Nigeria Extractive Industries Transparency Initiative

THE PRESIDENCY

Financial, Physical and Process Audit: An Independent Report Assessing and Reconciling Physical and Financial Flows within Nigeria's Oil and Gas Industry 2012

Presented by

TAJU AUDU & CO

10th March, 2015

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10th March, 2015

The Executive Secretary,
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Financial, Physical and Process Audit-An Independent Report Assessing and Reconciling Physical and Financial Flows within Nigeria's Oil and Gas Industry-2012

TAJU AUDU & CO.(Chartered Accountants) in association with Efectivo Consortium was appointed by the NSWG in accordance with the requirements of NEITI Act 2007 to carry out an Assessment and reconciliation of Financial , Physical and Process Flows within Nigeria's Oil and Gas Industry for the year ended 31st December, 2012.

The Engagement was undertaken in accordance with the International Financial Reporting Standards (IFRS) 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 stated otherwise in this report including its appendices.

We set out our findings in the following report; the procedures adopted in this engagement were not designed to constitute an audit or review made in accordance with the International Standards on Auditing (ISA). We therefore do not express any assurance on the transaction beyond the explicit statement 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 NSWG 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 statement of any entity taken as whole.

Yours Faithfully,
For: Taju Audu & Co.

Tajudeen Audu, ***FCA***

Engagement Partner.

LIST OF ABBREVIATIONS AND ACRONYMS

ACRONYM	DEFINITION
AENR	Agip Energy and Natural Resources Limited
AF	Alternative Funding
AFS	Audited Financial Statements
AGO	Automotive Gas Oil
AIP	Average Interest Percentage
AMNI	Amni International Petroleum Development Company Limited
APDNL	Addax Production Development Nigeria Limited
APENL	Addax Production and Exploration Nigeria Limited
API	American Petroleum Institute (measurement for heaviness crude)
BBL	Barrels
Bbl/d	Barrels Per Day
BL	Bill of Lading
BIS	Bank for International Settlement
BOD	Banking Operations Department
BO	Beneficial Ownership
BOJ	Best Of Judgement
BSW	Basic Sediments and Water(amount of contaminants in crude)
BTU	British Thermal Unit
CA	Confidentiality Agreement
CAs	Carry Agreements
CAC	Corporate Affairs Commission
CAPEX	Capital Expenditure
CBN	Central Bank of Nigeria
CE	Covered Entity

CCC	Carry Capital Cost
CGT	Capital Gains Tax
CITA	Company Income Tax Act
CIT	Company Income Tax
CNL	Chevron Nigeria Limited
COMD	Crude Oil Marketing Division of NNPC
COSM	Crude Oil Stock Management
CRF	Consolidated Revenue Fund
CSU	Corporate Service Unit
DG	Director General
DMO	Debt Management Office
DPK	Dual Purpose Kerosene
DPR	Department of Petroleum Resources
E&P	Exploration and Production
ECA	Excess Crude Account
ECOWAS	Economic Community of West African States
EDT	Education Tax
EEZA	Exclusive Economic Zone Act
EIA	Environmental Impact Assessment
EIA	Energy Information Administration
EIC	Extractive Industry Company
EI	Extractive Industry
EITI	Extractive Industries Transparency Initiative
ESSO	Esso Exploration and Production Nigeria Limited
ERP	Enterprise Resource Planning
FAAC	Federation Accounts Allocation Committee

FCT	Federal Capital Territory
FDE	Fraud and Debt Enforcement
FEC	Federal Executive Council
FGN	Federal Government of Nigeria
FIRR	Financial Internal Rate of Return
FIRS	Federal Inland Revenue Service
FMF	Federal Ministry of Finance
FRB	Federal Reserve Bank
GDP	Gross Domestic Product
GED F&A	Group Executive Director Finance &Account
GGM	Group General Manager(NNPC)
GMD	Group Managing Director(NNPC)
GRC	Gas Regulatory Commission
GSA	Gas Sales Agreement
GSV	Gross Standard Volume
HPFO	High Pour Fuel Oil
IDSL	Integrated Data Services Limited
IOC	International Oil Company
IPP	Independent Power Producer
ITA	Investment Tax Allowance
JDA	Joint Development Authority
JDZ	Joint Development Zone
JMC	Joint Ministerial Council of JDZ
JOA	Joint Operating Agreement
JVAFA	Joint Venture Alternative Funding Arrangement
JVC	Joint Venture Companies

JVCC	Joint Venture Cash Calls
JVF	Joint Venture Funding
JV	Joint Venture
KRPC	Kaduna Refining and Petrochemical Company
LAN	Local Area Network
LCV	Local Content Vehicle
LFN	Law of Federation of Nigeria
LNG	Liquefied Natural Gas
LOC	Local /Indigenous Oil Companies
LOR	London Oil Report
LPG	Liquefied Petroleum Gas
LPFO	Low Pour Fuel Oil
LR	Long Residue
MCA	Modified Carry Agreement
MMBTU	Million British Thermal Unit
MOR	Miscellaneous Oil Revenue
MOU	Memorandum of Understanding
MPNU	Mobil Producing Nigeria Unlimited
MPR	Ministry of Petroleum Resources
MT	Metric Tons
MV	Merchant Vessel
NAE	Nigeria Agip Energy Limited
NAOC	Nigeria Agip Oil Company
NAPIMS	National Petroleum Investment Management Service
NCDA	Nigeria Content Development Act
NCDMB	Nigeria Content Development and Monitoring Board

NCS	Nigerian Customs Service
NDDC	Niger Delta Development Commission
NDPR	Niger Delta Petroleum Resources
NEITI	Nigeria Extractive Industries Transparency Initiative
NESREA	National Environmental Standards and Regulations Agency
NETCO	National Engineering & Technical Company
NGC	Nigerian Gas Company
NGL	Natural Gas Liquid
NHT	Nigeria Hydro Carbon Tax
NIADBMS	NEITI Industry Audit Data Base Management System
NIMASA	Nigeria Maritime Administration and Safety Agency
NIPEX	Nigeria Petroleum Exchange
NLNG	Nigeria Liquefied Natural Gas
NNPC	Nigeria National Petroleum Corporation
NNOC	Nigeria National Oil Corporation
NOC	National Oil Company
NOSDRA	National Oil Spill Detection and Response Agency
NPDC	Nigeria Petroleum Development Company
NSE	Nigeria Stock Exchange
NSV	Net Standard Volume
NSWG	National Stakeholders Working Group
OAGF	Office of the Accountant General of the Federation
OEL	Oil Exploration License
OGJ	Oil and Gas Journal
OML	Oil Mining Lease

OPCO	Operating Company
OPEC	Organization of Petroleum Exporting Countries
OPL	Oil Prospecting License
OPTS	Oil Producers Trade Section
OSP	Official Selling Price
PA	Petroleum Act
PAYE	Pay As You Earn
PD	Positive Development/Displacement
PEFMB	Petroleum Equalization Fund Management Board
PHCN	Power Holding Company of Nigeria
PEL	Petroleum Exploration License
PHRC	Port Harcourt Refining Company
PIB	Petroleum Industry Bill
PLATFORM	Platform Petroleum Limited
PMS	Premium Motor Spirit
POCNL	Philips Oil Company Nigeria Limited
POOCN	Pan Ocean Oil Corporation (Nigeria)
PPMC	Petroleum Products Marketing Company
PPPRA	Petroleum Products Pricing Regulatory Agency
PPT	Petroleum Profits Tax
PR&IT	Planning Research, Statistics and Information Technology
PSC	Production Sharing Contract
PSF	Petroleum Support Fund
PTDF	Petroleum Technology Development Fund
QIT	Qua Iboe Terminal
RMAFC	Revenue Mobilization Allocation and Fiscal Commission

RP	Realisable Price
RPP	Returns Payment Processing
SAP	System Application Products (NNPC)
SC	Service Contracts
SCRPPSD	Special Committee on the Review of Petroleum Products
SDN	Sovereign Debt Note
SDS	Sovereign Debt Statement
SEEPCO	Sterling Oil Exploration and Energy Production Company Limited
SEPCOL	Shebah Exploration and Production Company Limited
SEPLAT	Seplat Petroleum Development Company Limited
SIR	Societe Ivoirenne De Raffinage
SNEPCO	Shell Nigeria Exploration and Production Company Limited
SOF	Satelite Oil Fields
SPDC	Shell Petroleum Development Company
SPV	Special Purpose Vehicle
SRMF	Sole Risk Marginal Field
S&T	Shipping and Terminal
STARDEEP	Star Deepwater Petroleum Limited
SWIFT	Society for Worldwide Interbank Financial Transactions
TEPNG	Total Exploration and Production Nigeria Limited
TECOM	Technical Committee
TETFUND	Tertiary Education Trust Fund
TMP	Trial Marketing Period
TOR	Terms of Reference
TUPNIL	Total Upstream Nigeria Limited
USD	United States Dollar

VAT	Value Added Tax
VGO	Vacuum Gas Oil
WAGP	West African Gas Pipeline
WHT	Withholding Tax
WRPC	Warri Refining and Petrochemicals Company

NEITI AUDIT 2012 OFFICIAL EXCHANGE RATE:
COMPUTED AVERAGE EXCHANGE RATE FOR 2012 AS OBTAINED FROM OANDA

YEAR	CURRENCY				
	USD:NGN	GBP:NGN	EURO:NGN	CHF:NGN	AED:NGN
2012	157.5	249.6	202.5	168.0	42.9

Note: *The above table shows the average exchange rate for the year 2012 as obtained from Oanda.*

Link: ***http://www.oanda.com/currency/average***

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2.7. Materiality Threshold

The TOR provides that;

- Any and all discrepancies in the underlying data or differing data from competing sources pertaining to a specific transaction be reported. Any and all such transactions shall be specifically identified in the report and the nature of the discrepancy, if determined, shall be summarized.

- The Consultant shall conduct such investigatory and audit services as are necessary to enable public reporting upon the aggregate revenue and investment flows to the Federation to a materiality level of zero point five per cent **(0.5%)** of the annual total (meaning, that the permissible margin of error for aggregate reporting by the Consultant is to be less than zero point five per cent ;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.

2.0. MAIN REPORT

2.1 Background to the Global EITI

Beginning from the late 90s, there has been growing discourse and literature on what has come to be known as the "resource curse"; where developing countries rich in natural resources despite their huge potentials were increasingly experiencing high level of poverty and conflict. This pathetic situation is largely attributable to the lack of transparency and accountability in the management of these enormous extractive resources. Unlike the Dutch "disease" where natural resource wealth made other export sectors uncompetitive, the resource curse was characterized by the manipulation and monopolisation of oil and gas revenues by the elites, inadequacy of the tax systems to capture revenue in the extractive sector, regional and community agitation over degradation of land and waters of the host communities as well as demand for greater share of the resource wealth of the land.

This gave rise to a growing campaign by civil society organizations (CSOs) who believe that the proper application of economic science and good governance principles would transform nations rich in natural resources from poor, underdeveloped nations to the ranks of rich and developed nations.

It was against this background that the global EITI was born and eventually led to the agreement of the EITI principles in 2003. These Principles, on which EITI is based, state that the wealth from a country's natural resource should benefit all its citizens and that this will require high standards of transparency and accountability. After the Principles were agreed, the rules were drawn up to ensure that all EITI member countries committed to a minimum level of transparency in company reporting of revenues paid and government reporting of receipts.

The Extractive Industries Transparency Initiative (EITI) is therefore a global standard that promotes revenue transparency and accountability in the Oil, Gas and Mining Sectors. EITI implementation has two core components:

- Transparency: Oil, Gas and Mining companies disclose their payments to the government, and the government discloses its receipts. The figures are reconciled by a Consultant, and published in annual EITI Reports alongside contextual information about the Oil and Gas Sector.

- Accountability: A multi-stakeholder group with representatives from government, companies and civil society is established to oversee the process and communicate the findings of the EITI Report.

The EITI Requirement 4 of the 2013 EITI Standard requires the production of comprehensive EITI Reports that include full government disclosure of extractive industry revenues and disclosure of all material payments to government by oil, gas and mining companies while the Requirement No 5 provides for the reconciliation of company payments and government revenues to be undertaken by an Independent Administrator applying international professional standards.

2.2. Brief Historical Perspective of EITI implementation in Nigeria

The Nigeria Extractive Industries Transparency Initiative (NEITI) is a national subset of the global movement EITI. The President of Nigeria declared Nigeria's acceptance of the EITI Principles and the Federal Government's decision to implement the initiative in Nigeria resulted in the inauguration of a Multi-Stakeholder Group (MSG). And on May 28, 2007, a specific law was enacted to enforce the implementation of the initiative in the country. The NEITI is therefore both a subset of a global organisation and a national agency established by law.

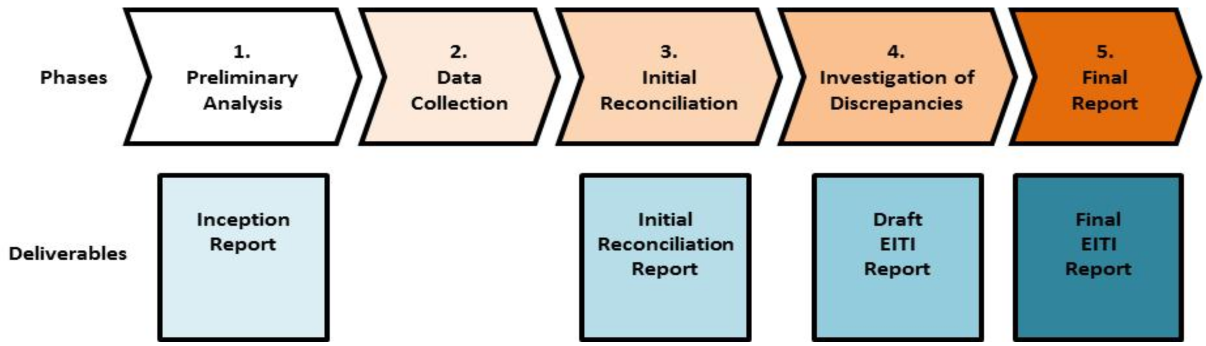
It was on the basis of the EITI Standard Requirements and the NEITI Act 2007 that the firm of Messrs TAJU AUDU & Co. was appointed for an Independent evaluation of material oil and gas payments and revenues for the year 2012 in continuation of the previous audit mandates that commenced with the first audit cycle of 1999-2004.

The purpose of this report is to present in explicit terms the results of the review and validation of all material payments and receipts associated with crude oil and gas as well as the reconciliation of these payments made by participants in the oil and gas sector and government receipts of such payments in accordance with International Auditing Standards and the Terms of Reference included in **Appendix 2.1**

2.3. Approach and Methodology

The methodology adopted is as contained in the EITI reporting process which has five phases (see figure 2.3). The Consultant's responsibilities in each phase are elaborated below.

Figure 2.3 – Overview of the EITI Reporting process and deliverables



Source: NEITI TOR

Standard data collection templates were prepared by NEITI and issued to Covered Entities. The consultant reviewed, validated and updated the populated templates for all relevant financial transactions and Oil and Gas volumetric for the year 2012 where necessary. The populated templates received from the Government Agencies were also reviewed, updated and analysed in comparison with populated templates from the companies in order to identify and reconcile material discrepancies.

The audited financial statements and records obtained from all the covered entities were reviewed to ensure that the populated templates are linked to the financial statements and company records. The policies and procedures for the preparation of Financial Statements and the procedures for payments were also documented and reviewed to ensure compliance with the International Standards in Auditing (IASs) and the relevant Oil and Gas regulatory laws on payments.

Applicable materiality guidelines, stipulated in the TOR, were followed in addressing differences and discrepancies that arose from the reconciliation.

2.4. Objective of the Audit

The objective of the audit is to carry out the following tasks among others

1. Report on the quantities of hydrocarbons (oil and gas and refined product, including condensate where appropriate) produced, exported and utilized/imported in a manner,

which is insightful, and of such integrity as to be reasonably relied upon by NEITI and to also make recommendations on any issues arising in the course of conducting the work.

2. To report on the revenue flows and investment flows amongst the Covered Entities, as more fully described below, with transactions made by participants (both public and private) in Nigeria's oil and gas industry.

3. To undertake special verification work on certain classes of transactions

4. To report on balances payable / receivable at the end of the audit period for certain financial flows

5. To reconcile the physical/financial transactions reported by payers and recipients as appropriate, as per the scope set out herein.

2.5. Sources of Data

The primary source of data is the Data Templates completed by Government Agencies and the other covered entities for the purpose of the audit. Other primary sources of data are documents generated by the covered entities such as financial statements, accounting records and various transaction registers.

Publicly available data from various sources were also used to corroborate or reinforce information provided in the primary data. Data contained in past audit reports were also used in the analyses of current audit in other to be able to form an opinion.

Secondary data was sometimes generated by analyses and computations resulting from primary data sources or by third party confirmations.

2.6. Basis of Accounting

Cash basis of accounting was adopted in the sourcing of data for the audit while the audit procedures adopted for all Covered Entities was in accordance with the International EITI Guidelines, International Auditing Standards (IS4400 Engagements to perform agreed upon procedures regarding financial information) and the verification procedures as contained in the TOR.

2.8. Scope of the Audit

As required by the disclosure provisions of the 2013 EITI Requirements (especially Requirement Nos 3, 4 and 5), the EITI Rules, and the Guidance note 9 of December 2013 containing suggested checklist establishing the scope of EITI Reporting, this report among others:

- Presents the contextual information on the Nigeria Oil and Gas Industry;

- Shows the financial and volumetric flows between Industry Operators and Government Agencies for the year 2012;
- Compares the initial submissions from both the Industry Operators and the Government Agencies;
- Identifies, investigates and explains material discrepancies;
- Reviews the Governance processes and procedures in the management of Oil and Gas sector financial and hydrocarbon flows;
- Reviews the systems and procedures utilized by the Covered Entities for purposes of calculating, recording, processing, and settling financial transactions ,and;
- Makes recommendations for remedial actions to be taken where necessary.

2.9. Oil and Gas Companies covered

This reconciliation report specifically covers transactions for the period 2012 on Cash basis of accounting. The covered entities in the project include various agencies of Government and all participating Industry Operators that for the purpose of this audit are involved in Oil and Gas sector during the period under review and in accordance with the TOR.

The TOR specifically excludes all Oil and Gas entities without financial or production flow to the federation during the period under review.

2.10. Government Agencies Covered

The Government Agencies covered by the Audit are either those Government regulatory entities specifically mentioned in the TOR (CBN, OAGF, FIRS, DPR) or have responsibility and oversight functions in the receipt, disbursement or management of state finances accruing from the Oil and Gas sector. Others include state owned enterprises that are engaged in different strata of the Oil and Gas expenditure (NNPC and its subsidiaries).

2.11. Summary of financial flows

The following major revenue payments made by all Covered Entities and receipts by the relevant Government Agencies from the Oil and Gas sector were reviewed during the period:

a) Sale of Government Crude Oil and Gas
b) Petroleum Profits Tax (PPT)
c) Royalty (Oil & Gas)
d) Concession Rentals
e) Companies Income Tax (CIT)
f) NDDC Levy
g) NCDMB payments

h) Withholding Tax (WHT)
i) Pay-As-You-Earn (PAYE)
j) Value Added Tax (VAT)
k) Education Tax (EDT)
l) Gas Flaring Penalties

In addition to the above revenue flows, we have also reviewed other financial flows shown below:

- Cash Calls
- Dividends and Loan Repayment from NLNG
- Subsidy Payments
- Subsidy Reinvestment Program (SURE-P)

Non-financial flows pertaining to "in-kind" transactions and the settlement of liabilities of royalties and taxes and Carried Party Carry Cost and other items by means of crude oil allocations rather than financial transfers were also reviewed.

2.12. Summary of Physical and Process flows

The physical and process flows covered in this report include the following:

- Production and Terminal balances.
- Process for Pricing of Federation Equity Crude Oil
- Product importation and distribution
- Production and Utilization of gas
- Hydrocarbon metering system
- Review of systems and Procedures
- Production arrangements and licensing
- Recommendations on the review process

2.13. Review and use of Data templates

Companies data provided in the completed templates were comprehensively reviewed and also vouched (for consistency) to accounts that have been audited to Financial Statements and explanations obtained from the companies where discrepancies occur.

Copies of audited accounts were requested and obtained from all reporting companies.

The data provided on templates by government reporting entities were kept in accordance with the provisions of Nigerian laws, Government Financial Regulations and Generally Accepted Accounting Standards.

The Auditor General of the Federation has attested (see Appendix 2.13) that:

1. Government Agencies have fully declared all 'material flows' to the Nigerian Government, as set out on the reconciliation forms;
2. Those amount are consistent with the Financial Statements of the Government for the period audited

In our review, we have also excluded the following revenue flows.

a) Financing of the budgets of Government entities.
b) Internal flows between entities owned by NNPC.
c) Commercial transactions between non-state companies, except to the extent necessary to validate transactions affecting terminal stock ownership, quantities and values.
d) Commercial transactions between non-state companies and state agencies for which the consideration for such transactions does not involve Oil and Gas.
e) Commercial transactions between state companies in which the subject or the consideration for such transaction does not involve oil or gas.
f) Crude oil theft is reported as presented by companies but not considered in the summary of financial flows.

3.0 CONTEXTUAL INFORMATION ON NIGERIA'S OIL AND GAS INDUSTRY

3.1 Introduction

Nigeria is the most populous African country, with an estimated 170 million people and located within Sub – Saharan African region. With a total land area of 923,768.64 sq. km, it shares borders with the Republic of Benin in the west, Cameroon in the East, Niger and Chad in the north and the Gulf of Guinea to the South. Nigeria is the largest oil producer in Africa and ranks among the top ten in the world with oil and natural gas endowments. According to the Oil and Gas Journal (OGJ), at the beginning of 2012, Nigeria is estimated to have a proven oil reserve of 37.2 billion barrels and a proven natural gas reserve of 180 trillion cubic feet (Tcf) which is the World's 7th largest gas reserves.

Out of the thirty-six constituent states of the federation, nine states (Abia, Akwa Ibom, Bayelsa, Cross Rivers, Delta, Edo, Imo and Ondo) situated in the southern part, particularly the Niger Delta region of the Country produce the onshore oil and gas, while the source of the country's offshore production is from wells in the Bight of Bonny, Bight of Benin and the Gulf of Guinea. According to the U.S. Energy Information Administration (U.S. EIA), Nigeria produced about 2.53 million barrels per day (bbl/d) of crude oil and 1 trillion cubic feet (Tcf) of dry gas, out of which it exported approximately 2.3 bbl/d of crude oil and 17.97 million metric tons (875 Bcf) of liquefied natural gas (LNG) in 2011. This made Nigeria the 5th largest exporter of LNG in the world.

It is worthy to note that in 2011, 33 percent (767,000 bbl/d) of Nigeria's crude oil export was sent to the United States, making Nigeria the fourth largest foreign crude oil supplier to the U.S. However with the recent exploration of Shale Oil by the U.S, India and China have replaced U.S as the largest buyers of Nigerian Crude.

3.2 Overview of the Oil and Gas industry

Oil and gas exploratory activities in Nigeria began in 1908 when the Colonial Government gave a royal charter to the Nigerian Bitumen Corporation (a German entity) and British Colonial Petroleum (a Colonial chartered corporation), which commenced exploratory activities in Araromi area in Western Nigeria. However the activities were abruptly terminated due to the First World War in 1914. Exploratory activities resumed in 1937 when Shell Petroleum Development Company of Nigeria (formerly Shell D'Arcy, a consortium of Shell and Royal Dutch) was awarded the sole exploratory license covering the whole territory of Nigeria to prospect for oil. This effort was also interrupted by the outbreak of the Second World War, but resumed in 1947. After several years of concerted and rigorous effort in drilling 28 wells and 25 core dry holes, oil was discovered in commercial quantities at Oloibiri in present day Bayelsa State in 1956, and actual production of 5,100 bbl/d. was recorded in 1958.

After Nigeria's independence in 1960, the indigenous Government opened up the oil industry by giving exploratory rights in onshore and offshore areas of the Niger Delta region to Mobil, Agip, Safrap (now Elf), Tenneco (now Texaco) and Amoseas (now Chevron). This act divested Shell of its monopoly status, though it was and is still the largest international oil company operating in Nigeria. As more companies joined in the production, Nigeria's oil production rose to a peak of 2.4 million bbl/day in 1970, thereby making Nigeria a major oil producing nation, and ranking 7th in the world. Crude Oil production for 2012 averaged 2.27million bbl/day.

Initially, Government interest in the oil industry was limited to the collection of royalties, lease rentals and taxes, but that changed with the United Nations Resolution on Permanent Sovereignty over Natural Resources. This spurred the Nigerian Government into taking positive steps to control the oil and gas industry by enacting the Petroleum Act in 1969, which vested the ownership and control of all petroleum resources in the Federal Government. Subsequently Nigeria joined the Organization of Petroleum Exporting Countries (OPEC) in 1971 and in furtherance of OPEC's resolution urging member states to acquire controlling interest in concessions held by foreign companies, Nigeria's military government established the Nigerian National Oil Corporation (NNOC) by a decree in 1971. Pursuant to the powers granted it by the decree, in 1971 the NNOC (which later became NNPC in 1977) acquired controlling interests in the oil companies operating in the country and that was the beginning of State participation in the Operations of the Oil and Gas Sector.

3.3. Legal Frameworks, Legislations and Fiscal Regimes in the Nigerian Oil & Gas Industry

The Constitution of the Federal Republic of Nigeria 1999, section 44(3), vest the ownership and control of all minerals, mineral oils and natural gas in, under or upon any land in Nigeria, its territorial waters, and exclusive economic zone on the Federal Government. The Federal Government is to manage such minerals in such manner as may be prescribed by the National Assembly. Thus the Constitution confers exclusive jurisdiction on the National Assembly on matters relating to oil, gas and other minerals.

This provision is an adoption of a series of statutory laws and regulations promulgated by the Federal Military Government between 1969 and 1990.

The Petroleum industry as it is today is governed through a myriad of Principal and subsidiary pieces of inter related legislations dealing with specific aspect of the operations of the Oil and gas industry.

There are aspects of the law stipulating ways in which businesses should be formed and organized. There are equally others that explain the industry's transactions, scope of operation, responsibility to government, consumers and the international community.

Legislations governing the Oil and gas industry in Nigeria evolved over the years to address government changing priorities, goals and aspirations as dictated by both local and international politics in the industry.

The Mineral Oil Ordinance No. 17 of 1914 which is the first known legislation and its 1925 amendment constituted Nigeria into one concession area and conferred on the Colonial administration the sole right to grant license to prospecting Oil and Gas companies.

This was followed by the Minerals Oil Act of Cap 120 of 1958 which confers on the Governor-General the power to grant Licenses and leases to companies to prospect for oil; such companies must however be registered in Britain or in any of its colonies.

Following the commencement of commercial production of oil in 1958, the Petroleum Ordinance of 1959 was enacted to prescribe the mode of imposition of tax on profit accruing from oil revenue.

Between 1958 and 2010 however, the Federal Government of Nigeria through appropriate agencies has passed over 100 principal and subsidiary legislations to deal with aspects of the petroleum industry. Each law plays a different but significant role in the administration and regulation of the industry. In addition, they create regulatory agencies that implement government policy and ensure compliance with the respective enabling laws. These legislations fall into two categories: Legislations that regulate operations and Fiscal Legislations having bearing on aspects of the Petroleum operations. Details of these legal frameworks and legislations that govern operations can be found in **Appendix 3.3.**

3.3.1. Industry Reform - The Petroleum Industry Bill (PIB)

The Legal framework in the petroleum industry in Nigeria unfortunately, has not evolved at the same pace as development in the sector and has not taken into account the significant advancements and challenges that occurred over the years. The need for an industry-wide overhaul is therefore apparent. For this reason the Oil and Gas sector reform Implementation Committee (OGIC) was established in 2004 to transform the national Oil and Gas policy into an enabling framework with a view to bringing the sector in line with international best practices and to establish institutions in line with these policies. Thus in 2008 the Federal Government as part of its agenda for reform, embarked on a comprehensive legal framework.

The purpose of the reform was to restructure the oil and gas industry, consolidate a plethora of laws, and increase government take and local content requirement. The product of this effort was the Petroleum Industry Bill (PIB), which was forwarded to the National Assembly. The fundamental objectives of the bill include, amongst others, the management and allocation of petroleum resources and their derivatives in accordance with the principles of good governance, transparency and the sustainable development of Nigeria. As promising as it seemed, its passage has been stalled as a result of opposition from the IOCs. There are indications that the Federal Government is putting extra effort to ensuring its passage as the President sent to both Chambers of the National Assembly a revised version of the PIB in July 19, 2012 for consideration and passage.

The new PIB proposes better tax deals to end years of uncertainty in the operating environment that have led to loss of huge investment in the sector.

The new bill sets out to establish an omnibus legislation that will set transparent rules for the management of the Oil and Gas Industry. This development will also serve to compliment the realization of the EITI standard that the sector has subscribed to.

More information about the NEITI position on the PIB can be obtained from the NEITI website:
www.neiti.org.ng/index.php?q=press-releases/neiti-and-debate-petroleum-industry-bill-pib

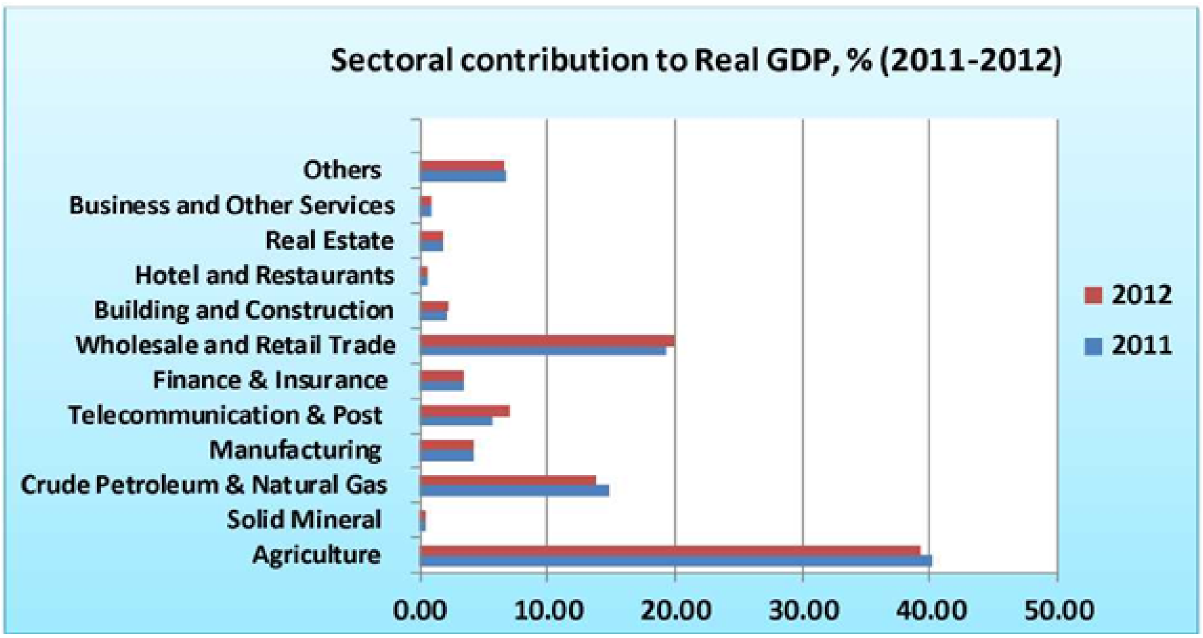
3.4. Highlights of Oil and Gas Contribution to the Economy

The Nigerian Economy is one of the fastest growing economies in Africa. It was ranked 36th in the world (in terms of nominal GDP) in 2012 and 30th in 2013 before rebasing (40th in 2005, 52nd in 2000), in April, 2013 which made it the largest economy in Africa. Nigeria is also on track to become one of the 20 largest economies in the world by 2020.

The country recently changed its economic analysis to account for rapidly growing contributors to its GDP, such as telecommunications, banking, and its entertainment industry. As a result of this statistical revision, Nigeria has added 89% to its GDP, making it the largest African economy. According to a Citigroup report published in February 2011, Nigeria will get the highest average GDP growth in the world between 2010 and 2050. The country is also one of the two countries from Africa listed among 11 Global Growth Generators countries.

