total	359,763
2007	
NPDC	48,473
SPDC	997,761
Total	1,046,234
2008	
Panocean	52,079
NPDC	1,206,987
SPDC	636,938
Total	1,896,004

Table 6.9

7 DIVIDENDS & OTHER INCOME FROM NLNG

NNPC holds a 49% share of NLNG on behalf of the Federation. The benefit flows for Government are thus any dividends or interest on loans paid by NLNG to the Government via NNPC.

The development of NLNG was financed mainly by loan from shareholders and these loans represent the partners' contributions towards the funding of construction. The contribution was made in accordance with each shareholder's participatory interest in NLNG, namely:-

- NNPC 49%
- Shell Gas BV 25.6%
- Total LNG Nigeria Ltd 15%
- ENI International (NA) NV 10.4%

The payments and receipts reported by the various parties during the period were:-

	NLNG		NNPC		Govt	
	Paid	Received	Paid	Received	Paid	Received
	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
Dividend						
2006		332,980				
2007		842,957				
2008		2,613,170				
Loan interest						
2006						
2007						
2008						

Table 7.1

NLNG has not reported, NNPC reported only dividends received from NLNG but did not report whether any payments were made to the Government.

8 RECOMMENDATIONS

During the course of the assignment, we noted areas where improvements can be made to improve control over Government revenues, to increase transparency and to assist in carrying out EITI reconciliations in future years.

8.1.1 Timeliness of NEITI reconciliation

NEITI should aim to publish an annual reconciliation report within 8 months of the end of the year to which it relates.

The report is of reduced relevance to stakeholders if it is unduly delayed. Reconciliation should be planned well in advance with a view to commencing around four months after the end of the year under reconciliation.

NEITI should establish a database and collect all relevant data from the companies on a quarterly basis at least in order to facilitate the annual audit process.

8.1.2 Engagement of companies with NEITI

We recommend that NEITI should enhance its relationship with covered companies. This would yield benefits in terms of stakeholder understanding of company operations, constraints, opportunities etc and would benefit the reconciliation process in terms of improved preparedness. For example:

- a) NEITI should maintain improved contact with covered companies and understand their operations
- b) Companies should be asked routinely to submit their AFS to NEITI
- c) NEITI should maintain its own database of covered entities and keep companies informed of EITI developments
- d) NEITI should encourage companies to engage in activities that support dissemination of reconciliation results and have educative value generally.

8.1.3 NEITI Engagement with DPR

Experience indicates that DPR does not provide data on a timely basis to enable a reconciliation to commence reliably. NEITI should take steps to arrange with DPR to obtain this information on a regular, say 6-monthly, basis so that NEITI can maintain its own records of contact details of companies.

8.1.4 Signature Bonus

DPR is the agency that collects signature bonus. The NSWG should ensure that DPR fully discloses all signature bonus assessed and collected. The CBN and other appropriate agency of government should confirm that such monies are received into the respective bank accounts and duly notified to and reconciled between CBN, OAGF and DPR.

8.1.5 Infrastructure benefit flows

In the 2007 licensing round (continuing a pattern that commenced with the 2005 round), preference was given to bidders who offered to construct downstream processing projects and infrastructure. Significant commitments were offered, albeit mainly unquantified financially, and some such bidders were accepted and signed a PSC. The timescale on which the infrastructure developments were to be provided was not clear.

The provision of infrastructure as consideration for the grant of a PSC raises important questions both for NEITI and for Nigeria. For example:

- a) NEITI should consider whether / how to capture these benefit flows in routine EITI reporting;
- b) If it is required that the benefit of the 'bonus' accrues to the Federation (for sharing), how should the benefit to the locality in which the infrastructure is constructed be balanced against the sharing requirement; is an offset to be calculated?
- c) It is unclear who is responsible for enforcing the promise to construct infrastructure.

8.1.6 NNPC conflict of interest

NNPC should not both (a) buy Federation crude oil and (b) sell the same crude on behalf of the Federation. NNPC obtains a financial benefit by delaying sales documentation until it can choose an advantageous pricing option and make additional profit with the benefit of hindsight. This is contrary to the spirit of the decision taken in 2002 that NNPC should pay the market price for domestic crude. Restructuring of NNPC should ensure arm's length dealing between the Federation and NNPC in relation to the sale of crude.

NNPC should pay for domestic crude in accordance with the correct credit period.

8.1.7 PSC management issues

The first of the operations under a Production Sharing Contract began producing in 2004. Previous reports noted that there were unresolved accounting issues in the area of PSC tax and royalty oil. During 2007, a new system of bank accounts was introduced to reflect the PSC provisions. That system did not work well in the period under review.

- a) The method of accounting for tax and royalty PSC oil should be systematized.
- b) There is a long-running dispute between NNPC and PSC operators as to the interpretation of the calculation of cost oil under the PSC; this has the effect that the parties cannot agree on the amounts being lifted by NNPC. Amounts reported for this reconciliation revealed different interpretations of the same lifting transaction; the issue should be resolved speedily.
- c) The PSC does not cover the treatment of gas but requires the parties to reach an agreement on the matter; for example, a contractual arrangement is required for the commercialisation of Bonga gas production: this gas is being piped to NLNG but the commercial arrangement is undefined and we were not able to determine whether there was, or should have been, a financial flow to the Federation from this activity. This can therefore result in a loss of income to the Federation.

8.1.8 Federation crude oil sales ledger

Export crude is marketed on behalf of the Federation by NNPC Crude Oil Marketing Division (COMD) and Domestic Crude is sold by the Federation to NNPC. The accounting system used by NNPC for equity crude is still largely not automated with consequent reconciliation and fund sweeping interface difficulties. As recommended in previous years, COMD should maintain a timely sales ledger account for the sale of Federation crude oil.

This is especially important in regard to domestic crude where NNPC fails to make timely payment and the Federation lacks the records to understand how much is payable by NNPC at any time. NNPC COMD lacks a system to manage and follow up unpaid debts for crude sold, particularly to NNPC itself.

This transaction system manages the single most significant source of income to the Federation. The system should be urgently upgraded to best practice.

8.1.9 Sale of tax and royalty oil

NNPC receives crude oil from Production Sharing operations which it sells in order to settle PPT and royalty liabilities. The method of accounting for the tax and royalty elements is unsophisticated and does not identify the relative proceeds separately from the sale of government equity crude.

Improved accounting procedures are required to improve the transparency of NNPC's handling of these components of the proceeds of crude sales.

8.1.10 Deduction of subsidy payment due to NNPC from domestic crude proceeds

Subsidy payments should normally be made from the Central Bank of Nigeria (CBN) through the Petroleum Support Fund (PSF) on the approval of the Accountant General of the Federation based on claims approved by PPPRA. However, we observed that NNPC deducts the subsidy claims directly from the domestic crude proceeds before remitting to the Federation Account.

We recommend that NNPC, like other petroleum product importers, should draw claims for subsidy from the PSF