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**YEMEN EXTRACTIVE  
INDUSTRIES TRANSPARENCY  
INITIATIVE (YEITI)**

**Second Reconciliation**

**Final Report**



*30th June 2013*

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## ABBREVIATIONS AND ACRONYMS

BBL	Barrels (of Crude Oil)
CBY	Central Bank of Yemen
EITI	Extractive Industries Transparency Initiative
GDA	Gas Development Agreement
Government	Government of the Republic of Yemen
IFAC	International Federation of Accountants
LLC	Limited Liability Company
MOM	Ministry of Oil and Minerals
MOF	Ministry of Finance
COCA	Central Organization for control and auditing
CBY	Central Bank of Yemen
PSA	Production Sharing Agreement
Marib Refinery	Yemen Oil Refining Company
MoF	Ministry of Finance
MOM	Ministry of Oil and Minerals
PSA	Production Sharing Agreement
Reporting Entities	The Government departments / ministries and the companies listed in section 4.1.5 and 4.1.6 respectively of this report
Safer	Safer E&P Operation Company
TOR	Terms of Reference
USD	United States Dollars
YCOM	Yemen Company for Investment in Oil and Minerals
YER	Yemeni Riyal
YEITI	Yemen Extractive Industries Transparency Initiative
YEITIS	Yemen Extractive Industries Transparency Initiative Secretariat
YLNG	Yemen LNG Company
YOGC	Yemen Oil and Gas Corporation - Marketing Department
YTA	Yemen Tax Authority

HART NURSE LIMITED report to:-

Yemen EITI Council  
Ministry of Oil & Minerals building, 5<sup>th</sup> floor  
Zubairi St  
Sana'a  
Yemen

Hart Nurse Limited has been appointed by the Yemen EITI Council to undertake the 2<sup>nd</sup> EITI Reconciliation for the Republic of Yemen for the years 2008, 2009 and 2010 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 the 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 informing the Yemen EITI Council on the matters set out in the terms of reference and is not to be used for any other purpose.

The 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**

## 1 INTRODUCTION

This is the second Yemen Extractive Industries Transparency Initiative (EITI) reconciliation. In the case of the oil sector, the report covers the period from 1<sup>st</sup> January 2008 to 31<sup>st</sup> December 2010; and in the case of the gas sector, the report covers the period from 1<sup>st</sup> January to 31<sup>st</sup> December 2010. The reconciliation work was carried out in accordance with the terms of reference included in Section 8, between 19<sup>th</sup> May 2013 and [23<sup>rd</sup> June 2013].

The report is prepared under the EITI Rules, 2011 edition (Version 1 November 2011).

The report is intended for the use of the Yemen EITI Council for the purpose of that initiative and is not to be relied upon by other parties. In the event of any discrepancy between the English text and the Arabic translation, the English text shall prevail.

The report includes its Appendices, which are bound separately.

### 1.1 OBJECTIVE

The objective of the engagement is to ensure the transparency and credibility of certain sector payments and receipts in Yemen. To this end, the engagement entailed an analysis and reconciliation of material payments and receipts made by specified Reporting Entities in 2008, 2009 and 2010 in the oil and gas sector.

### 1.2 SCOPE OF WORK

Hart Nurse Ltd (“the Consultant”) was required to undertake the work set out in the Terms of Reference for the engagement. The reconciliation has been carried out on a cash accounting basis.

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.

In conducting our work, we have relied upon the information and explanations obtained from Covered Entities.

Our report incorporates information received up to 26<sup>th</sup> June 2013. Any information received after this date is not, therefore, included in our report. Certain confirmations, that did not affect data or reconciliations, were received subsequently and have been included.

### 1.3 STRUCTURE OF THE REPORT

The report contains:-

- a. An Executive Summary
- b. A brief overview of the extractive sector in Yemen
- c. Our approach to undertaking the Engagement
- d. An overview of Benefit Streams
- e. A description of the scope of the reconciliation

- f. The results of the reconciliation, including details of the flows (payments and receipts) reported, identification of unresolved differences, with information about the type of receipt/payment involved and the Reporting Entities whose reported figures remain un-reconciled.
- g. A summary of issues arising during the Engagement together with recommendations for improvements in transparency

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.

## 1.4 ACKNOWLEDGEMENT

The Consultants would like to express their sincere thanks to Dr. Mohammed Saleh Moqbil , Chairman of the YEITI council, and to the YEITI council members, in particular the YEITI Council General Secretary Mr. Mohammed Al-Najjar and the YEITI Council Secretary Assistant Mr. Hani Oqba and the YEITI Council secretary team, specially Mr. Awad Abdulqawi Alrofid, who have been assisting us in receiving timely replies from the Government reporting entities and as well as from the companies, and also supporting and assisting us with organisation of meetings with major officials from the Government and its various organisations and agencies, as well as with the oil companies; and for sending and receiving official confirmation letters to/from these parties.

## 2 EXECUTIVE SUMMARY

This summary sets out the main findings from the exercise to reconcile the receipts declared by the Government from oil companies included in the EITI reconciliation for 2008, 2009 and 2010 with the payments to Government reported by those companies.

### 2.1 SUMMARY OF FLOWS REPORTED

Government receives benefits from the oil extractive sector in terms of:

- Crude oil transferred in kind from companies to the Government for export or transferred to refineries
- Crude oil transferred in kind by companies to Government refineries
- Financial payments from companies directly to the Government

Government receives benefits from the gas sector through YLNG in terms of:

- Proceeds of sale of Government share of gas
- Financial payments from YLNG to the Government

The benefit flows from the oil and gas companies included in the reconciliation to the Government, as reported by Government after completion of the reconciliation, are shown in the table which follows. Figures for 2005, 2006 and 2007, taken from the Yemen EITI report for those years, are included by way of comparison.

US\$ millions	2005	2006	2007	2008	2009	2010
Crude oil						
Exports	3,034.4	3,363.1	2,584.8	4,340.9	1,845.3	2,610.3
Transfers to refinery	1,580.6	1,658.9	2,662.7	3,034.6	1,674.1	2,224.6
Financial flows	53.2	100.4	83.7	215.7	106.7	134.5
<b>Sub-total oil companies</b>	<b>4,668.2</b>	<b>5,122.4</b>	<b>5,331.2</b>	<b>7,591.2</b>	<b>3,626.0</b>	<b>4,969.4</b>
Gas						
Government share						84.1
Financial flows						28.2
<b>Sub-total gas company</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>112.3</b>
<b>Total reported flows to government</b>	<b>4,668.2</b>	<b>5,122.4</b>	<b>5,331.2</b>	<b>7,591.2</b>	<b>3,626.0</b>	<b>5,081.7</b>

Table 2.1

These reported flows may be presented graphically as follows:

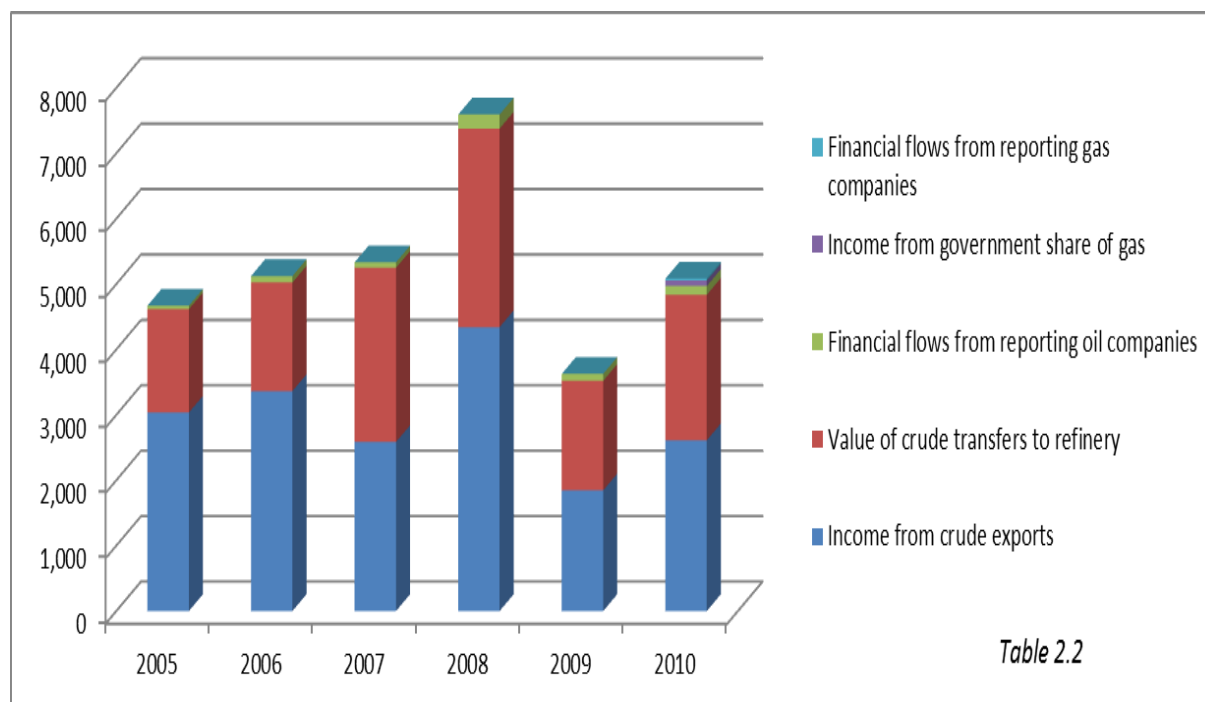


Table 2.2

## 2.2 IN-KIND TRANSACTIONS

Terminal operators and government (MoF) reported volumes of crude oil transfers to government as shown in the table which follows. Government crude exports include YOGC and YCOM exports.

Bbls 000	2008	2009	2010
<b>As reported by government (MoF)</b>			
Crude oil exports	42,398	30,815	33,342
Crude oil transfers to refineries	30,854	29,030	28,348
<b>Total</b>	<b>73,251</b>	<b>59,845</b>	<b>61,690</b>
<b>As reported by terminal operators</b>			
Crude oil exports	42,398	30,815	33,342
Crude oil transfers to refineries	30,854	29,030	28,348
<b>Total</b>	<b>73,251</b>	<b>59,845</b>	<b>61,690</b>

Table 2.3

The crude oil transfers to government, as reported by MoF, may be presented graphically as follows:

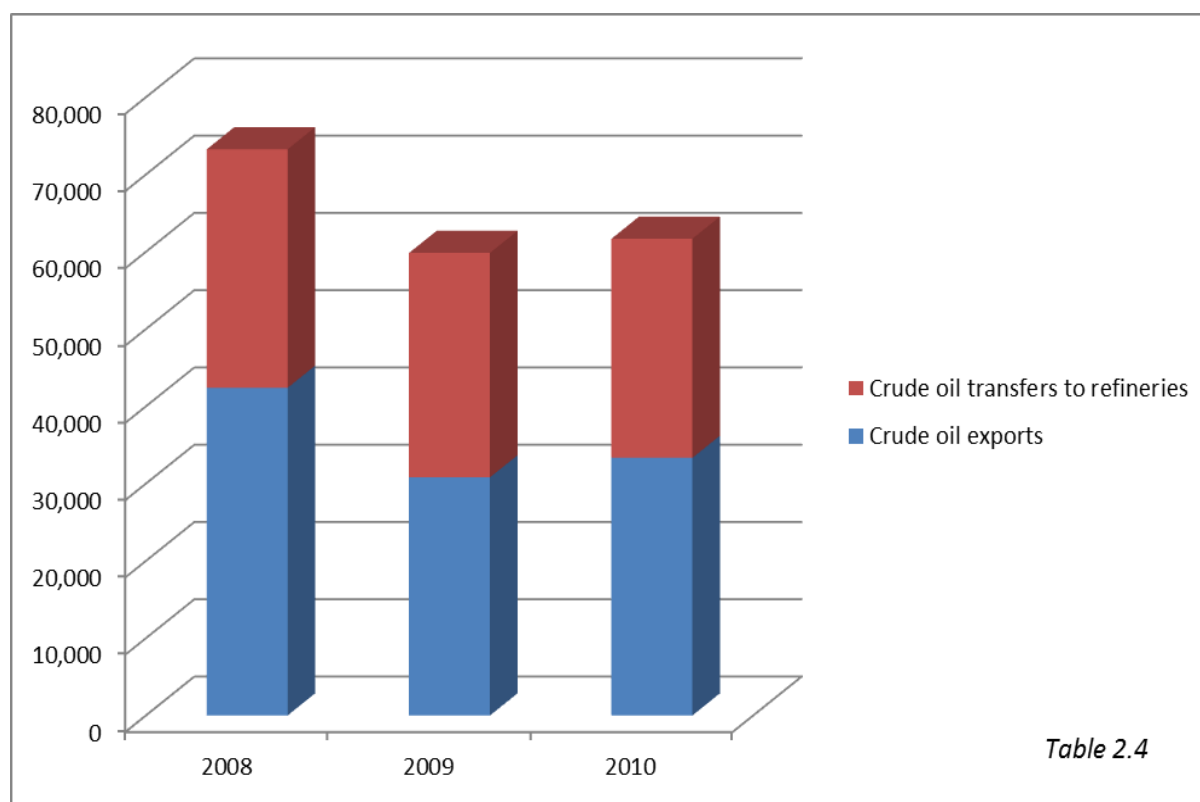


Table 2.4

The value of the receipts in respect of crude oil transfers to government is not confirmed by the companies since they are not party to such information, and confirmation of these flows was limited to a comparison of volumes reported by YOGC, MoF and CBY (see section 7.4).