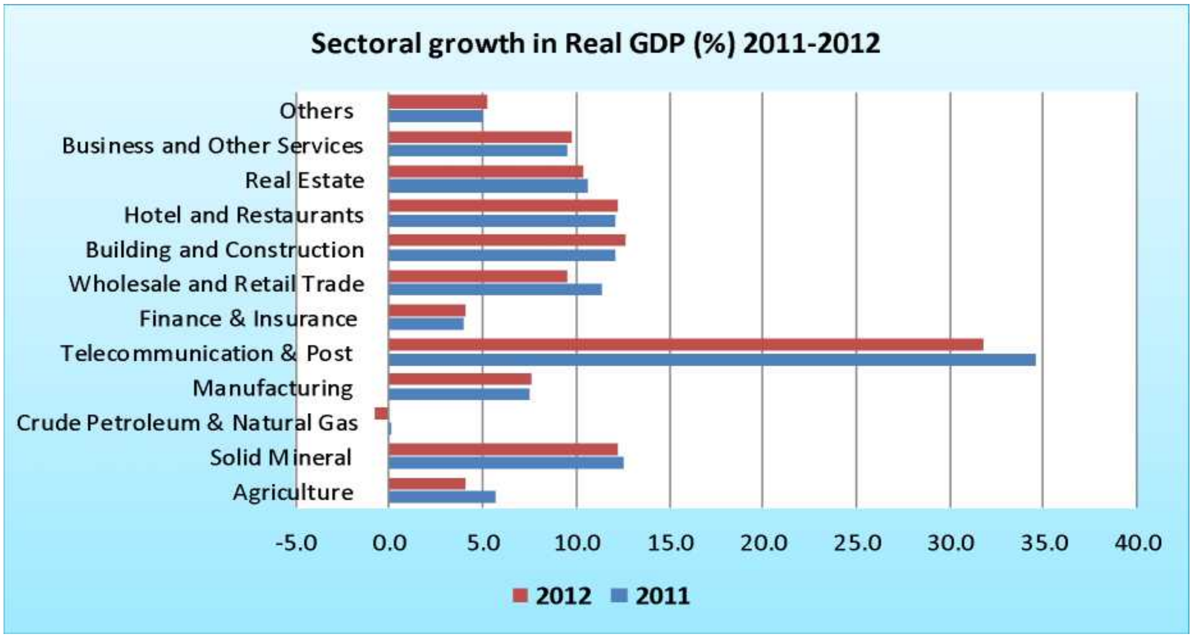
Although much has been said about the status of Nigeria as a major exporter of oil, Nigeria produces only about 2.7% of the world's supply (Saudi Arabia: 12.9%, Russia: 12.7%, USA: 8.6%) and to further put Oil and Gas production in perspective, the sector contributed about 13% to Real GDP in 2012 (this will be lower if the informal sector is considered) compared to Agricultural sector which contributed 39%. Therefore, though the petroleum sector is important, it remains in fact a small part of an overall vibrant and diversified economy.

Figure3.4A - Sectoral Contribution to GDP



Source: Central Bank of Nigeria, Economic Report, Fourth Quarter 2012

Figure 3.4B: Sectoral Growth in GDP



Source: Central Bank of Nigeria, Economic Report, Fourth Quarter 2012

The importance of the petroleum industry to the economic growth of the country can best be appreciated when the Central Bank of Nigeria statistics that Oil and Gas revenue constituted 76% of Gross Federally-collected revenue in 2012 is considered.

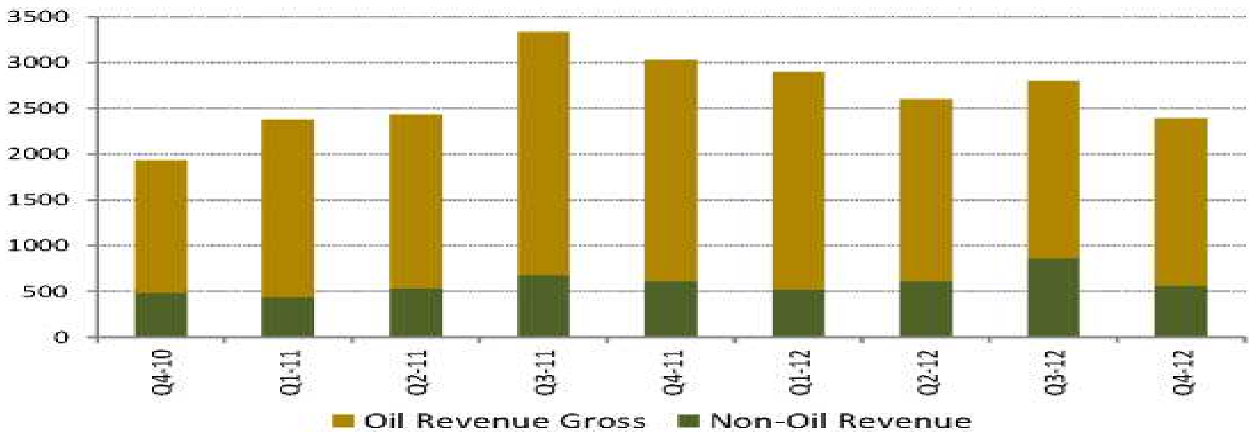
Table 3.4A, Figure 3.4C, Table 3.4B and Figure 3.4D below are illustrations of components and contributions to Federation Accounts Revenue.

Table 3.4A : Gross Federation Account Revenue (N billion)

	Q4-10	Q1-11	Q2-11	Q3-11	Q4-11	Q1-12	Q2-12	Q3-12	Q4-12
Federally - Collected Revenue (Gross)	1994.6	2372.3	2433.2	3327.8	3025.1	2897.7	2596.2	2783.0	2413.6
Oil Revenue	1448.6	1935.6	1892.4	2642.8	2408.1	2376.0	1981.6	1936.2	1823.6
Non-Oil Revenue	546.0	436.6	540.9	685.0	617.0	521.6	614.6	666.1	566.2

Source: CBN Economic Report, Fourth Quarter 2012

Figure 3.4C: Components of Gross Federally Collected Revenue



Source: CBN Economic Report, Fourth Quarter 2012

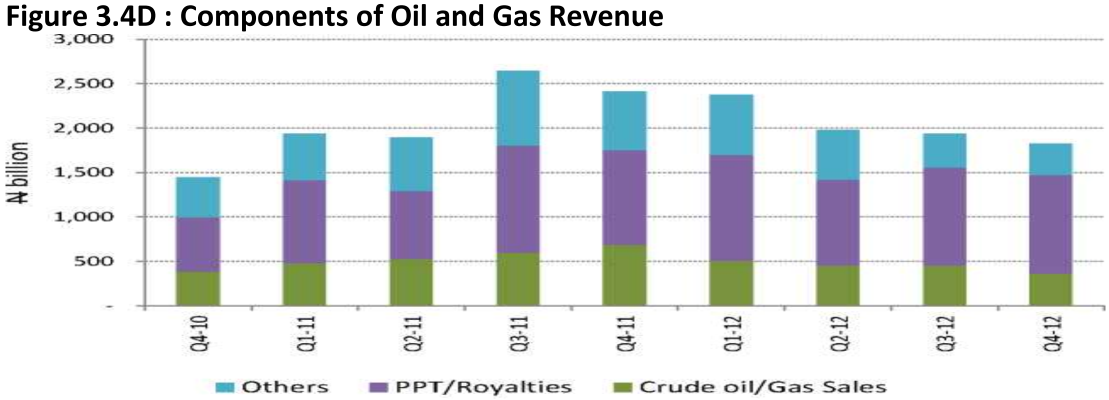
The main components of Gross Oil Revenue collected into the Federation account are Crude Oil and Gas sales (net of allocation to Joint Venture Cash calls), Petroleum Profit Tax, Royalties (Crude Oil and Gas). Others include Gas flare penalties, Concession Rentals and other taxes other than PPT.

Table 3.4B: Components of Oil and Gas Revenue

	Q4-10	Q1-11	Q2-11	Q3-11	Q4-11	Q1-12	Q2-12	Q3-12	Q4-12
Oil Revenue	1448.6	1935.7	1892.4	2642.8	2408.1	2376.0	1981.6	1936.2	1823.6
Crude oil/Gas Sales	385.8	481.1	526.6	596.9	683.4	506.5	452.5	455.2	366.7
PPT/Royalties	611.4	935.9	763.1	1206.5	1070.9	1194.0	966.1	1103.5	1103.9
Others	450.5	517.8	602.8	839.4	653.8	675.5	562.9	377.4	353.1

Source: CBN Economic Report, Fourth Quarter 2012

Figure 3.4D : Components of Oil and Gas Revenue



Source: CBN, Economic Report, Fourth Quarter 2012

3.5 Summary of Exploration and Production Data for 2012 Fiscal Year

The total production of Crude oil for 2012 is 866,651,059 bbl and the breakdown of the production liftings is as shown in Table 3.5 below:

Table 3.5 :Total Production of Crude Oil for 2012 and the Breakdown of the Production Liftings

	BBLs
Total Lifting by all parties nationwide	**866,651,059**
Total NNPC lifting	**380,626,097**
The NNPC lifting was reported as comprising of the following components:	
Federation Account	81,380,417
Supply to Refineries	34,926,533
PPMC Crude Oil Exchange	55,447,262
Offshore Processing	22,755,412
Exported as unprocessed PPMC Crude	49,213,949
FIRS	88,523,487
DPR	6,477,826
NPDC lifting from NNPC Forcados equity in SPDC JV	13,802,849
NNPC Trial Marketing (TMP) Lifting – USAN	9,951,474
Repayment of Qua-Iboe (MCA) Funding Agreement to Mobil Producing Nigeria Unlimited	11,496,629
Repayment of Qua-Iboe Satellite Project to MPNU	6,650,259
Total	**380,626,097**

Source: NNPC statistical Bulletin

The liftings for FIRS (PPT payment) and DPR (Royalty payment) are sold on their behalf by NNPC and payment made to the federation account. NNPC is allocated on the average of 445,000 bbl/d from Crude production for domestic refining but more than 75% of that ends up as Export in 2012. Overall, only 4% of the Crude production was supplied to the refineries in 2012, the remaining is exported to the international market.

3.6. Government Participation in the Oil and Gas Sector

The NNPC is the State oil company that represents Government interests in the various production arrangements and contracts in the Oil and Gas Industry. It is a statutory corporation engaged in activities that span through the whole spectrum of the oil and gas value chain, from exploration, to production, refining, transportation, distribution and supply of petroleum products.

The NNPC sometimes operates directly in petroleum operations (for example, its participation in upstream petroleum arrangements with international oil companies) and sometimes indirectly through subsidiaries. One of the more prominent subsidiaries is the Nigerian Petroleum Development Company ("NPDC") which is engaged in petroleum exploration and production. Another well-known subsidiary is the Petroleum Products Marketing Company Limited ("PPMC"). The PPMC is responsible for the transportation of crude oil to the refineries and the transportation of petroleum products to depots located in various parts of Nigeria. Government has already commenced plans to privatise the PPMC as well as other subsidiaries operating in the downstream petroleum sector.

Another important arm of the NNPC is the National Petroleum Investment Management Services ("NAPIMS"). The NAPIMS is responsible for overseeing the investments of the Federal Government of Nigeria in upstream petroleum operations conducted under joint ventures, production sharing contracts and other petroleum arrangements with the international oil companies ("IOCs"). The Nigerian government is on the path of restructuring the NNPC as part of the sweeping reforms under the PIB. A major aim of the restructuring will be the separation of policy from regulation and commercial activities. Under the reforms, NNPC is to be restructured to be a fully commercial organization with its own asset base against which it can raise money from the money and/or capital market.

In the downstream, NNPC has four refineries in Kaduna, Port Harcourt and Warri that were built between 1978 and 1985 with a total installed capacity of 445,000 bpd and these refineries are linked with a network of pipelines and Depots.

In 1977, when NNPC was created, its primary function was to oversee the regulation of the Nigerian oil and gas industry with a secondary mandate for upstream and downstream developments, but today it has been transformed into a regulatory and business corporation.

The Nigerian government in 1988 restructured the NNPC into six Directorates namely; Exploration and Production, Refineries and Petrochemicals, Finance and Accounts, Commercial and Investment, Corporate Services, and Gas and Power under a Group Managing Director. Twelve subsidiaries were also formed namely; Duke Oil, Hyson (Carlson Bermuda), Integrated Data Services Ltd (IDSL), National Engineering & Technical Co. (NETCO), Nigerian Gas Co. (NGC), Nigerian Petroleum Development Co. (NPDC), National Petroleum Investment Management Service (NAPIMS), Warri Refining & Petrochemical Co. (WRPCO), Kaduna Refining & Petrochemical Co. '(KRPC), and Port Harcourt Refining Co. (PHRC).

3.7 Overview of Revenue Distribution Management & Expenditure

The Federation of Nigeria is entitled to Oil and Gas revenue from its participation in various production arrangements in the Upstream Sector of the petroleum industry. These arrangements include Joint Ventures (JVs), Production Sharing Contracts (PSCs), Service Contracts (SCs), Sole Risks (SRs), etc.

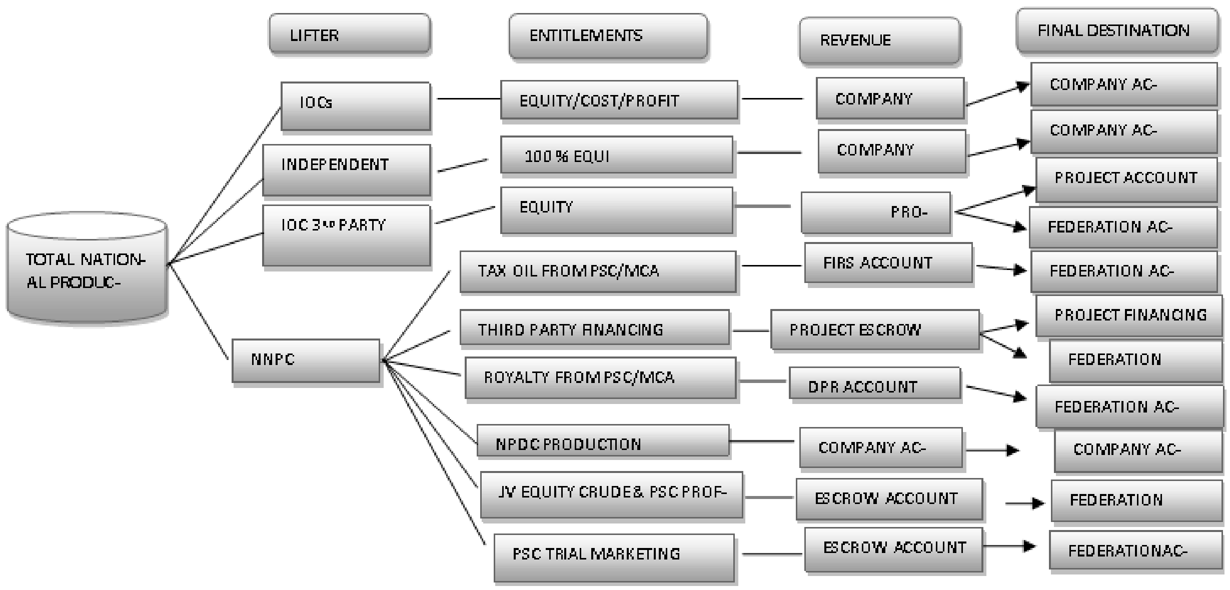
Crude oil and gas are normally allocated to the Federation from Joint Venture operations through the NNPC in accordance with the Federation's equity share or participatory interests in each of the Joint Venture operations. The Federation is also entitled to crude oil and gas from In-Kind payments for Royalty and Petroleum Profits Tax (PPT) as well as Profit Oil from Production Sharing Contract (PSC) operations in the country. Furthermore, Oil and Gas Revenue is derived by the Federation from residual crude oil and gas production from JV fields under certain Alternative Funding arrangements such as Third Party Financing arrangements and Carry Agreements (CAs)/Modified Carry Agreement (MCAs).

The NNPC-COMD is saddled with the responsibility to lift, market and sell all crude oil entitlements on behalf of the Federation from the above sources. The proceeds from the sale of the various liftings are however accounted for through designated foreign bank accounts with JP Morgan Chase for each of the parties. Thus, The Federation equity crude oil and gas is accounted for directly by the NNPC while the sales proceeds with respect to crude oil and gas liftings for Royalty and Petroleum Profits Tax/Companies Income Tax as well as Education Tax are accounted through bank accounts opened and maintained by the DPR and FIRS respectively.

The Off-takers of the crude oil and gas are normally directed to make payments for the invoice values of their liftings of crude oil and/or gas as the case may be into the respective accounts and the affected parties are informed by SWIFT messages when the transaction is completed. It is therefore the responsibility of the DPR to account for the sales proceeds of Royalty oil and gas while the FIRS accounts for Tax oil and gas as the case may be. The Central Bank of Nigeria remains the custodian of all the funds in the foreign bank accounts while the Office of Accountant General of the Federation maintains records of all funds accruable to the federation.

A Schematic diagram of the total national crude oil production and lifting flows and the parties involved as well as the final destination of the revenue flows is presented as follows:

Figure 3.7 - Crude Oil Production, Liftings and Revenue Streams



Source: NNPC

3.7.1 Distribution of the Federation Accounts Revenue

The Revenue Allocation Act provides for the Distribution of the federation funds. Section 1 of the Act provides that, "the amount standing to the credit of the Federation Account, less the sum equivalent to 13 per cent of the revenue accruing to the Federation Account directly from any natural resources as a first line charge for distribution to the beneficiaries of the derivation funds in accordance with the Constitution is distributed among the Federal and State Governments and the Local Government Councils in each State of the Federation." The current Revenue Allocation Formula is as follows:

Table 3.7.1 Distribution of Federation Accounts Revenue

Federal Government	**52.68 per cent**
State Government	**26.72 per cent**
Local Government Councils	**20.60 per cent**

The percentage accruable to each tier of Government (36 states and 774 Local Governments) is shared among the constituents of each tier by applying factors such as Equality, Population, Land Mass, Internally Generated Revenue, Social Development (Health, Education and Water) while 13% derivation fund deducted as a first line charge is further shared among the Oil producing states based on the derivation principle.

3.8 Overview of Licensing and License Allocations

The Petroleum Act provides for three types of licenses for upstream operations: Oil Exploration License (OEL), Oil Prospecting License (OPL) and Oil Mining Lease (OML). The Minister of Petroleum Resources is empowered to grant licenses to only Nigerian citizens or companies incorporated in Nigeria. The OPL and OML confer on the grantee the exclusive right to conduct petroleum operations in the granted area and to produce and dispose of the produced hydrocarbons. The OPL is granted for a primary term of five years for onshore and ten years for offshore and inland basins, while the primary term of the OML is granted for twenty years, renewable for another twenty years. The OPL or ML is deemed to have attained commercial quantity if there is a production of 10,000 bpd from the lease area.

The list of existing OMLs, OPLs, equity holding companies, and type of commercial arrangements (JVs, PSCs, and Sole Risks etc.), effective date of subsisting ownership and other field data are contained in **Appendix 3.8.** No new licenses were issued in 2012.

3.9 Overview of Beneficial Ownership of Corporate Entities operating in the Oil and Gas Sector

The Beneficial Owners of Companies operating in the Nigerian Oil and Gas Industry as defined within the scope of the EITI requirement 3 are the natural person(s) who directly or indirectly (through another company) ultimately controls the corporate entity except for publicly listed companies and wholly owned subsidiaries.

Information on beneficial owners of Oil and Gas Entities is publicly available in Nigeria and can be obtained from the CAC on application by a registered Legal Practitioner or Chartered Accountant.

Information on beneficial owners was provided by the companies as part of Audit Request and was further validated by information provided by the CAC. The companies covered are those within the scope of the NEITI 2012 Oil and Gas Audit.

As at the completion of this report, only **Midwestern and SunTrust** were yet to return the Beneficial Ownership Templates sent to them.

Forty four (44) companies were covered and forty two (42) of these entities completed and returned the beneficial ownership templates. The major challenge was that some companies had other corporate entities listed on the beneficial ownership templates and further search had to be conducted at the Corporate Affairs Commission in order to unveil the real owners of the entities.

Full details of the Beneficial Owners as completed by covered entities in the NEITI 2012 Oil and Gas Audit and authenticated by information from the CAC is contained in **Appendix 3.9.**

3.10 Overview of Operating Contracts Disclosure in Nigerian Oil and Gas Industry.

As part of the new EITI requirements, there is a need to publicly disclose Contracts and Licenses that provide the terms attached to the exploitation of Oil and Gas. In the past, not all information relating to Oil and Gas Contracts were freely available to the public. NEITI Oil and Gas audit 2012 sought for the completion of contract data templates and full text of actual contract documents.

Eighteen of the Companies completed the Field legal contract templates showing type of commercial arrangements, shareholding structure between companies in the arrangement, OPL/OML number and date granted while six of the Companies (Addax-PSC, Energia-MF, SPDC JV, OANDO, NPDC/SPDC and NPDC/CNL) detailed contract documents relating to the field operations.

The operating contracts in the Nigeria Oil and Gas industry are classified into Joint Venture Agreements (JVs), Production Sharing Contracts (PSCs), the service contracts, Farm-out agreements and the Modified Carry Agreements (MCAs).

The Department of Petroleum Resources (DPR) which is responsible for the issuance and regulation of licenses also has the standard formats of the contracts with Government and the complete listings of licenses and the type of contract arrangements. The NNPC which usually signs the agreement on behalf of the Federation also has copies of the agreements entered into on behalf of the Federation. Details of contracts and licenses are as contained in **Appendix 3.10**.

Recommendation: NEITI should ensure that DPR creates a web portal that has the full text of:

- All contracts, concessions, Production arrangements and other agreements (and their addendum) granted by, or entered into by the Government which provide the terms attached to the exploitation of Oil and Gas resources
- All licenses, leases, titles or permits (and their addendum) by which the Government confer on a company(ies) or individual(s) right to exploit Oil and Gas.

4.0 SUMMARY OF AGGREGATED FINANCIAL FLOWS

4.1 Reconciliation and Validation of proceeds of sales of Federation Equity Crude Oil and Gas

4.1.1 Introduction

The Federation of Nigeria is entitled to Oil and Gas revenue from its participation in various production arrangements in the Upstream Sector of the petroleum industry. These arrangements include Joint Ventures (JVs), Production Sharing Contracts (PSCs), Service Contracts (SCs), Sole Risks (SRs), etc.

The NNPC-COMD is saddled with the responsibility to lift, market and sell all Government crude oil entitlements on behalf of the Federation from the above sources. The proceeds from the sale of the various liftings are however accounted for through designated foreign and local bank accounts with JP Morgan Chase and CBN for each of the parties.

4.1.2 System Documentation and Compliance Test Procedures

A detailed system documentation and Compliance Test Procedures on a randomly selected Domestic and Export crude oil sales transactions, was performed during the period to ascertain amongst others, that the pricing methodology was correctly applied to all transactions.

4.2 Sale of Federation Export Crude Oil and Gas/Feedstock

4.2.1 Documents requested from NNPC

The following documents were requested from NNPC:

- Crude Oil Lifting profile for Export crude (Including Gas and Feed stock)
- Crude Oil Receipts profile for Export crude (Including Gas and Feedstock)
- CBN/NNPC JP Morgan Chase Crude Oil and Gas Revenue (Dollar) Account Statement
- CBN-NNPC JP Morgan Chase Gas Revenue (Dollar) Account Statement.
- Mandates from NNPC to CBN to sweep funds from JP Morgan Chase Crude Oil and Gas Revenue (Dollar) Account and JP Morgan Chase Gas Revenue (Dollar) Account to the Cash Call Account and the Federation Account
- NGL Revenues and Loan Profiles
- Schedule of Gas Escrow Account for MCA Projects.
- Selected export crude oil sales invoices together with Bill of Lading, Letters of Credit and other relevant shipping documents.

4.2.2 Summary of Export Crude Oil and Gas/Feedstock Sales in 2012

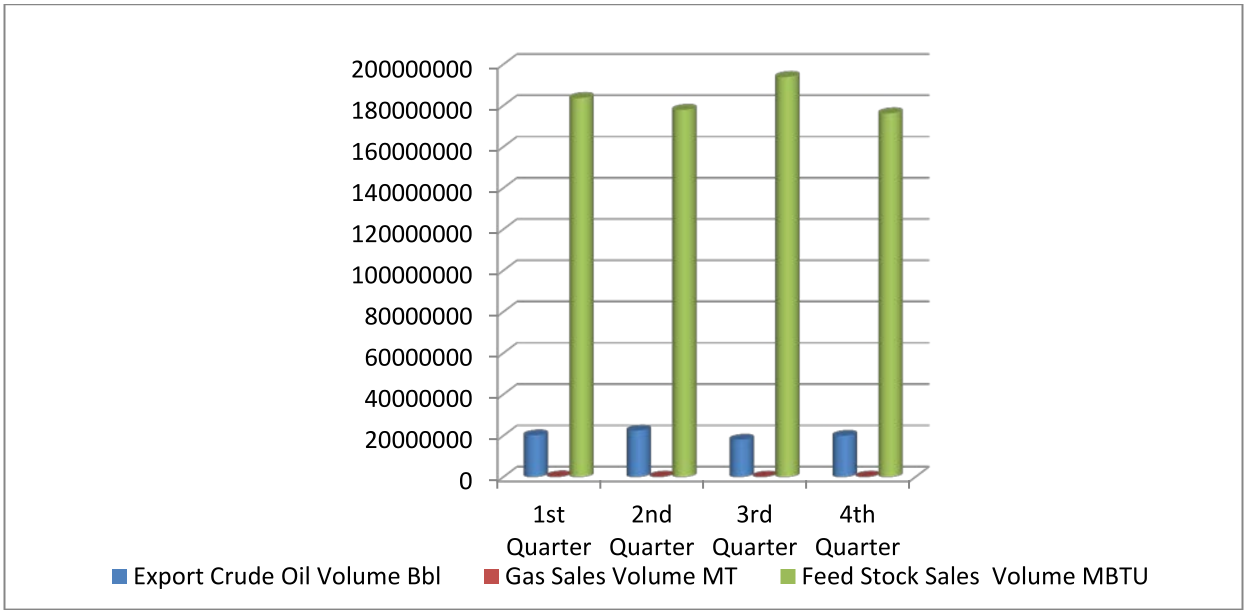
The Summary of Federation Equity (Direct Export) Crude Oil and Gas/Feedstock sales in 2012, duly validated and reconciled to NNPC-COMD records are as set out in Table 4.2.2 below:

Table 4.2.2: Export Crude Oil and Gas Sales Volume and Values (Sales Receivable) for 2012

Quarter	Export Crude Sales		Gas Sales		Feed Stock Sales		Total Sales
	Volume	Value	Volume	Value	Volume	Value	Value
	Bbl	US$	MT	US$	MBTU	US$	US$
1st Quarter	21,049,395	2,526,705,205	230,714.72	200,556,091.17	183,620,436.61	463,729,254.43	3,190,990,550
2nd Quarter	22,477,771	2,380,586,750.54	149,777.96	89,386,291.67	177,877,962.52	456,724,767.21	2,926,697,809
3rd Quarter	17,988,645	1,994,703,675.19	122,323.06	85,043,043.78	193,856,456.03	477,475,881.81	2,557,222,601
4th Quarter	19,864,606	2,213,837,989.84	146,645.36	114,047,359.31	176,193,409.49	447,439,655.91	2,775,325,005
Total	**81,380,417**	**9,115,833,620.45**	**649,461.10**	**489,032,785.93**	**731,548,264.66**	**1,845,369,559.36**	**11,450,235,966**

The volumes shown in the above tables have been reconciled with the physical audit team.
The above sales volumes and values for export crude oil and gas/feedstock are presented Graphically as follows:

Figure 4.2.2A: Graphical Presentation of Crude Oil and Gas/Feedstock Sales Volume for 2012



4.2.3 Export Crude Receivables Control Account for 2012

As part of our validation procedures, we prepared the Export Crude Oil and Gas/Feedstock Receivables Control Account in order to present a summary view of the whole transactions and payments received for the year and establish the Export crude oil and gas/Feedstock Receivables as at 31st December 2012. The Control Account is presented in following Table:

Table 4.2.3- EXPORT Crude Receivables Control Account as at 31st December 2012

Export Crude Oil and Gas Debtors Control Account			
			$000
Balance as at 1st January	(A)		1,602,424
Add:			
Crude oil liftings - Federation		9,115,834	
QIT Satellite Field		757,826	
TMP - NNPC Share of Profit Oil		17,944	
Net Debit Notes		277	
Less: Credit Notes		(68)	9,891,812
Gas Sales		489,033	
Feedstock Sales		1,845,370	
		2,334,402	
Less: Credit Notes		(825)	2,333,577
	B		12,225,389
Total Debts Oustanding	(A+B)=C		13,827,813
Less:			
Receipts into:			
JP Morgan Crude Oil and Gas Revenue (Dollar) Account			9,959,280
JP Morgan Gas Revenue (Dollar) Account:			
Gas sales payment through NGL 1 Revenue Account		170,628	
NGL 2 Revenue Account price balance		39,559	
Feedstock and other Gas Sales		1,679,712	1,889,899
NGL 2 Revenue Account		266,879	
Less: Price balance paid into JP Morgan Gas Revenue Account		(39,559)	227,320
Feedstock Escrow Account			251,400
Total payment	D		12,327,899
Oustanding balance as at 31st December 2012			**1,499,914**
Balance as at 31st December 2012 as per NNPC Debtors Ledger			(910,651)
Un - explained difference			**589,263**

From our review of the NNPC export crude oil debtors ledger, we noted that the outstanding balance as at 31st December 2012 recorded therein was $910,651,000 as against the outstanding balance of $1,499,914 established during the course of our validation procedures as presented above, thus revealing an un-explained difference of $589.263 million.

4.2.4 Analysis and Reconciliation of Outstanding Balance as at 31st December 2012

A detailed analysis and reconciliation of the balance as at 31st December 2012 is as follows:

Table 4.2.4 Reconciliation of Export Crude Oil and Gas Debtors Control Account

Reconciliation of Export Crude Oil and Gas Debtors Control Account	
	2012
	$000
Balance as at 1st January 2012 per previous NEITI audit report	1,602,424
Crude Oil sales in December 2012 not due for payment	771,772
Gas and Feedstock sales in December 2012 not due for payment	146,719
First lifting deposit on invoice No COS/02/025/12 paid per NNPC response	2,500
FIRS Account	105,548
Feedstock sales invoice in November 2012 but paid in January 2013	21,597
Exchange Losses	1,036
Soku condensate	2,845
Crude Oil payment as Tech Cost	9,012
bank charges	1
Debt Servicing receipt from Pan Ocean	(2,000)
Crude Oil sales (part) for November 2011 paid into JP Morgan Crude Oil and Gas Revenue (Dollar) Account in January 2012	(101,492)
Part Crude Oil sales for December 2011 paid into JP Morgan Crude Oil and Gas Revenue (Dollar) Account in January 2012	(751,556)
The balance portion of Crude Oil sales for December 2011 paid into JP Morgan Crude Oil and Gas Revenue (Dollar) Account in February 2012	(101,253)
Gas Sales (part sales) for October 2011 paid into JP Morgan Gas Revenue (Dollar) Account in January 2012	(1,898)
Feedstock Sales (part sales) for November 2011 paid into JP Morgan Gas Revenue (Dollar) Account in January 2012	(67,312)
Feedstock Sales (part sales) for December 2011 paid into JP Morgan Gas Revenue (Dollar) Account in February 2012	(65,851)
Gas Sales (part sales) for November and December 2011 paid into JP Morgan Gas Revenue (Dollar) Account in February 2012	(26,991)
Gas Sales in October 2011 - 61% of sales paid into NGL 2 Revenue Account	(2,968)
Gas Sales in November and December 2011 - 61% of sales paid into NGL 2 Revenue Account	(42,217)
Balance as at 31st December, 2012	**1,499,914**

Source:

- *NNPC COMD Crude Oil Sales Profile*
- *NNPC COMD Sales and Feedstock Sales Profile*
- *JP Morgan Chase Crude Oil and Gas Revenue (Dollar) Revenue Account Bank Statement*
- *JP Morgan Chase Gas Revenue (Dollar) Revenue Account Bank Statement*
- *Sada Idris & Co 2009- 2011 NEITI Crude Oil and Gas Audit Report.*

4.2.5 Summary of Payments Received by CBN into JP Morgan Crude Oil and Gas Revenue Accounts in 2012

The dedicated foreign bank account opened by the CBN for receipts of proceeds from Export Crude Oil Sales is the CBN/NNPC JP Morgan Oil and Gas Revenue (Dollar) Account.
A separate bank account - CBN/NNPC JP Morgan Gas Revenue (Dollar) Account, is also maintained by the CBN with JP Morgan Chase for the receipts of proceeds from sale of Gas and Feedstock. Other miscellaneous receipts such as bank interests, **ullage** fees and Junk sales are also lodged into these two accounts.

Based on written Mandates from NNPC, the proceeds from these accounts are swept from time to time into the Federation Account after funding of Cash Calls. Below is a summary of the transactions and balances in the two JP Morgan Chase Bank Accounts for the year 2012:

Table 4.2.5A- CBN-NNPC JP Morgan Chase Crude Oil and Gas Revenue (Dollar) Account Summary for 2012

		2012 $'000
Balance as at 1st January	(A)	1,211,924
Lodgments:		
Export Crude Proceeds		9,959,280
Interest and Other Lodgments		170,653
	(B)	10,129,934
Total Inflow	(A+B)=C	11,341,858
Payments:		
Payment to Federation Account		3,162,077
Transfer to JV Cash call Account		7,255,964
	(D)	10,418,041
Balance as at 31st December		**923,817**
Source: CBN/NNPC JP Morgan Oil Chase Crude Oil and Gas Revenue (Dollar) Account		

Lodgements and transfers as well as balances in the above account were duly validated and reconciled to the Bank Statements for the period. We observed that CBN/NNPC JP Morgan Chase Crude Oil and Gas Revenue (Dollar) Bank Account is the principal account from where Joint Venture Cash Calls are funded. Mandates from NNPC are normally issued to the CBN as authorization for the transfers. After funding Cash Call requirements, transfers are made from the account into the Federation Account, again, on the authority of NNPC mandates.

Table 4.2.5B - CBN-NNPC JP Morgan Chase Gas Revenue Account Summary for 2012

		2012
		$'000
Balance as at 1st January	(A)	284,025
Lodgments:		
Gas and Feedstock Proceeds		1,889,899
Interest and Other Lodgments		213,027
	(B)	2,102,926
Total Inflow	(A+B)=C	2,386,951
Payments:		
Payment to Federation Account		2,124,060
Transfer to JV Cash call Account		54,897
	(D)	2,178,957
Balance as at 31st December		**207,994**
Source: CBN/NNPC JP Morgan Chase Gas Revenue (Dollar) Account		

The lodgements and transfers as well as balances in the above account were duly validated and reconciled to the Bank Statements for the period. Transfers were made from the Account to the Federation Account, totalling **$2.124 billion** during the year, while the sum of **$54.897 million** was transferred to JV Cash Call Account.

4.2.6 Matching of Crude Oil Sales Value against Receipts into CBN/NNPC JP Morgan Crude Oil and Gas Account in 2012

Presented below is a summary of total sales matched against actual receipts for 2012.

	2012
	$
Sales Value	9,115,833,620.45
Less: Receipt	8,229,209,374.40
Difference	**886,624,246.05**

The difference highlighted above was not solely attributable to outstanding crude oil sales, hence the need for further analysis to ascertain the makeup as presented below:

	2012
	$
Credit Note	68,060.10
Net Debit Notes	(277,041.27)
Bank Charges	785.96
Debt Service Repayment (Pan Ocean)	(1,999,975.00)
Technical Cost	9,011,894.37
FIRS Account	105,548,414.46
Unpaid Invoice/ Shortfall in payment	774,272,107
	886,624,246.05

Source:

- *Crude Oil Profile Lifting Schedules*
- *JPMorgan Chase Bank CBN NNPC Crude Oil and Gas Revenue*

4.2.7 Further Analysis of Export Crude Oil Sales receipt Variance in 2012

The Table below shows the month by month analysis of export crude oil sales and receipts with a view to ascertaining how the variances arose.

Table 4.2.7 : Month by Month Analysis of Export Crude Oil Sales

					Analysis of variance							
Month of Lifting	**Volume**	**NNPC/COMD Sales Value**	**CBN Receipts**	**Variance**	**Bank Charges**	**Debt Servicing receipt from Pan Ocean**	**Credit Notes**	**Net Debit Notes**	**Technical Cost**	**FIRS Account**	**Unpaid Inv./Shortfall in Payment**	**Total**
	Bbl	**$**	**$**	**$**	**$**	**$**	**$**	**$**			**$**	**$**
January	7,824,072	874,574,672.06	769,026,257.59	105,548,414.46	-					105,548,414.46		105,548,414.46
February	5,540,127	686,306,777.84	686,019,587.86	287,189.98	25.00	(1,999,975.00)	64,181.25	(277,041.27)			2,500,000	287,189.98
March	7,685,196	965,823,754.99	956,811,789.63	9,011,965.36	70.99				9,011,894.37			9,011,965.36
April	5,816,822	697,264,576.32	697,264,465.92	110.40	110.40							110.40
May	7,506,343	806,112,563.35	806,112,535.36	27.99	27.99							27.99
June	9,154,606	877,209,610.87	877,209,470.87	140.00	140.00							140.00
July	5,700,083	609,067,686.55	609,067,605.77	80.79	80.79						(0.00)	80.79
August	7,657,986	866,354,597.72	866,354,487.31	110.40	110.40						-	110.40
September	4,630,576	519,281,390.92	519,277,412.07	3,978.85	100.00		3,878.85					3,978.85
October	5,297,699	587,011,584.51	587,011,537.72	46.79	46.79						-	46.79
November	7,715,941	855,054,297.89	855,054,224.30	73.59	73.59						-	73.59
December	6,850,966	771,772,107.43		771,772,107.43							771,772,107.43	771,772,107.43
Total	**81,380,417**	**9,115,833,620.45**	**8,229,209,374.40**	**886,624,246.05**	**785.96**	**(1,999,975.00)**	**68,060.10**	**(277,041.27)**	**9,011,894.37**	**105,548,414.46**	**774,272,107.43**	**886,624,246.05**

SOURCE: (a) Export Crude Oil Sales and Receipts Template populated by COMD/NNPC

(b) JPMorgan Chase CBN- NNPC Crude Oil and Gas Revenue Account.

NOTES:

1. Amount of **$2,500,000** relates to invoice No COS/02/025/12 reported paid per NNPC response.

2. INVOICE NO COS/01/009/2012 REFERS: NNPC explained that an Amenam lifting of 949,629 bbls with sales value of $105,548,414.46 on board vessel Nordic Saturn BL Dated 22nd January, 2012 meant for Federation account was erroneously paid into FIRS PPT Account by the Off-taker. NNPC explained further that discussions are on-going between NNPC and FIRS on book reversal to Federation Account. We have moved the said amount of $$105,548,414.46 from the FIRS Account to the Federation Account accordingly.

3. All Receipts were traced to JP Morgan Crude Oil and Gas Revenue (Dollar) Account, including the receipts for December that was paid in January 2013.

4.2.8 Reconciliation of 2012 Export Crude Oil and Gas Sales per Audit Validation against NNPC Analysis

We obtained from NNPC, an analysis of Equity Crude Oil and Gas Lifting and Payments to Federation Account from January to December 2012 with a view to comparing same with our validated Crude Oil and Gas/feedstock sales and receipts for the year under review. The objective of the comparison was to ascertain the degree of correspondence between the NNPC analysis and the Audit work carried out. Presented below is a reconciliation of the validated Crude Oil and Gas/feedstock sales against NNPC analysis of sales and payments into the Federation Account for 2012.

Table 4.2.8: A Reconciliation of Monthly Crude Oil and Gas/Feedstock Sales per Audit against NNPC Analysis

A		Export Crude Oil Sales		LPG/NGL (Gas)	NLNG (Feedstock)
		Volume Bbls' $	Value $	Sales Value $	Sales Value $
	As Per NNPC Analysis	81,208,810	9,083,867,860.01	499,901,925.18	1,848,011,478.07
	As Per NNPC Audit	81,380,417	9,115,833,620.45	489,032,785.93	1,845,369,559.36
	Difference	**171,607**	**31,965,760.44**	**(10,869,139.25)**	**(2,641,918.71)**

Table 4.2.8B: Reconciliation of the above difference is as follows:

B		Export Crude Oil Sales		LPG / NGL (Gas)	NLNG (Feedstock)
		Volume Bbls' $	Value $	Sales Value $	Sales Value $
	December 2012 Sales not included in the NNPC Analysis	6,850,966	771,772,107.43	11,924,478.00	162,821,935.70
	Less:				
	December 2011 Sales	(7,628,988)	(845,354,761.43)	(32,793,617.25)	(165,463,853.92)
	Add: Invoice - COS/01/009/2012, excluded in the NNPC Analysis	949,629	105,548,414.44	-	-
	Add: March 2012 LPG/NGL Sales as per Audit			62,063,254.66	
	Less: March 2012				
	LPG/NGL Sales as per NNPC Analysis			(52,063,254.66)	
		171,607	**31,965,760.44**	**(10,869,139.25)**	**(2,641,918.22)**
	A-B	-	-	-	-

Note: INVOICE NO COS/01/009/2012 REFERS: NNPC explained that an Amenam lifting of 949,629 bbls on board vessel Nordic Saturn BL Dated 22nd January, 2012 meant for Federation account was erroneously paid into FIRS PPT Account by the Off-taker. NNPC explained further that discussions are ongoing between NNPC and FIRS on book reversal to Federation Account.

Also in March 2012 Gas sales in the NNPC Analysis was disclosed as **$52,063,254.66** whereas the value as per Audit was **$62,063,254.66.**

4.2.9 Reconciliation of Transfers From the two CBN - NNPC JP Morgan Revenue (Dollar) Account into JV Cash Call Account and the Federation Account per Audit against NNPC Analysis

Table 4.2.9: Transfer from the two CBN-NNPC JP Morgan Account

A		Total transfers from the Two CBN NNPC JP Morgan Revenue (Dollar) Accounts		Total
		To: JV Cash Call	To: Federation Accounts	
		$	$	$
	As Per Audit	7,310,861,360.62	5,286,136,597.66	12,596,997,958.28
	As Per NNPC Analysis	7,364,562,090.34	4,868,297,092.22	12,232,859,182.56
	Difference	**(53,700,729.72)**	**417,839,505.44**	**364,138,775.72**
	Reconciliation of the Above difference			
B	January 2012 Transfers as per Audit	560,012,777.78	920,937,032.32	1,480,949,810.10
	Less: December 2012 Transfers as per NNPC Analysis	613,713,507.53	503,097,578.44	1,116,811,085.97
		(53,700,729.75)	**417,839,453.88**	**364,138,724.13**
	A - B Rounding errors	**(0.03)**	**(51.56)**	**(51.59)**

4.2.10 Matching of Gas/Feedstock Sales value against Receipts into CBN/NNPC JP Morgan Gas Revenue Account in 2012

Table 4.2.10 : Summary of Gas and Feedstock Sales and Receipt

	2012
	$
Sales Value	2,334,402,345.30
Less: Receipt	1,688,286,643.34
Difference	**646,115,701.96**
Representing:	
Deduction of loan Repayment to NGL 2 Account	228,840,608.88
Oustanding/Unpaid Invoice	161,168,519.81
Deduction of Interest on NGL2	-
Exchange Loss (Domestic Sales)	1,035,748.46
Bank Charges	33.00
Gas Escrow Account	251,400,432.00
Credit Note	825,389.34
Off Spec Claim	-
Soku Condensate	2,844,970.47
	646,115,701.96

4.2.11 Analysis of Gas and Feedstock Sales and Receipt

Table below shows the analysis of Gas and Feedstock sales and receipts, as well as the analysis of variance in year 2012.

Table 4.2.11: Analysis of Gas and Feedstock Sales and Receipt

Month of Sales	Sales Value	Amount paid	Variance	Repayment to NGL 2 Revenue Account	Oustanding/Unpaid Invoice	Exchange Loss	Gas Escrow A/c	Credit Note	Bank Charges	Soku condensate
	$	$	$	$		$	$	$	$	$
January	191,508,836.99	130,593,837.70	60,914,999.29	23,792,807.52		-	36,390,748.11	731,443.63	-	-
February	263,485,492.01	189,401,672.66	74,083,819.34	48,752,797.71		131,921.51	25,041,630.97		25.00	157,444.16
March	209,291,016.61	163,457,052.75	45,833,963.86	25,281,164.34			20,376,816.05			175,983.47
April	156,786,087.41	135,441,815.41	21,344,272.00	3,683,813.09		203,245.15	17,457,213.77			
May	216,059,581.05	163,748,253.20	52,311,327.85	32,124,163.43			20,187,156.41		8.00	
June	173,265,390.41	154,258,065.71	19,007,324.70	2,122,580.15		164,380.91	16,213,025.66			507,337.98
July	206,331,710.68	151,288,563.45	55,043,147.23	35,625,790.53		104,916.70	18,843,520.53			468,919.47
August	198,858,746.23	176,276,126.17	22,582,620.07	3,371,331.13		113,338.65	19,035,761.41	62,188.87		
September	157,328,468.68	134,053,322.23	23,275,146.45	3,557,315.24		109,828.88	19,608,002.34			
October	215,259,454.01	161,290,630.34	53,968,823.67	43,381,865.32			10,586,958.36			
November	171,481,147.50	128,477,303.72	43,003,843.78		21,596,575.52		20,487,128.08			920,140.17
December	174,746,413.70		174,746,413.70	7,146,980.42	139,571,944.29	208,116.66	27,172,470.31	31,756.84		615,145.22
Total	**2,334,402,345.30**	**1,688,286,643.34**	**646,115,701.96**	**228,840,608.88**	**161,168,519.81**	**1,035,748.46**	**251,400,432.00**	**825,389.34**	**33.00**	**2,844,970.47**

Source: COMD Profile Lifting 2012

4.2.12 Summary of Sales Proceeds from Export Crude Oil and Gas/Feedstock sales swept into the Federation Account

Presented in the Table below is a summary of receipts from Crude Oil and Gas/Feedstock sales received into the two JP Morgan bank accounts identified already in this report, together with a summary of transfers from the accounts into the JV Cash Call Account and the Federation Account respectively in 2012:

Table 4.2.12: Summary of Dollar Payments Received by CBN into JP Morgan Bank Accounts and Swept to Federation Account in 2012

Quarter	Receipts Export Crude	Gas Sales/Feedstock	Sub-Total	Interest and Other Income	Total	Swept to Federation Account	Cash Call Account	Total
	US$	US$	US$	US$	US$	US$	US$	US$
January	853,048,454.00	69,210,181.55	922,258,635.55	8,180,721.33	930,439,356.88	920,937,032.32	560,012,777.78	1,480,949,810.10
February	870,279,238.26	180,154,145.18	1,050,433,383.44	98,199,331.62	1,148,632,715.06	370,426,579.10	560,012,777.78	930,439,356.88
March	793,289,164.23	164,803,656.39	958,092,820.62	20,623,295.71	978,716,116.33	588,619,937.27	560,012,777.78	1,148,632,715.05
1st Quarter	**2,516,616,856.49**	**414,167,983.12**	**2,930,784,839.61**	**127,003,348.66**	**3,057,788,188.27**	**1,879,983,548.69**	**1,680,038,333.34**	**3,560,021,882.03**
April	1,073,638,846.21	88,499,155.82	1,162,138,002.03	6,647,500.89	1,168,785,502.92	418,703,338.55	560,012,777.78	978,716,116.33
May	817,941,104.93	243,278,511.68	1,061,219,616.61	16,352,737.56	1,077,572,354.17	393,972,223.33	774,813,279.59	1,168,785,502.92
June	919,542,824.65	89,354,293.41	1,008,897,118.06	9,447,908.73	1,018,345,026.79	463,856,429.44	613,715,924.73	1,077,572,354.17
2nd Quarter	**2,811,122,775.79**	**421,131,960.91**	**3,232,254,736.70**	**32,448,147.18**	**3,264,702,883.88**	**1,276,531,991.32**	**1,948,541,982.10**	**3,225,073,973.42**
July	1,172,738,692.36	291,350,340.33	1,464,089,032.69	18,446,862.71	1,482,535,895.40	404,631,519.26	613,713,507.53	1,018,345,026.79
August	605,358,478.15	11,862,460.87	617,220,939.02	8,037,098.33	625,258,037.35	868,822,387.88	613,713,507.53	1,482,535,895.41
September	741,210,218.21	281,289,505.57	1,022,499,723.78	9,220,569.30	1,031,720,293.08	11,544,529.82	613,713,507.53	625,258,037.35
3rd Quarter	**2,519,307,388.72**	**584,502,306.77**	**3,103,809,695.49**	**35,704,530.34**	**3,139,514,225.83**	**1,284,998,436.96**	**1,841,140,522.59**	**3,126,138,959.55**
October	717,667,330.83	178,054,160.33	895,721,491.16	62,293,791.04	958,015,282.20	418,006,785.55	613,713,507.53	1,031,720,293.08
November	557,011,605.70	135,829,034.46	692,840,640.16	3,186,937.84	696,027,578.00	344,301,764.67	613,713,507.53	958,015,272.20
December	837,554,254.30	156,213,252.63	993,767,506.93	123,043,579.04	1,116,811,085.97	82,314,070.47	613,713,507.53	696,027,578.00
4th Quarter	**2,112,233,190.83**	**470,096,447.42**	**2,582,329,638.25**	**188,524,307.92**	**2,770,853,946.17**	**844,622,620.69**	**1,841,140,522.59**	**2,685,763,143.28**
Total	**9,959,280,211.83**	**1,889,898,698.22**	**11,849,178,910.05**	**383,680,334.10**	**12,232,859,244.15**	**5,286,136,597.66**	**7,310,861,360.62**	**12,596,997,958.28**

Sources: *- CBN-NNPC JP Morgan Chase Crude Oil and Gas Revenue (Dollar) Account Bank Statement.*

- CBN-NNPC JP Morgan Chase Gas Revenue (Dollar) Account Bank Statement

- NNPC Mandates to the CBN

4.2.13 Analysis of Sales Proceeds from Export Crude Oil and Gas/Feedstock Sales

We present in Tables 4.2.13A and 4.2.13B below, a further analysis of the sales proceeds on the basis of total receipts into the dedicated account for Crude Oil sales receipts and the second account maintained separately for Gas/Feedstock sales receipts respectively as follows:

Table 4.2.13A: Summary of Crude Oil Sales Receipts into CBN/NNPC JP Morgan Oil and Gas Revenue (Dollar) Account and Transfers to Federation Account and JV Cash Call Account in 2012.

Quarter	Receipts Export Crude	Interest and Other Income	Total	Swept to Federation Account	Cash Call Account	Total
	US$	US$	US$	US$	US$	US$
January	853,048,454.00	8,151,975.60	861,200,429.60	641,911,550.77	560,012,777.78	1,201,924,328.55
February	870,279,238.26	6,351,076.74	876,630,315.00	301,187,651.82	560,012,777.78	861,200,429.60
March	793,289,164.23	12,381,630.38	805,670,794.61	316,617,537.21	560,012,777.78	876,630,314.99
1st Quarter	**2,516,616,856.49**	**26,884,682.72**	**2,543,501,539.21**	**1,259,716,739.80**	**1,680,038,333.34**	**2,939,755,073.14**
April	1,073,638,846.21	1,520,705.91	1,075,159,552.12	245,658,016.83	560,012,777.78	805,670,794.61
May	817,941,104.93	12,330,794.80	830,271,899.73	300,346,272.53	774,813,279.59	1,075,159,552.12
June	919,542,824.65	9,434,950.23	928,977,774.88	216,555,975.00	613,715,924.73	830,271,899.73
2nd Quarter	**2,811,122,775.79**	**23,286,450.94**	**2,834,409,226.73**	**762,560,264.36**	**1,948,541,982.10**	**2,711,102,246.46**
July	1,172,738,692.36	17,611,939.65	1,190,350,632.01	315,264,267.35	613,713,507.53	928,977,774.88
August	605,358,478.15	8,022,227.33	613,380,705.48	576,637,124.49	613,713,507.53	1,190,350,632.02
September	741,210,218.21	4,487,851.46	745,698,069.67	-	613,380,705.48	613,380,705.48
3rd Quarter	**2,519,307,388.72**	**30,122,018.44**	**2,549,429,407.16**	**891,901,391.84**	**1,840,807,720.54**	**2,732,709,112.38**
October	717,667,330.83	11,959,887.68	729,627,218.51	131,984,562.14	613,713,507.53	745,698,069.67
November	557,011,605.70	2,137,491.42	559,149,097.12	115,913,700.98	613,713,507.53	729,627,208.51
December	837,554,254.30	76,262,803.63	913,817,057.93	-	559,149,097.12	559,149,097.12
4th Quarter	**2,112,233,190.83**	**90,360,182.73**	**2,202,593,373.56**	**247,898,263.12**	**1,786,576,112.18**	**2,034,474,375.30**
Total	**9,959,280,211.83**	**170,653,334.83**	**10,129,933,546.66**	**3,162,076,659.12**	**7,255,964,148.16**	**10,418,040,807.28**

Source: *CBN-NNPC JP Morgan Chase Crude Oil and Gas Revenue (Dollar) Account Bank Statements and NNPC Mandates*

As summarized above, total receipts into the CBN-NNPC JP Morgan Chase Crude Oil and Gas Revenue (Dollar) Account Bank in 2012 from Crude Oil sales amounted to **$9.959 Billion** while total receipts from interest and other income was **$170.653 Million**, bringing the total receipts into the account in 2012 to **$10.130 Billion**. Total transfer from the account to the JV Cash Call Account during the year was **$7.256 Billion**, while amounts swept into the Federation Account was **$3.162 Billion**. The balance in the Account as at 1st January 2012 was **$1.212 Billion**.

Table 4.2.13B : Gas/Feedstock sales Receipts into CBN/NNPC JP Morgan Gas Revenue Account and Transfers to Federation Account and JV Cash Call Account

Quarter	Receipts Export Gas/Feedstock	Interest and Other Income	Total	Swept to Federation Account	Cash Call Account	Total
	US$	US$	US$	US$	US$	US$
January	69,210,181.55	28,745.73	69,238,927.28	279,025,481.55	-	279,025,481.55
February	180,154,145.18	91,848,254.88	272,002,400.06	69,238,927.28	-	69,238,927.28
March	164,803,656.39	8,241,665.33	173,045,321.72	272,002,400.06	-	272,002,400.06
1st Quarter	**414,167,983.12**	**100,118,665.94**	**514,286,649.06**	**620,266,808.89**	**-**	**620,266,808.89**
April	88,499,155.82	5,126,794.98	93,625,950.80	173,045,321.72	-	173,045,321.72
May	243,278,511.68	4,021,942.76	247,300,454.44	93,625,950.80	-	93,625,950.80
June	89,354,293.41	12,958.50	89,367,251.91	247,300,454.44	-	247,300,454.44
2nd Quarter	**421,131,960.91**	**9,161,696.24**	**430,293,657.15**	**513,971,726.96**	**-**	**513,971,726.96**
July	291,350,340.33	834,923.06	292,185,263.39	89,367,251.91	-	89,367,251.91
August	11,862,460.87	14,871.00	11,877,331.87	292,185,263.39	-	292,185,263.39
September	281,289,505.57	4,732,717.84	286,022,223.41	11,544,529.82	332,802.05	11,877,331.87
3rd Quarter	**584,502,306.77**	**5,582,511.90**	**590,084,818.67**	**393,097,045.12**	**332,802.05**	**393,429,847.17**
October	178,054,160.33	50,333,903.36	228,388,063.69	286,022,223.41	-	286,022,223.41
November	135,829,034.46	1,049,446.42	136,878,480.88	228,388,063.69	-	228,388,063.69
December	156,213,252.63	46,780,775.41	202,994,028.04	82,314,070.47	54,564,410.41	136,878,480.88
4th Quarter	**470,096,447.42**	**98,164,125.19**	**568,260,572.61**	**596,724,357.57**	**54,564,410.41**	**651,288,767.98**
Total	**1,889,898,698.22**	**213,026,999.27**	**2,102,925,697.49**	**2,124,059,938.54**	**54,897,212.46**	**2,178,957,151.00**

Source: CBN-NNPC JP Morgan Chase Gas Revenue Account Bank Statements and NNPC Mandates.

Total Receipts from Gas and Feedstock sales in 2012 was **$1.890 billion** while total receipts from interest and other income lodged into the account amounted to **$213.027 million**, thus bringing the total lodgements into the account in 2012 to **$2.103 Billion**. Total transfers to the JV Cash call Account was **$54.897 million** while amounts swept into the Federation Account was **$2.124 Billion**.

4.3 Sale of Crude to NNPC –PPMC for Domestic Refining

4.3.1 Introduction

A detailed review and validation of Domestic Crude Oil Sales and Receipts at the NNPC Crude Oil Marketing Division (COMD), the NNPC Group Treasury and Finance and Accounts Departments was undertaken.

The main objectives of the review and validation exercise were:

- To confirm the volume of Domestic Crude Oil actually invoiced by NNPC-COMD to NNPC-PPMC - the subsidiary of NNPC responsible for handling domestic crude oil activities.

- To confirm that Domestic Crude Oil supplied to NNPC-PPMC during the year under review were promptly and correctly paid for by NNPC-PPMC and the payments traced and agreed to the NNPC/CBN Crude Oil Sales (Naira) Account

- To validate NNPC mandates to CBN and confirm that proceeds from Domestic crude oil sales were swept into the Federation Account.
- To report on lapses observed in the marketing and sale of domestic crude during the year under review.

4.3.2 Compliance Test Procedures

We carried out Compliance Test procedures on a random sample of Domestic sales transactions to confirm that the pricing mechanism and methodology was being applied as prescribed. One Hundred and Sixty One (161) transactions were randomly selected from the Domestic crude oil lifting profile for 2012, and based on the Official selling price advised by NNPC for the month; the crude type and the pricing option chosen by the Buyer, we re-computed the price and compared to the unit price on template.

The test revealed Six (6) instances or 3.7% of cases where the unit price on NNPC template was lower than the re-calculated price thereby leading to a total loss of **$8,673,817.61**
(**equivalent to N1, 343,511,021.61)**

4.3.3 Domestic Crude Sales Volume Summary

The validation of domestic Crude sales commenced by verifying the volume and value of Domestic Crude in the template populated by NNPC-COMD against that in the Lifting/Sales Profile in order to ensure that all domestic sales transactions were fully and correctly accounted for and reported. Table 4.3.3 below contains a summarized analysis of the Domestic Crude oil volume lifted by NNPC-PPMC during the period under review.

Table 4.3.3: Domestic Crude Oil Liftings from Jan-Dec 2012

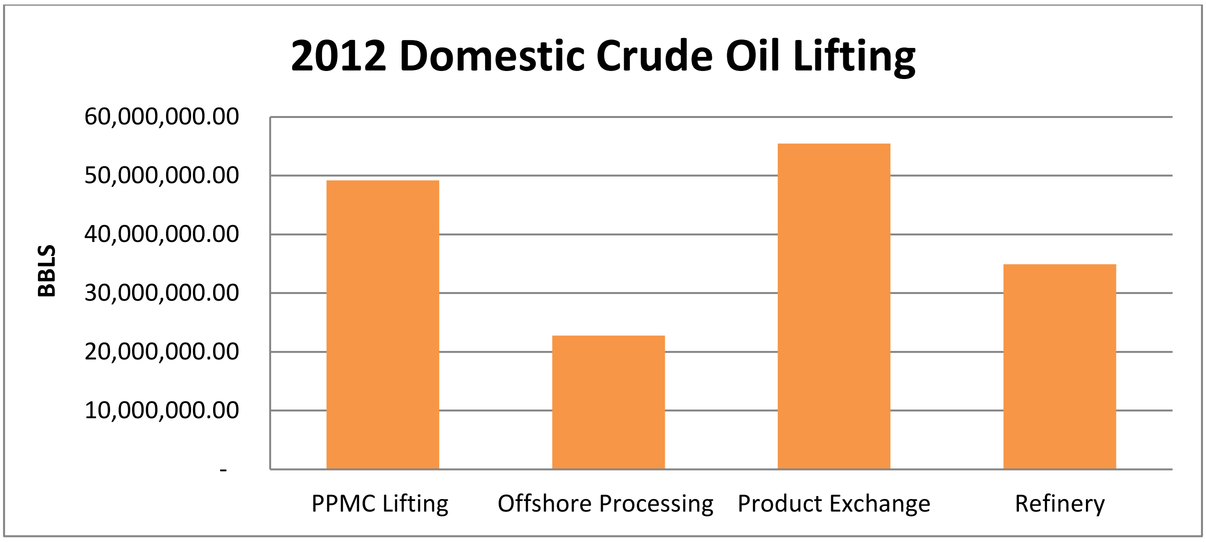
DOMESTIC CRUDE OIL LIFTINGS (BARRELS) FROM JAN-DECEMBER 2012													
A/C BREAKDOWN	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPT	OCT	NOV	DEC	**TOTAL**
WRPC/KRPC (ESCRAVOS & UGHELLI B)	545,279	0	0	1,704,525	1,628,944	1,010,302	2,003,849	166,138	313,190	716,077	1,488,544	1,078,297	**10,655,145**
MARINE OPERATIONS	1,397,640	1,596,536	1,697,454	698,302	1,696,238	1,098,650	1,495,663	0	1,098,451	1,297,340	1,798,257	0	**13,874,531**
PHRC	1,549,862	310,265	1,234,318	0	0	0	0	912,561	1,952,125	1,095,250	1,849,598	1,492,878	**10,396,857**
UN-UTILSED PPMC CRUDE EXPORTS	6,646,915	6,222,478	4,444,666	2,804,370	907,372	2,849,414	4,664,590	5,810,478	4,842,174	2,236,122	2,693,922	5,091,448	**49,213,949**
PPMC-OFFSHORE PROCESSING	950,778	1,900,578	1,900,036	2,895,035	1,899,991	1,899,904	1,899,723	949,628	2,849,647	1,899,589	950,284	2,760,219	**22,755,412**
CRUDE EXCHANGE	2,762,271	5,701,520	4,705,932	4,749,714	5,613,447	3,667,530	3,756,196	5,695,386	4,752,798	4,705,359	2,782,426	6,554,683	**55,447,262**
TOTAL ACTUAL DOMESTIC LIFTINGS	**13,852,745**	**15,731,377**	**13,982,406**	**12,851,946**	**11,745,992**	**10,525,800**	**13,820,021**	**13,534,191**	**15,808,385**	**11,949,737**	**11,563,031**	**16,977,525**	**162,343,158**
Source: Domestic crude oil lifting profile													

From the above, the total volume of Domestic Crude oil lifted by NNPC-PPMC and disposed as categorized in the Table was

162,343,156 barrels.

The above volume data for Domestic Crude Oil lifting in 2012 is presented in graphical illustration as follows:

Figure 4.3.3: Domestic Crude Oil Liftings from Jan-Dec 2012



4.3.4 Summary of Domestic Crude Oil Sales Value in 2012

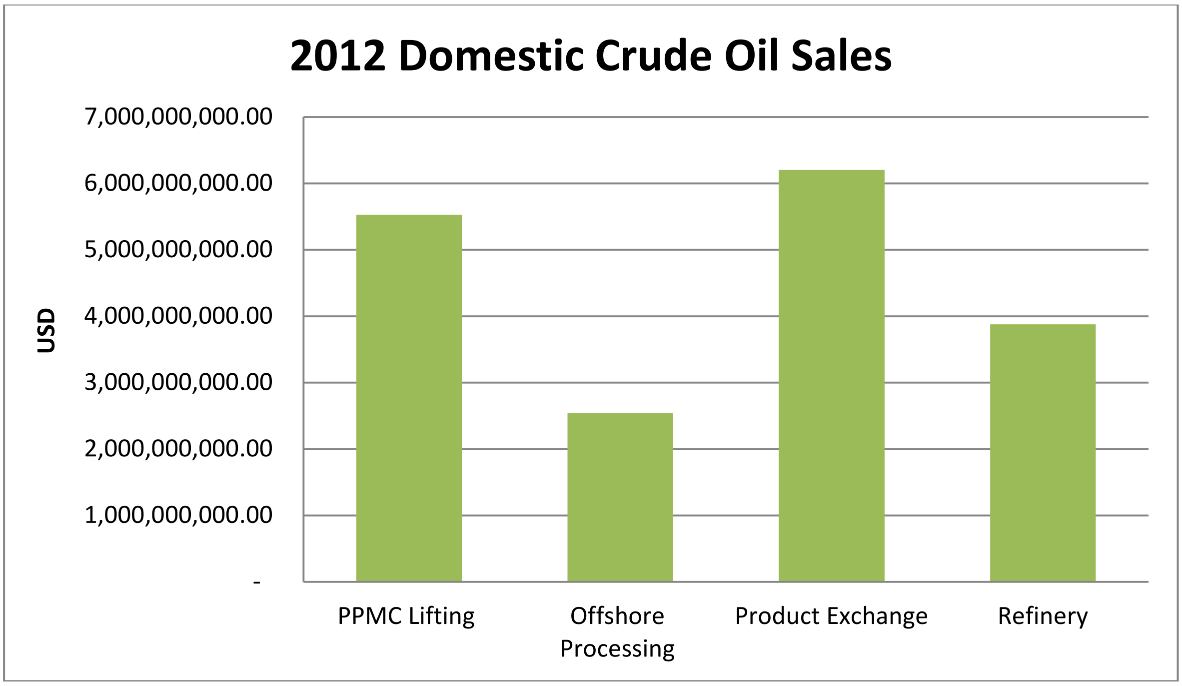
The sales value of the Domestic Crude Oil lifted as presented in Table 4.3.3 above is summarized as follows:

Table 4.3.4 : Domestic Crude Oil Sales Value For 2012 (USD$ Equivalent)

PPMC Lifting	Offshore Processing	Product Exchange	Refinery
$	$	$	$
742,038,133.97	106,294,128.07	309,682,775.57	388,896,231.99
745,920,950.10	232,045,143.45	683,030,009.58	233,334,437.53
564,315,217.25	241,063,278.58	595,636,021.17	366,483,893.66
329,904,852.14	342,616,740.15	559,308,564.91	284,000,327.88
102,298,934.02	190,913,858.61	595,710,604.65	351,674,026.62
266,580,696.26	176,919,142.93	343,278,273.49	199,117,739.24
477,878,016.25	201,947,158.85	380,767,166.04	360,573,546.98
643,578,789.70	109,037,236.59	650,613,870.34	122,053,157.84
545,139,755.09	320,714,255.47	532,500,526.49	374,680,141.12
246,105,354.70	208,510,277.52	516,123,607.14	344,141,002.99
299,344,045.59	105,715,293.86	307,495,323.65	566,438,654.96
563,733,372.51	307,167,502.98	727,167,350.56	285,279,412.00
5,526,838,117.58	**2,542,944,017.06**	**6,201,314,093.59**	**3,876,672,572.81**

The above domestic sales value is presented graphically with respect to the various components as follows.