The National Council decided that In kind gas flows were not included in the scope of the reconciliation.

### 2.3 SCOPING OF THE RECONCILIATION

The Yemen National EITI Council determined which companies, government departments and benefit flows were to be included in the 2008, 2009 and 2010 reconciliations (see further section 4)

In accordance with our terms of reference, we have reconciled the flows between the companies and government as determined by the National Council. We were not requested to carry out a scoping exercise.

The companies included by the Council were those oil companies in production in 2008, 2009 or 2010; and YLNG for 2010, the calendar year in which its production started. The Council initially decided that these companies and Government were not required to report payments in respect of non-producing interests, such as signature bonuses; but subsequently decided that these payments should be included.

Some companies reported payments not included in the flows determined by the National Council. These payments are reported separately in section 8.3.2 but not included in the reconciliation.

We recommend that a scoping exercise is carried out prior to the next reconciliation to ensure that EITI Requirements that all relevant companies and government entities report all material payments are met (see section 9: Recommendations).

### 2.4 GOVERNMENT REPORTING OF PHYSICAL FLOWS

Transfers of crude oil to government for export or delivery to one of the two refineries were reported by:-

- i. Yemen Oil and Gas Corporation (YOGC) Marketing Department
- ii. Ministry of Finance (MoF) – Oil/Gas Revenue Management Department
- iii. Central Bank of Yemen (CBY)

We were able to reconcile the volumes reported by YOGC and MoF, but in the absence of details from CBY, the differences between CBY volumes and YOGC/MoF are unreconciled (see section 7.4).

We were not required to review or validate the pricing of the government oil sales and transfers.

### 2.5 MATERIALITY OF INCONSISTENCIES

The Council decided that a reconciliation difference should be considered material if, for any payment category, the Government figure differs by 3% or more from the company figures.

Differences remained that exceeded the Council's definition of a material difference (see section 8.1.4).

## 2.6 COMPLETENESS AND ACCURACY OF DATA

Based on the list of entities specified by the Council to be included in the reconciliation, we confirm that all entities participated in the reconciliation.

Data from some entities was not presented in a manner that conformed to the templates approved by the Council and was incomplete.

There were differences in the initial reconciliation due to inadequate understanding by some Government departments of the cash basis for reporting.

Certain payments were misclassified on the reporting templates.

Some returns contained inadequate details and supporting documents, and on occasion it was difficult to obtain supporting documents.

Bearing in mind the short timetable allowed by the Council for the reconciliation, response from reporting entities was in a number of instances slow.

These aspects are set out in more detail in section 8.1.5.

## 2.7 HOW INCONSISTENCIES WERE RECONCILED OR RESOLVED

After identifying the existence of an inconsistency, we undertook the following:

1. Government entities were contacted and visited for the purpose of investigating the differences and requesting the completion of any missing information.
2. For any update of the data templates, supporting documents were always requested.
3. For differences in financial transactions, we obtained supporting documents from both the Government and the related company.
4. In some cases, companies reported flows to government which were not included in the flows determined by the National Council (see further section 8.3.2).
5. For crude oil differences, we obtained the bills of lading and sales invoices and resolved the differences accordingly.

## 2.8 AUDITED DATA AND CONSISTENCY WITH FINANCIAL STATEMENTS

The Council asked Reporting Entities (both company and government) to provide confirmatory letters from their auditors stating that the data provided in the reporting templates was consistent with the audited financial statements. The Council also requested Reporting Entities to confirm that their financial statements were audited in accordance with International Auditing Standards.

### **2.8.1.1 Companies**

The information provided by companies in this respect is summarised in section 5.5.

### 2.8.1.2 Government

The reports from the government auditor in respect of government entities and information on audited financial statements received are set out in section 5.6.

## 3 OVERVIEW OF THE EXTRACTIVE SECTOR

### 3.1 EXTRACTIVE ACTIVITIES IN YEMEN

Yemen's main extractive industries are oil, gas and mining. Commercial exploitation of gas increased significantly with the commencement of production from the LNG plant in 2010.

Mining activities are not included in the terms of reference for the EITI reconciliation for 2008, 2009 and 2010.

### 3.2 OIL

In 2008 – 2010, Yemen production of oil was in the range of 0.275 – 0.3 million bpd from twelve producing blocks.

Exploration and production are contracted under Production Sharing Agreements (PSAs).

Details of companies licensed to operate in Yemen are contained in Appendix D.

As illustrated in the following graph, total production is in long-term decline.

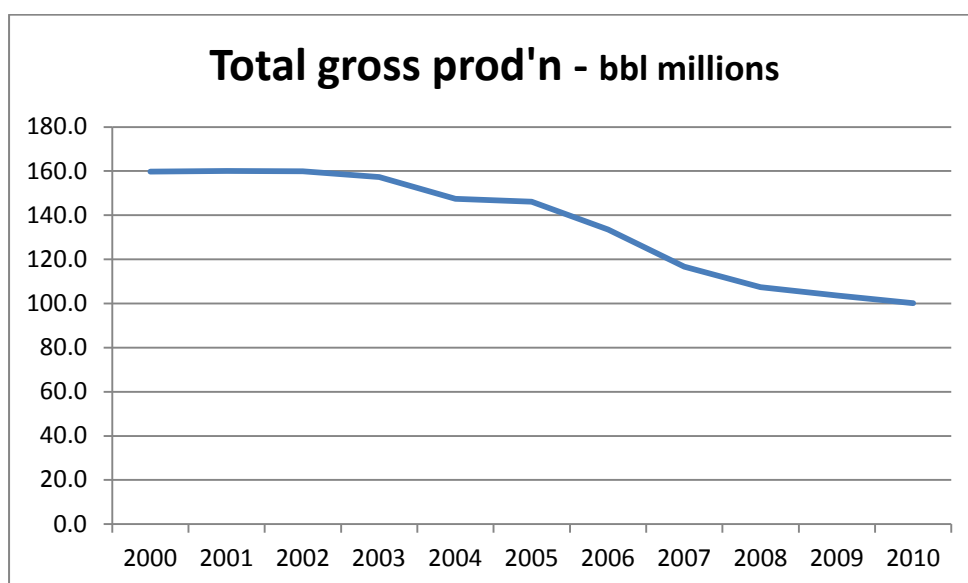


Table 3.1 (source: MOM published data)

Production in 2008 – 2010 may be analysed as shown in the chart below.

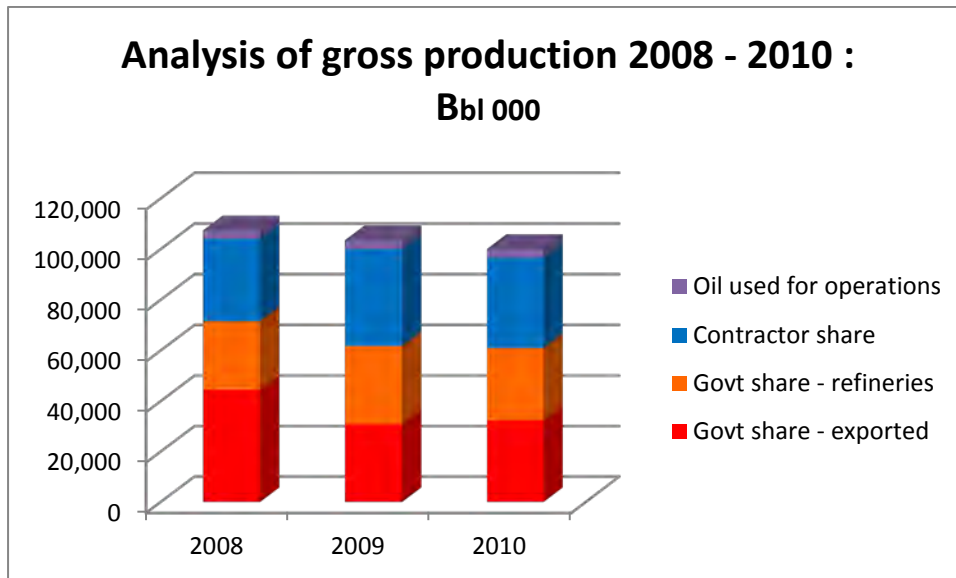


Table 3.2 (source: MOM published data)

### 3.2.1 ALLOCATION OF BLOCKS

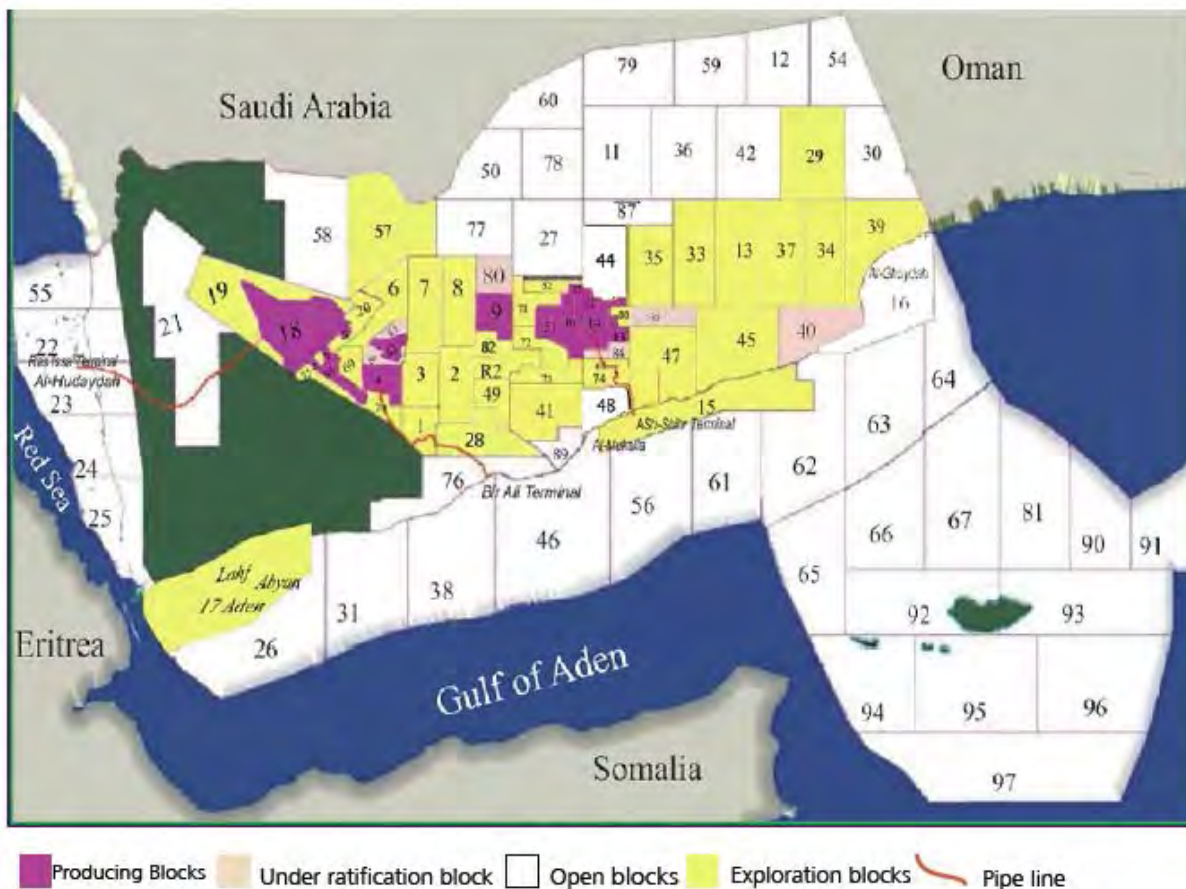


Table 3.3 (source: MOM published data)

### 3.2.2 DIAGRAMMATIC REPRESENTATION OF PRODUCTION INFRASTRUCTURE

There are three terminal systems in Yemen, which are represented diagrammatically in the charts which follow.

#### 3.2.2.1 *Bir Ali terminal*

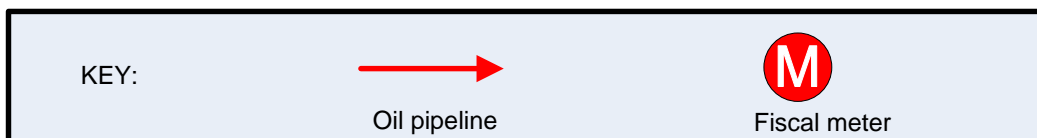
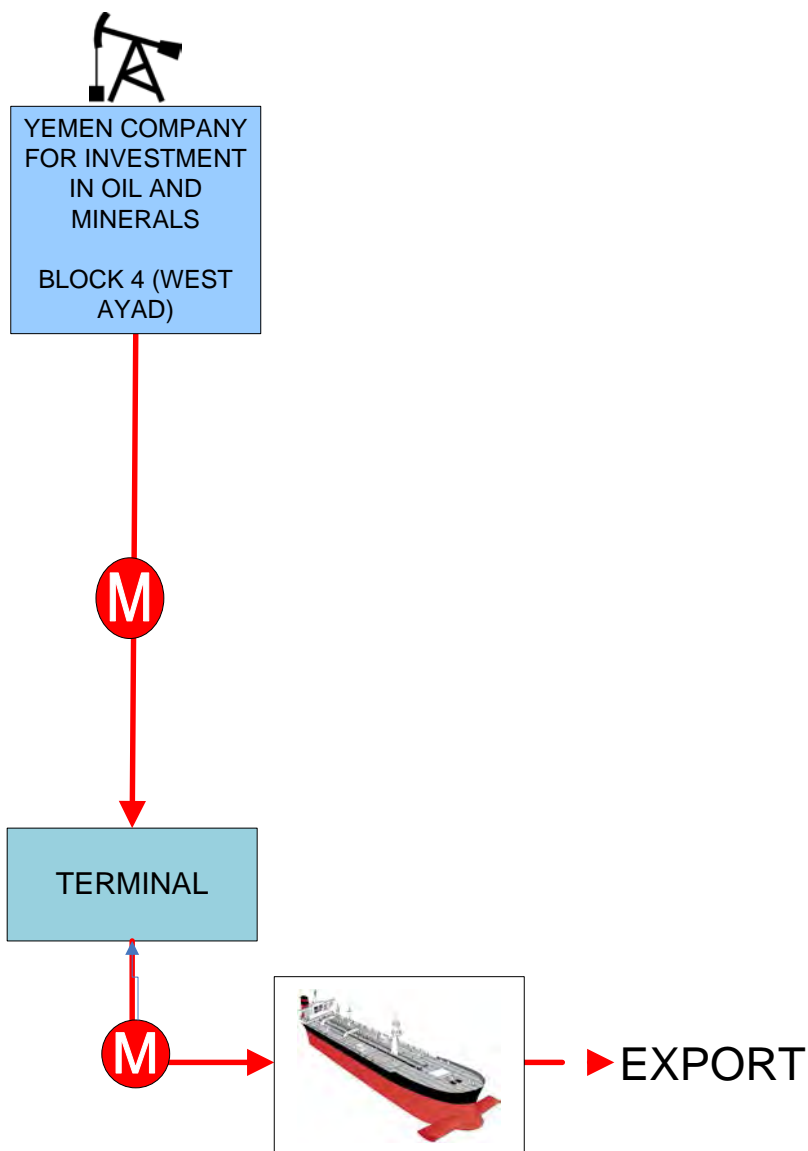


Table 3.4

3.2.2.2 Marib-Ras Issa terminal (Safer)

Marib-Ras Issa Terminal  
Schematic Diagram of Hydrocarbon Flows

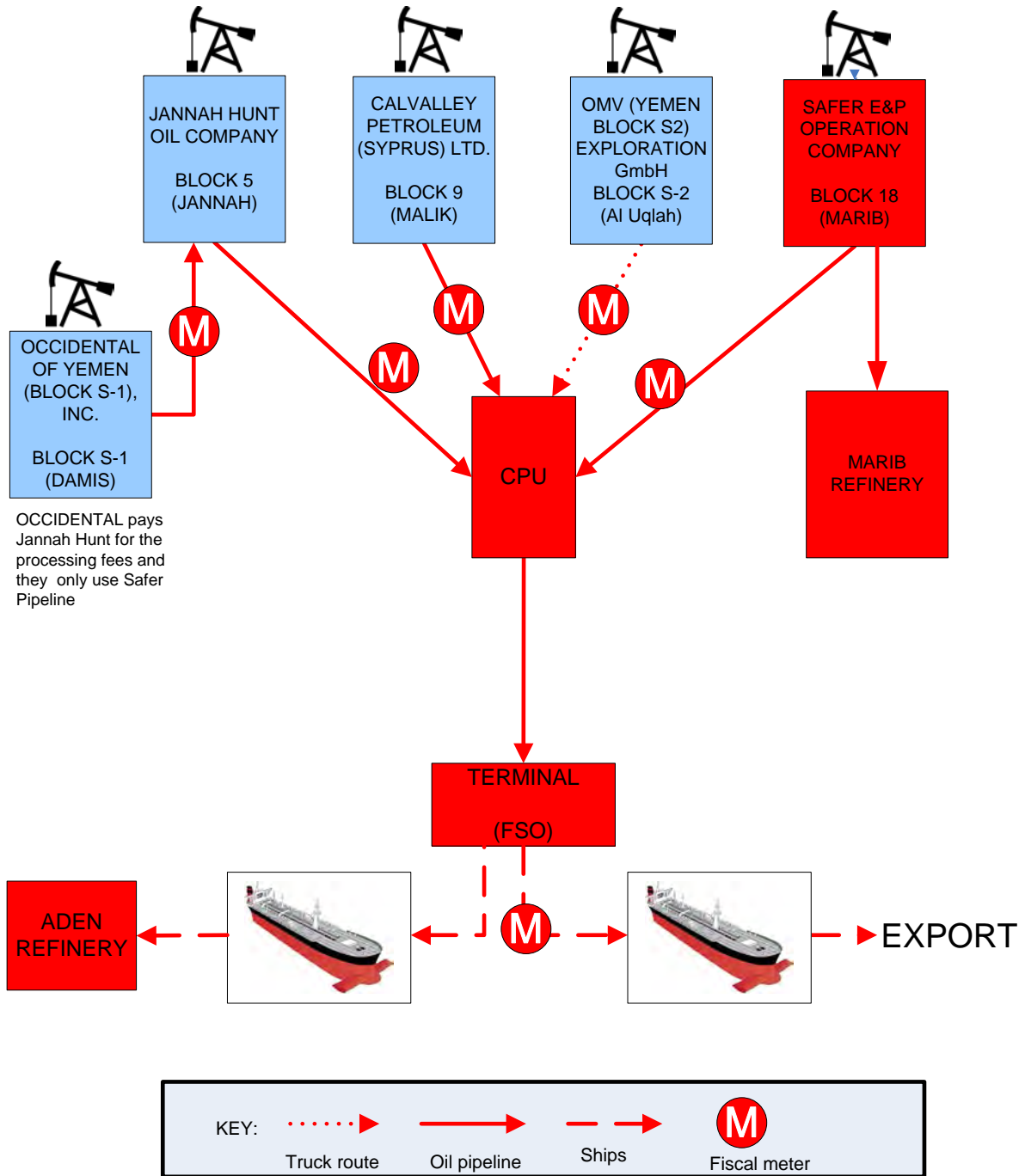


Table 3.5

3.2.2.3 Ash Shihr terminal (Canadian Nexen)

Marib-Ras Issa Terminal  
Schematic Diagram of Hydrocarbon Flows

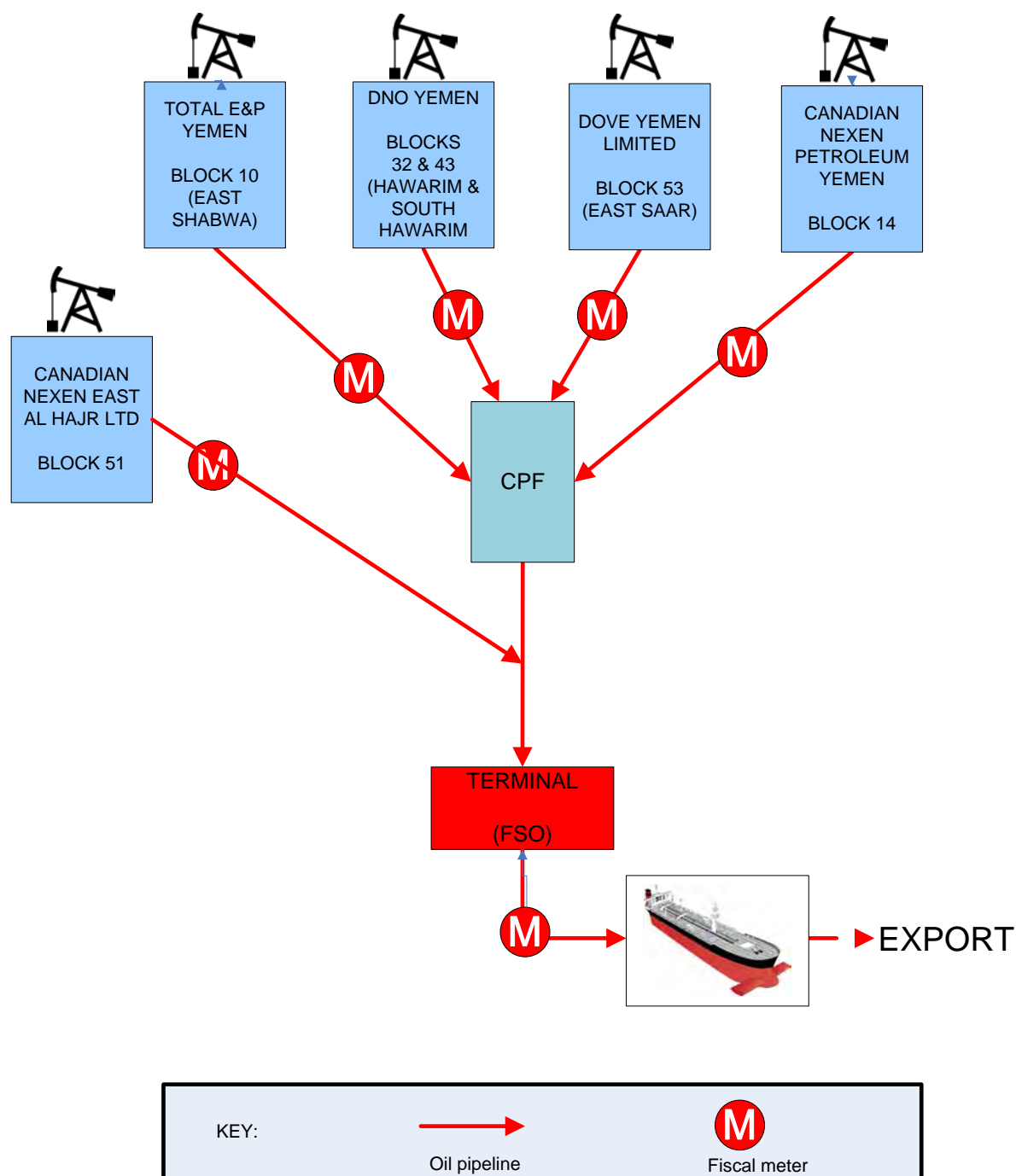


Table 3.6

### 3.3 GAS

#### 3.3.1 LNG

MOM published information states that exports of LNG during 2010 were 4,610,214 metric tonnes (2009 and 2008: NIL).

The YLNG project commenced commercial operations in 2010. It consists of a 320 kilometre pipeline to transport gas from the Marib field (Block 18 – operated by Safer) in central Yemen to a two-train LNG plant in the port of Balhaf at the southern coast of the country. The design capacity is 6.7 million metric tonnes of LNG per annum. The capital cost of the plant is reported to be around \$4.5 billion.

Proven reserves of gas in the Marib field are said to be 9.15tcf, of which 1 tcf is reserved for the domestic market.

#### 3.3.2 LPG AND OTHER GAS SALES

According to MOM, sales of LPG from the Aden and Marib refineries in 2010 amounted to 728 million metric tonnes (2009 – 735 mmt; 2008 – 758 mmt).

Safer also sells gas to the Public Electricity Company for local power generation. Details of these gas sales are not included in the published information provided by MOM.

These activities are not included in the terms of reference for the EITI reconciliation for 2008, 2009, 2010.