Figure 4.3.4 : Graphical Presentation of Value of Domestic Lifting



4.3.5 Domestic Crude Sales Value Validation and Reconciliation

We obtained from NNPC-COMD, Treasury and Accounts Departments all the transaction documents related to Domestic Crude sales during the year under review including the domestic crude oil lifting profile, sales invoices and shipping documents, Bank statements, NNPC Mandates, etc and we performed the following tasks:

1. Verified the volumes and values of Domestic Crude in the template populated by NNPC-COMD against the Lifting Profile and the domestic crude oil invoices issued during the year in order to confirm that all domestic crude oil sales are fully accounted for and expected payments were properly computed and billed to the Buyer.

2. Validated all payments as recorded in the NNPC-COMD schedules and traced and agreed each payment to the CBN/NNPC Crude Oil and Gas Naira Account Statements.

3. Conducted arithmetical accuracy tests of the schedule of payments to ensure the totals reported reflected the true position.

4. Vouched the lifting profiles/ template values to the NNPC Treasury Department schedule of payments.

5. Reviewed and verified NNPC mandate values for sweepings and confirmed the Mandates values to the transfers from the CBN/NNPC Crude Oil and Gas Naira Account Statements.

6. Circularized the Domestic crude oil Buyers

4.3.6 Summary of Naira Equivalent of Domestic Crude Sales in 2012

Presented in Table 4.3.6 below is a summary of the Naira equivalent of Domestic Crude Oil sales transactions for 2012:

Table 4.3.6 : Summary of Naira Equivalent of 2012 Domestic Crude Oil Sales

Month	Volume	Value	Credit Note	Net Amount Payable	NNPC Average Exchange Rate used	Net Amount Payable	CBN Exchange Rate advised to NNPC	Apparent Conversion Losses Value
	bbls	$	$	$		₦		₦
January	13,852,745	1,546,911,269.59		1,546,911,269.59	155.7	240,854,084,675.79	155.7	-
February	15,731,377	1,894,330,540.66		1,894,330,540.66	155.4	294,378,966,017.79	155.4	-
March	13,982,406	1,767,498,410.66	17,768.63	1,767,480,642.03	155.06	274,065,548,352.86	155.4	600,949,459.62
April	12,851,946	1,515,830,485.07		1,515,830,485.07	154.75	234,574,767,564.43	154.75	-
May	11,745,992	1,240,597,423.90		1,240,597,423.90	154.7	191,920,421,477.18	154.7	-
June	10,525,800	985,895,851.93		985,895,851.93	154.9	152,715,267,463.49	154.9	-
July	13,820,021	1,421,165,888.12		1,421,165,888.12	154.87	220,095,961,093.45	154.87	-
August	13,534,191	1,525,283,054.47		1,525,283,054.47	154.83	236,159,575,323.59	154.83	-
September	15,808,385	1,773,034,678.17		1,773,034,678.17	154.78	274,430,307,487.15	154.78	-
October	11,949,737	1,314,880,242.35		1,314,880,242.35	154.75	203,477,717,504.13	154.75	-
November	11,563,031	1,278,993,318.06		1,278,993,318.06	154.74	197,911,426,037.07	154.74	-
December	16,977,525	1,883,347,638.05		1,883,347,638.05	154.76	291,466,880,464.62	154.76	-
Total	**162,343,156**	**18,147,768,801.03**		**18,147,751,032.40**		**2,812,050,923,461.54**		**600,949,459.62**

Source: NNPC Domestic Crude lifting Profile

From the above analysis of the summary of the Naira equivalent of Domestic Crude Oil sales transactions for 2012, it can be seen that exchange rate used by NNPC in March, 2012 differed from CBN exchange rate advised to NNPC in February, 2012 and therefore resulted in apparent loss of **N600.9million** in March, 2012.

Note that the monthly exchange rate used by NNPC is based on CBN exchange rate advised to NNPC in the preceding months.

4.3.7 Quarterly Summary of Domestic Crude Oil Sales Volume and Value for 2012.

We also carried out a quarterly review of the Domestic Crude Oil lifting and sales data as presented in Table 4.3.7 below:

Table 4.3.7: Quarterly Summary of Domestic Crude Oil Volume & Value For 2012

QUARTER	BBLS	$
1st	43,566,528	5,208,722,452.28
2nd	35,123,738	3,742,323,760.90
3rd	43,162,597	4,719,483,620.76
4th	40,490,293	4,477,221,198.47
Total	**162,343,156**	**18,147,751,032.40**

Validation procedures were carried out on the above data to verify and confirm their completeness, accuracy and authenticity. It should be noted that domestic crude sales are remitted into the Federation account in Naira.

4.3.8 Domestic Crude Receivable Control Account for 2012

As part of our validation procedures, we prepared the Domestic Crude Oil Receivable Control Account in order to present a summarized view of the whole transactions for the year and establish the outstanding payments due from NNPC-PPMC for Domestic Crude oil sold (i.e. Domestic crude oil Receivables) as at 31st December 2012. The Control Account constructed from the available records is as presented in Table 4.3.8 below:

Table 4.3.8: Domestic Crude Receivable Control Account for the Year 2012

	N'000	N'000
Opening balance as at 1st Jan 2012		1,305,025,075
Add:		
Cost of crude supplied to NNPC-PPMC in 2012		2,812,050,923
		4,117,075,999
Less:		
Subsidy Deductions	(260,000,000)	
Total payment to Federation Account	(1,594,914,987)	(1,854,914,987)
Balance due to Federation Account as at 31st December 2012		**2,262,161,012**

4.3.9 Analysis of Balance Due to the Federation Account as at 31 December, 2012.

Further analysis of the balance due to the Federation Account as at 31st December 2012 was conducted and the result obtained is presented in Table 4.3.9 below:

Table 4.3.9 - Analysis of the constituents of the outstanding balance at 31 December 2012

(₦)

Outstanding as at 1st January, 2012	1,305,025,075,132.00
Payment for Sep-2011 lifting	(166,000,000,000.00)
Subsidy deduction for Sep-2011	(80,000,000,000.00)
Payment for Oct-2011 lifting	(139,631,240,541.87)
Subsidy deduction for Oct-2011	(70,000,000,000.00)
Payment for Nov-2011 lifting	(134,960,445,338.39)
Subsidy deduction for Nov-2011	(60,000,000,000.00)
Payment for Dec-2011 lifting	(227,004,950,541.21)
Subsidy deduction for Dec-2011	(50,000,000,000.00)
Unpaid January-12 lifting	106,782,181,258.09
Unpaid February-12 lifting	168,226,397,267.79
Unpaid March-12 lifting	178,579,513,401.86
Unpaid April-12 lifting	97,442,198,814.43
Unpaid May-12 lifting	79,205,852,727.18
Unpaid June-12 lifting	41,280,698,713.49
Unpaid July-12 lifting	106,863,392,343.45
Unpaid August-12 lifting	133,072,006,573.59
Unpaid September-12 lifting	274,430,307,487.15
Amount not yet due for settlement in 2012	692,856,024,005.81
Outstanding as at 31st December, 2012	**2,256,167,011,303.37**

From the analysis of the components of the balance outstanding at year end 2012 presented above, there was underpayment for each month's domestic crude oil lifting from January lifting forward. It was also observed that this underpayment commenced after the direct deduction of subsidy claims was halted.

Furthermore, the components of the opening balance of **N1,305,025,075,132.00** brought forward from the previous audit cycle report could not be obtained. We have checked through the details and related Appendices in the previous audit report and can confirm that the makeup of the outstanding balance as at 31st December 2011 was not disclosed in the last audit report.

It is important to obtain the makeup from the working papers of the previous auditors as the amount was strongly contested by the NNPC when the last audit report was made public. The value of September 2011 lifting, though due for payment in December 2011, was partly paid in January 2012 while the balance was paid in February 2012, net of subsidy deduction at source by NNPC. The Liftings for the months of October to December 2011 were not due for settlement as at 31st December 2011 in view of the 90 days credit period allowed to NNPC.

It was confirmed that these last quarter 2011 liftings, and the September 2011 liftings were paid in 2012 net of total subsidy deductions at source amounting to N260 Billion. Our review of the subsidy payment schedule revealed that the total subsidy claimed in 2012 (N260 Billion), was with respect to September – December 2011 only.

4.3.10 Summary of Movements in the CBN/NNPC Crude Oil and Gas (Naira) Account during the Year 2012 (Control Account)

We carried out a comprehensive analysis of the receipts from Domestic crude sales and other miscellaneous sources into the CBN/NNPC Crude Oil and Gas (Naira) Account in 2012 and transfers from the account into the Federation Account. We thereafter prepared a control account to provide an overview of the movement in the account during the year 2012 as presented in Table 4.3.10 below:

Table 4.3.10: CBN/NNPC Oil and Gas Revenue (Naira) Control Account

CBN/NNPC Oil and Gas Revenue (Naira) Control Account as at 31st December, 2012		
	₦	₦
Balance as at 1st January, 2012		**1,061,888,656.24**
Add Lodgements:		
Crude Oil Lifting Proceeds	1,594,908,987,290.17	
Part payment of 32 installments of outstanding subsidy indebtedness	91,409,175,000.00	
Other Miscellaneous Lodgements	11,090,987,966.89	1,697,409,150,257.06
		1,698,471,038,913.30
Less Payments:		
Transfer to the Federation Account	1,696,519,317,064.16	
Transfer to JV Cash Call Acoount	-	1,696,519,317,064.16
Balance at 31st December, 2012		**1,951,721,849.14**
Balance as per Bank Statement on 31/12/2012		**1,951,721,849.14**
Source: CBN/NNPC Oil and Gas Revenue (Naira) Account statement		

From the above Control Account, the opening balance in the account as at 1st January 2012 was **N1,061,888,656.24.** The opening balance has been traced and agreed to the Bank statement and the previous audit report as part of our validation procedures. The Control Account also revealed that total lodgements into the account during the year was **N1,697,409,150,257.06** while total transfers from the account into the Federation Account, based on NNPC Mandates were **N1,696,519,317,046.16**; leaving an un-swept closing balance of **N1,951,721,849.14** as at 31st December, 2012.

All the movements in the account during the year were duly validated and the closing balance reconciled to the bank Statement for the period.

4.3.11 Summary of Monthly Movements in the Crude Oil (Naira) Account

A summary of the month by month movements into the account and the transfers there from into the Federation Account is presented in Table 4.3.11A below:

Table 4.3.11A :Summary of Monthly Movement on NNPC/CBN Naira Account

Summary of Monthly Movement on NNPC/CBN Naira Account in 2012				
Month	**Opening balance**	**Receipt into the Account**	**Sweeping to Federation A/C**	**Closing Balance**
	₦	**₦**	**₦**	**₦**
Jan	1,061,888,656.24	175,396,448,048.71	(174,389,182,215.81)	2,069,154,489.14
Feb	2,069,154,489.14	147,605,147,881.14	(149,027,688,590.58)	646,613,779.70
Mar	646,613,779.70	142,775,278,291.94	(142,934,352,677.66)	487,539,393.98
Apr	487,539,393.98	8,202,395,490.43	(7,617,431,250.00)	1,072,503,634.41
May	1,072,503,634.41	134,071,903,417.70	(142,274,298,908.13)	(7,129,891,856.02)
Jun	(7,129,891,856.02)	8,144,679,216.38	(133,770,000,000.00)	(132,755,212,639.64)
Jul	(132,755,212,639.64)	472,259,743,413.49	(338,510,488,070.84)	994,042,703.01
Aug	994,042,703.01	145,759,568,064.46	(145,453,905,012.58)	1,299,705,754.89
Sep	1,299,705,754.89	122,438,899,847.28	(121,341,568,064.46)	2,397,037,537.71
Oct	2,397,037,537.71	119,838,240,837.05	(121,158,899,847.28)	1,076,378,527.48
Nov	1,076,378,527.48	114,550,261,589.77	(114,018,809,587.05)	1,607,830,530.20
Dec	1,607,830,530.20	106,366,584,158.71	(106,022,692,839.77)	1,951,721,849.14
		1,697,409,150,257.06	**(1,696,519,317,064.16)**	
Sources:	CBN/NNPC Crude Oil and Gas Revenue (Naira) Account			

From the Table above, the Sweeping Mandates from NNPC for the months of May and June 2012 were in excess of the funds available in the account, yet the transfers were effected leading to adverse balances in the bank account at the end of May and June 2012 respectively.

It should be noted however that the shortage of funds in the account was principally due to irregular and incomplete payment for each month's domestic crude liability by NNPC as shown on Table 4.3.11B below.

Table 4.3.11B: Summary of Domestic Crude Oil Invoices due for Settlement in 2012 Against Amount Actually Paid by NNPC

B/L Date	Due Date	Payment Date	Amount Due	Subsidy Deductions	Amount paid into crude oil Naira Account	Amount Due for Settlement in 2012 but not paid
			N'000	N'000	N'000	N'000
11-Sep	11-Dec	26-Jan-12	277,145,324	80,000,000	166,000,000	31,145,324
11-Oct	12-Jan	17-Feb-12	178,485,916	70,000,000	139,631,241	(31,145,324)
11-Nov	12-Feb	15-Mar-12	194,960,445	60,000,000	134,960,445	-
11-Dec	12-Mar	18-Apr-12	277,004,951	50,000,000	227,004,951	-
12-Jan	12-Apr	16-May-02	240,854,085	-	134,071,903	106,782,181
12-Feb	2-May	18-Jun-12	294,378,966	-	59,762,608	234,616,358
12-Mar	12-Jun	18-Jul-12	274,065,548	-	126,152,569	147,912,980
12-Apr	12-Jul	14-Aug-12	234,574,768	-	137,132,568	97,442,200
12-May	12-Aug	12-Sep-12	191,920,421	-	112,714,569	79,205,853
12-Jun	12-Sep	10-Oct-12	152,715,267	-	111,434,569	41,280,699
12-Jul	12-Oct	9-Nov-12	220,095,961	-	113,232,569	106,863,392
12-Aug	12-Nov	7-Dec-12	236,159,575	-	97,093,569	139,066,007
12-Sep	12-Dec		274,430,307	-	-	274,430,307
		Total	**3,046,791,536**	**260,000,000**	**1,559,191,559**	**1,227,599,977**

NOTE:

1. September 2011 lifting was due for settlement in December 2011 but was actually paid in January/Februa
2. September 2012 lifting was due for settlement in December 2012 but N112,398,568,750 was actually paid

Table 4.3.11C : Summary of Movement in Gas Revenue (Naira) Account

SUMMARY OF Movement on Gas Revenue (Naira) Account in 2012	
	₦
Balance as at 1st January, 2012	274,724,199.97
Add Lodgements:	
Gas Lifting Proceeds	26,016,115,156.23
Other Miscellaneous Lodgements	
	26,290,839,356.20
Less Payments:	
Transfer to the Federation Account	(22,690,031,023.95)
Balance at 31st December, 2012	**3,600,808,332.25**
Balance as per Bank Statement on 31/12/2012	**3,600,808,332.25**
Source: CBN/NNPC Gas Revenue (Naira) Account	

4.4 Reconciliation of Flows

4.4.1 Introduction

The reconciliation of financial flows is achieved by comparing the initial templates submitted by the oil operating companies with the templates from government agencies. The company operators submit templates indicating payments in respect of their financial flows, while the government agencies submit templates indicating receipt of funds from the operators. The payments are validated through payment documents, receipts, bank statements and other corroborative evidences.

The report covers Royalty (Oil), Royalty (Gas), Gas Flaring Penalties, Concession Rentals Signature Bonus, Value Added Tax, Withholding Taxes, PAYE taxes and payments by oil producing entities to the NDDC and NCDMB etc. These financial flows are made in US Dollars.
Tables of aggregated and disaggregated financial flows are presented hereunder. The summary of the financial flows, adjusted figures, unresolved differences and the explanations for the unresolved differences are found immediately after the summary schedule of each financial flow.

TABLE 4.4.1: Summary of Financial Flows Reconciliation for 2012

	Initial Templates			Adjustments		Adjusted Figures			
	Govt	Company	Difference	Govt	Company	Receipt by Govt	Payment from Company	Unresolved Difference	2011 Unresolved Difference
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Petroleum Profit Tax (PPT)	7,127,705	7,046,964	80,742	964,668	1,045,410	18,851,676	18,851,676	-	-
Royalty (Oil)	5,615,857	5,015,445	600,413	149,143	755,080	6,725,282	6,730,808	(5,526)	(39,885)
Royalty (Gas)	100,357	99,966	391	7,244	12,423	107,601	112,389	(4,788)	(155)
*Company Income Tax on Gas	434,692	421,194	13,498	6,356	23,529	441,048	444,723	(3,675)	N/A
Concession Rentals	895	599	296	151	447	2,895	2,895	-	(25)
Gas Flaring Penalties	13,561	15,418	(1,856)	5,664	3,807	24,580	24,580	-	(66)
**Education Tax	905,170	654,004	251,166	108,213	366,829	1,227,458	1,234,908	(7,450)	N/A
Dividend and Loan repayment	-	2,795,531	(2,795,531)	-	-	2,795,531	2,795,531	0	-
NDDC 3% Contribution Levy	495,451	590,943	(95,493)	63,358	(5,540)	558,808	585,403	(26,595)	(67,877)
***NCDMB 1% Levy	86,693	74,702	11,991	(6,683)	4,750	80,010	79,452	558	N/A
****Signature Bonus	-	-	-	-	-	-	-	N/A	9,050
Total	**14,780,381**	**16,714,766**	**(1,934,385)**	**1,298,115**	**2,206,736**	**30,814,888**	**30,862,364**	**(47,476)**	**(98,958)**

Source: 2009 – 2011 NEITI Oil and Gas industry reconciliation report and current 2012 audit findings from various tables as contained in this report

Note:

N/A in the above Table simply means **"Not Available"**

*Company Income Tax was not reported in the 2009-2011 NEITI Audit Reconciliation Summary

**Education Tax was not reported in the 2009-2011 NEITI Audit Reconciliation Summary

***NCDMB 1% Levy was not reported in the 2009-2011 Audit

****Signature Bonus was not paid by any Entity in 2012 because there was no bid rounds

The total confirmed Financial Flows to the Federation arising from Petroleum Profit Tax, Royalty Oil and Gas, Company income Tax, Education Tax, Dividend and loan repayment, Concession Rentals and Gas Flaring Penalties, NDDC 3% Contribution Levy and NDMB 1% Levy during the year 2012 as per our audit stood at $27,912,320,000, (an increase of 4.75% when compared with year 2011 revenue of $26,645,826,000).

4.4.2 Summary of Royalty (Oil) Reconciliation

	Initial Templates			Adjustments		Adjusted Figures		
	Govt	Company	Difference	Govt	Company	Receipt by Govt	Payment from Company	Unresolved Difference
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Royalty (Oil)	5,615,857	5,015,445	600,413	149,143	755,080	6,725,282	6,730,808	(5,526)

4.4.2.1 Unresolved Differences on Royalty Oil

Company	Amount reported by Entity	Amount reported by Government	Difference	Comments - Royalty Oil
	US$'000	US$'000	US$'000	
POOCN	56,137	50,611	(5,526)	PANOCEAN's US$5,089,703 and US$2,892,280 payments not sighted in CBN bank statement and US$10,460 captured in CBN statement but not confirmed as payment from PANOCEAN.

4.4.3 Summary of Royalty (Gas) Reconciliation

	Initial Templates			Adjustment		Adjusted Figures		
	Govt	Company	Difference	Govt	Company	Receipt by Govt	Payment from Company	Unresolved Difference
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Royalty (Gas)	100,357	99,966	391	7,244	12,423	107,601	112,389	(4,788)

4.4.3.1 Unresolved Differences on Royalty Gas

Company	Amount reported by Entity	Amount reported by Government	Difference	Comments - Royalty Gas
	US$'000	US$'000	US$'000	
TEPNG	4,788	-	(4,788)	Amount paid by entity as Royalty Gas (MCA) but not traced to the CBN bank statement.

4.4.4 Summary of PPT Reconciliation 2012

	Initial Templates			Adjustments		Adjusted Figures		
	Govt	Company	Difference	Govt	Company	Receipt by Govt	Payment from Company	Unresolved Difference
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Petroleum Profit Tax (PPT)	7,127,705	7,046,964	80,742	964,668	1,045,410	18,852,176	18,852,176	-

4.4.5 Summary of Company Income Tax on Gas

	Initial Templates			Adjustments		Adjusted Figures		
	Govt	Company	Difference	Govt	Company	Receipt by Govt	Payment from Company	Unresolved Difference
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Company Income Tax on Gas	434,692	421,194	13,498	6,356	23,529	441,048	444,723	(3,675)

4.4.5.1 Unresolved Differences on Company Income Tax

Company	Amount reported by Entity	Amount reported by Government	Difference	Comments - CIT on Gas
	US$'000	US$'000	US$'000	
Phillips Oil	3,675	-	(3,675)	Amount paid as CIT on Gas but not traced to the CBN bank statement.

4.4.6 Summary of Education Tax

	Initial Templates			Adjustments		Adjusted Figures		
	Govt	Company	Difference	Govt	Company	Receipt by Govt	Payment from Company	Unresolved Difference
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Education Tax	905,170	654,004	251,166	108,213	366,829	1,227,458	1,234,908	(7,450)

4.4.6.1 Unresolved Differences on Education Tax

Company	Amount reported by Entity	Amount reported by Government	Difference	Comments - EDT
	US$'000	US$'000	US$'000	
TEPNG	77,539	65,797	(11,742)	US$11,742,000 paid by SNEPCo on behalf of TEPNG but not traced to the CBN bank statement.
Phillips Oil	-	4,292	4,292	Amount captured in CBN bank statement as EDT payment but not reported by
TOTAL	77,539	70,089	(7,450)	

4.4.7 Summary of NNDC 3% Contribution Levy Reconciliation 2012

	Initial Templates			Adjustments		Adjusted Figures		
	Govt	Company	Difference	Govt	Company	Receipt by Govt	Payment from Company	Unresolved Difference
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
NDDC 3% Contribution Levy	495,451	590,943	(95,493)	63,358	(5,540)	558,808	585,403	(26,595)

4.4.7.1 Unresolved Differences on NNDC 3% Contribution Levy

Company	Amount reported by Entity	Amount reported by NDDC	Difference	Comments - NDDC
	US$'000	US$'000	US$'000	
NAOC	33,601	7,006	(26,595)	Amount not confirmed as payment by NDDC.

4.4.8 Summary of NCDMB 1% Levy

	Initial Templates			Adjustments		Adjusted Figures		
	Govt	Company	Difference	Govt	Company	Receipt by Govt	Payment from Company	Unresolved Difference
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
NCDMB 1% Levy	86,693	74,702	11,991	(6,683)	4,750	80,010	79,452	558

4.4.8.1 Unresolved Differences on NCDMB 1% Levy

Company	Amount reported by Entity	Amount reported by NCDMB	Difference	Comments - NCDMB
	US$'000	US$'000	US$'000	
SPDC	17,490	18,048	558	Payment not traced to company's record.

4.4.9 National Inland Waterways Authority

	$'000
NLNG	96

4.5 Validation of Flows

4.5.1 Introduction

The Petroleum Profits Tax (PPT) is a tax imposed on the profits from the winning of petroleum in the course of petroleum operations in an accounting period. The principal legislation guiding the computation of this tax is the Petroleum Profits Tax Act 2004 (as amended).

Under the JV arrangement, there is consolidation of revenues and expenses in Nigerian petroleum profits taxation as revenue aggregation and deductible expense rules are set on a company basis and not at the level of wells, fields, blocks etc. Thus, there is no *Ring Fencing*.

The Production Sharing Contract (PSC) arrangements with NNPC appear to have introduced Ring Fencing to the Contract Areas covered by the PSC, and thus each entity is requested to file its PPT Returns on a license by license basis and filed through NNPC-NAPIMS to **FIRS.**

For Royalty administration in Nigeria, the Department of Petroleum Resources (DPR) is responsible for the reconciliation of production volumes, computation and receipt of royalty on oil from all upstream companies in Nigeria.
In validating the royalty liabilities and payments made by the entities during the review year, the consultants were guided by the under listed sections of the various acts and regulations operating in Nigeria.

A. Petroleum (Drilling and Production) Regulation of 1969
B. Petroleum Profit Tax Act 1959 (LFN 2004)
C. Deep Offshore and Inland Basin Production Sharing Contracts Act of 1999
D. Marginal Fields Operations (Fiscal Regime) Regulations 2005

Details on the basis for computing PPT, Royalty and other taxes/levies are contained in Appendix 4.5.1.

4.6 Review of 2009-2011 PPT and Royalty Validation Report

The summary of findings as per the 2009 – 2011 Audit and the present status as at 2012 audit are stated in the table below:

Table 4.6: Summary of Findings in 2009-2011 Audit Report

S/N	Summary of Findings in 2009 - 2011	Update as at 2012 audit
1	Despite the notice on expiration of the MOU 2000 and subsequent termination of same with a letter issued by DPR dated 17th January, 2008; all the entities except Addax Petroleum continued to apply the RP in place of the OSP now advised by NNPC COMD.	During the 2012 audit, all the indigenous entities either voluntarily or otherwise applied the NNPC advised OSP in their Royalty computation. JVs and PSCs with the exemption of Addax Petroleum and Sterling oil however continued to apply their derived RP insisting that there has not been any agreement with the government on the pricing methodology to be adopted after the expiration of the 2000 MOU, though they confirmed talks were on-going with the agencies on this matter.
2	We could not reconcile some production volumes from some fields. This was due to non-availability of the production data from DPR.	DPR provided a significant amount of sign-offs for 2012 review production and lifting volumes. Most of these volumes agreed with the entities volumes and thus reduced the differences observed in the 2012 audit.
3	We observed huge differences between the royalties computed by the auditors and those computed by Addax Petroleum. On further enquiry, we were infomed by Addax that they (Addax Petroleum) had sought and obtained special consideration from the Nigerian Government through a letter referenced: PAPE/110/VOL.11 and dated December 20, 2001; signed by the Presidential Adviser on Petroleum & Energy to amend the fiscal terms of the two PSCs (OPLs 98/118 and OPLs 90/225 converted to OMLs 123/124 and OMLs 126/137) to cater for its non-inclusion in the MOU. This change introduced new royalty rates graduated according to tranches rather than the absolute production level stipulated in the FGN's Gazette. In our view, these fiscal terms constituted breaches to the relevant laws and regulations in Nigeria oil and gas industry.	This findings was still observed in 2012 review, as the entity continued to apply its fiscal terms insisting it was granted by the government. They however confirmed that talks were ongoing with DPR as this regards.
4	Production in OML 133 (Erha) comes from varying water depths ranging from about 900to 100 meters. While DPR advises a royalty rate of 1%; Esso objects and applies 0.33% instead.	This issue continued in 2012 review thus increasing the liabilities by US$5.875million.
5	In OML 118 (Bonga) operated by SNEPCO, production comes from multiple water depths within the lease area. DPR advised a royalty rate of 1.75% while SNEPCO insists on 1%. The Petroleum Act obligates DPR to regulate all issues relating to royalty determination and payments.	This issue continued in 2012 review thus increasing the liabilities by US$59.395million.
6	During the course of the validation, the auditors obtained evidence of pioneer certificates from some indigenous companies who claimed pioneer status during the audit period and therefore did not pay PPT.	The number of entities had Pioneer Status increased from 4 to 7 in 2012.

4.7 Summary of Royalty Validation

The table below shows comparison of the NEITI re-computed royalty liabilities against the entities computation, throwing up either an under-assessment or over-assessment.

The royalty validation is grouped according to the operating arrangements of the entities for analysis purposes:

Table 4.8 : Revalidation of the Royalty Value on Chargeable Oil

	Royalty Validation	NEITI 2012 OIL & GAS AUDIT		
		Computation by NEITI Auditors	Computation by Entity	Under / (Over) Assessment
		US$	US$	US$
	Entities operating in PSCs			0
1	APDNL	227,577,474	125,940,590	101,636,884
2	APENL	177,059,613	81,120,529	95,939,084
3	SNEPCO	128,621,008	69,434,074	59,186,934
4	ESSO	52,141,402	8,219,417	43,921,985
5	STERLING	19,192,073	18,709,095	482,978
6	NAE	76,334,084	77,825,230	(1,491,146)
7	STARDEEP	66,515,287	0	66,515,287
		747,440,941	**381,248,935**	**366,192,006**
	Entities operating in JVs			
1	SPDC	1,109,201,452	1,059,289,799	49,911,653
2	NPDC	533,117,458	506,794,942	26,322,516
3	NAOC	316,451,868	304,245,444	12,206,424
4	CNL	786,197,470	777,946,855	8,250,615
5	PANOCEAN	23,331,033	18,761,015	4,570,018
6	MPNU	1,348,032,708	1,347,800,979	231,729
7	NECONDE	32,065,560	31,898,581	166,979
		4,148,397,548	**4,046,737,615**	**101,659,934**
	Entities operating in Marginal fields / sole risks			
1	WALTERSMITH	1,918,057	0	1,918,057
2	BRITTANIA-U	1,391,061	494,786	896,275
3	AMNI	61,599,580	61,357,872	241,708
4	ENERGIA	1,364,500	1,363,881	619
5	PLATFORM	999,683	860,000	139,683
6	NDPR	1,443,546	1,321,399	122,147
7	EXPRESS	1,652,777	1,621,720	31,057
8	PILLAR	1,132,120	1,115,627	16,493
9	DUBRI	2,934,526	2,930,677	3,849
10	NEWCROSS	672,653	669,400	3,253
11	ORIENTAL	153,519,021	153,521,680	(2,660)
12	CONOIL	13,118,097	13,132,216	(14,118)
13	ALLIED ENERGY	13,614,302	13,557,769	56,533
14	MONIPULO	34,444,947	34,627,763	(182,816)
15	CONTINENTAL	136,092,169	137,162,591	(1,070,422)
16	MIDWESTERN	21,855,244	25,995,903	(4,140,659)
		447,752,284	**449,733,284**	**(1,981,000)**
	GRAND UNDER / (OVER) ASSESSMENTS	**5,343,590,774**	**4,877,719,834**	**465,870,940**

4.7.1 Findings and Recommendations

4.7.1.1 Pricing Methodology

The pricing methodology dispute between the IOCs and the Nigerian government and the fiscal terms with Addax Petroleum was responsible for the increase in royalty liabilities for the year 2012.