### 3.4 MINING

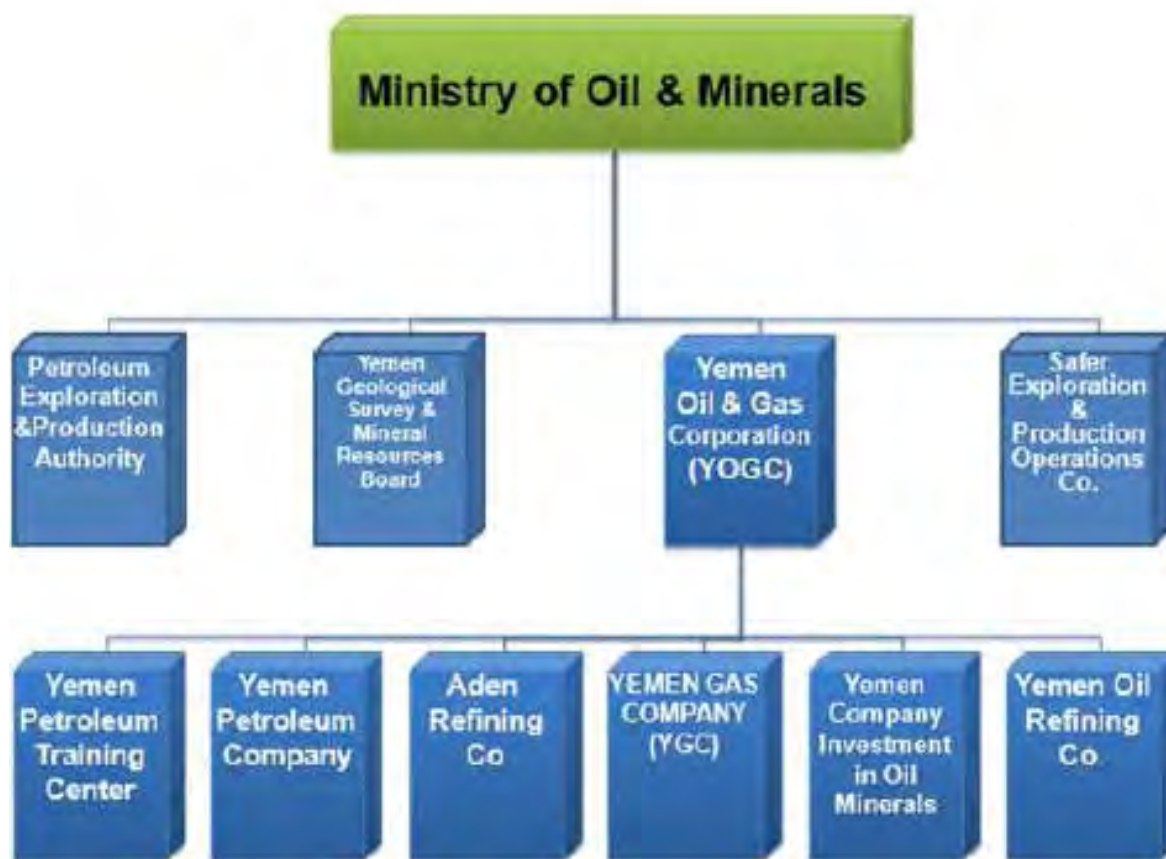
The MOM lists a number of occurrences of industrial minerals in Yemen. Companies are active in exploration and appraisal. In 2010, MOM information states that 10 companies held exploitation licences for various minerals, including gold, lead-zinc-silver and copper-cobalt-platinum. MOM data is included in Appendix D.

Mining has not been included within the Terms of Reference of the present reconciliation.



### 3.5 GOVERNMENT INVOLVEMENT IN THE SECTOR

The Government oversees the sector through the MOM. The MOM manages the Government interest under the PSAs. MOM is also responsible for a several Government-owned companies, as set out in the following diagram.



For the purpose of the EITI reconciliation and reporting, the treatment of Government entities is as follows:

- **Safer**: the production of Block 18 is treated as a sector production operation. The benefit flows to Government from Block 18 are treated as transferred to Government at the point the oil leaves the terminal, whether for export or transfer to a refinery.
- **Aden refinery**: the refining operation is out of the scope of the reconciliation. Oil receipts at refineries are treated as crude oil placed in the hands of Government. Oil that is exported from the terminal for the account of the Aden refinery is treated as Government exports.
- **Marib refinery (YORC)**: as for Aden refinery.

## 4 BENEFIT STREAMS AND ENTITIES REPORTED

### 4.1 BENEFIT STREAMS AND ENTITIES INCLUDED IN THE RECONCILIATION

The Yemen EITI Council determined that the reconciliation should cover the following areas.

#### 4.1.1 FINANCIAL FLOWS INCLUDED: OIL SECTOR

The financial flows for the oil sector which the Yemen National EITI Council decided to include are shown below. The oil sector is included in the reconciliation for 2008, 2009 and 2010.

1. Signature bonus
2. Production bonus
3. Training bonus
4. Institutional bonus
5. Social development bonus
6. Tariff fees
7. n/a
8. Amounts received under letters of credit or bank guarantees
9. Amounts received following assignment of PSAs
10. Excess recovery
11. Audit settlements
12. Price adjustments
13. Facilities usage fees
14. PSA Tax

#### 4.1.2 FINANCIAL FLOWS INCLUDED: GAS SECTOR

The financial flows for the gas sector which the Yemen National EITI Council decided to include are shown below. The gas sector is only included in the EITI reconciliation for 2010.

15. Government profit share
16. LPG royalty
17. LNG royalty
18. Social & medical projects bonus
19. Production bonus
20. Social & medical projects bonus on behalf of shareholders
21. Fixed Tax
22. Upstream fee
23. PSA Tax

4.1.3 FINANCIAL FLOWS: DIAGRAMMATIC PRESENTATION

The financial flows may be represented diagrammatically as shown below. The numbers against each flow correspond to the numbering in the preceding sections.

**Diagram of Oil Sector Financial Flows**

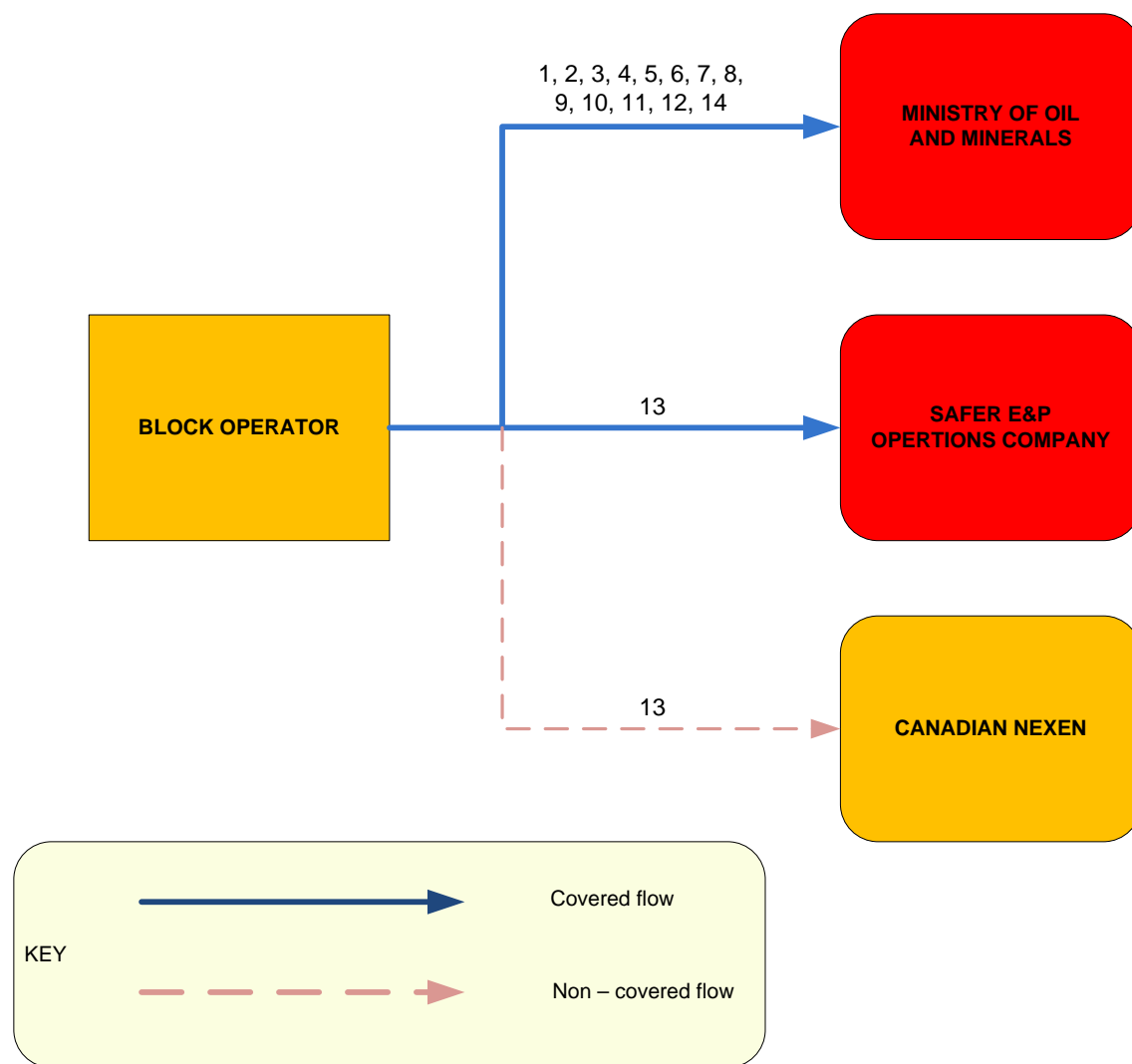
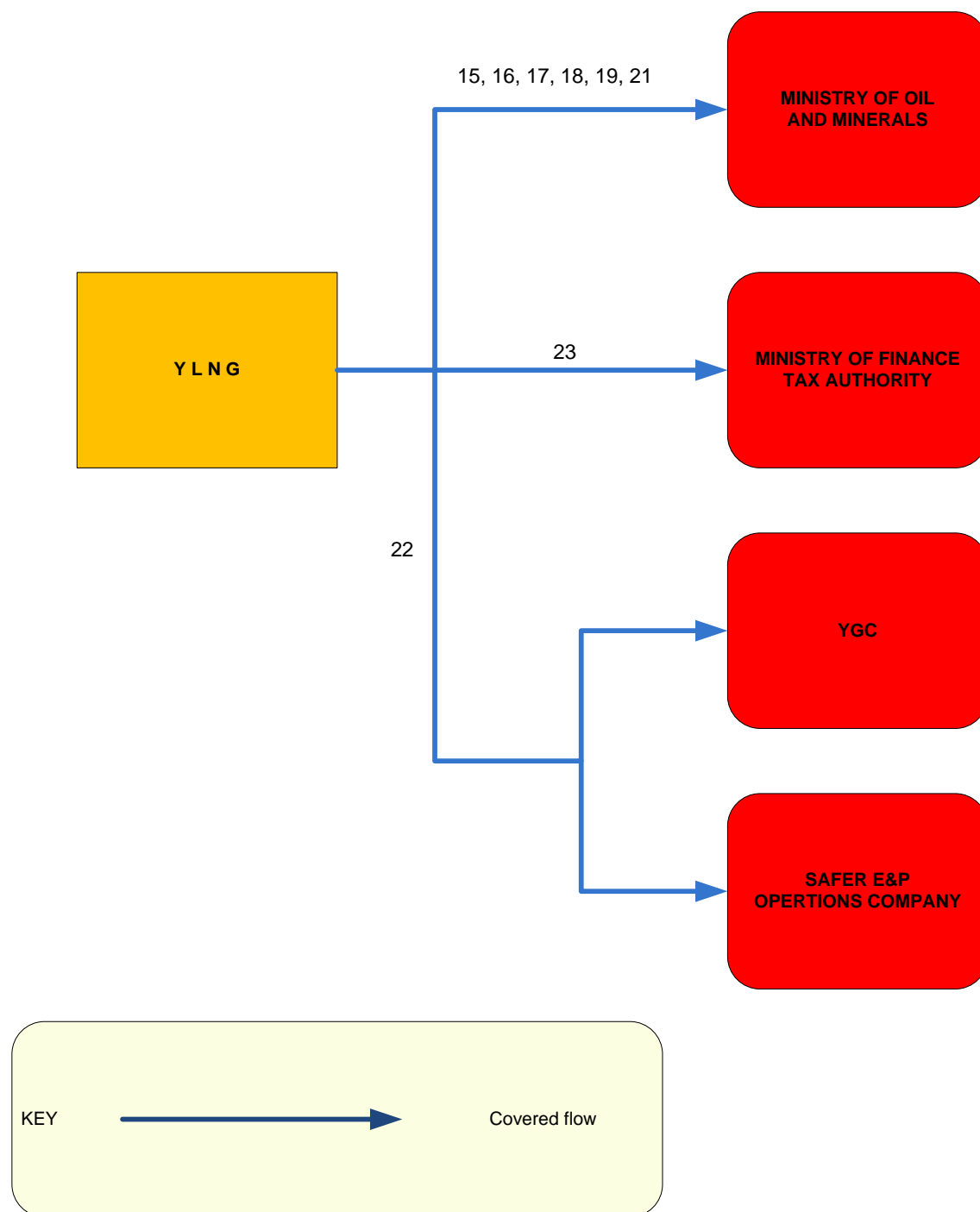


Table 4.1

**Diagram of Gas Sector Financial Flows**



*Table 4.2*

**4.1.4 IN KIND FLOWS INCLUDED**

The government is entitled to a proportion of oil production under the various PSAs; and the state owned company, Yemen Oil & Gas Corporation, is also entitled under the various PSAs to a share of oil production. As described in section 7.1, the government and YOGC entitlements are either lifted for sale on the export market, or transferred to the government owned Aden or Marib refineries.

YCOM, which is a wholly owned government company, exports its share of oil and reported the amounts lifted in 2008, 2009 and 2010.

Arrangements for export or transfer of the Government entitlement are arranged by the Marketing Department of YOGC. YCOM makes its own arrangements for export of its entitlement, which is reported as part of government liftings.

Physical flows were reported by the companies and government entities shown in the table below.

**Entities reporting government crude oil volumes exported / transferred to refineries**

	CBY	YOGC	YCOM	MoF	Aden refinery	Marib refinery	Terminal operators
Government lifting	✓	✓		✓			✓
YOGC lifting	✓	✓		✓			✓
YCOM lifting	✓		✓				✓
Transfers to Aden refinery	✓	✓		✓	✓		✓
Transfers to Marib refinery	✓	✓		✓		✓	✓

Table 4.3

#### 4.1.5 GOVERNMENT REPORTING ENTITIES

The Government entities which the Yemen National EITI Council decided to include in the 2008, 2009 and 2010 Yemen EITI reconciliation are:

- Ministry of Oil and Minerals - Accounting Department
- Yemen Oil & Gas Corporation – Marketing Department
- Yemen Company For Investment In Oil And Minerals
- Ministry of Finance – Revenue Department
- Ministry of Finance – Tax Authority
- Central Bank of Yemen
- Safer E&P Operation Company
- Aden Refinery Company
- Yemen Oil Refining Company ( Marib Refinery )

#### 4.1.6 COMPANY REPORTING ENTITIES

The Yemen National EITI Council defined the following list of reporting companies:-

- Yemen Liquefied Natural Gas (YLNG)
- Dove Energy Yemen Limited
- DNO Yemen AS
- Calvalley Petroleum (Cyprus) Ltd.
- Occidental Of Yemen (Block S-1), Inc.
- Canadian Nexen Petroleum Yemen
- Canadian Nexen East Al Hajr Ltd
- Total E&P Yemen
- OMV (Yemen Block S2) Exploration GmbH
- Jannah Hunt Oil Company
- Safer E&P Operation Company
- Yemen Company For Investment In Oil And Minerals
- KNOC Yemen Ltd
- Yemen Gas Company

All the above companies were included in the reconciliation for 2008, 2009 and 2010 with the exception of YLNG, which was included for 2010 only.

Mining companies and gas producing companies (other than companies supplying gas to YLNG in 2010) were not included by the National Council within the scope of the reconciliation.

## 5 APPROACH, METHODOLOGY AND WORK DONE

### 5.1 ELEMENTS OF THE RECONCILIATION WORK

The approach we have adopted is summarised below:

- Gained an understanding of the oil sector through discussions with the YEITI Secretariat, government departments and companies, and review of relevant documents;
- Reviewed the draft data collection templates put forward by the Council and commented to the Council on whether they were consistent with the payment categories clearly defined in the PSAs of the Oil sector and the GDA of the Gas Sector, as required under our terms of reference
- Prepared amended data collection templates for the approval of the Council;
- Following approval of revised templates by the Council, conducted training sessions with representatives from reporting companies and government departments
- During the training sessions, issued the templates in soft and hard copy, to those entities that the Council had determined to be included within the scope of the reconciliation;
- Held meetings with representatives from the Government Departments;
- Liaised with both Companies and Government Departments to resolve discrepancies.

### 5.2 ANALYSIS OF REPORTING TEMPLATE DATA RECEIVED

Excel spreadsheets were used to match

- a. taxes and fees paid by reporting companies to Government shown the template supplied by each company and
- b. those recorded on each template prepared by reporting Government entities.

All discrepancies arising were tabulated and:

- Detailed information was requested as necessary from relevant Government Entities and Tax Authorities (detailing the dates and amounts of receipts making up the total monetary transactions disclosed by the respective government entities) and used to match with reconciliations of payments made by companies in order to identify the details of, and where possible explain, the discrepancy;
- After considering the discrepancies that occurred for a particular company of a benefit flow, we:-
  - Reviewed the validity of data contained in templates. Depending on the nature of the item, this involved checking from source documents, analytical review or independent confirmations.
  - Requested the relevant company to provide a copy of its workings detailing the payment dates and amounts supporting the calculation of the payment figures it had included on its template.
  - Where this procedure was not satisfactory to explain a discrepancy, we reverted to the review process outlined above.

- Where the process described above did not resolve the manner in which the discrepancy(s) should be corrected, meetings have been held with the company and the relevant Government entity to agree a solution.
- Discrepancies identified by the matching process have been classified by type / nature once the reasons for the discrepancy(s) have been identified (or if necessary unresolved) in order to highlight any common issues which occurred in the preparation of the templates and the EITI process.
- In certain instances, frequent follow up was required from our staff and from the YEITI council Secretariat team to speed up the flow of information. This was the case in:
  - Yemen Company for Investment In Oil And Minerals
  - Ministry of Oil And Minerals - Accounting Department
  - Yemen Oil & Gas Corporation - Marketing Department

In view of the short timescale set by the Council, we reported on progress to the YEITI Council on a daily basis.

### 5.3 MATERIALITY

The Council decided that materiality of inconsistencies or unreconciled items for any payment category is a government reported figure higher or lower by more than 3% as compared to that reported by the company.

Where an unresolved difference exceeded these parameters, we noted that they constitute a material difference. Other differences are classified as not material.



#### 5.4 AUTHORITY OF DATA TEMPLATES

Government and Companies provided to us using the data collection templates approved by the Council. As part of obtaining assurance on the information provided, templates were required to be signed by a senior official from the reporting entity. The table, below, shows whether formal signed templates were received.

	Signed templates received
Yemen Liquefied Natural Gas (YLNG)	✓
Dove Energy Yemen Limited	✓
DNO Yemen	✓
Calvalley Petroleum (Cyprus) Ltd.	✓
Occidental Of Yemen (Block S-1), Inc.	✓
Canadian Nexen Petroleum Yemen	✓
Canadian Nexen East Al Hajr Ltd	✓
Total E&P Yemen	✓
OMV (Yemen Block S2) Exploration GmbH	✓
Jannah Hunt Oil Company	✓
Safer E&P Operation Company	✓
Yemen Company For Investment In Oil And Minerals	✓
KNOC Yemen Ltd	✓
Yemen Gas Company	

Ministry of Oil and Minerals - Accounting Department	✓
Yemen Oil & Gas Corporation – Marketing Department	✓
Yemen Company For Investment In Oil And Minerals	✓
Ministry of Finance – Revenue Department	✓
Ministry of Finance – Tax Authority	✓
Central Bank of Yemen	✓
Safer E&P Operation Company	✓
Aden Refinery Company	✓
Yemen Oil Refining Company ( Marib Refinery )	✓

Table 5.1

#### 5.5 INFORMATION BASED ON AUDITED FINANCIAL STATEMENTS

We requested companies to confirm that the data they submitted for reconciliation was consistent with their audited financial statements, and to provide a confirmation from their auditors that the audits were conducted in accordance with international auditing standards. Below is the list of companies who have provided their audited financial statements for the financial years 2008, 2009, and 2010, and confirmation from their auditors.

	Copy of financial statements provided			Confirmation from auditor	Auditors report that IAS used
	2008	2009	2010		
Yemen Liquefied Natural Gas (YLNG)	YES	YES	YES	YES	YES
Dove Energy Yemen Limited	YES	YES	YES		YES
DNO Yemen	YES	YES	YES	YES	YES
Calvalley Petroleum (Cyprus) Ltd.	YES	YES	YES	YES	YES
Occidental Of Yemen (Block S-1), Inc.	YES	YES	YES		YES
Canadian Nexen Petroleum Yemen				YES	
Canadian Nexen East Al Hajr Ltd				YES	
Total E&P Yemen	YES	YES	YES	YES	YES
OMV (Yemen Block S2) Exploration GmbH	YES	YES	YES	YES	YES
Jannah Hunt Oil Company	YES	YES	YES		YES
Safer E&P Operation Company	YES	YES	YES	YES	YES
Yemen Company for Investment in Oil and Minerals	YES	YES	YES	YES	INTOSAI
KNOC Yemen Ltd	YES	YES	YES	YES	YES
Yemen Gas Company					

Table 5.2

## 5.6 GOVERNMENT AUDIT

The Council asked government entities and the government auditor to provide confirmation that the data they reported was consistent with financial statements which had been audited under International Auditing Standards, and to provide a copy of the audited financial statements.

The information received in this respect may be summarised as follows:-

Audit Letter		Audited financial statements
YOGC	✓	✓
YGC	✓	
YCOM	✓	✓
Marib	✓	✓
MOM	✓	✓
MOF - Revenue Department	✓	
MOF - Tax Authority		
Safer	✓	✓
Aden refinery		✓
Central Bank		

Table 5.2a

The texts of the audit letters are reproduced in Appendix E.

## 6 SUMMARY OF TRANSACTION FLOWS REPORTED

### 6.1 OIL SECTOR

The aggregated reported transaction flows for each of the years are summarised in the following tables, by year.

						Year : 2008	
		Volume			Value		
<i>See explanatory notes following the tables in this section.</i>		Reported by		Unresolved differences Bbls 000	Reported by		Unresolved differences US\$ 000
		Government Bbls 000	Companies Bbls 000		Government US\$ 000	Companies US\$ 000	
<b>In kind flows</b>							
	Crude oil exports	42,398	42,398	0	4,340,938		
	Crude oil transfers to refineries	30,854	30,854	0	3,034,615		
	<b>Sub total</b>	<b>73,251</b>	<b>73,251</b>	<b>0</b>	<b>7,375,553</b>		
<b>Financial flows</b>							
1	Signature bonus				32,300	32,310	-10
2	Production bonus				0	0	0
3	Training bonus				2,550	2,250	300
4	Institutional bonus				2,400	2,100	300
5	Social development bonus				2,050	1,750	300
6	Research & Development Bonus				300	100	200
7	Data Bank Contribution				100	50	50
8	Tariff fees				0	0	0
9	Facilities usage fees				30,282	30,537	-255
10	Amounts rec'd under I-o-c or bank guarantees				0	0	0
11	Amounts rec'd following assignment of PSAs				0	0	0
12	Excess recovery				113,544	113,544	0
13	Audit settlements				12,090	12,090	0
14	Price adjustments				0	0	0
15	Facilities usage fees				17,785	17,785	0
16	PSA Tax				2,277	2,278	0
	<b>Sub total</b>				<b>215,679</b>	<b>214,794</b>	<b>885</b>
<b>Total flows to government</b>		<b>73,251</b>	<b>73,251</b>	<b>0</b>	<b>7,591,232</b>		

Table 6.1

						Year : 2009
See explanatory notes following the tables in this section.	Volume			Value		
	Reported by		Unresolved differences	Reported by		Unresolved differences
	Government	Companies		Government	Companies	
	Bbls 000	Bbls 000	Bbls 000	US\$ 000	US\$ 000	US\$ 000
<b>In kind flows</b>						
Crude oil exports	30,815	30,815	0	1,845,295		
Crude oil transfers to refineries	29,030	29,030	0	1,674,052		
<b>Sub total</b>	<b>59,845</b>	<b>59,845</b>	<b>0</b>	<b>3,519,347</b>		
<b>Financial flows</b>						
1 Signature bonus				1,500	10,588	-9,088
2 Production bonus				1,000	1,000	0
3 Training bonus				2,550	2,250	300
4 Institutional bonus				2,450	2,150	300
5 Social development bonus				2,100	1,800	300
6 Research & Development Bonus				350	150	200
7 Data Bank Contribution				150	100	50
8 Tariff fees				0	0	0
9 Facilities usage fees				27,347	27,349	-1
10 Amounts rec'd under l-o-c or bank guarantees				0	0	0
11 Amounts rec'd following assignment of PSAs				0	0	0
12 Excess recovery				21,006	21,006	0
13 Audit settlements				18,226	18,226	0
14 Price adjustments				0	0	0
15 Facilities usage fees				27,085	27,085	0
16 PSA Tax				2,886	2,886	0
<b>Sub total</b>				<b>106,651</b>	<b>114,590</b>	<b>-7,939</b>
<b>Total flows to government</b>	<b>59,845</b>	<b>59,845</b>	<b>0</b>	<b>3,625,998</b>		

Table 6.2

						Year : 2010
See explanatory notes following the tables in this section.	Volume			Value		
	Reported by		Unresolved differences	Reported by		Unresolved differences
	Government	Companies		Government	Companies	
	Bbls 000	Bbls 000	Bbls 000	US\$ 000	US\$ 000	US\$ 000
<b>In kind flows</b>						
Crude oil exports	33,342	33,342	0	2,610,343		
Crude oil transfers to refineries	28,348	28,348	0	2,224,630		
<b>Sub total</b>	<b>61,690</b>	<b>61,690</b>	<b>0</b>	<b>4,834,974</b>		
<b>Financial flows</b>						
1 Signature bonus				0	0	0
2 Production bonus				0	0	0
3 Training bonus				2,250	2,050	200
4 Institutional bonus				2,200	2,000	200
5 Social development bonus				1,800	1,600	200
6 Research & Development Bonus				250	150	100
7 Data Bank Contribution				150	100	50
8 Tariff fees				0	0	0
9 Facilities usage fees				35,455	35,455	0
10 Amounts rec'd under l-o-c or bank guarantees				0	0	0
11 Amounts rec'd following assignment of PSAs				0	0	0
12 Excess recovery				47,147	47,147	0
13 Audit settlements				0	0	0
14 Price adjustments				15,615	15,615	0
15 Facilities usage fees				27,227	27,157	70
16 PSA Tax				2,358	2,358	0
<b>Sub total</b>				<b>134,452</b>	<b>133,633</b>	<b>820</b>
<b>Total flows to government</b>	<b>61,690</b>	<b>61,690</b>	<b>0</b>	<b>4,969,426</b>		

Table 6.3

### **Notes on summary of financial flows**

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

The Council initially decided that the companies and Government included in the reconciliation were not required to report payments in respect of non-producing interests, such as signature bonuses. The Council subsequently decided that these payments should be included.