Royalty under-assessments increased from US$154million (20 entities) in 2011 to over US$465million (30 entities) in 2012, an increase of 202%. The PSC entities had the highest proportion (79%) of under-assessment, while the proportion of JV entities under-assessments to total under-assessments is 21.8%. However, the Marginal fields and sole risks recorded over-assessment. This was due to the fact that reconciliation meetings are held regularly with these indigenous companies and the Official Selling Price (OSP) are being applied on their production.

The lingering pricing dispute between the IOCs and Nigerian government has resulted in revenue loss of over US$4.04billion in the last 7 years.

Recommendation:

The Regulatory agencies and IOCs should speed-up and conclude on the on-going discussion between them.

The National Assembly should also set-up a committee to review and monitor the progress between the IOCs and government agencies on the new fiscal regime which will clearly spell out the pricing methodology to be adopted by the various entities operating in the upstream sector of the Nigeria economy.

4.7.1.2 Inconsistent application of OSP on Royalty computation by DPR

The consultants observed that the applications of prices on production volumes were not consistent during the year. E.g. While prices were applied on production volumes as per their B/L date in some months, the average monthly prices were applied in some other periods by DPR.

Recommendation:

Royalty computation should be carried out based on the average monthly price adjusted by the crude type's API gravity (considering the pricing option adopted by the entity).

4.7.1.3 Disputes in Applicable Rates for SNEPCO and ESSO

During the 2012 audit, it was observed that the disputes between DPR and the PSCs (SNEPCO and ESSO) continued as both parties continued to compute royalty liabilities on a different rate. While SNEPCO and Esso apply 1% and 0.33% for OML 118 (Bonga) and OML 133 (Erha), DPR continues to apply 1.75% and 1% respectively for SNEPCO and ESSO.

Total revenue to the sum of US$65.29million was lost as a result of these disputes for the period 2012.

Recommendation:

The Ministry of Petroleum Resources should appoint an independent consultant who would confirm the accurate water depth level for these blocks and advise on an appropriate rate which should be agreed with the operators of the blocks.

Alternatively, an amendment to the deep offshore and inland basin Act can be effected by the National Assembly to cater for the water depths in disputes.

4.7.1.4 Untimely payments by the indigenous operating companies as regards Royalty and PPT payments

From our audit observations, over 80% of the marginal field and sole risks companies defaulted in the payments of the obligatory dues to the federation. This should be discouraged.

Recommendation:

The respective agencies (DPR, FIRS, NDDC, NCDMB, TETFUND, etc) should ensure the entities pay what is due as at when due or they should be strict with the penalties imbedded in their Act.

Ministry of Petroleum Resources should appoint an independent consultant who would confirm the accurate water depth level for these blocks and advise on an appropriate rate which should be agreed with the operators of the blocks.

4.8 Summary of PPT Validation

4.8.1 Revalidation of the Fiscal Value on Chargeable Oil

During the 2012 audit, the consultants recomputed the fiscal value on chargeable oil. The analysis below shows the under-assessment from the respective entities:

Table 4.8.1 : Revalidation of the Fiscal Value on Chargeable Oil

	PPT Fiscal Value Validation	NEITI 2012 OIL & GAS AUDIT			
		Computation by NEITI Auditors	Computation by Entity	Computation Variance	Under / (Over) Assessment
		US$	US$	US$	US$
	Entities operating in PSCs				
1	APDNL	1,980,804,419	1,980,603,923	200,496	170,422
2	APENL	1,327,434,719	1,327,316,757	117,962	100,268
3	STAR DEEP	5,888,740,908	5,888,740,908	0	0
4	SNEPCO	7,319,881,219	7,298,384,209	21,497,010	10,748,505
5	ESSO	2,300,651,943	2,300,068,494	583,449	291,725
		18,817,513,208	**18,795,114,292**	**22,398,917**	**11,310,919**
	Entities operating in JVs				
1	SPDC	5,476,685,717	5,370,003,728	106,681,989	90,679,691
2	NPDC	4,859,842,157	4,831,230,281	28,611,876	24,320,094
3	CNL	4,388,859,873	4,345,634,459	43,225,413	36,741,601
4	MPNU	7,315,508,580	7,269,728,157	45,780,423	38,913,359
		22,040,896,326	**21,816,596,625**	**224,299,701**	**190,654,746**
	Entities operating in Marginal fields / sole risks				
1	WALTERSMITH	76,288,729	76,265,815	22,914	14,894
2	PLATFORM	46,516,460	45,866,368	650,092	425,810
3	EXPRESS	7,823,858	7,823,500	358	304
4	PILLAR	52,250,240	51,824,950	425,290	278,565
5	DUBRI	15,044,235	14,904,970	139,265	91,219
6	BRITTANIA - U	44,100,077	43,188,037	912,040	501,622
7	MIDWESTERN	409,995,776	399,655,226	10,340,550	6,773,060
		197,923,522	**196,685,603**	**12,490,508**	**8,085,474**
	GRAND UNDER / (OVER) ASSESSMENTS	**41,056,333,056**	**40,808,396,521**	**259,189,125**	**210,051,138**

4.8.2 Findings and Recommendation

4.8.2.1 Pricing Methodology

From the selected samples of 16 entities, the value of under-assessment on the fiscal valuation on chargeable oil was US$210.051million. The JVs entities had the highest under-assessment in the sum of US$190.654million followed by the PSCs – US$11.310million, and lastly marginal fields and sole risk with lower under-assessment of US$8.085million – which was due to the fact that these indigenous companies apply the OSP on their computation as against the JVs and PSCs that insist on an agreed pricing methodology.

The lingering pricing dispute between the IOCs and Nigerian government on the use of Official Selling Price (OSP) or Realisable Price (RP) has resulted in revenue loss of over US$5.7billion in the last 7 years.

Recommendation:

The Regulatory agencies and IOCs should speed-up and conclude on the on-going discussion between them.

4.8.2.2 Disputed Fiscal terms of Addax Petroleum

The fiscal terms being applied by Addax Petroleum, which was granted based on the non-inclusion of Addax in the 2000 MOU continued to be applied by Addax in the 2012 audit.

The fiscal terms made changes to the PPT rate among others, which the consultants believe only the legislative arm of the Nigerian government can effect as it is an Act enacted by the National Assembly. The change in effect reduced the PPT rate from the existing 85% to maximum of 60% and also introduced a new investment tax allowance of 25% and 40% to the stipulated 5% and 10% respectively. Consequently, the consultants have re-assessed the actual PPT payment due from APDNL and APENL to the sum of US$170.42million and US$100.268million respectively.

Addax confirmed that there is an on-going tripartite meeting between Addax and the respective government agencies. This has however been on-going in the last 7 years.

Recommendation:

The Regulatory agencies and Addax should speed-up and conclude on the on-going discussion. Also the National Assembly should also set-up a committee to review and monitor the progress between the company and government agencies on the new fiscal regime or consider an amendment to the Act.

4.8.2.3 Increase in Pioneer Status

During the 2012 audit, a total of seven (7) entities had obtained a Pioneer status from NIPC and therefore have been exempted from paying tax for a period of 5 years.

The list below shows the entities on tax holiday:

Table 4.8.2.3 Entities on tax holiday

S/N	Name of Entity	Date of Approval	Effective Date of Holiday	Period-Covered (Years)
1	Niger Delta Pet. Resources	01 / 02 / 2010	01 / 02 / 2010	5
2	Midwestern Oil and Gas	05 / 12 / 2011	01 / 01 / 2009	5
3	Brittania-U Nigeria Nig. Ltd.	22 / 09 / 2011	01 / 01 /2010	5
4	Allied Energy Ltd.			
5	Oriental Energy Resources Ltd.	05/09/2013	01/06/2011	5
6	Energia Limited	22/12/2011	01/07/2010	5
7	**Oando Production & Dev. Co Ltd**	**24/02/2012**	**-**	

Recommendation

The Government should take a critical look on this issue of 'waiver' for new entrants as this practice is impacting negatively on the tax revenue profile of Government.

4.9 Other Financial Flows

4.9.1 Summary of Non Reconciled Flows

Non - Reconciled Financial Flows	2012 US$'000
Value Added Tax	770,833.92
Withholding Tax - Federation	794,670.52
Withholding Tax - States	11,314.33
PAYE - Federation	87,918.00
PAYE - States	195,732.25
NLNG Tax Payments to Rivers State Agencies & Local Govt.	36.00
TOTAL	**1,860,505.02**

4.9.2 VAT Payment 2012

VAT	2012	Percentage Proportion
	US$'000	%
JV	435,225.59	56%
MF	21,560.70	3%
PSC	120,589.50	16%
SR	4,458.13	1%
NLNG	189,000.00	25%
Grand Total	**770,833.92**	**100%**

4.9.3 WHT Payments to States 2012

WHT - STATES	2012	Percentage Proportion
	US$'000	%
RIVERS	4,431.76	39.17%
AKWA IBOM	11.44	0.10%
CROSS RIVERS	34.89	0.31%
DELTA	3,596.14	31.78%
EDO	0.79	0.01%
IMO	94.19	0.83%
LAGOS	2,280.75	20.16%
OGUN	1.16	0.01%
OTHERS	863.21	7.63%
Grand Total	**11,314.33**	**100%**

4.9.4 PAYE to States 2012

PAYE - STATES	2012	Percentage Proportion
	US$'000	%
LAGOS	79,338.44	40.53%
RIVERS	69,681.30	35.60%
Akwa Ibom	34,581.54	17.67%
DELTA	5,579.18	2.85%
BAYELSA	4,744.46	2.42%
IMO	735.18	0.38%
CROSS RIVERS	652.44	0.33%
Ogun	211.98	0.11%
PHC	128.74	0.07%
BORNO	60.95	0.03%
Edo	18.04	0.01%
Grand Total	**195,732.25**	**100%**

4.10 Reconciliation of Social Expenditure

Social Expenditure as at 31st December, 2012			
Company	No of Project	Amount	
		₦	$
Waltersmith	6	65,556,450.00	
Sterling Oil	7	304,101,000.00	230,000.00
NDPR	11	167,413,713.00	
Energia	20	126,382,961.00	
Continental oil	3	425,906.00	
Conoil	2	505,600.00	
Amni	8	32,173,849.00	3,872,491.00
NAE	7	123,869,029.00	250,000.00
EEPNL	16	202,755.61	1,704.40
APDNL	10	45,398.00	
STARDEEP	15	1,829,905.00	
Chevron	121	3,478,996,153.15	
MPN	42	586726.0973	611.945

5.0 IN-KIND FLOWS

5.1 Introduction

Non-Financial Flows pertain to “in kind” transactions under Production Sharing Contract (PSC) and Carry Arrangements. They involve settlement of Taxes and Royalty liabilities and Carried Party Carry Costs and compensation, etc by means of crude oil allocations instead of financial transfers. Under a PSC arrangement, Government Take (Royalty and PPT) as well as share of Profit are settled by crude oil transfer to NNPC on behalf of government. The term also applies to Carry Agreements where capital commitments are settled in tax allowances and the transfer of oil to the Carrying Party.

5.2 In-Kind Flows from Production Sharing Contract Operations

Under the Production Contracts Arrangement in Nigeria, the PSC Operator undertakes to provide the capital, equipment and human resources required to conduct operations and carries on the operations at its sole risk. The crude produced under the arrangement is distributed as follows:

i. Royalty Oil – to meet the Royalty liability due to Government for the period.
ii. Tax Oil – to cover the Petroleum Profits Tax liability determined for the period
iii. Cost Oil – to meet the PSC Operator's CAPEX and OPEX costs.
iv. Profit Oil – Shared between NNPC and the PSC Operator on an agreed profit sharing ratio.

Under the arrangement, NNPC lifts crude Oil on behalf of Government to settle PPT and Royalty liabilities respectively. NNPC-NAPIMS, in conjunction with each of the PSC Companies determines what the Royalty and PPT liability for each period should be based on; the number of parameters as defined in the PSC Agreement and the law.

During the year under review seven (7) Production Sharing Contract arrangements were engaged in exploration and production activities. These PSC Companies were:

1) SNEPCO – OML 118
2) ESSO – OML 133
3) NAE – OML 125
4) STATOIL – OML 128
5) ADDAX – OML 123/124
6) ADDAX – OML 126/137
7) TUPNL – OML 130

5.3 Summary of Volume and Value of NNPC Lifting in 2012 from PSC Operations for the Account of DPR and FIRS for Settlement of Royalty and PPT Liabilities

We carried out a review and validation of the PSC liabilities for Royalty obligation and Petroleum Profits Tax (PPT) liability with respect to 2012 and present below in Tables 5.3 (a) and 5.3(b) a summary of the volume and value of Royalty Oil and Tax Oil lifted from PSC operations by NNPC on behalf of the Federation in 2012 for the Account of DPR and the FIRS respectively in settlement of the Royalty and PPT liability.

Table 5.3A : Summary of Volume and Value of NNPC Lifting in 2012 for the Account of DPR for Settlement of Royalty Liability

Month of Lifting	DPR ACCOUNT PSC ROYALTY OIL	
	Bbl	Value $
January	200,000	22,136,800.00
February	947,826	112,178,050.58
March	350,000	44,568,400.00
April	520,000	61,419,160.00
May	450,000	49,236,750.00
June	770,000	72,454,810.00
July	670,000	68,610,620.00
August	700,000	80,099,150.00
September	400,000	45,284,900.00
October	870,000	96,865,060.00
November	200,000	22,139,200.00
December	400,000	43,979,000.00
TOTAL	**6,477,826**	**718,971,900.58**

SOURCE: NNPC-COMD LIFTING PROFILE 2012

The above lifting and sales data have been validated and confirmed to NNPC-COMD crude oil lifting templates.

Table 5.3B - Summary of Volume and Value of NNPC Lifting in 2012 for the Account of FIRS for Settlement of PPT liability

Month of Lifting	PSC TAX OIL	
	Bbl	Value $
January	7,065,744	783,780,393.77
February	5,885,361	688,571,351.07
March	10,038,720	1,267,796,618.44
April	5,692,163	671,869,978.33
May	9,390,640	1,003,515,333.07
June	6,832,681	643,704,697.12
July	7,660,349	799,896,022.37
August	8,691,291	993,950,977.92
September	6,330,849	701,839,180.81
October	8,952,157	987,485,355.17
November	4,711,229	520,229,523.18
December	7,272,305	808,955,619.08
TOTAL	**88,523,488**	**9,871,595,050.32**

SOURCE: NNPC-COMD LIFTING PROFILE 2012

The above summaries have been validated to the crude oil sales profile and other supporting records maintained at NNPC-COMD.

5.4 Summary of NNPC – NAPIMS Determined PSC PPT Liability in 2012 and the Related Tax Oil Lifted by NNPC

We also carried out a review of the records of NNPC-NAPIMS with respect to determination of PSC Tax and Royalty liabilities in 2012 and details of the related Tax Oil and Royalty Oil lifted by NNPC on behalf of the Federation to settle the Royalty and Petroleum Profits Tax liabilities respectively.

Presented in Table 5.4 below is a summary of the liabilities for Tax by PSCs and the Tax Oil lifted thereon as determined by NNPC-NAPIMS for 2012:

Table 5.4: Summary of NAPIMS Determined PPT liability of PSC Companies and related Tax Oil Lifting in 2012

S/N	NAME OF P!	OML NO	PPT LIABILITY	TAX OIL LIFTED	SALES VALUE	REMARKS
			$'000	BBLS	$'000	
1.	SNEPCO	118	3,112,533	27,603,744	3,112,533	
2.	ESSO	133	2,436,866	21,600,627	2,436,866	
3.	NAE	125	371,489	3,435,311	371,489	
4.	STATOIL	128	1,708,962	15,457,571	1,708,962	
5.	ADDAX	123/124	575,565	5,262,411	575,565	
6.	ADDAX	126/137	369,727,	3,212,011	369,727,	
7.	TUPNL	130	1,296,453	11,951,812	1,296,453	
	TOTAL		**9,871,595**	**88,523,487**	**9,871,595**	

The above sales volumes and values were confirmed to be in agreement with the NNPC – COMD crude oil lifting for FIRS Account for 2012.

5.5 Summary of NNPC – NAPIMS determined PSC Royalty Liability in 2012 and the related Royalty oil lifted by NNPC

A review and validation of the schedules of Royalty liability per NAPIMS records was also done as summarized in Table 5.5 below:

Table 5.5 : Summary of NAPIMS Determined Royalty liability of PSC Companies and related Royalty Oil Lifting in 2012

S/N	NAME OF P!	OML NO	ROYALTY	ROYALTY LIFTED	SALES	REMARKS

			LIABILITY (RE-CAST)		VALUE	
			$'000	BBLS	$'000	
1.	SNEPCO	118	135,568	1,200,000	135,568	
2.	ESSO	133	59,087	560,000	59,087	
3.	NAE	125	409,068	3,717,826	409,068	
4.	STATOIL	128	-	-	-	**DEEP OFFSHORE**
5.	ADDAX	123/124	-	-	-	**DEEP OFFSHORE**
6.	ADDAX	126/137	115,249	1,000,000	115,249	
7.	TUPNL	130	-	-	-	**DEEP OFFSHORE**
	TOTAL		**718,972**	**6,477,826**	**718,972**	

The volume and values of Royalty oil lifting per NAPIMS records as summarized above have been reconciled and agreed to NNPC-COMD Templates of Crude Oil liftings for the Account of DPR in 2012.

5.6 Joint Venture Alternative Funding Arrangements

The traditional method for funding Joint Venture Operations as provided in the Joint Operating Agreement (JOA) is through what is described as Cash Call. The Joint Operating Agreement - JOA is the legal framework which defines the working relationship between the NNPC and its joint venture partners in the conduct of Joint operations. The JOA defines Cash Call as an amount which parties to the Joint Venture Agreement must pay into the Joint Account in order to meet that party's participating interest share of both the Capital Expenditure (CAPEX) and Operating Expenditure (OPEX) necessary to advance the objectives of the Joint venture business.

The current structure and participating interest in the existing Joint Venture arrangements is as presented in Table 5.6 below:

Table 5.6 : Joint Venture Arrangements and Federation participatory interest

S/NO	JV	OPERATOR	PARTICIPATORY INTEREST							
			NNPC	SPDC	MOBIL	CHEVROI	TOTAL	NAOC	POCNL	PANOC

			%	%	%	%	%	%	%	%
1.	**SPDC JV**	**SPDC**	**55**	**30**	**-**	**-**	**10**	**5**	**-**	**-**
2.	**MOBIL JV**	**MOBIL**	**60**	**-**	**40**	**-**	**-**	**-**	**-**	**-**
3.	**CHEVRON JV**	**CHEVRON**	**60**	**-**	**-**	**40**	**-**	**-**	**-**	**-**
4.	**TEPNG JV**	**TOTAL E&P**	**60**	**-**	**-**	**-**	**40**	**-**	**-**	**-**
5.	**NAOC JV**	**NAOC**	**60**	**-**	**-**	**-**	**-**	**20**	**20**	**-**
6.	**PAN OCEAN JV**	**PANOCEAN**	**60**	**-**	**-**	**-**	**-**	**-**	**-**	**40**

Sequel to the difficulty the NNPC, representing the Federal Government, was experiencing in sourcing funds to satisfy its Cash Call obligations on a timely basis, various Alternative Funding Arrangements were entered into with some Joint Venture Companies to provide the needed funds to enable the running of oil and gas operations of certain fields. In the late 1980s/early 1990s, Crude Swap Arrangements were resorted to, whereby the Operator funded NNPC's share of Cash Call requirements and thereafter lifted NNPC's share of production from the related field to sell and meet the Cash Call default. The current form of Alternative Funding Arrangements is in two broad categories viz:

a) Third Party Financing
b) Carry Agreements and Modified Carry Agreements (MCAs).

5.6.1 Third Party Financing

Under this form of Alternative Arrangement, the Joint Venture Partner identifies an approved project which requires third party financing. The project is isolated from the entire JV operations while a Special Purpose Vehicle (SPV) is created by the JV Partner which then acts as the borrower. The SPV has the right to future oil and gas production from the selected project.

A Bridge Loan or Facility agreement is drawn up between the SPV and the project Financiers or Bridge Lenders. The Loan facility has a principal and interest component. There are also loan administrative expenses that must be paid. An Escrow Account i.e. Proceeds Account is opened in the name of the SPV and domiciled with the lending Bank. The SPV then enters into a long-term Sales and Purchase Agreement with Off-takers (Buyers) and these agreements serve as security for the loan obtained under this Third party financing arrangement. Proceeds from the sale of the crude oil/gas are remitted into the Escrow Account already opened and funds are disbursed from the account for payment of the Third Party loan principal together with the related Interest. The loan administrative expenses are also paid from the Escrow Account. Balance in the Escrow Account (if any), is then shared by the JV partners in accordance with their respective JV equity holding.

The current Third Party financed projects are as follows:

(a) Natural gas Liquids Project (NGL 1 & 2).

(b) Satellite Oil Fields.

5.6.2 Overview of NGL 1 and 2 Projects and Performance Profile as At 31st December 2012

5.6.2.1 Project Background

The Natural Gas Liquids (NGL) Project is a JV project between NNPC and MPN under the NNPC/MPN Joint Venture. The entire project is made up of two parts – NGL 1 and NGL 2. NGL 1 had a total project cost of $810 million and was funded via Equity Contribution from the sponsors. The NGL 1 facility was commissioned in 1998 and commenced commercial export in 1999.

NGL 2 Facility on the other hand is an expansion of NGL 1 production and export facilities. It commenced production in March 2008. NGL 2 was and is still being funded through Third Party Finance and it is structured in such a way that MPN retains 51% and NNPC has 49 % as requested by the Guarantor to the loan deal – Overseas Private Investment Corporation (OPIC).

5.6.3 Summary of NGL 2 Funding History

	USD$ BILLION
2004: Initial Funding ($1.406 billion):	
- Sponsors' equity	0.131
- International Lenders	1.173
- Local Lenders	0.102
Total initial Funding	**1.406**
2008: Supplemental Cost Financing by Local banks	**0.220**
2009: Loan Re-sizing ($265 million):	
- UBA	0.150
- SCB	0.015
- Exxon Mobil	0.100
Total loan re-sizing	**0.265**
2010: Additional Loan	**1.100**

Source: NGL 1 & 2 Financing Profile from NNPC- Group Finance

The Supplemental Loan of USD$220 million was re-sized to USD $265 million in 2009 and taken over by a new set of financiers as listed above. The total funding for NGL 2 as at 31st December 2012, including the Sponsors initial equity contribution was therefore **USD$2.771 billion** (i.e. $Billion: 1.406 + .220 + .045 +1.100)

5.6.4 Summary of Revenue Earned as at 31st December, 2012

From the project performance records and revenue summary made available for our review by NNPC Group Finance Department, a summary of the revenue accrued on the NGL 2 Project as at 31st December 2012 was prepared as follows:

	USD$'million
- NNPC Share of Revenue earned on NGL 2 as at 31st December 2012 (exclusive of interest)	968.19

- Amount applied for debt servicing as at 31 December 2012 (Principal + Interest)	(716.77)
- Remitted to Federation A/c as at 31 Dec. 2012	(100.74)
Amount retained in the Proceeds A/c and Debt servicing A/c As at 31/12/2012	**150.**

5.7 Satellite Oil Field Project

Presented below is a summary of the Satellite Field Project Revenue flow in 2012:

Table 5.7 : Summary of Satellite Oil Field

Month	Volume bbls	Value US $
January	949,944	107,269,576.00
February	950,192	116,827,056
March	949,776	120,676,639
1st Quarter	**2,849,912**	**344,773,271.00**
April	949,899	113,430,289.00
May	1,900,428	205,529,429.00
June	950,020	94,092,830.00
2nd Quarter	**3,800,347**	**413,052,548**
July	_	_
August	_	_
September	_	_
3rd Quarter	**_**	**_**
October	_	_
November	_	_
December	_	_
4th Quarter		
Total	**6,650,259**	**757,825,819**

Source: NNPC –COMD Lifting profile for 2012

The total crude oil lifted with respect to the Satellite project in 2012 by NNPC-COMD was **6,650,259 Bbls** and the sales value of the lifting was **$757,835,819.**

The sales value was traced and agreed to the CBN/NNPC JP Morgan Crude Oil and Gas (Dollar) Revenue Account as part of our validation procedures.

5.8 Carry Agreements and Modified Carry Agreements (MCAS).

5.8.1 Carry Agreements

Under this arrangement, the Operator agrees to carry the non-operator and bears the cost of the CAPEX portion of the project on behalf of the NNPC. This arrangement allows for financing based on cost estimates. However, there is no dedicated account established for carry proceeds. Furthermore, repayment of loan under this arrangement is through Tax relief, share oil and carry oil payment in oil. The Operator lifts NNPC's share of crude oil produced from the project to meet the residual Carry

Cost after the Carry Tax Relief (CTR) has been set off from the total Carry Cost. Under this arrangement, NNPC has no control over the sales proceeds realized from the disposal of the crude oil and gas lifted by the Operator to meet the Carry Cost (Carry Oil) and compensation (Share Oil) due to the Operator. Consequently, the traditional carry arrangement is no longer attractive to NNPC as an alternative funding arrangement and has therefore given way to the Modified Carry Agreement (MCA) funding model.

5.8.2 Modified Carry Arrangement

This arrangement is very similar to the Carry arrangement described above. However, NNPC lifts and markets the Carry Oil and Share Oil due to the Carrying party and pays cash to the operator for the cash financing provided. The Carrying party recovers the Carry capital cost (CCC) in Dollars. An Escrow Account is opened and the sales proceeds with respect to the Carry oil and Share Oil are paid into it. NNPC's Portion of the Agreed Capital Cost approved by the Joint venture partners is financed by the Operator through monthly cash call payments into a dedicated account for the project.
In order to compensate the Carrying Party for providing the finances to meet the Carried Party's share of approved capital cost, an interest rate designed to yield a financial internal rate of return (FIRR) of 8% is factored into the financial model for the project.

The project monthly Cash Call requests are approved by NNPC- NAPIMS who thereafter issues written Mandates to the Carrying Party to fund the cash call due. The Carrying Party pays NNPC's portion of the approved Cash Call request (CAPEX portion) into the Carry Proceed Account dedicated for the Carry project and jointly controlled by the JV parties. From this Account, funds are swept daily into the JV Construction Account, based on a one time standing instruction to sweep funds from the Carry Proceed Account into the JV Construction Account. In other words, the Carry Proceeds Account is a zero daily balance account. The Carrying Party is expected to pay its own equity share of the Cash Call due into the JV Construction Account same day as money is swept from the Carry Proceeds Account into the JV Construction Account. From the JV Construction Account, the capital costs of the project are settled as at when due.
The recovery of the Carry Capital Cost and Compensation by the Carrying Party is through tax offsets and the Carried Party's share from the project as follows:

(a) 85% of the Carry capital Cost is recovered through tax offsets by transferring NNPC's tax benefits to the Carrying Party.
(b) The balance 15% of the Carry Capital Cost is recovered from NNPC's equity production.

A principal distinguishing feature of MCA is that NNPC is the only party that lifts and markets the Carrying Party in settlement of the Carry Capital Cost (CCC) and the Compensation.

5.8.3 Validation of MCA Transactions in 2012

We have carried out a comprehensive review of the Modified Carry Agreement (MCA) transactions for 2012 with a view to identifying the JVs involved in the MCA arrangement and the number of MCA projects being executed by each JV and their performance in 2012.We also carried out a review of the actual loan value from the IOCs with respect to each MCA project for the benefit of the Carried Party (i.e. NNPC).

According to the MCA financing arrangement, the IOCs are required to finance NNPC's share of agreed project Capital costs. Carry proceeds under this arrangement are deposited in a dedicated Escrow Account controlled by NNPC or jointly with the IOC.

5.8.4 Work Done

During the course of validation, we identified the JVs involved in this alternative funding arrangement and the particular projects concerned, in addition to obtaining and reviewing records of the history of each MCA project and the operations and activities for 2012. We verified crude oil and gas lifted in 2012 under each of the MCA projects and traced the sales proceeds to the respective Escrow Accounts. We also verified the distribution from the Escrow Accounts to meet the Residual Carry Capital Cost as well as Government Take (Royalty and Taxes). The aspect of the crude oil and gas liftings from MCA projects for payment of Royalty and Taxes were also traced and agreed to the liftings by NNPC-COMD for the Account of DPR and FIRS respectively.

5.8.5 Summary of Royalty Oil and Tax Oil Revenue Derived by the Federation from MCA Projects in 2012

Presented in Table 5.8.5A and Table 5.8.5B below is a summary of the revenue flows to the Federation from Joint Venture MCA projects in 2012.

Table 5.8.5A: Summary of Royalty Oil Revenue Derived by the Federation from MCA Projects in 2012

Month of Lifting	DPR ACCOUNT PSC ROYALTY OIL	
	Bbl	Value $
January	200,000	22,136,800.00
February	947,826	112,178,050.58
March	350,000	44,568,400.00
April	520,000	61,419,160.00
May	450,000	49,236,750.00
June	770,000	72,454,810.00
July	670,000	68,610,620.00
August	700,000	80,099,150.00
September	400,000	45,284,900.00
October	870,000	96,865,060.00
November	200,000	22,139,200.00
December	400,000	43,979,000.00
TOTAL	**6,477,826**	**718,971,900.58**

SOURCE: NNPC-COMD CRUDE OIL AND OSO LIFTING 2012

Table 5.8.5B: Summary of Royalty Oil Revenue Derived by the Federation from MCA Projects in 2012

Month of Lifting	FIRS ACCOUNT MCA TAX OIL	
	Bbl	Value $
January	727,607	82,821,386.30
February	73,432	9,077,602.03
March	736,470	93,351,805.92
April	729,500	88,375,084.97
May	36,439	3,676,696.22
June	718,981	66,316,583.50
July	899,710	92,800,239.00
August	1,071,150	122,424,114.11
September	1,247,747	139,373,201.16
October	866,788	97,071,006.40
November	144,785	15,976,707.59
December	689,188	76,942,168.59
TOTAL	**7,941,796**	**888,206,595.81**

SOURCE: NNPC-COMD CRUDE OIL AND OSO LIFTING 2012

5.8.6 Summary of MCA Loans Drawdown, Repayments and Outstanding Balances as at 31st December 2012

Presented in Table 5.8.6 below is a summary of the MCAs and their respective loan summaries, repayments and outstanding balances as at 31st December 2012

Table 5.8.6: MCA Loan Summary as at 31st December 2012

A	B	C	D

JV's	PROJECT	Amount Loan-Per Agreement $(M)	MCA Loan Draw Down To Date Tangible Facility Cost (A) $(M) Input	Intangible Drilling Costs (B) $(M) Input	Total Actual Loan (A+B) $(M)	Loan Repayment To Date (Ctr+Co) $(M)	Loan Balance Outstanding (B-C) $(M)
SPDC	Nembe Creek Bundle	648	445.84	133.98	579.83	407.58	172.24
	Cawthorne Channel	23	6.73	0.77	7.5	3.32	4.18
	Gbaran- Ubie	1691	1,181.08	262.22	1443.3	1244.53	198.77
	SPDC sub total	**2362**	**1,633.70**	**396.98**	**2030.63**	**1655.44**	**375**
TEPNG	Ofon 2	1,710	421	35.2	456.2	201.23	254.97
	OML 58	967	624.75	70.02	694.77	399.28	295.49
	TEPNG- sub total	**2677**	**1045.75**	**105**	**1,151**	**601**	**550**
MPN	2007-2009 Drilling Bundle	3,752	1,375.77	1715.83	3091.6	2782.15	309.45
	2010 Drilling Bundle	904	168.76	353.13	521.89	443.9	77.99
	Oso Condensate	264	266.19	7.69	263.88	122.38	141.5
	MPN- sub total	**4920**	1,810.72	**2.077**	**3,877**	**3,348**	**529**
CNL	2008 CNL MCA	189	78.86	93.02	171.88	170.19	1.68
	CNL- sub total	**189**	**79**	**93**	**172**	170	1.68
NAOC	NLNG T4/T5 Gas supp	432	290.99	100.86	391.85	333.24	58.61
	Ebocha-Beniboye	233	65.17	42.51	107.68	66.84	40.84
	NAOC subtotal	**665**	**356**	**143**	**500**	**400**	**99**
TOTAL		**10,813**	**4,915**	**2,815**	**7,730**	**6,175**	**1,556**

NOTES: *1) The MCA Draw Down to date is the MCA Carry Cost incurred by the IOC and represents the loan to NNPC, 2) CTR: Carry tax relief , 3) CO: Carry Oil ,4) Loan repayment to date consists of Principal repayment only.*

SOURCE: NNPC GROUP FINANCE DIVISION MCA REPORT 2012.

5.8.7 MCA Loan Repayment Summary

The MCA loan repayment status as at 31st December, 2012 for all the existing MCA projects across the five (5) JVs is as presented in Table 5.8.7 below:

Table 5.8.7 : MCA Loan Repayment Summary

	Loan Repayment As At 31st December,2012		
	X	Y	Z=X+Y

Joint Venture	Project	Principal Repayment Carry Tax Relief (CTR) 1 $(M)	Net Residual Carry Oil/Gas (RCO/RCG) 2 $(M)	Total Principal Repayment T0 Date(1+2) $(M)	Interest Paid To Date (IRR 8%) $(M)	Total Amount Paid To Date= Principal + Int $(M)
SPDC	Nembe Creek Bundle	394.85	2.74	407.58	0	407.58
	Cawthorn Channel	3.32	0	3.32	0	3.32
	Gbaran- Ubie	1102.91	141.63	1244.53	87.25	1331.78
	SPDC sub total	**1501.08**	**154.36**	**1655.44**	**87.25**	**1742.69**
TEPNG	Ofon 2	201		201.23	0	201.23
	OML 58	368.23	31.05	399.28	2.01	401.29
	TEPNG- sub total	**569.46**	**31.05**	**600.51**	**2.01**	**603**
MPN	2007-2009 Drilling Bundle	2496.73	285.41	2782.15	319.34	3101.48
	2010 Drilling Bundle	391.21	52.69	443.9	34.76	478.66
	Oso Condensate	122.38	0	122.38	6.32	128.7
	MPN- sub total	**3010.32**	**338**	**3,348**	**360**	**3,709**
CNL	2008 CNL MCA	152.13	18.07	170.19	4.14	174.33
	CNL- sub total	**152**	**18**	**170**	**4.14**	**174**
NAOC	NLNG T4/T5 Gas supply	297.23	36.01	333.24	37.78	371.02
	Ebocha-Beniboye	66.84	0	66.84	0	66.84
	NAOC subtotal	**364.07**	36	**400**	**37.8**	**438**
TOTAL		**5597**	**578**	**6,175**	**492**	**6,666**

SOURCE; NNPC GROUP FINANCE DIVISION MCA REPORT 2012

5.8.8 Summary of MCA Projects Gross Proceeds and Distribution Statement as at 31st December 2012.

Table 5.8.8: Cumulative summary of gross revenue of crude oil and gas liftings with respect to each of the MCA projects and the distribution as at 31st December 2012

		B Gross Proceeds From Crude/Gas Sales	B1 Net Residual Carry Oil	B2 Share Oil/ Gas Interest	B3 Royalty (Govt.	B4 PPT/CITA (Govt.	B5 Educatio Tax (Govt.

		Paid to Escrow Account	(RCO/RCG) i.e Principal Repayment		Take)	Take)	Take)
JV **SPDC**	**Project**	**$(M)**	**$(M)**	**$(M)**	**$(M)**	**$(M)**	**$(M)**
	Nembe Creek Bundle	106.14	12.74	0	21.23	72.18	0
	Cawthorn Channel	0	0	0	0	0	0
	Gbaran- Ubie	356.43	141.63	87.25	24.95	99.44	3.16
	SPDC sub total	**462.57**	**154.37**	**87.25**	**46.18**	**171.62**	**3.16**
TEPNG							
	Ofon 2	0	0	0	0	0	0
	OML 58	51.35	31.05	2.01	3.59	14.33	0.37
	TEPNG sub-total	**51.35**	**31.05**	**2.01**	**3.59**	**14.33**	**0.37**
MPN	2007-2009 Drilling Bundle	4946.84	285.41	319.34	915.17	3426.96	0
	2010 Drilling Bundle	715.33	52.69	34.76	132.34	495.55	0
	Oso Condensate	51.73	0	6.32	9.57	35.83	0
	MPN- sub total	**5713.9**	**338.1**	**360.42**	**1057.08**	**3958.31**	**0**
CNL	2008 CNL MCA	193.32	18.07	4.14	35.76	133.92	1.43
	CNL- sub total	**193.32**	**18.07**	**4.14**	**35.76**	**133.92**	**1.4**
NAOC	NLNG T4/T5 Gas suppl	115.69	36.01	37.78	8.1	32.28	1.53
	Ebocha-Beniboye	0	0	0	0	0	0
	NAOC subtotal	**115.69**	**36.01**	**37.78**	**8.1**	**32.28**	**2**
	TOTAL	**6,536.83**	**577.6**	**491.6**	**1150.71**	**4,310.46**	**6.49**

NOTES

B = Proceeds realized from incremental crude oil/gas production distributed among the JVs and Government Agencies.

B1+B2 = JV partner principal + interest repayment

B3+B4+B5 = Government Take

B5 = Education Tax for CNL reduced from $1.46m to$1.43m due to re-computation of tax.

SOURCE:NNPC GROUP FINANCE DIVISION MCA REPORT

5.8.9 Summary of MCA Revenue from Crude Oil and Gas Liftings in 2012 and the Distribution

Presented below is a summary of the revenue flows from MCA projects from Oil and Gas sales in 2012 and the distribution.

TABLE 5.8.9A:MCA Crude Oil Revenue and Distribution

SUMMARY OF MCA ESCROW ACCOUNT CRUDE LIFTINGS 2012						
JOINT VENTURE	VOLUME BBL'000	VALUES $'000	FIRS - PPT $'000	DPR - ROYALTY $'000	EDU TAX $'000	CARRY+SHARE $'000
NNPC / MPN JV	8,815	985,699	682,843.18	182,354.37	-	120,501.74
NNPC / CNL JV	918	103,794	71,903.62	19,201.98	1,430.65	11,258.22
NNPC / SPDC JV	1,764	196,264	133,459.80	39,252.88	-	23,551.73
TOTAL	11,497	1,285,758	888,207	240,809	1,431	155,312

TABLE 5.8.9B: MCA Gas Revenue and Distribution

	Volume 100% mbtu'000	Value 100% $'000	FIRS-Gas CITA $'000	DPR Royalty $'000	Education Tax $'000	Carry Gas $'000	Share Gas $'000
NNPC/TEPNG JV	11,523.39	31,398.22	8,760.10	2,197.88	371.16	18,059.58	2,009.50
NNPC/NAOC JV	13,754.78	33,551.29	9,360.81	2,348.59	688.52	7,302.25	13,851.12
NNPC/SPDC JV	106,895.83	186,450.92	52,019.81	13,051.56	1,918.92	50,021.28	69,439.35
Total MCA Gas Escrow Lifting	132,173.99	251,400.43	70,140.72	17,598.03	2,978.60	75,383.11	85,299.97

5.8.10 Monthly Sales Receivables from MCA Projects in 2012

We carried out a detailed review of the month by month crude oil and gas lifting and revenue generated from each of the MCA projects in 2012 and traced the revenue to the respective Escrow Accounts. A summary of the liftings and revenue from each of the MCA projects in 2012 is presented as follows:

Table5.8.10A :SPDC JV MCA Projects Crude Oil

SPDC (Nembe Creek) MCA Project

¤ MONTH	Bbl	Revenue $
JANUARY	-	-
FEBRUARY	-	-
MARCH	-	-

APRIL	-	-
MAY	-	-
JUNE	-	-
JULY	-	-
AUGUST	-	-
SEPTEMBER	671,000.00	74,682,300.00
OCTOBER	286,500.00	31,464,289.50
NOVENBER	-	-
DECEMBER	806,705.00	90,117,822.26
TOTAL	**1,764,205.00**	**196,264,411.76**

TABLE 5.8.10B : SPDC GAS (Gbaran Ubie) MCA Project – 2012

GBARAN UBIE MCA PROJECT		
Month	**Volume**	**Revenue**
	mbtu'000	**$'000**
January	11,310.78	27,144.23
February	6,588.10	17,669.51
March	7,115.97	17,081.73
April	5,768.07	15,143.47
May	6,999.67	17,553.46
June	5,539.87	13,293.61
July	6,553.88	14,220.16
August	5,280.67	13,941.81
September	5,435.53	13,026.57
October	3,447.58	7,822.62
November	5,164.47	13,595.74
December	37,691.24	15,957.99

TOTAL	106,895.83	186,450.92

TABLE 5.8.10C : MPN JV MCA Projects

MPN (Qua Iboe) MCA 2007 - 2009

MONTH	Bbl	Revenue $
JANUARY	950,317.00	108,399,809.24
FEBRUARY	-	-
MARCH	949,897.00	120,717,660.25
APRIL	950,140.00	115,303,289.56
MAY	-	-
JUNE	950,149.00	87,435,561.43
JULY	500,000.00	48,280,500.00
AUGUST	950,229.00	108,856,333.78
SEPTEMBER	700,000.00	77,959,700.00
OCTOBER	570,000.00	64,034,160.00
NOVENBER	-	-
DECEMBER	-	-
TOTAL	**6,520,732.00**	**730,987,014.26**

TABLE 5.8.10D: MPN DRILLING BUNDLE MCA 2010

MONTH	Bbl	Revenue $
JANUARY	**-**	**-**
FEBRUARY	-	-
MARCH	-	-
APRIL	-	-

MAY	-	-
JUNE	-	-
JULY	-	-
AUGUST	650,000.00	70,821,400.00
SEPTEMBER	450,000.00	51,165,450.00
OCTOBER	300,000.00	33,852,900.00
NOVENBER	300,000.00	33,903,600.00
DECEMBER	120,000.00	13,241,760.00
	-	-
TOTAL	**1,820,000.00**	**202,985,110.00**

TABLE 5.8.10E - MPN OSO 2010 MCA

MONTH	Bbl	Revenue $
JANUARY	**-**	**-**
FEBRUARY	-	-
MARCH	-	-
APRIL	-	-
MAY	-	-
JUNE		-
JULY	-	-
AUGUST	100,000.00	9,656,100.00
SEPTEMBER	85,000.00	9,664,585.00
OCTOBER	100,000.00	11,284,300.00
NOVENBER	100,000.00	11,301,200.00
DECEMBER	89,000.00	9,820,972.00
	-	-
TOTAL	**474,000.00**	**51,727,157.00**

TABLE 5.8.10F: CHEVRON JV MCA PROJECTS – 2012

YEAR 2012	NNPC/CHEVRON (ESCRAVOS) MCA	
MONTH	**Bbl**	**Revenue $**
JANUARY	100,000.00	11,154,700.00
FEBRUARY	106,000.00	13,103,720.00
MARCH	113,214.00	14,037,743.50
APRIL	102,910.00	12,268,106.92
MAY	52,600.00	5,307,392.60
JUNE	87,716.00	8,293,898.66
JULY	48,752.00	5,201,204.62
AUGUST	61,000.00	7,035,557.00
SEPTEMBER	42,500.00	4,783,630.00
OCTOBER	-	-
NOVENBER	-	-
DECEMBER	203,000.00	22,608,516.00
TOTAL	**917,692.00**	**103,794,469.30**

TABLE 5.8.10G: TEPNG MCA Project - 2012

Month	OML 58	
	Volume mbtu'000	Revenue $'000
January	2,137.06	5,346.20
February	1,582.63	4,555.50
March	-	-
April	-	-
May	-	-
June	-	-

July	868.88	2,086.39
August	888.28	2,606.90
September	1,571.10	4,119.91
October	-	-
November	1,673.15	4,872.40
December	2,802.29	7,810.91
Total	**11,523.39**	**31,398.22**

TABLE 5.8.10 I: NAOC JV MCA Project - 2012

	NNPC/NAOC	
	NLNG T4 & TS GAS SUPPLY	
Month	**Volume**	**Revenue**
	mbtu'000	**$'000**
January	1,659.88	3,900.31
February	1,078.17	2,816.62
March	1,372.19	3,295.08
April	889.18	2,313.75
May	1,053.69	2,633.70
June	1,219.05	2,919.41
July	1,165.92	2,536.97
August	942.65	2,487.05
September	1,027.33	2,461.52
October	1,226.92	2,764.33
November	778.47	2,018.98
December	1,341.33	3,403.57
TOTAL	**13,754.78**	**33,551.29**

Observations:

During the course of the validation of the various Non-financial flows (in-kind) transactions, the following observations were noted:

5.8.11 PSC in-Kind Transactions

(i) Data on Royalty liability was not provided with respect to the following PSCs:

- **Statoil (OML128)**
- **Addax (OML123/124**
- **TUPNL (OML 130)**

We were informed that the Companies operate from deep offshore locations which attracts zero (0) Royalty rate.

(ii) We did not have access to the basis and detailed calculations by NNPC- NAPIMS in ascertaining the PPT and Royalty Liabilities summarized in 5.2.2 and 5.2.3 above. We also observed that the PSC companies do not always accept NNPC-NAPIMS calculations which they claim are based on wrong interpretation of the PSC Agreement and applicable fiscal regimes.
We recommend that PSC operating and fiscal terms be well defined in the Petroleum Industry Bill (PIB) when it is eventually passed into law by the National Assembly.

(iii) From re-cast of the NNPC-NAPIMS Determined Royalty liability and related Royalty Oil schedule, we noted that the annual Royalty Liability value totals were inaccurate as presented below:

Table 5.8.11: NNPC-NAPIMS Determined Royalty liability

PSC	Liability as per NAPIMS $	Re-cast of Liability $	Difference $
ESSO (OML 133)	118,173,880	59,086,940	59,086,940
ADDAX (OML 126/137)	230,497,800	115,248,900	115,248,900
SNEPCO (OML 118)	221,696,050	135,567,750	86,128,300
NAE (OML 125)- (Combined)	800,903,121	409,068,311	391,834,810
TOTAL	**1,371,270,851**	**718,971,901**	**652,298,950**

(iv) The NNPC-NAPIMS determined Royalty liability for NAE (OML 125) for the month of July 2012 showed the value of the 300,000 Bbls lifted at $96.587 to be **$34,137,900** instead of **$28,976,100.**

(v) We observed that two templates with different data were presented with respect to NAE Royalty liability for 2012 on the same OML by NNPC- NAPIMS. The first template had a total Royalty liability of **$685.671million** and a Royalty Oil volume of **3,197,826 Bbls** while the second template had a Royalty liability of **$115.232 million** and Royalty Oil volume of **520,000 Bbls.** Our validation procedures revealed that the two templates relate to separate transactions as corroborated by the NNPC-COMD lifting profile for 2012.

(vi) We observed further that Total E&P Nigeria Limited completed a template indicating equity share in OML 118/135 PSC (Bonga) but no mention was made of OML in NAPIMS schedule of PSCs. Also OML 118 is in the name of SNEPCO as stated in the NAPIMS schedule. There is need for NAPIMS to clarify how many PSCs were in production in 2012 and the related OML numbers.
NNPC-NAPIMS should also confirm the status of Total E&P Nig Ltd as a PSC under OML 118/135.

5.9 NGL and NGL 2 PROJECT

There was no evidence of fiscal regime (Royalty and Taxes) applicable to the production from NGL 2 in accordance with the provisions of the relevant tax laws of the nation. Consequently, Government Take (Royalty and Taxes) appears to be nil with respect to the project.

NNPC however explained that the production figures were lifted net of Royalty which was treated as first charge against gross production. We were however unable to confirm whether royalty and taxes were actually paid on the gas produced from NGL 2 project as the project was treated as off-balance sheet items.

Furthermore there was no clear audit trail on how the **$635 million** moved from NGL 2 Loan Facility to the MPN JV for the 2011 MPN drilling CAPEX was recorded and reported to the JV Partners and other stakeholders. It was equally not clear how the issue of participating interest was dealt with since the NGL participating interest (MPN 51 : NNPC 49) is different from that of the JV (NNPC 60: MPN 40). NNPC explained that the transfer was transparently done and the JV partners, particularly NNPC did not have to source for cash calls for the affected drilling projects.

Our review of the loan package summary showed that the cost of funds applicable to this third party financing loans overtime were as follows:

- **Initial Loan ($1.275 Billion)**: International Lenders – LIBOR plus 3.53%; Local Lenders – LIBOR plus 3.25%
- **Supplemental Loan ($220 million:** LIBOR plus 2.75% (All from local Lenders)
- **Re-Sizing ($265 million):** LIBOR + 4.5% plus 3.5% liquidity premium. Note that EXXONMOBIL provided $100 million as Co- Lender under this re-sizing loan deal.
- **Additional Loan ($1.1 Billion):** International lenders – LIBOR plus 3.53%; Local Lenders – LIBOR +3.75 bps plus 1.5% Liquidity Premium. EXXONMOBIL as one of the Local Lenders was exempted from the liquidity premium under this package.

NNPC explained that the Loan pricing was very competitive.

We carried out a detailed review of the loan repayment profile (Principal and interest) as at 31st December 2012 and observed as follows:

The total repayment on the "senior Loan" of $1.275 billion as at 31st December 2012 was **$1.092 billion** for the Principal Repayment while loan Interest paid as at 31st December 2012 was **$371.10 million**. However the Additional loan incurred interest charges of $73.03 million in 2011 and 2012, bringing the total interest paid as at 31st December,2012 on the Senior and Additional loan to $444.03. The Senior Loan had an outstanding balance of **$183.81 million** as at 31st December 2012**.**

NNPC's share of the total loan repayment (Principal and interest) as at 31st December 2012 was $716.77 million whereas the amount retained from NNPC's share of Revenue accrued on NGL 2 as at 31st December 2012 was $968.19 million. The sum of $100.74 million had been transferred to the Federation Account as at 31st December 2012 while the balance of **$150.68 million** was retained in the Proceed Account instead of being transferred to the Federation Account.

NNPC explained that the retention was in line with the loan terms and was necessary as it served as the only security for the loan since no other physical asset was pledged.

5.10 Carry Agreements And Modified Carry Agreements (MCAS).

During the course of our review of the MCA transactions for 2012, the following observations came to light:

a) Wrong Posting into NNPC/MPN (Qua Iboe) 2007 – 2009 MCA Schedule

We noted from the NNPC-COMD lifting profile that two liftings with Bill of Lading dates of 26/11/2012 were included in the NNPC/MPN 2007 – 2009 MCA Drilling Bundle Schedule instead of the 2010 Drilling Bundle and Oso Condensate MCA Accounts respectively. The related Escrow Accounts entries were however correctly posted.

b) Wrong Account Description

We noted from the NNPC-COMD lifting profile that in the month of July 2012, a lifting of 650,000 Bbls with Bill of Lading date of 20/07/2012 was recorded in the NNPC-COMD lifting profile under the account head: "DRILLING ESCRAVOS ACCOUNT 2010" instead of MPN 2010 Drilling Bundle. The entry in the related Escrow Account however gave the correct description.

C) Unpaid MCA Lifting

We noted that a lifting from the NNPC/SPDC MCA on December 26, 2012 of **806,705 Bbls** with sales value of **$90,117,822.26** could not be traced to payments into the Escrow Account in 2012, even though similar crude oil lifting in the same month of December were traced and accounted for. We did not have access to the Escrow account schedule for 2013 to confirm whether the value was subsequently paid for and when.

5.10.1 Conclusion and Recommendations

From the detailed review of in-kind transactions during the year under review as presented above and the findings thereto, it is pertinent to conclude that there is the need for very clear and unambiguous operating terms and fiscal regimes with respect to in-kind transactions. The fiscal terms applicable to PSC operations in the aspect of Royalty and Tax Oil should be well defined to avoid misinterpretation and conflicts between the parties.

The lessons from the resort to third party financing of projects such as NGL 2 is that the inability of the Government to meet its Cash Call obligation to the Joint venture operations denies the Federation of very significant revenue as **over 86%** of the revenue flows from third party financed project (as in the case of NGL 2) is utilized in the loan repayment, while a portion due for remittance to the Federation is again retained as hedge fund for the protection of the loan providers. Consequently, the net cash flow to the Federation from third party financed projects is very insignificant when compared to the project gross revenue flows. It is therefore recommended that all third party financed projects should be designed in such a way that Government Take and share of profit is guaranteed from the time the project begins to generate revenue in order to provide funds for other critical national needs.

The treatment of Third Party Financed projects, such as NGL 2 as off-balance sheet items should be discouraged because the practice is in breach of the International Financial Reporting Standards which Nigeria has adopted.

6.0 JDZ OPERATIONS

The JDA is the institution that administers the Joint Development Zone (JDZ), which lies approximately two hundred kilometers off-shore Nigeria where large petroleum discoveries have been made. The JDZ was established in 2001 following ratification of formal bilateral treaty between Nigeria and Sao Tome and Principe.

The JDA is not a Covered Entity in any of the NEITI Audit cycles. It was however agreed that the JDA will engage an independent reconciler for the JDZ and that when the report of the JDZ is ready, it can be used as reference by the two countries; Nigeria and Sao Tome & Principe. Against this background, templates were not sent to JDA for this audit neither was revenue received in 2012 by the Federation.

7.0 COMPANY LEVEL FINANCIAL FLOWS

7.1 Petroleum Profit Tax (PPT)

S/N	ENTITY	PPT $'000
1	MPNU	2,918,766
2	SPDC	2,090,586
3	TEPNG	1,197,498
4	CHEVRON	691,410
5	NAOC	530,221
6	PHILIPS	259,000
7	NPDC	210,400
8	SEPLAT	74,924
9	CONOIL	56,602
10	MONIPULO	39,568
11	AMNI	16,950
12	POOCN	2,189
13	NECONDE	1,313
14	ATLAS/SUMMIT	781
15	PLATFORM	741
16	NEWCROSS	485
17	CAVENDISH	229
18	ENERGIA	117
19	ORIENTAL	94
20	PILLAR	-
	PSC	
21	SNEPCO	3,112,533
22	ESSO	2,436,866
23	NAE	371,489
24	STATIOL	1,708,962
25	APDNL	575,565
26	APENL	369,727
27	TUPNI	1,296,453
	MCA	
28	MPN JV	682,843
29	CNL JV	71,904
30	SPDC JV	133,460
	TOTAL	**18,851,676**

7.2 Royalty Oil

S / N	ENTITY	ROYALTY $'000
1	ALLIED ENERGY	5,266
2	AMNI	63,932
3	ATLAS/SUMMIT	5,643
4	Brittania-U	2
5	Chevron	817,231
6	CONOG	194,527
7	CONOIL	15,000
8	Dubri	4,638
9	Energia	1,497
10	Express	611
11	FHN 26	15,570
12	Midwestern	17,864
13	MONI PULO	21,390
14	MPNU	1,589,965
15	NAOC	319,975
16	Waltersmith	500
17	NDPR	1,453
18	NEWCROSS	568
19	NPDC	409,599
20	ORIENTAL	120,531
21	PHILLIPS OIL	135,460
22	Pillar	963
23	Platform	1,374
24	POOCN	50,611
25	SEPLAT	115,979
26	SPDC	1,051,065
27	TEPNG	804,287
PSC		
28	ESSO	59,087
29	NAE	409,068
30	STATOIL	-
31	SNEPCo	135,568
32	ADDAX	-
33	ADDAX	115,249
34	TUPNL	-
MCA		
35	MPN JV	182,354
36	CNL JV	19,202
37	SPDC JV	39,253
	TOTAL	6,725,282

7.3 Royalty Gas

S/N	Entity	US$'000
1	SPDC	37,036
2	TEPNG	29,121
3	NAOC	21,320
4	PHILLIPS OIL	12,436
5	Chevron	7,228
6	SEPLAT	377
7	Platform	83
	TOTAL	107,601

7.4 License Fees and Concession Rentals

S/N	ENTITY	LICENSE FEES & CONCESSION RENTALS US$'000
1	SPDC	327
2	NAOC	175
3	SEPLAT	120
4	CONOIL	94
5	STERLING	87
6	TEPNG	67
7	Star deep	51
8	CAVENDISH	39
9	Express	22
10	MONI PULO	20
11	Optimum	19
12	ATLAS/SUMMIT	15
13	Chevron	1,622
14	MPNU	52
15	Dubri	35
16	ORIENTAL	38
17	SOUTH ATLANTIC	39
18	Yinka Folawiyo	34
19	ESSAR	18
20	NEWCROSS	10
21	POOCN	10
	TOTAL	**2,895**

7.5 Cash Call

7.5.1 Introduction

National Petroleum Investment Management Services (NAPIMS) is the arm of NNPC charged with the management of the Nigerian Federation's investment in the Oil and Gas Joint Venture Operations with the International Oil Companies (IOCs).

The IOCs are:

- Shell Petroleum Development Company (SPDC)
- Mobil Producing Nigeria Unlimited (MPNU)
- Chevron Nigeria Limited (CNL)
- Total Exploration and Production Nigeria Limited (TEPNG)
- Nigerian Agip Oil Company Limited (NAOC)
- Pan Ocean Oil Company Limited (POCN)

The structure of the Joint Venture arrangements with the IOCs mentioned above and their participating interests are shown in the table below:

Table 7.5.1: JV Participating interests

S/NO	JV	OPERATOR	PARTICIPATORY INTEREST							
			NNPC %	SPDC %	MOBIL %	CHEVRON %	TOTAL %	NAOC %	POCNL %	PANOC %
1.	SPDC JV	SPDC	55	30	-	-	10	5	-	-
2.	MOBIL JV	MOBIL	60	-	40	-	-	-	-	-
3.	CHEVRON JV	CHEVRON	60	-	-	40	-	-	-	-
4.	TEPNG JV	TOTAL E&P	60	-	-	-	40	-	-	-
5.	NAOC JV	NAOC	60	-	-	-	-	20	20	-
6.	PAN OCEAN JV	PANOCEAN	60	-	-	-	-	-	-	40

7.5.1.1 NPDC Operations

The Nigeria Petroleum Development Company (NPDC) which is a 100% owned subsidiary of the Nigeria National Petroleum Corporation (NNPC) is also involved in upstream operations.
The company is currently involved in the operations of three (3) categories of Oil Mining Licenses (OMLs) namely;

I. **OMLs that are 100% owned and operated by NPDC**
These OMLs were acquired by NPDC before 2001. The list of these OMLs and their period of acquisition as obtained from DPR records are as follows:

OMLs	119	111	64	65	66
Year	2000	1996	1989	1989	1989

II. **OMLs in which NPDC acts as an operator on behalf of NNPC**
The OMLs involved are actually part of Shell and Chevron JVs mentioned in 7.5.1 above but transferred to NPDC (as Operator only) in 2005 and 2006 as a result of NNPC exercising its rights under **Article 2.7 – Change of Operatorship** of the Joint Operating Agreement (JOA). The right allowed NNPC to assume the role of the operator in specified portions of the JV and NNPC in exercising this right, appointed its upstream subsidiary-NPDC to manage the operatorship of the transferred fields concerned on its behalf.

The OMLs involved and the date of transfer as seen from the Side letters to the JOA are shown below:

OMLs	Previous Operator	Date of Transfer to NPDC
49/51	Chevron	August, 2005
20/13	SPDC	May, 2006

NPDC has no ownership claim over this OMLs and acts only as an operator on behalf of NNPC.

III. OMLs acquired from NNPC in 2010, 2011 and 2012

NNPC assigned its 55% equity in some OMLs covered under the SPDC JV arrangement mentioned in 7.5.1 above on the approval of the Honourable Minister of Petroleum Resources. This followed the divestment by SPDC from the OMLs between 2010 and 2012. The assignment of 55% NNPC equity interest includes "its rights, interests, privileges, obligations, and responsibilities under the JV" in the OMLs concerned and this was for a "good and valuable consideration".

The OMLs concerned and the date of Deed of Assignment approval by the Honourable Minister are listed below:

OMLs	Date of Assignment
4/38/41	16th September, 2010
26/30/34/40/42	21st April, 2011

DPR records also indicated the NPDC strategic partners involved in the operations of the OMLs and these are shown below:

OML	NPDC PARTNERS	DATE OF ACQUISITION
26	FHN	05/2011
42	NECONDE	11/2011
34	MIDWESTERN	02/2012
4/38/41	SEPLAT	05/2010
30	SHORELINE	11/2012
40	ELCREST	02/2012

Source: DPR list of OMLs in 2012

7.5.2 Cash Call payments

The summaries of Cash Calls paid by NNPC/NAPIMS to the Joint Venture Partners in the source currencies of funding JV operations (i.e. Dollar and Naira) in 2012, together with the comparative figures for the previous audit cycle (2009 – 2011) are presented in Table 7.5.2(a) for Naira Cash Calls and 7.5.2(b) for Dollar cash Calls as follows:

TABLE 7.5.2A : Summary of Naira Cash Calls Paid by NNPC to JV Operators

Joint Ventures	Year			
	2009	2010	2011	2012
	N'000	N'000	N'000	N'000
NNPC/SPDC/TEPNG/NAOC	114,714,788	143,823,346	144,053,085	157,199,559
NNPC/EXXONMOBIL	83,312,705	81,103,423	69,155,453	101,587,679
NNPC/CHEVRON	58,873,884	74,241,804	75,871,795	115,771,655
NNPC/TEPNG	38,913,916	60,414,517	57,645,890	68,521,229
NNPC/NAOC/PHILIPS	62,154,627	64,115,935	52,128,343	67,630,174
NNPC/POOC	12,119,294	16,922,053	16,334,595	12,604,099
NPDC/CNL	529,874	489,278	676,337	367,033
NPDC/SPDC	464,203	331,427	716,426	1,283,473
Sub Total	**371,083,2-91**	**441,441,783**	**416,581,924**	**524,964,901**
Prior year Cash Calls paid by NNPC to JV Operators	55,671,722			81,006,230
Post Year Cash Call Paid	29,114,740	-	-	-
Post Year Cash Call Paid (NIPP Dom Gas)	4,378,847	-	-	-
Credit Transfer for OB3 Gas pipeline				**6,967,206**
Total	**460,248,600**	**441,441,783**	**416,581,924**	**612,938,337**

Source: (a) NEITI's Audit Report 2009 - 2011 (b) JP Morgan Chase CBN/NNPC Cash Call JV account (Naira Account)

There was an increase of **N196.356 billion** in Naira cash calls paid in 2012 when compared with the total Naira Cash calls paid in 2011, indicating a **47.14%** rise in the Naira cash call paid in 2012.

TABLE 7.5.2B: Summary of Dollar Cash Calls Paid by NNPC to JV Operators

Joint Ventures	Year			
	2009	2010	2011	2012
	$'000	$'000	$'000	$'000
NNPC/SPDC/TEPNG/NAOC	705,064	811,685	685,288	836,240
NNPC/EXXONMOBIL	601,255	638,694	321,131	503,799
NNPC/CHEVRON	770,408	728,075	780,692	634,015
NNPC/TEPNG	356,623	651,238	421,320	458,656
NNPC/NAOC/PHILIPS	392,595	274,751	234,401	276,673
NNPC/POOC	130,577	190,889	90,487	115,731

NPDC/CNL	3,235	883	2,024	1,005
NPDC/SPDC	298	180	1,895	1,388
Sub-total	**2,960,055**	**3,296,395**	**2,537,238**	**2,827,507**
Prior Year Cash Call Paid	579,012	485,398	65,256	281,684
Post Year Cash Paid	191,820	-	-	
Total Dollar Cash Call Paid	**3,730,887**	**3,781,793**	**2,602,494**	**3,109,191**

Source: (a) NEITI's Audit Report 2009 - 2011 (b) JP Morgan Chase CBN/NNPC Cash Call JV Account (Dollar Account)

There was an increase of **USD506.697 million** in Dollar cash call payments in 2012 when compared to the figure for 2011 as presented above, indicating an increase of **19.47%**

7.5.3 Prior Year Payments.

NNPC paid Cash Call arrears covering the period 2002 to 2009 of a total sum of $1,253,106,906.69 of which the sum of $284,896,558.65 or (N44,087,742,450.00) was disbursed in Naira to the JV Partners.