Some companies reported payments which were not included in the flows determined by the National Council; these are not included in the figures in this section. Details of these payments are included in section 8.3.2.

Companies and government both reported volumes of oil exported by the government or transferred to the government refineries. However, the value of the oil is reported only by government and companies are not in possession of this information.

The volumes and value of government oil were reported by YOGC, MoF and CBY. See section 7.4 for further details.

## 6.2 GAS SECTOR

The reported transaction flows for 2010 are summarised in the following table.

			Year : 2010	
			Value	
			Unresolved differences	
			US\$ 000	
			US\$ 000	
			US\$ 000	
			US\$ 000	
15	Government profit share	84,075	84,075	0
16	LPG royalty	0	0	0
17	LNG royalty	12,910	12,910	0
18	Social & medical projects bonus	1,000	1,000	0
19	Production bonus	0	0	0
	Social & medical projects bonus			
20	on behalf of shareholders	222	222	0
21	Fixed Tax	9,148	9,148	0
	Tax authority			0
22	Upstream fee	4,915	4,915	0
23	PSA Tax			0
	<b>Total</b>	<b>112,270</b>	<b>112,270</b>	<b>0</b>

Table 6.4



## 7 SUMMARY OF IN KIND FLOWS

The Council decided that entities should report in-kind flows for crude oil, but that in kind flows for gas were out of scope for the current reconciliation. .

### 7.1 GOVERNMENT REPORTING

Transfers of crude oil to government for export or delivery to one of the two refineries were reported by:-

i. Yemen Oil and Gas Corporation (YOGC) Marketing Department

YOGC markets the crude oil exports on behalf of the government, and arranges the transfers to the Aden and Marib refineries. YOGC reported volumes of oil exported or transferred to the refineries, and the amounts received in US\$ and Yemeni Rials.

YOGC reported volumes of oil exported or transferred to refineries in each calendar year during the period, with associated cash receipts (which might have been received in a different year from that in which the volume was exported or transferred). This differs from the basis of reporting by MoF.

ii. Ministry of Finance (MoF) – Oil/Gas Revenue Management Department

MoF is responsible for monitoring receipt of the proceeds of sale of export crude and for allocation within government of the value of the crude oil transferred to the refineries.

MOF reported cash receipts in each calendar year, with associated volumes of oil exported or transferred to refineries (these volumes may have been exported or transferred in a different year from that in which the cash was received). This differs from the basis of reporting by YOGC.

iii. Central Bank of Yemen (CBY)

The bank account into which US\$ proceeds of crude oil exports are received is held at the CBY, which monetises the US\$ so that government departments receive Yemeni Rials. The government accounts for the Aden and Marib refineries are also held by CBY.

CBY reported monthly US\$ receipts and volumes of crude oil without any supporting detail. This was requested on several occasions but no further information has been received.

We were able to reconcile the amounts reported by YOGC and MoF, but in the absence of details from CBY, the differences between CBY figures and YOGC/MoF are unreconciled.

We were not required to review or validate the pricing of the government oil sales and transfers.

## 7.2 CRUDE OIL TRANSFERRED TO THE GOVERNMENT FOR EXPORT

The tables below show:

- i. Volumes of crude oil exports reported initially by Government (MoF) and companies (Terminal Operators)

	As reported by			Net initial differences Bbls 000
	Government		Companies	
	US\$ 000	Bbls 000	Bbls 000	
Crude oil exports				
2008	4,323,551	42,100	44,457	-2,357
2009	1,850,780	30,885	30,858	27
2010	2,604,858	33,272	33,211	61

Table 7.1

- ii. The adjustments made as a result of our reconciliation work

	Net initial differences Bbls 000	Adjustments made		Unresolved differences Bbls 000
		Government Bbls 000	Companies Bbls 000	
2008	-2,357	298	-2,059	0
2009	27	-70	-43	0
2010	61	70	131	0

Table 7.2

- iii. The adjusted aggregate flows

	As reported by			Unresolved differences Bbls 000
	Government		Companies	
	US\$ 000	Bbls 000	Bbls 000	
Crude oil exports				
2008	4,323,551	42,398	42,398	0
2009	1,850,780	30,815	30,815	0
2010	2,604,858	33,342	33,342	0

Table 7.3

### 7.3 CRUDE OIL TRANSFERRED TO GOVERNMENT REFINERIES

There are two refineries operating refineries: both are government owned.

**Aden refinery** receives Marib crude oil from Blocks 18, Block 5, Block S-1, Block S-2 and Block 9. The oil is shipped from Ras Issa terminal under Bills of Lading.

**Marib refinery** receives oil by pipeline from Safer (Block 18), which is refined to produce Naphtha/Slop. Marib was also said to transfer oil back to Safer if it is excess to requirements.

The tables below show:

- i. Volumes of crude oil transferred to refineries as reported initially by Government (MoF) and companies (Terminal Operators)

	As reported by			Net initial differences Bbls 000
	Government		Companies	
	US\$ 000	Bbls 000	Bbls 000	
Transfers to Aden refinery				
2008	2,743,536	27,988	24,967	3,021
2009	1,521,240	26,542	25,942	600
2010	1,978,519	25,195	25,195	0
Transfers to Marib refinery				
2008	314,376	3,083	3,081	2
2009	173,969	3,038	3,074	-36
2010	246,112	3,153	3,131	22

Table 7.4

- ii. The adjustments made as a result of our reconciliation work

	Net initial differences Bbls 000	Adjustments made		Unresolved differences Bbls 000
		Government Bbls 000	Companies Bbls 000	
Transfers to Aden refinery				
2008	3,021	-218	2,803	0
2009	600	-550	50	0
2010	0	0	0	0
Transfers to Marib refinery				
2008	2	0	2	0
2009	-36	0	-36	0
2010	22	0	22	0

Table 7.5

- iii. The adjusted aggregate flows

	As reported by			Unresolved differences
	Government		Companies	
	US\$ 000	Bbls 000	Bbls 000	Bbls 000
Transfers to Aden refinery				
2008	2,720,240	27,770	27,770	0
2009	1,500,083	25,992	25,992	0
2010	1,978,519	25,195	25,195	0
Transfers to Marib refinery				
2008	314,376	3,083	3,083	0
2009	173,969	3,038	3,038	0
2010	246,112	3,153	3,153	0

Table 7.6

## 7.4 INCONSISTENCIES WITHIN GOVERNMENT REPORTING

### 7.4.1 CENTRAL GOVERNMENT ENTITIES

Volumes and values for government crude reported by YOGC, MoF and CBY are shown below.

The initial differences in volumes between YOGC and MoF were reconciled and the resulting re-stated volumes were reconciled and agreed to the volumes reported by the companies (as reported in sections 6 and 7).

Differences remain between the values reported by YOGC and MoF. Since MoF is the entity responsible for controlling and accounting for the cash receipts, these differences are a matter of internal government accounting and are not within the scope of the current reconciliation.

	Reported by YOGC			Reported by MoF			Unreconciled difference
	Initial	Adjustments	Revised	Initial	Adjustments	Revised	
<b>Volumes (bbl 000)</b>							
2008	71,896	1,355	73,251	73,171	80	73,251	0
2009	57,759	2,086	59,845	60,465	-620	59,845	0
2010	61,498	192	61,690	61,620	70	61,690	0
<b>Value (US\$ 000)</b>							
2008	6,961,926	411,885	7,373,811	7,381,462	-5,910	7,375,553	1,742
2009	3,588,720	59,365	3,648,085	3,545,989	-26,642	3,519,347	-128,738
2010	4,917,932	-82,958	4,834,974	4,829,489	5,485	4,834,974	0

Table 7.7

The CBY reported volumes and receipts in respect of crude oil exports as follows:-

	Volumes Bbl 000	Receipts US\$ 000
2008	44,457	4,396,000
2009	33,234	2,652,191
2010	30,858	1,958,825

Table 7.8

It was not possible to reconcile the MoF figures for exports of crude (see table 7.3 above) and the CBY figures since CBY, despite a number of requests, did not provide any supporting information for their return.

#### 7.4.2 CENTRAL GOVERNMENT AND REFINERIES

A comparison of volumes reported by MoF and the Aden refinery and Marib refinery is shown in the table which follows.

	Reported by		Unreconciled difference Bbls
	MoF Bbls	Refinery Bbls	
<b>Aden refinery</b>			
2008	27,770,295	27,096,385	-673,910
2009	25,991,886	25,941,902	-49,984
2010	25,194,933	25,194,912	-21
<b>Marib refinery</b>			
2008	3,083,465	3,699,327	615,862
2009	3,037,708	3,630,573	592,865
2010	3,153,373	3,510,750	357,377

Table 7.9

#### 7.4.3 GOVERNMENT REPORTING: SUMMARY

The differences in volumes and cash reported by government entities indicates the need for greater understanding and of the basis of preparation of the figures, improved communication between the entities and regular reconciliation of data collected on crude oil volumes and revenues.

## 8 FINANCIAL FLOWS TO GOVERNMENT

The tables in the following sections show:

- i. The aggregate flows reported by Reporting Entities initially, and the differences between receipts reported by Government and payments reported by companies;
- ii. Adjustments made as a result of our reconciliation work; and
- iii. The adjusted aggregate flows and the differences that could not be resolved.

### 8.1 OIL SECTOR

This section summarises the reconciliation in total and analyses the unresolved differences by company. The reconciliation of flows by company is contained in Appendix C.

The templates submitted to the consultant contained a number of obvious errors in completion or omissions. Further details are set out in section 8.1.5.1.

### 8.1.1 2008 FINANCIAL FLOWS

2008 financial flows aggregated by type of flow were reported as follows:

Aggregated by Category											
All Blocks - 2008											
No.	Cash Flow Stream	2008 Template originally lodged			Adjustments		2008 Final reconciliation				
		Company	Government	Difference	Company	Government	Company	Government	Difference		
		US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars		
<b>Oil Cash Flows</b>											
1	Signature bonus	32,310,337	31,300,000	1,010,337	-	1,000,000	32,310,337	32,300,000	10,337		
2	Production bonus	-	-	-	-	-	-	-	-		
3	Training bonus	2,250,000	2,549,946	(299,946)	-	-	2,250,000	2,549,946	(299,946)		
4	Institutional bonus	2,250,000	2,399,946	(149,946)	(150,000)	-	2,100,000	2,399,946	(299,946)		
5	Social development bonus	1,750,000	2,049,946	(299,946)	-	-	1,750,000	2,049,946	(299,946)		
6	Research & Development Bonus	-	300,000	(300,000)	100,000	-	100,000	300,000	(200,000)		
7	Data Bank Contribution	-	100,000	(100,000)	50,000	-	50,000	100,000	(50,000)		
8	Tariff fees	-	-	-	-	-	-	-	-		
9	Facilities usage fees	30,473,807	30,282,028	191,779	63,204	-	30,537,011	30,282,028	254,983		
10	Amounts rec'd under l-o-c or bank guarantees	-	-	-	-	-	-	-	-		
11	Amounts rec'd following assignment of PSAs	-	-	-	-	-	-	-	-		
12	Excess recovery	113,543,795	114,507,875	(964,080)	-	(964,080)	113,543,795	113,543,795	-		
13	Audit settlements	12,090,215	-	12,090,215	-	12,090,215	12,090,215	12,090,215	-		
14	Price adjustments	-	-	-	-	-	-	-	-		
	<b>Sub-total</b>		<b>MOM</b>	194,668,154	183,489,741	11,178,413	63,204	12,126,135	194,731,358	195,615,876	(884,517)
15	Facilities usage fees	16,857,235	17,785,320	(928,085)	928,085	-	17,785,320	17,785,320	-		
	<b>Sub-total</b>		<b>Safer</b>	16,857,235	17,785,320	(928,085)	928,085	-	17,785,320	17,785,320	-
16	PSA Tax	2,277,687	2,277,399	288	-	-	2,277,687	2,277,399	288		
	<b>Sub-total</b>		<b>YCOM</b>	2,277,687	2,277,399	288	-	-	2,277,687	2,277,399	288
	<b>Total</b>			<b>213,803,076</b>	<b>203,552,459</b>	<b>10,250,617</b>	<b>991,289</b>	<b>12,126,135</b>	<b>214,794,365</b>	<b>215,678,594</b>	<b>(884,229)</b>

Table 8.1

2008 financial flows aggregated by company were reported as follows:

Aggregated by Company									
All Blocks -2008									
No.	Company	2008 Template originally lodged			Adjustments		2008 Final reconciliation		
		Company	Government	Difference	Company	Government	Company	Government	Difference
		US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars
1	Dove Energy Yemen Limited	14,226,155	14,226,155	-	-	-	14,226,155	14,226,155	-
2	DNO Yemen AS	9,120,818	9,184,022	(63,204)	63,204	-	9,184,022	9,184,022	-
3	Calvalley Petroleum (Syprus) Ltd.	1,715,938	1,802,334	(86,396)	86,396	-	1,802,334	1,802,334	-
4	Occidental Of Yemen (Block S-1), Inc.	19,298,068	18,298,068	1,000,000	-	1,000,000	19,298,068	19,298,068	-
5	Canadian Nexen Petroleum Yemen	26,517,896	26,517,896	-	-	-	26,517,896	26,517,896	-
6	Canadian Nexen East Al Hajr Ltd	16,204,314	16,914,058	(709,743)	-	(964,080)	16,204,314	15,949,978	254,337
7	OMV (Yemen Block S2) Exploration GmbH	3,409,413	3,505,182	(95,769)	96,415	-	3,505,828	3,505,182	646
8	Jannah Hunt Oil Company	20,900,990	21,645,976	(744,986)	745,274	-	21,646,264	21,645,976	288
9	KNOC Yemen Ltd.	31,610,337	32,749,838	(1,139,501)	-	-	31,610,337	32,749,838	(1,139,501)
10	Total E&P Yemen	70,799,146	58,708,931	12,090,215	-	12,090,215	70,799,146	70,799,146	-
	<b>Total</b>	<b>213,803,076</b>	<b>203,552,459</b>	<b>10,250,617</b>	<b>991,289</b>	<b>12,126,135</b>	<b>214,794,365</b>	<b>215,678,594</b>	<b>(884,229)</b>

Table 8.2



### 8.1.2 2009 FINANCIAL FLOWS

2009 financial flows aggregated by type of flow were reported as follows:

Aggregated by Category									
All Blocks -2009									
No.	Cash Flow Stream	2009 Template originally lodged			Adjustments		2009 Final reconciliation		
		Company	Government	Difference	Company	Government	Company	Government	Difference
		US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars
<b>Oil Cash Flows</b>									
1	Signature bonus	10,588,210	1,000,000	9,588,210	-	500,000	10,588,210	1,500,000	9,088,210
2	Production bonus	1,000,000	1,000,000	-	-	-	1,000,000	1,000,000	-
3	Training bonus	2,250,000	2,550,000	(300,000)	-	-	2,250,000	2,550,000	(300,000)
4	Institutional bonus	2,400,000	2,450,000	(50,000)	(250,000)	-	2,150,000	2,450,000	(300,000)
5	Social development bonus	1,800,000	2,100,000	(300,000)	-	-	1,800,000	2,100,000	(300,000)
6	Research & Development Bonus	-	350,000	(350,000)	150,000	-	150,000	350,000	(200,000)
7	Data Bank Contribution	-	150,000	(150,000)	100,000	-	100,000	150,000	(50,000)
8	Tariff fees	-	-	-	-	-	-	-	-
9	Facilities usage fees	27,725,379	27,346,971	378,408	(376,807)	491	27,348,572	27,347,462	1,109
10	Amounts rec'd under l-o-c or bank guarantees	-	-	-	-	-	-	-	-
11	Amounts rec'd following assignment of PSAs	-	-	-	-	-	-	-	-
12	Excess recovery	20,758,922	20,042,203	716,719	247,361	964,080	21,006,283	21,006,283	-
13	Audit settlements	18,226,305	18,226,305	-	-	-	18,226,305	18,226,305	-
14	Price adjustments	-	-	-	-	-	-	-	-
	<b>Sub-total</b>	<b>84,748,816</b>	<b>75,215,479</b>	<b>9,533,337</b>	<b>(129,446)</b>	<b>1,464,571</b>	<b>84,619,370</b>	<b>76,680,050</b>	<b>7,939,320</b>
15	Facilities usage fees	26,923,349	27,084,656	(161,307)	161,316	-	27,084,665	27,084,656	9
	<b>Sub-total</b>	<b>26,923,349</b>	<b>27,084,656</b>	<b>(161,307)</b>	<b>161,316</b>	<b>-</b>	<b>27,084,665</b>	<b>27,084,656</b>	<b>9</b>
16	PSA Tax	2,886,342	2,836,225	50,118	-	50,000	2,886,342	2,886,225	118
	<b>Sub-total</b>	<b>2,886,342</b>	<b>2,836,225</b>	<b>50,118</b>	<b>-</b>	<b>50,000</b>	<b>2,886,342</b>	<b>2,886,225</b>	<b>118</b>
	<b>Total</b>	<b>114,558,508</b>	<b>105,136,360</b>	<b>9,422,148</b>	<b>31,870</b>	<b>1,514,571</b>	<b>114,590,378</b>	<b>106,650,931</b>	<b>7,939,446</b>
The net difference above includes									
Amounts reported by government which were greater than amounts reported by companies									
Amounts reported by companies which were greater than amounts reported by government									

Table 8.3

2009 financial flows aggregated by company were reported as follows:

Aggregated by Company									
All Blocks -2009									
No.	Company	2009 Template originally lodged			Adjustments		2009 Final reconciliation		
		Company	Government	Difference	Company	Government	Company	Government	Difference
		US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars
1	Dove Energy Yemen Limited	2,135,711	2,135,711	-	-	-	2,135,711	2,135,711	-
2	DNO Yemen AS	9,523,512	9,543,536	(20,024)	20,024	-	9,543,536	9,543,536	-
3	Calvalley Petroleum (Syprus) Ltd.	4,183,674	4,498,170	(314,496)	314,496	-	4,498,170	4,498,170	-
4	Occidental Of Yemen (Block S-1), Inc.	15,207,031	15,207,226	(195)	202	-	15,207,233	15,207,226	7
5	Canadian Nexen Petroleum Yemen	23,293,753	23,293,753	-	-	-	23,293,753	23,293,753	-
6	Canadian Nexen East Al Hajr Ltd	5,755,801	4,791,721	964,080	-	964,080	5,755,801	5,755,801	-
7	OMV (Yemen Block S2) Exploration Gmbh	9,551,609	9,050,007	501,602	-	500,491	9,551,609	9,550,498	1,111
8	Jannah Hunt Oil Company	27,150,266	26,574,046	576,220	(526,102)	50,000	26,624,164	26,624,046	118
9	KNOC Yemen Ltd.	9,388,210	1,450,000	7,938,210	-	-	9,388,210	1,450,000	7,938,210
10	Total E&P Yemen	8,368,941	8,592,190	(223,250)	223,250	-	8,592,190	8,592,190	-
	<b>Total</b>	<b>114,558,508</b>	<b>105,136,360</b>	<b>9,422,148</b>	<b>31,870</b>	<b>1,514,571</b>	<b>114,590,378</b>	<b>106,650,931</b>	<b>7,939,447</b>

Table 8.4

### 8.1.3 2010 FINANCIAL FLOWS

2010 financial flows aggregated by type of flow were reported as follows:

Aggregated by Category									
All Blocks -2010									
No. Cash Flow Stream		2010 Template originally lodged			Adjustments		2010 Final reconciliation		
		Company	Government	Difference	Company	Government	Company	Government	Difference
		US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars
<b>Oil Cash Flows</b>									
1	Signature bonus	-	-	-	-	-	-	-	-
2	Production bonus	-	-	-	-	-	-	-	-
3	Training bonus	2,050,000	2,250,000	(200,000)	-	-	2,050,000	2,250,000	(200,000)
4	Institutional bonus	2,250,000	2,200,000	50,000	(250,000)	-	2,000,000	2,200,000	(200,000)
5	Social development bonus	1,600,000	1,800,000	(200,000)	-	-	1,600,000	1,800,000	(200,000)
6	Research & Development Bonus	-	250,000	(250,000)	150,000	-	150,000	250,000	(100,000)
7	Data Bank Contribution	-	150,000	(150,000)	100,000	-	100,000	150,000	(50,000)
8	Tariff fees	-	-	-	-	-	-	-	-
9	Facilities usage fees	34,680,666	35,451,514	(770,848)	774,456	3,552	35,455,123	35,455,066	56
10	Amounts rec'd under l-o-c or bank guarantees	-	5,000,000	(5,000,000)	-	(5,000,000)	-	-	-
11	Amounts rec'd following assignment of PSAs	-	-	-	-	-	-	-	-
12	Excess recovery	47,146,977	62,762,271	(15,615,293)	-	(15,615,301)	47,146,977	47,146,970	8
13	Audit settlements	3,250,958	-	3,250,958	(3,250,958)	-	-	-	-
14	Price adjustments	15,615,301	-	15,615,301	-	15,615,301	15,615,301	15,615,301	-
	<b>Sub-total</b>	<b>106,593,903</b>	<b>109,863,785</b>	<b>(3,269,882)</b>	<b>(2,476,502)</b>	<b>(4,996,448)</b>	<b>104,117,401</b>	<b>104,867,337</b>	<b>(749,936)</b>
15	Facilities usage fees	28,357,856	26,675,950	1,681,906	(1,200,378)	551,047	27,157,478	27,226,997	(69,518)
	<b>Sub-total</b>	<b>28,357,856</b>	<b>26,675,950</b>	<b>1,681,906</b>	<b>(1,200,378)</b>	<b>551,047</b>	<b>27,157,478</b>	<b>27,226,997</b>	<b>(69,518)</b>
16	PSA Tax	2,357,777	2,357,777	-	-	-	2,357,777	2,357,777	-
	<b>Sub-total</b>	<b>2,357,777</b>	<b>2,357,777</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,357,777</b>	<b>2,357,777</b>	<b>-</b>
	<b>Total</b>	<b>137,309,536</b>	<b>138,897,511</b>	<b>(1,587,976)</b>	<b>(3,676,879)</b>	<b>(4,445,401)</b>	<b>133,632,656</b>	<b>134,452,110</b>	<b>(819,454)</b>
<b>TOTAL OIL PAYMENTS</b>		<b>465,671,119</b>	<b>447,586,330</b>	<b>18,084,789</b>	<b>(2,653,721)</b>	<b>9,195,305</b>	<b>463,017,398</b>	<b>456,781,635</b>	<b>6,235,763</b>
The net difference above includes									
	Amounts reported by government which were greater than amounts reported by companies								
	Amounts reported by companies which were greater than amounts reported by government								

Table 8.5

2010 financial flows aggregated by company were reported as follows:

Aggregated by Company									
All Blocks -2010									
No.	Company	2010 Template originally lodged			Adjustments		2010 Final reconciliation		
		Company	Government	Difference	Company	Government	Company	Government	Difference
		US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars
1	Dove Energy Yemen Limited	4,616,542	4,616,510	32	-	-	4,616,542	4,616,510	32
2	DNO Yemen AS	8,595,888	8,635,131	(39,243)	39,242	-	8,635,130	8,635,131	-
3	Calvalley Petroleum (Syprus) Ltd.	2,669,718	2,640,503	29,215	(29,180)	-	2,640,538	2,640,503	35
4	Occidental Of Yemen (Block S-1), Inc.	14,929,968	14,929,545	423	-	-	14,929,968	14,929,545	423
5	Canadian Nexen Petroleum Yemen	15,665,301	15,665,301	-	-	-	15,665,301	15,665,301	-
6	Canadian Nexen East Al Hajr Ltd	7,861,916	7,861,909	8	-	-	7,861,916	7,861,909	8
7	OMV (Yemen Block S2) Exploration Gmbh	12,973,834	9,390,066	3,583,768	(3,032,721)	551,047	9,941,112	9,941,112	-
8	Jannah Hunt Oil Company	27,133,296	26,549,027	584,269	(654,221)	-	26,479,075	26,549,027	(69,952)
9	KNOC Yemen Ltd.	300,000	6,050,000	(5,750,000)	-	(5,000,000)	300,000	1,050,000	(750,000)
10	Total E&P Yemen	42,563,073	42,559,521	3,552	-	3,552	42,563,073	42,563,073	-
	<b>Total</b>	<b>137,309,536</b>	<b>138,897,511</b>	<b>(1,587,976)</b>	<b>(3,676,879)</b>	<b>(4,445,401)</b>	<b>133,632,656</b>	<b>134,452,110</b>	<b>(819,454)</b>

Table 8.6

#### 8.1.4 UNRESOLVED DIFFERENCES

The Council decided that materiality of inconsistencies or unreconciled items for any payment category is a government reported figure higher or lower by more than 3% as compared to that reported by the company.

Differences remaining which exceed the Council's materiality limit are as follows:-

Reporting company	Year	Payment category	Amount reported (after adjustment) by		Difference
			Government	Company	
			US\$ 000	US\$ 000	US\$ 000
Canadian Nexen East Al Hajr Ltd	2008	Facilities usage fees	3,072	3,326	-254
The Korea National Oil Corporation	2008	Payments relating to exploration blocks	1,150	0	1,150
The Korea National Oil Corporation	2009		1,150	0	1,150
The Korea National Oil Corporation	2010		750	0	750
The Korea National Oil Corporation	2009	Signature bonus	0	9,088	-9,088

Table 8.7

The status of reconciliation on these differences is:-

##### 1. **Canadian Nexen East Al Hajr Ltd**

This represents the facilities usage fees for the month of May 2008 for an amount of USD 254,337. This was paid by Canadian Nexen East Al Hajr Ltd according to the supporting documents given. However, this amount was not reported by the MOM. MOM claims that this amount was paid to the MOF (Crude Oil Revenue Account).