Amount due, paid and outstanding were requested from NNPC, but we were informed that reconciliation was on-going with the IOCs. The cash call arrears are summarized below:

Table 7.5.3: Cash Calls Arrears (2002 to 2009) paid by NNPC to JV Operators in 2012

	$
NNPC/SPDC/TEPNL/NAOC	172,980,350.00
NNPC/CNL	107,457,000.00
NNPC/TEPNL	486,138,800.00
NNPC/ MPNU	130,366,000.00
NNPC/ NAOC/PHILIPS	52,529,600.00
NNPC/POOCN	18,763,600.00
Monetised to Naira	284,896,558.65
TOTAL	**1,253,106,906.69**

SOURCE: - NNPC NAPIMS CASH CALL TEMPLATES AND RECORDS

7.6 Company Income Tax

S/N	Entity	CIT (GAS) US$'000
1	SPDC	158,147
2	TEPNG	130,374
3	NAOC	89,871
4	PHILLIPS O	43,683
5	Chevron	18,476
6	SEPLAT	491
7	NAE	6
	TOTAL	441,048

7.7 Gas Flared Penalty

S/N	ENTITY	GAS FLARING PENALTIES US$'000
1	Chevron	6,722
2	APDNL	3,195
3	TEPNG	2,333
4	MPNU	1,231
5	SPDC	1,089
6	AMNI	1,000
7	NAOC	709
8	PHILLIPS OIL	510
9	Dubri	468
10	APENL	435
11	SEPLAT	367
12	Platform	336
13	TUPNI	181
14	SNEPCo	166
15	NEWCROSS	129
16	Energia	123
17	ORIENTAL	83
18	ATLAS/SUMMIT	70
19	Pillar	41
20	MONI PULO	19
21	CAVENDISH PETROLEUM LTD.	26
22	NPDC	5,329
23	Brittania-U	18
	TOTAL	**24,580**

7.8 Education Tax

	EDUCATION TAX	Receipt by Govt. US$'000
1	TUPNI	129,509
2	Esso	112,384
3	Star deep	111,206
4	SNEPCo	97,533
5	MPNU	94,311
6	SPDC	93,644
7	STATOIL	67,930
8	TEPNG	65,797
9	Chevron	62,103
10	APDNL	52,984
11	APENL	43,969

12	NAOC	27,922
13	NAE	18,744
14	NPDC	14,102
15	SEPLAT	5,165
16	CONOIL	5,150
17	PHILLIPS OIL	4,292
18	CONOG	3,139
19	AMNI	2,492
20	MONI PULO	382
21	ATLAS/SUMMIT	298
22	Platform	183
23	CAVENDISH	47
24	Dubri	43
25	Neconde	36
26	ORIENTAL	18
27	Pillar	0
28	NLNG	107,038
	TOTAL	**1,120,421**

7.9 NDDC 3% Contribution Levy

	NDDC 3% Contribution Levy	
		US$'000
1	SPDC	118,168
2	TEPNG	91,474
3	Chevron	74,719
4	MPNU	65,383
5	TUPNI	46,943
6	SNEPCo	41,844
7	Star deep	26,145
8	STATOIL	24,392
9	APDNL	14,269
10	SEPLAT	13,345
11	NAE	8,780
12	Esso	8,064
13	NAOC	7,006
14	APENL	5,240
15	Midwestern	4,104
16	CONOG	2,000
17	CONOIL	2,000
18	MONI PULO	1,500
19	Energia	1,376

20	Platform	712
21	AMNI	700
22	Pillar	479
23	Dubri	165
	TOTAL	**558,808**

7.10 Nigeria Content Development and Monitoring Board (NCDMB)

	ENTITY	1% NCDMB Levy
		US$'000
1	TEPNG	21,562
2	SPDC	18,048
3	APDNL	10,281
4	POOCN	9,223
5	NAOC	9,207
6	APENL	5,328
7	SNEPCo	2,970
8	NAE	2,663
9	ESSO	167
10	Platform	67
11	STATOIL	62
12	MONI PULO	431
	TOTAL	**80,010**

8.0 DOWNSTREAM OPERATIONS

8.1 Overview of Downstream Operations.

The downstream sector involves operations such as refining of crude into its various constituents, distribution and marketing.

The Nigeria National Petroleum Corporation (NNPC) is the largest player in the downstream industry through its subsidiary, the Petroleum Products Marketing Company which has four refineries with a total petroleum refining capacity of 445,000 barrels per day. Federal Government allocates this quantity of crude to NNPC for its lifting for domestic processing at its Refineries.

The crude is pumped from the fields through pipelines to the oil storage tanks at the terminals where it is thereafter pumped through fiscal meters to the refineries for processing into petroleum products.

The Refineries and their installed production capacity in barrels per day are stated in table below:

Table 8.1: Daily Refining Capacities

Refinery	**Capacity**
Port Harcourt Refining Company (PHRC) – Old	65,000BPD
Port Harcourt Refining Company (PHRC) – New	150,000BPD
Warri Refining and Petrochemical Company Limited (WRPC)	120,000BPD
Kaduna Refining and Petrochemical Company (KRPC)	110,000BPD
Total	**445,000 BPD**

The four refineries operate below name plate capacity and the combined production output is insufficient to meet domestic fuel requirements, hence the introduction of product importation became imperative. The NNPC / PPMC later introduced **off shore processing /swap arrangements** to augment local refining in other to ensure adequate petroleum products supply. Product importation therefore consists of direct product importation, offshore processing Arrangements (OPA) and the exchange of crude for finished products (SWAP). NNPC/PPMC records made available for the audit indicates however that there was no product importation in 2012, all imported products were through alternative arrangements.

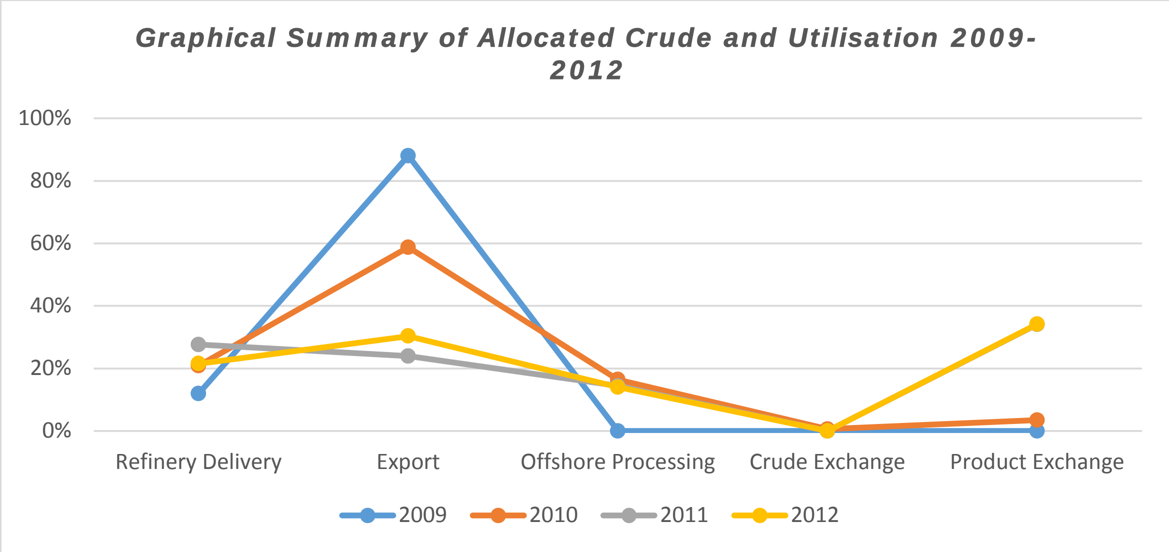
8.1.1. Crude allocation to refineries

The total volume of crude oil allocated for the refineries in 2012 amounted to 162.343 million barrels and summary of how it was utilised is shown below.

Table 8.1.1A: Summary of Crude Oil Allocation to Refineries and Utilisation

Year	Allocated Crude	Refinery Delivery	Export	Offshore Processing	Crude Exchange	Product Exchange
	BBL'000	BBL'000	BBL'000	BBL'000	BBL'000	BBL'000
2009	161,914	19,363	142,551	-	-	-
Percentage (2009)		**12%**	**88%**	**0%**	**0%**	**0%**
2010	166,523	34,703	97,792	27,336	950	5,742
Percentage (2010)		**21%**	**59%**	**16%**	**1%**	**3%**
2011	164,455	45,394	39,341	23,688	-	56,032
Percentage(2011)		**28%**	**24%**	**14%**	**0%**	**34%**
2012	162,343	34,927	49,213	22,755	-	55,447
Percentage(2012)		**21.5%**	**30.3%**	**14.0%**	**0.0%**	**34.2%**

Figure 8.1.1A: Graphical Summary of Allocated Crude and Utilisation 2009-2012



The quantity of crude delivered to each of the four refineries for processing for the year under review compared to the previous years is as shown below:

Table 8.1.1.B: Summary of actual Refinery Deliveries 2009-2012

Year	PHR-New (bbl)	WRPC/KRPC (bbl)	Marine Operations (bbl)	Total (bbl)
2009	7,236,066	12,126,480	-	19,362,546
2010	6,240,265	28,460,708	-	34,700,973
2011	12,831,286	31,277,475	559,530	44,668,291
2012	10,396,857	10,655,145	13,874,531	34,926,533
Total	**36,704,474**	**82,519,808**	**14,434,061**	**133,658,343**

Source: NEITI's Audit Report 2009 - 2011 /COMD-PPMC

Figure 8.1.1A: Graphical Summary of Allocated Crude and Utilisation 2009-2012

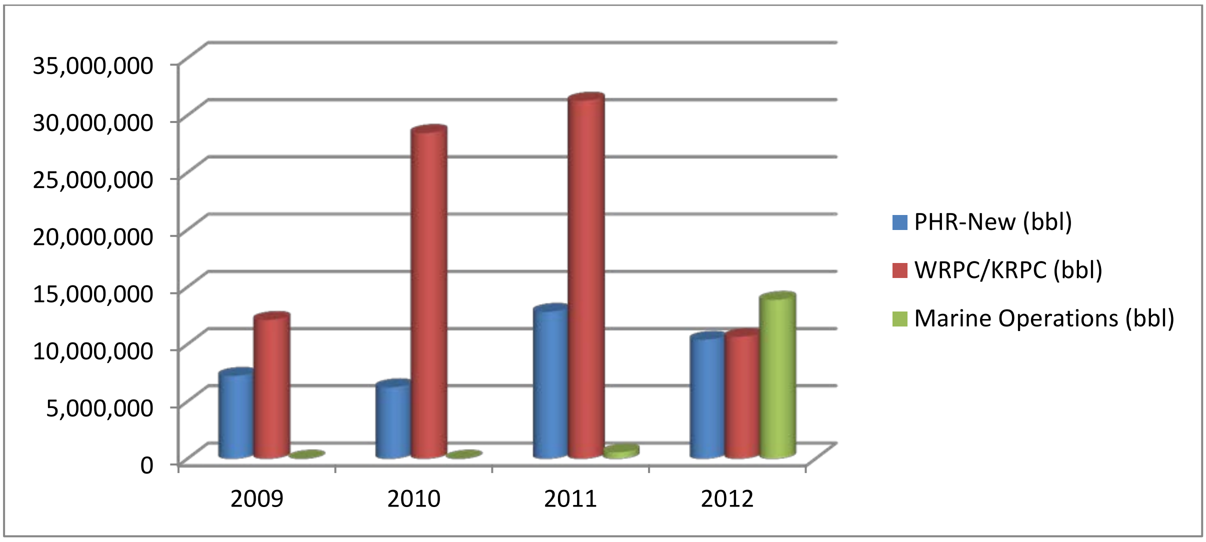


Table 8.1.1C: Monthly Breakdown of Refinery Deliveries in 2012

	PHRC	WRPC/KRPC (ESCRAVOS & UGHELLI B)	MARINE OPERATIONS	TOTAL
	BBLS	BBLS	BBLS	BBLS
January	1,549,862.00	545,279.00	1,397,640.00	3,492,781.00
February	310,265.00	-	1,596,536.00	1,906,801.00
March	1,234,318.00	-	1,697,454.00	2,931,772.00
April	-	1,704,525.00	698,302.00	2,402,827.00
May	-	1,628,944.00	1,696,238.00	3,325,182.00
June	-	1,010,302.00	1,098,650.00	2,108,952.00
July	-	2,003,849.00	1,495,663.00	3,499,512.00
August	912,561.00	166,138.00	-	1,078,699.00
September	1,952,125.00	313,190.00	1,098,451.00	3,363,766.00
October	1,095,250.00	716,077.00	1,297,340.00	3,108,667.00
November	1,849,598.00	1,488,544.00	1,798,257.00	5,136,399.00
December	1,492,878.00	1,078,297.00	-	2,571,175.00
TOTAL	**10,396,857.00**	**10,655,145.00**	**13,874,531.00**	**34,926,533.00**

Source: COMD

Observations:

- The quantity of domestic Crude Oil allocation processed by the refineries (see Table 8.2C) remains low (21.51%) as was recorded in the previous audit cycle where an average of 20% processing was achieved by the refineries over a period of three years (2009-2011).
- In 2012 out of a total allocation of 162.343million barrels, only 34.927 million barrels was processed in the country.
- Records from NNPC/COMD indicate that domestic crude was not delivered to PHRC for a period of 4 months (see Table 8.2C above) at a stretch while product allocation to the moribund refinery continued at the rate of 215,000bpd. NNPC/PPMC however explained that supply to the refinery was through marine transportation due to incessant pipeline vandalisation during the period.
- Crude meant for KRPC is routed through the WRPC tank farm from where it is pumped to KRPC by pipeline.

Implications:

- The refineries have consistently operated below capacity over the years.
- The balance of 78.49% was either processed outside the country, exchanged for products or exported by NNPC.
- The daily refinery allocation of 445,000bpd is no longer an allocation for local refinery but an allocation to NNPC which must be justifiable.
- The routing of Crude Oil meant for KRPC through the WRPC tank farm makes reconciliations difficult.

Recommendations:

- ✓ The crude allocation to the NNPC for the refineries should be limited to their current refining capacity.
- ✓ The Federal Government through the appropriate agency should set the agenda for the privatization of the Refineries especially with the poor performance of the old and moribund Port Harcourt Refinery.

8.2 Determination of Subsidy payments

8.2.1. Introduction

Subsidy can be defined as a sum of money granted by the state or a public body to help an industry or business keep the price of a commodity or service affordably low. The subsidy is often considered to be in the interest of the public.

Fuel subsidy was introduced as a policy in Nigeria during the Military rule when refineries failed due to poor maintenance. The policy which was introduced as a temporary measure to stabilize the price of petroleum products and cushion the comparatively high price of imported products (while the local refineries underwent rehabilitation) has since become a standing policy of successive governments.

Fuel subsidy, therefore, can be said to mean the financial aid granted to independent marketers that import petroleum products and local refineries by the government for them to supply their products at a cheaper rate for the good of the general public.

The modality for the administration of the subsidy scheme by PPPRA is by reimbursing marketers the extra cost borne in the importation of refined products as against regulated government price. The difference is determined between the landing cost of the products and approved ex-depot price.

It is a mechanism that is designed to present the real costs incurred by marketers in the process of products procurement while ensuring that end users pay a limited amount for the product.

8.2.2. Subsidy Regime

The PPPRA employs Import Parity Principle in subsidy computation. The pricing template considers such factors as:

(a) Landing cost of the product
(b) Margins for the marketers, Dealers and Transporters
(c) Jetty- Depot through-put
(d) Other charges and Taxes.

The objectives of the pricing templates are to ensure transparency, full cost recovery, fairness and efficiency in the importation process.

Based on the above scenario, PPPRA determines the applicable subsidy per litre for the product on daily basis. The subsidy for any petroleum product is obtained by multiplying the quantity of product by the under-recovery rate.

At any given time, if the ex-depot price (which is arrived at by deducting the distribution margins from the open market price) is higher than the landing cost, then there is over-recovery and the oil marketing companies would be required to pay back to the Federal Government the amount of worked over-recovery. When it is lower, the marketers are entitled to be paid the under-recovery from the government through PPPRA by issuing Sovereign Debt Statements (SDS) and forwarding it to DMO who issues Sovereign Debt Notes (SDN) to the marketers for redemption from the Petroleum Support Fund account domiciled with the Central Bank of Nigeria.

According to the Agency, **Subsidy gap = open market price - pump price.**

8.2.3. Computation of Subsidy

Generally, subsidy per litre or the under-recovery rate is the difference between landing Cost and the Ex Depot Price of the petroleum product. Landing cost is calculated thus:

For Imported products:

Landing Cost = <u>Product Price per Litre X Exchange Rate</u> + Freight + lightering + Jetty Cost + Financing + Trader's margin Litres per metric tonne (1,341 litres)

For Locally Refined Products:

Freight, Finance Charges, Trader's Margin and lightering Charges are excluded from Landing Cost. (Note: lightering charge is part of Product cost on PPPRA Price Template)

8.2.4 Petroleum Support Fund

The Government established the Petroleum Support Fund (PSF) in 2006 as an interventionist fund. The Petroleum Support Fund (PSF) is a pool of funds provided for by the three tiers of Government to stabilize the domestic prices of petroleum products against volatility in international crude and product prices. This Fund is also augmented with accruals during the period of over-recovery from the marketers.

8.2.4.1. Eligibility for Drawing from the Fund

Oil Marketing/Trading Companies are expected to meet the rules and regulations set by the PPPRA on the management /administration of the Petroleum Support Fund (PSF) as follows:

(1) Applicant must be an Oil Marketing/Trading Company registered in Nigeria with the Corporate Affair Commission (CAC) to conduct petroleum products business.

(2) Beneficiary/Claimant must possess the following:

(i) Proof of Ownership or a valid throughput agreement of storage facility with a minimum of 5,000 metric tons for the particular product. Ownership of retail stations is an added advantage.

(ii) Possession of a valid DPR import permit.

(3) Having satisfied 1 and 2 above, an applicant shall submit application for participation in the Scheme to the PPPRA.

(4) Successful applicants shall sign an agreement with the PPPRA to become a participant under the Scheme.

(5) Approval to import shall be expressly conveyed by the PPPRA to the participant Importer.

(6) Beneficiary/Claimant must be notify PPPRA within a minimum of three (3) days ahead of cargo arrival in the country and furnish the PPPRA with the relevant documents including copies of involves, bills of landing, source of funding and expected date of arrival for documentation.

(7) The product loading and arrival time must be within a maximum of 30 days and must meet products specification by the DPR and SON.

(8) All approvals for important are valid for a maximum of three months based on the current PPPRA quarterly importation plan.

(9) Deliveries must be made to depot location approved by the DPR and witnessed by PPPRA Operatives, External Auditors and the Industry Consultant.

(10) All documents forwarded to the PPPRA must contain shore tank report duly signed by PPPRA Representatives at discharge locations.

(11) All out-turn deliveries to approved locations must be through invoices at approved ex-depot prices.

(12) Marketers shall render out-turn delivery returns which must contain the invoiced ex-depot prices and volumes to the PPPRA as part of conditions for continued participation in the Scheme.

In 2012, the PPPRA management introduced additional Policy measures that the oil marketers need to fulfil before eligibility to draw from the Fund. For subsidy claim process and efforts by PPPRA to improve on it, see **Appendix 8.2.4**

8.3. Summary of Subsidies Paid on Each Product

Petroleum products are imported based on quarterly allocation granted to marketers by PPPRA. Information relating to subsidy processed in 2012 is contained in Table 8.3A below.

Table 8.3A: Summary of Subsidy Processed by PPPRA In 2012

Product/Entity	TOTAL
	2012
	₦'000
Other Marketers through PPPRA	
Premium Motor Spirit	461,040,708
Dual Purpose Kerosene	-
Sub-Total	461,040,708
NNPC-PMS-IMPORT	452,748,698
- LOCAL PROUCTION	83,034,724
NNPC- DPK (HHK)-IMPORT	284,908,781
LOCAL PRODUCTION	73,054,313
Sub-Total	**893,746,516**
Grand Total	**1,354,787,224**

Source: *(a) PPPRA's Templates on PMS supply and subsidy processed to other marketers*
(b) PPPRA's Summary of PMS Supply (import & Refinery production) and Subsidy Processed and advised to NNPC

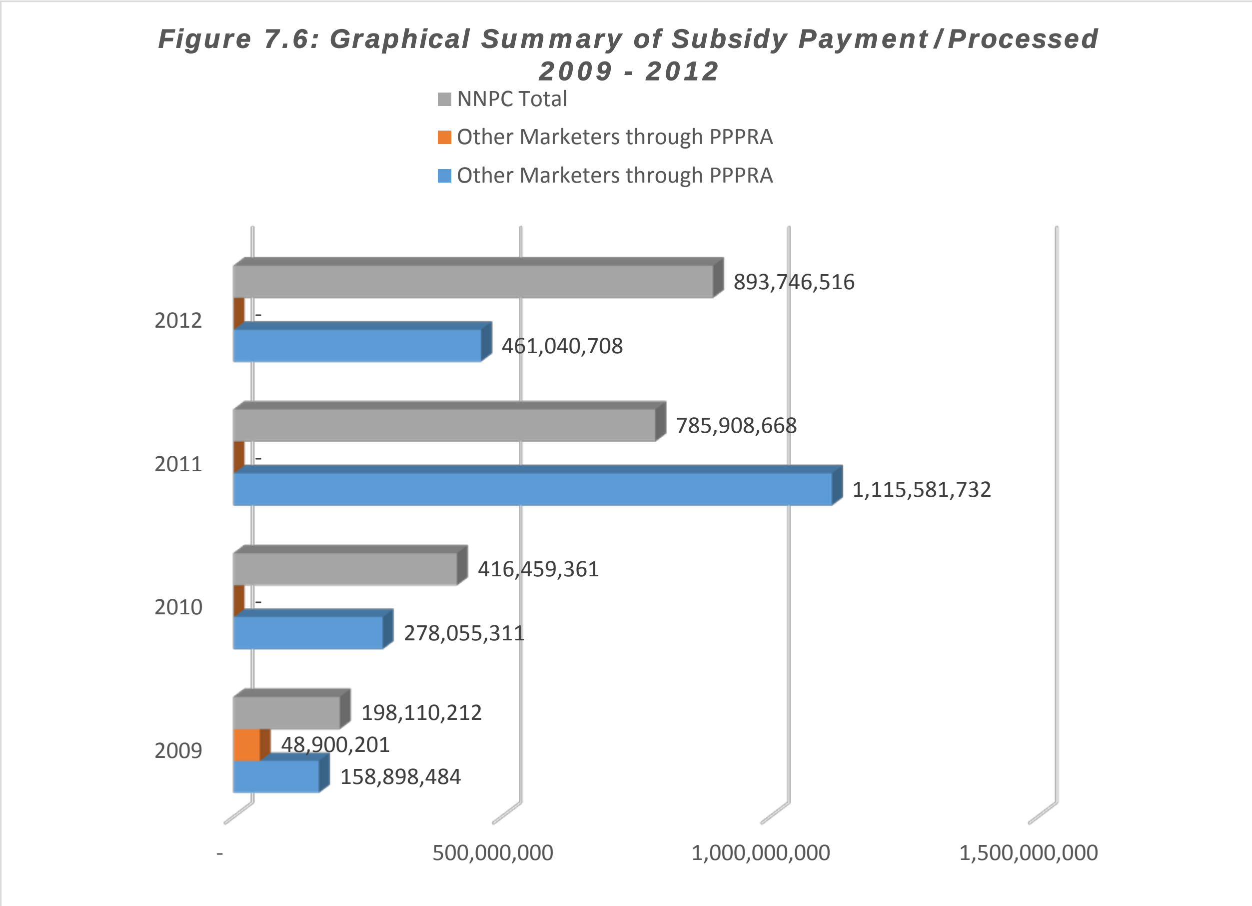
The total subsidy processed for payments for 2012 amounted to N1.355 trillion. This is a reduction of about 28.7% compared to the N1.90 trillion paid in 2011.

Data requested from OAGF and Federal Ministry of Finance- Budget office of the Federation for the validation of what part of the processed subsidy has been paid was not received as at reporting date. Records from the DMO however indicate that the total value of SDNs redeemed by CBN in 2012 was N430.82billion.

Table 8.3B: Summary of Subsidy Payment/Processed 2009-2012

Product /Entity	Product/Entity						
	Other Marketers through PPPRA		NNPC				
	Premium Motor Spirit (PMS)	Dual Purpose Kerosene (DPK)	PMS Import	PMS Local Production	NNPC-DPK (HHK) - Import	NNPC-DPK Local Production	NNPC Total
2009							
	158,898,484	48,900,201					198,110,212
2010							
	278,055,311	-					416,459,361
2011							
	1,115,581,732	-					785,908,668
2012							
	461,040,708	-	452,748,698	83,034,724	284,908,781	73,054,313	893,746,516

Source: (a) NEITI 2009-2011 Audit Report (b) PPPRA's Schedule of Processed Subsidies



NNPC claimed that the total deduction of N260b from domestic crude sales in 2012 relates to 2011 subsidy claims. An inter-agency reconciliation document (Appendix 8.3.) dated 3rd March, 2014 and tendered by PPMC with the trio of NNPC/PPMC, DPR and PPPRA as signatories, puts

PPMC's subsidy claim for the period January 2012 to July 2013 at N2.316trillion and the amount that relates to 2012 (January,2012 to December, 2012) as N871.122billion.

8.4. Summary of Total Subsidies due and Paid

The volume of petroleum products supplied by the marketers through the PPPRA under the PSF scheme was 7.714 billion litres of premium motor spirit (PMS). Independent marketers did not import Dual Purpose kerosene (DPK) during the period under review. NNPC imported 7.907billion litres of PMS and the refineries produced 1.498billion litres. NNPC also imported 2.573billion litres of DPK and the refineries produced 658.81million litres DPK during the same period. Subsidies were claimed as set out in the table below:

Table 8.4: Summary of Quantities of Petroleum Products Supplied by Marketers in 2012

MARKETERS	QUANTITY (Litres '000)
Other marketers through PPPRA	
PMS	7,714,725
PPK	-
SUB –TOTAL	**7,714,725**
NNPC	
PMS	9,405,622
PPK - DPR	3,231,342
SUB TOTAL	**12,636,964**
GRAND TOTAL	**20,351,689**

Source: Reconciliation sheet signed by PPPRA, DPR and NNPC/PPMC

Observations:

- In comparison with the 2011 imported quantity of premium motor spirit (PMS) products supplied by marketers through PPPRA, there was a substantial decrease of 46.41% from 14.584billion litres in 2011 to 7.714billion litres in 2012. NNPC importation also decreased marginally from 8.321billion litres in 2011 to 7.948billion litres in 2012; a percentage decrease of about 4.5%.

- The 2012 Fuel Subsidy probe by the National Assembly coupled with the additional stringent policy measures put in place by the PPPRA management and other agencies might have been responsible for the substantial decline in the volume of petroleum products imported and subsidy processed in 2012.

8.4.1. Product importers and volume of PMS imported

Table 8.4.1A: Number of Importers and Product Volumes

Year	Number of Importers	OTHER MARKETERS (through PPPRA Quantity (Litres)	NNPC Quantity(Litres)	TOTAL (Litres)	RATIO PPPRA: NNPC
2012	49	7,714,725,580.71	7,907,415,894.45	15,622,141,475.16	49.38:50.62
Total		**7,714,725,580.71**	**7,907,415,894.45**	**15,622,141,475.16**	

Source: PPPRA / Reconciliation sheet signed by PPPRA, DPR and NNPC/PPMC

From the table above, the number of importers drastically reduced from 118 in 2011 to 49 in 2012. The number of approved importers for 2012 was 46 out of which 4 did not import any product while seven importers were not on the approved allocation list of 2012 but had their 2011 4th quarter allocation discharged in 2012.

Analysis of Sovereign Debt Notes Issued by the Debt Management Office (DMO) to Oil Marketers for Presentation at Central Bank Nigeria (CBN)

The processing of the individual oil marketers subsidy claims is being handled by the PPPRA. The PPPRA prepares the Sovereign Debt Statements (SDSs) and forwards them to Debt Management Office (DMO) for the issuance of Sovereign Debt Notes (SDNs) which will then be presented at Central Bank of Nigeria (CBN) for the redemption at maturity dates.

PPPRA processed subsidy claims worth of N461.041billion for 2012. The last batches for the year under review were processed between January and June 2013 and were received in July 2013 at DMO office. This involves batches R to Y.

Summary of Batches of Subsidy Processed by the PPPRA in 2012 is as shown in the table below:

Table 8.4.1B: Summary of Batches of Subsidy Processed by PPPRA in 2012

S/N	BATCH	QUANTITY OBSERVED (LTRS)	SUBSIDY AMOUNT	BATCH SIGN OFF DATE
1	C/12	235,617,023.95	10,537,324,548.56	28-Feb-2012
2	D/12	148,645,500.09	6,734,590,795.07	15-Mar-2012
3	E/12	193,435,740.73	10,307,866,199.88	30-Mar-2012

4	F/12	599,653,009.39	36,059,781,606.23	15-May-2012
5	G/12	446,385,636.19	30,848,608,170.24	30-May-2012
6	H/12	100,149,635.67	3,199,740,489.03	27-Jul-2012
7	H/12B	59,940,476.91	1,441,400,435.89	15-Nov-2012
8	H/12C	-	61,646,124.62	28-Oct-2013
9	I/12	597,644,114.77	41,510,459,801.61	15-Jun-2012
10	J/12	490,152,386.87	32,400,534,660.35	29-Jun-2012
11	K/12	274,696,463.61	16,584,534,625.67	31-Jul-2012
12	L/12	510,369,403.66	32,577,532,625.75	15-Aug-2012
13	N/12	505,271,959.70	31,849,803,453.38	30-Aug-2012
14	M/12	741,004,323.90	39,996,703,508.90	17-Sep-2012
15	O/12	317,842,113.74	18,688,085,535.17	28-Sep-2012
16	P/12	292,331,973.74	18,204,710,806.06	23-Oct-2012
17	Q/12	172,077,868.02	11,412,654,104.46	31-Oct-2012
18	R/12	360,758,829.27	23,231,533,709.10	16-Nov-2012
19	S/12	-	5,211,528,101.27	29-Nov-2012
20	T/12	284,879,201.89	17,073,619,650.38	30-Nov-2012

21	U/12	364,999,782.03	20,933,121,016.90	17-Dec-2012
22	V/12	321,941,011.73	17,804,824,020.03	31-Dec-2012
23	W/12	577,464,495.24	28,110,403,757.23	31-Jan-2013
24	X/12	80,094,530.44	4,302,714,126.93	5-Mar-2013
25	Y/12	39,370,098.63	1,956,986,490.76	28-Jun-2013
		7,714,725,580.17	**461,040,708,363.47**	

8.4.2. Issuance of SDSs by PPPRA

The PPPRA issued SDSs in favour of the individual marketers and forwarded same to DMO. The DMO received SDSs worth of N577,207,491,434.24 from PPPRA in 2012.

Summary of the SDSs received by DMO in 2012 is as stated in the table below.

Table 8.4.2: Summary of the SDSs received by DMO in 2012

S/N	BATCH	VALUE (N)
1.	Z/11	55,358,356,102.56
2.	Z/11B	25,189,997,958.42
3.	Y/11	42,391,618,851.67
4.	A/12	55,062,813,346.23
5.	B/12	16,646,717,047.32
6.	B/12B	39,917,460,499.54
7.	B/12C	18,234,753,303.55
8.	C/12	10,537,324,548.56
9.	D/12	6,734,590,795.07
10.	E/12	10,307,866,199.88

11.	F/12	36,059,781,606.23
12.	G/12	30,848,608,170.24
13.	H/12	3,190,740,489.03
14.	H/12B	1,441,400,435.89
15.	I/12	41,510,459,801.61
16.	J/12	32,400,734,660.35
17.	K/12	16,584,534,625.67
18.	L/12	32,577,532,625.75
19.	M/12	39,996,703,508.90
20.	N/12	31,849,803,453.38
21.	O/12	18,688,085,535.17
22.	P/12	18,204,710,806.05
23.	Q/12	11,412,654,164.46
24.	R/12	23,231,533,709.10
25.	S/12	5,211,528,101.27
TOTAL		**577,207,491,434,24**

Source: PPPRA

Issuance of SDNs by DMO

The DMO explained that the SDNs are financed through the Excess Crude account and the issuance of the SDN is dependent on the availability of funds. Because of this, the maturity dates indicated on the SDNs may not be valid for their redemption.

During the period under review, the DMO issued Sovereign Debt Notes (SDN) worth of N525.548 billion to the individual oil marketers that participated in the importation of petroleum products.

The total value of SDNs issued in 2012 is summarised as shown below:

	N'000
SDNs issued & released in 2012	444,795,028
SDNs issued but not released as at 31/12/2012	80,795,399
Total	**N525,590,427**

The balance of the SDNs issued but not yet released as at 31st December, 2012 valued at N80.753 billion was carried forward to 2013.
A breakdown of SDNs issued and released in 2012 is analysed below.

	N'000
2011batches	N194,424,028
2012 batches	N250,371,000
TOTAL	**N444,795,028**
Amount Redeemed in 2012	N430,818,739
Balance	**N13,976,289**

The balance of N13.976billion represents SDNs not presented at CBN by the oil marketers in 2012.
DMO explained the possible delays in the processing of SDNs as partly due to the following factors:

- Companies under investigation during the fuel subsidy probe were embargoed from payments until they were cleared by the government agents handling the investigations.
- Some transactions were classified as legitimate and non- legitimate.
- Some companies were unable to get clearance in good time.
- With effect from August 2012, the process of issuing SDNs takes a longer time because the Minister of Finance's approval need to be sought and obtained before payments could be effected
- Availability of funds.
- Maturity dates on the SDNs are no longer taken into account. It was the PPPRA that normally indicate the maturity dates on the SDSs based on 45 days processing and payment rule but this is no longer applicable in practice.
- The SDNs are like bonds. It has no time limit, hence this makes it difficult to determine which period the marketer redeemed the SDN collected.