##### 2. **The Korea National Oil Corporation**

- i. These payments were reported by MOM as received from KNOC. However, the company said that the payments were made by KNOC, Yemen branch and not by KNOC Yemen Limited. There appears to be some confusion over the name of the company operating in Yemen, perhaps due to a use of "shorthand" nomenclature – i.e. "KNOC" rather than the longer – and legally correct – KNOC Yemen Limited or "the Yemen branch of KNOC (Korea)". See section 9.7 for our recommendation.
- ii. This represents the cash calls made by KNOC to YCOM in 2008, details of which are shown in the following table. We have requested further information from YCOM on several occasions but we have received no explanation in response.

The Council should consider further action by an appropriate independent body to resolve the causes of these differences.

#### 8.1.5 COMMENT ON THE RECONCILIATION PROCESS

##### **8.1.5.1 Matters affecting the reconciliation**

The process of reconciliation was affected by:-

1. Data from the following entities was not presented in a manner that conformed to the templates approved by the Council and was incomplete:
  - Central Bank Yemen
  - Ministry of Finance – Revenue Department
2. Data initially provided to us contained numerous differences. We worked with the companies and Government entities to reconcile the differences, which were caused by:-

- i. Inadequate understanding by some Government departments of the cash basis requirement of completing the templates where some reporting entities used the accruals basis when completing the data templates submitted initially rather than using the cash basis as specified for this reconciliation. This case was noted in:

- Central Bank of Yemen
- Aden Refinery

However, we contacted some reporting entities, in regards to certain benefit streams being reported on the accrual basis and ultimately they reported on the cash basis of accounting:

- Safer E&P Operation Company
- Yemen Oil & Gas Corporation - Marketing Department
- OMV (Yemen Block S2) Exploration GmbH
- DNO Yemen AS

- ii. Misclassification of certain payments within the cash flow streams given in the reporting templates. This was noted in:

- Ministry of Oil and Minerals - Accounting Department
- Total E&P Yemen

- iii. Lack of details and supporting documents in the reporting templates, necessary for the reconciliation, of the Central Bank of Yemen.

- iv. Supporting documents requested but not obtained which are necessary for the reconciliation process from:

- Yemen Company For Investment In Oil And Minerals
- Aden Refinery
- Yemen Tax Authority

- v. Slow response to our requests for further information and supporting documents, particularly due to the short time allowed for the reconciliation. This is noted in:

- Yemen Company For Investment In Oil And Minerals

- Total E&P Yemen
- The Korea National Oil Corporation (KNOC)

### **8.1.5.2 The reconciliation process**

After identifying the existence of an inconsistency, we undertook the following:

- a. Government entities were contacted and visited for the purpose of investigating the differences and requesting the completion of any missing information.
- b. For any update of the data templates, supporting documents were always requested. However, we were not able to get supporting documents from the following reporting entities:
  - Calvalley Petroleum (Cyprus) Ltd.
    - Supporting documents related to tax penalties and tax shortfall payments.
    - Facilities Usage Fees paid to Safer were not reported in the templates.
  - Canadian Nexen Petroleum Yemen
    - Details of Military Security Services payments.
    - Taxes Due on Workforce
  - Canadian Nexen East Al Hajr Ltd
    - Details of Military Security Services payments.
  - Aden Refinery Company
    - Supporting documents of certain crude oil quantities received.
  - Yemen Company For Investment In Oil And Minerals
    - Details of cash calls made by KNOC
  - Central Bank Of Yemen
    - Reporting templates detailed by shipment and by Block.
  - Tax Authority
    - Supporting documents related to certain tax payments reported by Calvalley Petroleum (Cyprus) Ltd..
- c. For differences in financial transactions, we obtained supporting documents from both the Government and the related company. In most cases, we found that the differences were caused by both companies and Government reporting entities having used the accruals basis, in some cases, rather than the cash basis when completing the data templates. Other reasons are due to incomplete or misclassification of payments within the cash flow streams of the reporting templates.
- d. In some cases, companies reported flows to government which were not included in the flows determined by the National Council (see further section 8.3.2).

- e. For crude oil differences, we obtained the bills of lading and sales invoices and resolved the differences accordingly.

## 8.2 GAS SECTOR

The reconciliation between figures reported by government and by the reporting company is set out in section 6.2.

## 8.3 FINANCIAL FLOWS NOT INCLUDED IN THE RECONCILIATION

Certain flows were reported by government only and by companies only. These were in addition to the flows determined by the National Council. We have not included them in the reconciliation on the grounds that

- i. they are “one-sided” disclosures, which would automatically give rise to irreconcilable differences; and
- ii. they are outside the scope determined by the Council

It is appropriate, however, to report them by way of information.

To the extent that they are material, and to the extent that some of them appear to fall into categories which EITI rules expect to be contained in a reconciliation, they appear to indicate the need for an improved definition of the scope of the reconciliation. The decision as to whether they are material and the reasons for their non-inclusion are matters for the National Council.

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### 8.3.1 COMPANY PAYMENTS

A number of companies disclosed payments to government which were not included in the scope of the reconciliation. The table below contains a summary of such payments as reported to us.

We have not reviewed or validated these figures



2008		Payee	Ministry of	Tax	Tax	Tax	Ministry of	Ministry of			Tax	Ministry of	
			Oil and	Authority	Authority	Authority	Defence	Oil and	Ministry of	Safer	Safer	Authority	Oil and
No.	Company	Road	Exploration	Tax	Tax	Military	PSA	Al Raja	Water	Taxes Due	GSR data	Total	
		Project	Tax	Shortfall	Penalty	Security	Inventory	Usage Fees	Usage	on	analysis		
		US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	
1	Dove Energy Yemen Limited											-	
2	DNO Yemen - Block 32					108,000						108,000	
3	DNO Yemen - Block 43					108,000						108,000	
4	Calvalley Petroleum (Syprus) Ltd.											-	
5	Occidental Of Yemen (Block S-1), Inc.											-	
6	Canadian Nexen Petroleum Yemen	500,000				1,065,600	855,445					2,421,045	
7	Canadian Nexen East Al Hajr Ltd					219,780	240,100					459,880	
8	OMV (Yemen Block S2) Exploration Gmbh											-	
9	Jannah Hunt Oil Company							1,045,355	98,071			1,143,426	
10	The Korea National Oil Corporation											-	
11	Total E&P Yemen											-	
<b>Total</b>		<b>500,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,501,380</b>	<b>1,095,545</b>	<b>1,045,355</b>	<b>98,071</b>	<b>-</b>	<b>-</b>	<b>4,240,351</b>	
<b>2009</b>													
1	Dove Energy Yemen Limited											-	
2	DNO Yemen - Block 32					90,000						90,000	
3	DNO Yemen - Block 43					90,000						90,000	
4	Calvalley Petroleum (Syprus) Ltd.											-	
5	Occidental Of Yemen (Block S-1), Inc.											-	
6	Canadian Nexen Petroleum Yemen					1,065,600	2,276,627			10,601,765		13,943,992	
7	Canadian Nexen East Al Hajr Ltd					219,780	4,076,411					4,296,191	
8	OMV (Yemen Block S2) Exploration Gmbh											-	
9	Jannah Hunt Oil Company							426,774	187,482			614,256	
10	The Korea National Oil Corporation		12,361									12,361	
11	Total E&P Yemen						23,909					23,909	
<b>Total</b>		<b>-</b>	<b>12,361</b>	<b>-</b>	<b>-</b>	<b>1,465,380</b>	<b>6,376,947</b>	<b>426,774</b>	<b>187,482</b>	<b>10,601,765</b>	<b>-</b>	<b>19,070,709</b>	

Table 8.9a

Source: reporting companies

	Road Project	Exploration Tax	Tax Shortfall	Tax Penalty	Military Security Services	PSA Inventory Transfers	Al Raja Usage Fees	Water Usage Fees	Taxes Due on Workforce	GSR data analysis and studies cost	Total
2010	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars
1 Dove Energy Yemen Limited											-
2 DNO Yemen - Block 32					152,100	564,037					716,137
3 DNO Yemen - Block 43					72,000						72,000
4 Calvalley Petroleum (Syprus) Ltd.			1,150,391	206,115							1,356,506
5 Occidental Of Yemen (Block S-1), Inc.											-
6 Canadian Nexen Petroleum Yemen					799,200	524,653					1,323,853
7 Canadian Nexen East Al Hajr Ltd					164,835	2,062,662					2,227,497
8 OMV (Yemen Block S2) Exploration Gmbh											-
9 Jannah Hunt Oil Company							231,365				231,365
10 The Korea National Oil Corporation		324,356									324,356
11 Total E&P Yemen						39,614					39,614
											-
<b>Total</b>	-	<b>324,356</b>	<b>1,150,391</b>	<b>206,115</b>	<b>1,188,135</b>	<b>3,190,966</b>	<b>231,365</b>	-	-	-	<b>6,291,328</b>

Table 8.9b

Source: reporting companies

## 9 ISSUES AND RECOMMENDATIONS

### 9.1 RECONCILIATION SCOPE

The National Council defined the benefit flows and Reporting Government and Company entities to be included in the YEITI reconciliation for 2008, 2009 and 2010. Initially, the benefit flows excluded payments from the chosen Reporting Entities, but the Council subsequently decided to include these in the reconciliation.

Companies reported a number of payments which were not included in the scope of the reconciliation (see section 8.3.2). The Council had not conducted a scoping exercise prior to initiating this reconciliation, and the basis for the non-inclusion of these payments, and potentially other payments to government from the sector, has not been considered by the Council.

The Companies included in the current reconciliation were those oil and gas companies which were producing during the period. It is not known whether non producing companies made material payments to government during the period.

We recommend that a scoping exercise is carried out prior to the next reconciliation, including an assessment of the materiality of flows from the extractive sector to the Government of the Republic of Yemen, and the companies making material payments to the Government.

### 9.2 MINING AND GAS

We recommend that the Council consider including mining activities within the scope of YEITI; and also the inclusion in the reporting requirements of physical gas volumes relating to in-kind flows.

### 9.3 GOVERNMENT REPORTING

We reconciled the volume and value of in-kind flows from the oil sector to the volumes and amounts reported by the MoF on behalf of the government.

YOGC and CBY also reported volumes and values for in-kind flows of oil to government, and we note that there are differences between these figures and the figures reported by MoF (see section 7.4.1).

We recommend that the Council should seek an independent review of the differences in reporting between MoF and YOGC and CBY to investigate and obtain further information on the reason for these differences; and that Government should examine reconciliation processes between these different entities.

#### 9.4 GOVERNMENT AUDIT

We requested confirmation that data from Government entities had been audited and a copy of the audited financial statements for each Government reporting entity. Information was provided for most departments by the government auditor as described in section 5.6, albeit at a late stage in the process.

We recommend that the Council should work further with the Government Auditor before the next reconciliation to ensure that the EITI requirements are fully embedded in the annual audit process, so that adequate time is allowed for performance of the work and achieving timely reporting, and in order that the implications of any qualifications to the audit letter or audit reports on the financial statements can be properly considered.

#### 9.5 EITI CRITERIA

We sought confirmation that company data and government data had been audited in accordance with international standards. Confirmation was lacking in many cases, as set out in sections 2.8, 5.5 and 5.6 of this report.

In order not to jeopardise its compliant status on account of not meeting the requirements over obtaining suitable assurance over the data submitted for reconciliation, we recommend that the Council review this situation prior to commencing the next reconciliation and take steps to ensure that future reconciliations meet the EITI requirements.

In considering this area, the Council should take account of the EITI Standard agreed in May 2013; while this is not yet effective, the Council should address the issue of assurance in such a way as it can meet the Standard, once it applies to the Republic of Yemen.

#### 9.6 TIMELINESS OF REPORTING

The current report brings EITI reporting up to the end of 2010.

The EITI Rules require that implementing countries should produce a reconciliation report annually no later than two years after the end of the year to which it relates.

In addition, EITI Requirement 21 (2011 Rules) states that compliant countries are required to publish annually a public report on the previous year's activities, detailing progress in implementing EITI and any recommendations from the Validator. The EITI Standard adopted in May 2013 (implementation date to be decided) requires this report to be published by 1<sup>st</sup> July for the previous year, and states that if the annual activity report is not published within six months of this deadline, i.e. by 31 December the following year, the country will be suspended until the EITI Board is satisfied that the outstanding activity report has been published.

We recommend that the National Council take all necessary steps to ensure that the 2011 report is published no later than 31<sup>st</sup> December 2013.

We also recommend that the Council should note the intention of the new EITI Standard in respect of the annual activity report in the context of 2013 and prepare a report within the timeline specified by the new EITI Standard.

## 9.7 COMPANY NAMING

The use of full company names is recommended in all official communication, so that there is no confusion over the identity of licence holders, payers and payees (see apparent confusion over payments from “KNOC” – section 8.1.4).