8.4.3. Reconciliation of subsidy payment with subsidy receipts by importers

The subsidy data submitted by PPPRA was reviewed against the schedule of Redeemed Sovereign Debt Notes gotten from the CBN. A total of N461,040,708,363.47 worth of SDS (subsidy claims) was processed by PPPRA whereas the DMO issued and released N444,795,028,000 worth of SDNs out of which only N250, 371,000,103.55 relates to 2012.

It is difficult to determine how much of the 2012 subsidy processed was paid because the holder of the SDNs can present to CBN for redemption at any convenient time since the SDN is not time bound. If a comparison of the subsidy processed by PPPRA is however compared with the CBN redeemed SDN, there is an outstanding of N210,669,708,000 of unpaid subsidy relating to 2012 as shown in the table below.

Corroborative information was requested from the Ministry of Finance but not made available as the time of reporting.

Table 8.4.3: Comparison between PPPRA Processed Subsidy And CBN (Redeemed SDN) Subsidy Payment for the Year 2012

Years	2012
	N'000
PPPRA	461,040,708
CBN	250,371,000
Difference	210,669,708

Source: PPPRA/CBN/DMO

This difference might have arisen due to process and timing cycle differences. PPPRA explained that it was not all the payments that were processed in 2012 and the DMO did not issue SDNs for all that was received in 2012. The total sum of N34, 370,104,374.94 for batches W/12, X/12 and Y/12 which were supplies in 2012 were for instance processed between 31^{st} January and June, 2013. DMO said the last batch for 2012 was received in July 2013!

There also appears to be some sought of caution in view of the recent past scandals on fuel subsidy payments.

8.4.3.1 Marketers that Benefited from Penalty Reversal

Out of the total subsidy computed / paid during the period under review, we noted that a number of marketers were penalized for various offences. Batch S/12 showed the marketers concerned. The penalties were later reversed and payments in the sum of N5.211 billion were made as a result of the penalty reversal while two marketers also benefited from what was termed variation and a sum of N383, 596,373.87 was paid as a result of this. The table below shows the marketers involved.

Table 8.4.3.1A Summary of Marketers that Benefited from Penalty Reversal (Analysis of Batch S/12)

S/N	COMPANY	BATCH	OBSERVED VOLUME (LITRES)	UNDER RECOVERY	SUBSIDY AMOUNT	FORMER BATCH	UNDER RECOVERY PAID EARLIER
			=N=		=N=		=N=
1	A-Z PETROLEUM PRODUCTS LTD	S/12	20,276,107	21.95	445,060,548.68	J / 12	52.45
2	CHANNEL OIL & PETROLEUM LTD		19,629,817	0.21	4,122,261.57	H / 12	43.57
3	CONOIL PLC		18,721,572	5.08	95,105,585.76	J / 12	66.07
4	DEE JONES PETROLEUM & GAS LTD		19,991,259	22.62	452,202,278.58	J / 12	55.11
5	ETERNAL PLC		20,311,275	24.46	496,813,786.50	K/12	53.27
6	FOLAWIYO PETROLEUM		40,992,273	24.46	1,002,670,752.98	I/12	53.27
7	HEYDEN PETROLEUM		20,251,775	11.04	223,579,590.48	J / 12	62.59
8	INTEGRATED OIL & GAS		13,488,760	4.09	55,169,029.75	E/ 12	43.27
9	INTEGRATED OIL & GAS		20,352,746	9.65	196,403,998.90	J / 12	62.63
10	INTEGRATED OIL & GAS		20,012,523	19.88	397,848,957.24	J / 12	70.62
11	MRS OIL & GAS COMPANY LTD		12,219,724	20.03	244,761,071.72	K/12	52.34
12	MRS OIL NIG. PLC		17,515,813	22.61	396,032,531.93	I/12	55.63
13	MRS OIL NIG. PLC		13,545,058	30.13	408,112,597.54	K/12	42.24

14	RAHAMANIYYA OIL & GAS LTD		13,387,996	7.92	106,032,929.82	G/12	62.63
15	RAHAMANIYYA OIL & GAS LTD		3,969,771	9.59	38,070,103.89	G/12	60.96
16	SAHARA ENERGY RESOURCES LTD		14,758,043	18.8	277,451,199.00	K/12	43.79
17	SAHARA ENERGY RESOURCES LTD		18,945,564	19.64	372,090,876.96	K/12	42.43
			308,370,076		**5,211,528,101.30**		

Source: PPPRA

Table 8.4.3.1B Summary of Marketers that Benefitted from Variations

	HONEYWELL OIL & GAS LTD		13,567,225.00	23.73	321,950,249.25		54.00
	SEA PETROLEUM & GAS CO. LTD		*H/12C	4.25	61,646,124.62	H/12B	44.30
	*VOLUME AGAINST THIS IS 18,636275.5 LITRES BY =N=4.25 GIVES =N=79,204,170.88						

Source: PPPRA

PPPRA explained that penalties arose from one of the stringent policy measures put in place by the PPPRA management to curb part of the excesses and manipulations of BL dates by the marketers and the reversals were not actual payments but adjustments to the accounts of the Marketers concerned.

PPMC was not able to make available as the date of reporting, a copy of the minutes, resolutions or approvals leading to the reversal of penalties.

We however sighted an internal memo from General Manager (Operations) to the Executive Secretary (ES) of PPPRA, Ref: Q4, 2012 dated 19th November, 2012 and titled “Penalized vessels in 2012 under the allowable window of discharge rule”. It was this memo that sought for and got approval for the payment of the reversal of the penalties. See **Appendix 8.4.3** for the memo.

8.4.4 Approved Allocation to Import in 2012

The details of approved allocation to import for the year 2012 was made available by PPPRA. In comparing the actual imports against the information provided, we noted that a few marketers and NNPC exceeded their approved allocation. We advise that the PPPRA should device a means of monitoring actual imports against the approved allocations.

Table 8.4.4 below shows the relative performance of Marketers in relation to the imported PMS quantity discharged in metric tons and their contributions to the total volume discharged in 2012.

Table 8.4.4: Approved Allocation List for Product (PMS) Importation in 2012 and Their Performances.

S/N	List of Company	Total Quantity Approved	Imported Verified Discharged	Spills Over Discharged	Total Discharged	Performance Relative To Approval	Contribution To Total Quantity Discharged
		MT	MT	MT	MT	%	%
1	NNPC	4,840,000.00	6,210,091.67	-	6,210,091.67	126.45%	49.5
2	ACORN PET. LTD	120,000.00	58,024.25	13,979.52	72,003.77	60	0.57
3	AITEO ENERGY LTD	600,000.00	283,111.02	-	283,111.02	47.19	2.26
4	ASCON OIL LTD	105,000.00	107,876.39	-	107,876.39	102.74	0.86
5	AVIDOR LTD	60,000.00	16,524.13	-	16,524.13	27.54	0.13
6	A-Z PET. LTD	195,000.00	59,278.56	28,519.68	87,798.24	45	0.7
7	BOVAS LTD	135,000.00	122,292.01	40,566.20	162,858.21	120.64	1.3
8	CAPITAL OIL & GAS LTD	435,000.00	117,987.15	19,609.04	137,596.19	31.63	1.1
9	CONOIL PLC	315,000.00	226,749.97	-	226,749.97	71.98	1.81
10	DEE JONES PET. LTD	135,000.00	85,680.31	25,038.38	110,718.69	82.01	0.88
11	DOZZY OIL & GAS	105,000.00	75,998.55	-	75,998.55	72.38	0.61
12	ENTERNA PLC	105,000.00	44,804.38	29,764.60	74,568.98	71.02	0.59
13	EURAFIC OIL SERV. LTD	15,000.00	-	-	-	0	0
14	FIRST DEEP WATER LTD	30,000.00	33,703.84	-	33,703.84	112.35	0.27
15	FOLAWIYO ENERGY	570,000.00	578,445.81	-	578,445.81	101.48	4.61

S/N	List of Company	Total Quantity Approved	Imported Verified Discharged	Spills Over Discharged	Total Discharged	Performance Relative To Approval	Contribution To Total Quantity Discharged
		MT	MT	MT	MT	%	%
	LTD						
16	FORTE OIL PLC	270,000.00	111,009.68	-	111,009.68	41.11	0.88
17	FRESH ENERGY LTD	60,000.00	13,672.68	-	13,672.68	22.79	0.11
18	GULF TREASURE LTD	30,000.00	30,938.12	-	30,938.12	103.13	0.25
19	HEYDEN PET. LTD	150,000.00	59,270.09	12,468.58	71,738.67	47.83	0.57
20	HORNEYWELL OIL & GAS LTD	135,000.00	45,005.90	-	45,005.90	33.34	0.36
21	IBAFON OIL LTD	75,000.00	42,671.57	-	42,671.57	56.9	0.34
22	INDEX PET. LTD	30,000.00	-	-	-	0	0
23	IPMAN	105,000.00	13,576.24	-	13,576.24	12.93	0.11
24	IPMAN REF. MKTING	105,000.00	41,269.21	-	41,269.21	39.3	0.33
25	INTEGRATED OIL & GAS LTD	210,000.00	117,730.22	-	117,730.22	56.06	0.94
26	LUBCON OIL LTD	45,000.00	-	-	-	0	0

S/N	List of Company	Total Quantity Approved	Imported Verified Discharged	Spills Over Discharged	Total Discharged	Performance Relative To Approval	Contribution To Total Quantity Discharged
		MT	MT	MT	MT	%	%
27	MASTER ENERGY LTD	330,000.00	182,087.93	9,924.37	192,012.30	58.19	1.53
28	MATRIX ENERGY LTD	150,000.00	77,963.71	-	77,963.71	51.98	0.62
29	MOBIL OIL PLC	180,000.00	146,015.54	24,793.43	170,808.97	94.89	1.36
30	MRS OIL & GAS LTD	660,000.00	268,470.33	11,157.01	279,627.34	42.37	2.23
31	MRS OIL NIG. PLC	330,000.00	141,071.11	14,869.06	155,940.17	47.25	1.24
32	NIPCO PLC	585,000.00	454,628.63	45,606.48	500,235.11	85.51	3.99
33	NORTHWEST PET. LTD	180,000.00	180,676.06	-	180,676.06	100.38	1.44
34	OANDO PLC	1,020,000.00	755,126.67	34,449.47	789,576.14	77.41	6.29
35	OBAT OIL	60,000.00	43,365.42	6,979.48	50,344.90	83.91	0.4
36	ONTARIO OIL	30,000.00	30,935.00	-	30,935.00	103.12	0.25
37	RAHAMANIYYA	210,000.00	179,284.51	6,430.10	185,714.61	88.44	1.48
38	RAIN OIL LTD	165,000.00	172,775.29	6,979.48	179,754.77	108.94	1.43
39	SAHARA ENERGY RES. LTD	270,000.00	214,620.03	6,430.10	221,050.13	81.87	1.76
40	SEA PET & GAS LTD	30,000.00	-	-	-	0	0

S/N	List of Company	Total Quantity Approved	Imported Verified Discharged	Spills Over Discharged	Total Discharged	Performance Relative To Approval	Contribution To Total Quantity Discharged
		MT	MT	MT	MT	%	%
41	SHORELINK OIL	220,000.00	203,478.63	-	203,478.63	92.49	1.62
42	SPOG PETROCHEMICAL	60,000.00	15,934.42	-	15,934.42	26.56	0.13
43	SWIFT OIL LTD	135,000.00	137,025.00	-	137,025.00	101.5	1.09
44	TECHNO OIL	240,000.00	171,490.72	15,341.62	186,832.34	77.85	1.49
45	TOP OIL & GAS DEV. LTD	30,000.00	27,666.67	27,666.67	55,333.34	188.44	0.44
46	TOTAL NIG. PLC	270,000.00	251,795.00	15,341.62	267,136.62	98.94	2.13
	Total	**14,135,000.00**	**12,150,122.42**	**395,914.89**	**12,546,037.31**	88.76	100

Source :PPPRA

Observation and Recommendation:

A few of the companies given approval to import products performed below average while four of them did not import any petroleum products and their further participation in future should be reviewed if they cannot improve on their Performances. Out of the 46 marketers that were given approval to import PMS in 2012, four marketers did not import any product. The PPPRA should further investigate the marketers involved in order to ascertain the usage of the allocated FOREX.

8.4.5 Marketers not on Approved Allocation List for 2012

During the period under review, we noted that there were few marketers not on the approved allocation list for 2012 petroleum product importation but imported and discharged PMS. Subsidy was processed and paid to them as shown in table below. PPPRA confirmed that the Marketers were part of 2011 fourth quarter approved allocations that were not discharged in 2011, given extension to discharge in 2012.

Table 8.4.5: Companies not on the Approved Allocation List in 2012 that Imported, Discharged PMS and had their Subsidy Processed and Paid

S/N	COMPANY	DISCHARGE DEPOT	SHORETANK QNTY (MT)	SHORETANK OBSERVED QUANTITY (LTRS)	SUBSIDY AMOUNT	BATCH	Date of Discharge
1	CRUST ENERGY LTD	MASTERS ENERGY STORAGE	9,892.06	13,136,039.63	580,350,230.85	Y/12	27/01/12
2	PVN CAPITAL LIMITED	MASTERS STORAGE FACILITY	9,565.20	12,883,086.00	554,616,852.30	Y/12	24/01/12
3	ZALEX ENERGY RESOURCES LTD	RAHAMANIYYA STORAGE DEPOT, APAPA	7,858.94	10,563,534.11	280,597,203.22	H/12	04/01/12
4	CHANNEL OIL AND PETROLEUM LTD	INDEX STORAGE KIRIKIRI	14,371.44	0	4,122,261.57	S/12	04/01/12
5	BODEJ INVESTMENT LTD	MASTERS ENERGY	9,945.99	13,275,102.00	546,403,198.32	E/12	23/01/12
6	DOWNSTREAM ENERGY SOURCE LTD	OANDO/TOTAL JV DEPOT	16,405.21	22,010,244.00	503,185,645.60	H/12B	01/01/12
7	MIDAS OIL AND GAS LTD	MASTERS ENERGY DEPOT, PHC	9,926.90	13,191,113.00	582,783,372.34	V/12	19/01/12
TOTAL			**77,965.73**	**85,067,118.74**	**3,052,058,764.20**		

Source: PPPRA

8.4.6. Subsidy Reinvestment and Empowerment Programme (SURE-P)

On January 1st 2012, Federal Government deregulated the downstream sector of the oil and gas industry. There was a nationwide protest that followed the policy by the public. The protests made the government to rescind its decision but increased the pump price from N65/litre to N97/litre.

During this short period of deregulation of the downstream sector of oil and gas industry, the nation saved a total sum of **N2,212,707,941.66** from the subsidy that ought to have been paid to marketers. The details are as shown in the Table 8.4.6 below:

Table 8.4.6: Summary of Companies that Discharged Products during Deregulation of Downstream in January 2012

S/N	COMPANY	QUANTITY (MT)	QUANTITY (LITRES)	DATE OF DISCHARGED	SUBSIDY COMPUTED	SUBSIDY PAID	DIFF (SAVINGS).	BATCH
1	CHANNEL OIL AND PETROLEUM LTD	14,371.44	19,629,817.00	4-Jan-12	855,271,126.69	639,140,498.59	216,130,628.10	H/12
2	HEYDEN PETROLEUM	7,758.60	10,564,632.50	8-Jan-12	423,113,531.63	396,114,879.81	26,998,651.82	H/12
3	OANDO PLC	29,380.27	39,111,928.06	1-Jan-12	1,708,800,136.94	1,017,369,228.41	691,430,908.53	H/12
4	OANDO PLC	15,167.96	20,279,724.00	8-Jan-12	896,363,800.80	866,518,679.00	29,845,121.80	H/12
5	ZALEX ENERGY RESOURCES LTD	7,858.94	10,563,534.11	4-Jan-12	433,633,075.22	280,597,203.22	153,035,872.00	H/12
6	DOWNSTREAM ENERGY SOURCE LTD	16,405.21	22,018,244.00	1-Jan-12	903,848,916.20	503,185,645.60	400,663,270.60	H/12B
7	INTEGRATED OIL & GAS	5,263.79	7,244,302.00	4-Jan-12	318,821,731.02	247,018,994.32	71,802,736.70	H/12B
8	MATRIX ENERGY LTD	8,859.70	12,041,655.41	2-Jan-12	488,409,543.43	110,271,727.44	378,137,815.99	H/12B
9	SEA PETROLEUM & GAS CO.LTD	13,646.17	18,636,275.50	9-Jan-12	825,587,004.65	580,924,068.53	244,662,936.12	H/12B
Total		**118,712.09**	**160,090,112.58**		**6,853,848,866.58**	**4,641,140,924.92**	**2,212,707,941.66**	

Source: PPPR

The subsidy being paid to the oil marketers involved in the importation of PMS since the partial removal of subsidy is computed based on the pump price of N97 per litre instead of the former N65 / litre. Hence, what government has saved / generated from the increase of the pump price was N32/ litre. In order to convince the citizens as to the genuine intention of the government on the deregulation policy, a decision was taken to channel the funds into combination of programmes to stimulate the economy and alleviate poverty through provision of critical infrastructures. This initiative led to the establishment of Subsidy Reinvestment and Empowerment Programme (SURE-P) by the Federal Government to apply the saved funds on various sectors of the economy.

In the first year, 2012, a total savings of **N309, 586,964,147.85** was made by the Federal Government. This sum was disbursed as follows:

	₦
(a) Federal Government including FCT	142,346,975,060.36
(b) State Governments	72,200,288,033.65
(c) Local Government Councils	55,663,395,714.59
(d) Derivation (Oil Producing Areas)	39,376,305,339.25
Total	**N309, 586,964,147.85**

The share of the Federal Government was applied into the various segments of the economy such as road construction, health and citizens' empowerment programmes amongst others.

8.4.7. Confirmation of subsidies received by importers

In order to obtain a third party confirmation on the actual amount of subsidy received and the volume of product supplied in 2012 by the marketers that imported petroleum products in 2012, letters were written to the importers. Out of the circularized companies, only four has responded to date.

8.4.8. Review of PPPRA financial statements

The 2012 audited financial statement provided by PPPRA on Petroleum Support Fund (PSF) for review lacked depth. For instance, the audited financial statement claimed that the total income for the Fund (PSF) for the year under review was N743, 516,154.00, being the refund of over payment by the affected marketers in 2011 but paid in 2012. The only expenditure item in the account was tagged ''Transferred to Consolidated Revenue Fund''. No amount of subsidy payments were shown in the audited financial statement, hence the amount on the schedule made available by the PPPRA and CBN could not be vouched to the account.

In the same vein, the PSF CBN bank statements made available to us for the same period did not indicate any payments to any marketer except the transferred N1, 574,156, 233.47 into the

Consolidated Revenue Fund which was acknowledged by the Office of the Accountant- General of the Federation vide a letter **ref: OAGF/FD/FA/137/VOL.VI/324/DF** dated 11th January, 2013. The account has a credit balance of **N5, 426,632,690.37** as at 31st December, 2012.

8.4.9 Determination of national demand

NNPC with all stakeholders in the downstream industry determines the national consumption. Relevant information is gathered from the refineries to determine their production level for the next quarter at least two months ahead of the arrival of the first cargoes. Land-based stocks and marine stocks are also established.

On these bases, the likely shortfall of petroleum products is determined. Twenty days of products sufficiency as a buffer is also put into consideration and provided. At the end of this exercise, the shortfall between demand for products and local production by refineries are established and is covered by imports. Currently, there is no standard model for determining national consumption for petroleum products.

8.4.10. Remediation issues from the last Audit

From the last Audit, the issue of unremitted over-recovery of N4.423 billion was taken up with PPPRA. PPPRA provided minutes of meeting to confirm the resolution of the issues with NEITI.

We were obliged a copy of the resolution at the joint meeting held between the PPPRA and NEITI on 13th August, 2013 in Abuja with the management of the two agencies in attendance. Among the resolutions reached are:

- That the sum of N4.423 billion in dispute has been reconciled and traced to the Petroleum Support Fund (PSF) account domiciled with the Central Bank of Nigeria (CBN)
- That there is nothing outstanding against PPPRA on the said amount.
- On the issue of the under listed debts in the last Audit report, PPPRA is yet to conclude the reconciliations of the Marketers accounts. Although PPPRA claimed to have net-off over recoveries from the accounts of the concerned Marketers, no records were provided for reconciliations to be carried out and for outstanding balances to be confirmed.

Debtor	Amount (N)
• NIPCO Plc.	966,740,379.56
• AMG Petro Energy Ltd	96,439,912.38
• NNPC	2,652,263,000

(On the NNPC debts, PPPRA claimed it has increased from N2,652,263,000.00 to N3,981,011,043.08).

- Updating of SDN status and oil marketers directory

9.0 PHYSICAL AND PROCESS AUDIT

9.1 System and Process Review

9.1.1 Governance Process: Review of Systems and Procedures

The Oil and Gas sector remains central to the Nigerian economy and it accounts for about 96% of the country's exports. Nigeria has:

- 37.2 billion barrels of proven oil reserves (the largest oil and gas producer in Africa and the 11th largest in the world).
- More than 187 trillion cubic feet of proven natural gas reserves (the largest natural gas reserve holder in Africa and the seventh largest in the world).

The Nigerian Oil and Gas sector is split into two broad categories: the upstream and downstream sectors. The upstream sector involves operations such as exploration, development, production and transportation of crude oil while the downstream sector involves operations such as refining of crude into its various constituents, distribution and marketing. Participants in the oil and gas sector are split between public sector participants and private sector participants.

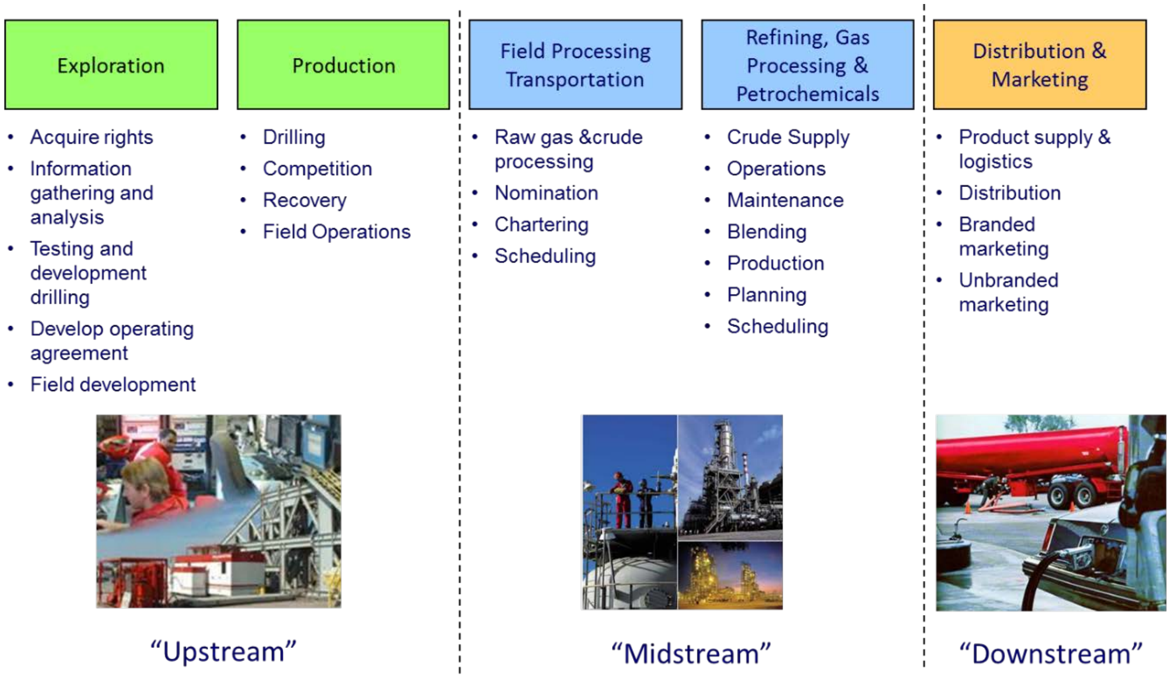
Table 9.1.1: Public and Private Participants in the oil and gas sector

Items	Description	Participants
Public sector participants	The public sector comprises regulatory agencies, funds custodians and other beneficiaries of the financial flows in the industry.	NNPC;DPR;CBN;NAPIMS, FIRS;OAGF NDDC;RMAFC;PPPRA
Private sector participants	The private sector includes all non-government operators in the oil and gas industry. These companies are involved in crude oil and gas operations in Nigeria under various contractual arrangements.	• Joint Venture Agreement • Production Sharing Agreement • Marginal Field Operation or Sole risk • Service Contract Arrangement

9.1.1.1 Oil and Gas Value Chain

The petroleum value chain encompasses exploration and production of oil and gas, transportation and storage, refining and marketing of oil, processing and marketing of gas, as well as related activities such as oilfield services and equipment and petrochemicals. The oil and gas value chain can be depicted in the diagram below:

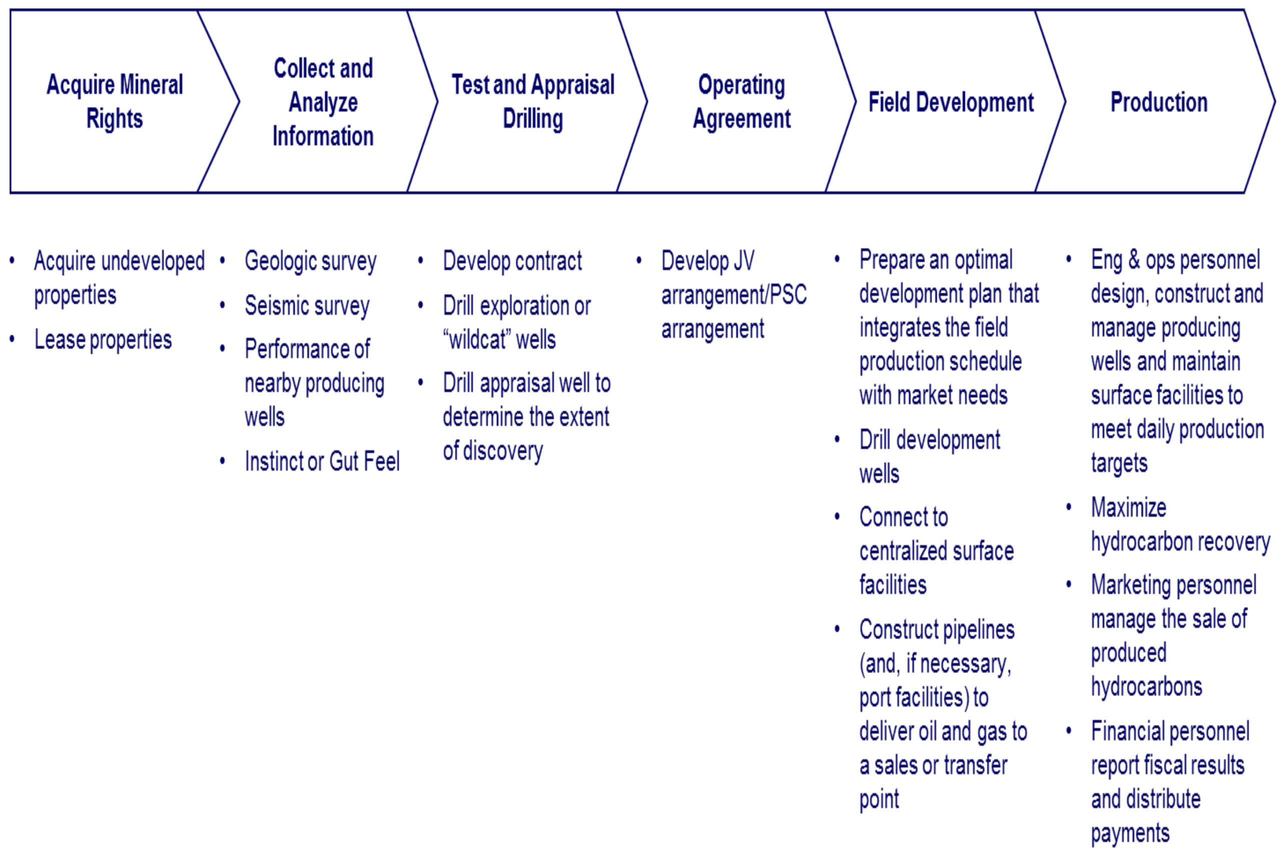
Figure 9.1.1.1A: Oil and Gas value chain



Together, these processes transform underlying petroleum resources into useable end-products valued by industrial and private customers. Exploration and production activities carry the highest level of risk, and usually generate most of the value.

The E&P sector of the industry is the most complex; combining art, science and business to find deposits and manage risk. Several decisions points along the way have the potential to impact value as shown below:

Figure 9.1.1.1B: E&P process



Investments in exploration and production (E&P) are fundamental for the development of the oil industry of a country that has hydrocarbon reserves. The purpose of these upstream activities is to find oil and/or gas reserves (exploration phase) and extract hydrocarbons (production phase), whether onshore or offshore. The upstream feeds all the rest of the oil production chain (refining and distribution).

9.1.1.2 Oil and Gas Companies Value Drivers

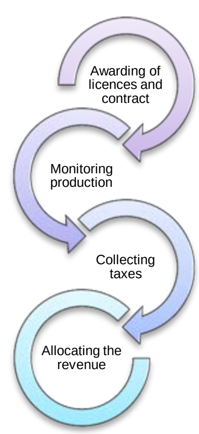
Various elements drive value with relevance to the IOCs and this is depicted in the diagram below:

Figure 9.1.1.2: IOC value chain

9.1.1.3 Federal Government Value Drivers

The Federal Government of Nigeria (FGN), through its agencies, is involved in the whole value chain; as policy maker, regulator and commercial participant. The FGN derives value from the oil and gas sector development through taxes, royalties, bonuses and a share of production. The value chain as a whole is depicted in the diagram below:

Figure 9.1.1.3: Federal Government Value Drivers



9.1.1.4 Department of Petroleum Resources

Department of Petroleum Resources (DPR) started as a Hydrocarbon Section of the Ministry of Lagos Affairs in 1947. It was created as a Department in the Ministry of Petroleum Resources with the excision of the Petroleum Inspectorate of the NNPC upon commercialization in 1988.

Its mission statement is stated as “To ensure the sustainable development of Nigeria’s Oil and Gas resources across the value chain for our stakeholders through effective regulation, while entrenching world class professionalism, accountability and transparency”.

DPR has the statutory responsibility of ensuring compliance to petroleum laws, regulations and guidelines in the Oil and Gas Industry. The discharge of these responsibilities involves monitoring of operations at drilling sites, producing wells, production platforms and flow-stations, crude oil export terminals, refineries, storage depots, pump stations, retail outlets, any other locations where petroleum is either stored or sold, and all pipelines carrying crude oil, natural gas and petroleum products.

9.1.1.4.1 Role of DPR

DPR, as the regulatory body in the Oil and Gas Sector, is vested with powers by various legal provisions to discharge the following functions:

- Supervise all petroleum industry operations being carried out under licenses and leases in the country
- Monitor the petroleum industry operations
- Enforce health safety and environmental regulations and ensure that those operations conform to national and international industry practices and standards.
- Maintain records on petroleum industry operations, particularly on matters relating to petroleum reserves, production and exports of crude oil, gas and condensate, licenses and leases as well as rendering regular reports on them to Government.
- Advise Government and relevant Agencies on technical matters and policies which may have impact on the administration and control of petroleum.
- Process all applications for licenses so as to ensure compliance with laid-down guidelines before making recommendations to the Minister of Petroleum Resources.
- Ensure timely and adequate payments of all rents and royalties as at when due.
- Monitor Government Indigenization policy to ensure that local content philosophy is achieved.
- Maintain and administer an effective repository for archiving and retrieval of all oil and gas data in Nigeria.

- Administer and manage oil and gas acreages and concessions in Nigeria.
- Implement all policies of government on oil and gas matters.

The scope of DPR responsibilities covers both the Upstream and Downstream Sectors including Crude Oil and Associated elements.

9.1.1.4.2 Scope of DPR

The divisions of DPR impacting on FGN revenue are:

- Upstream
- Downstream
- Gas
- Engineering & Standards
- Safety and Environment
- Planning

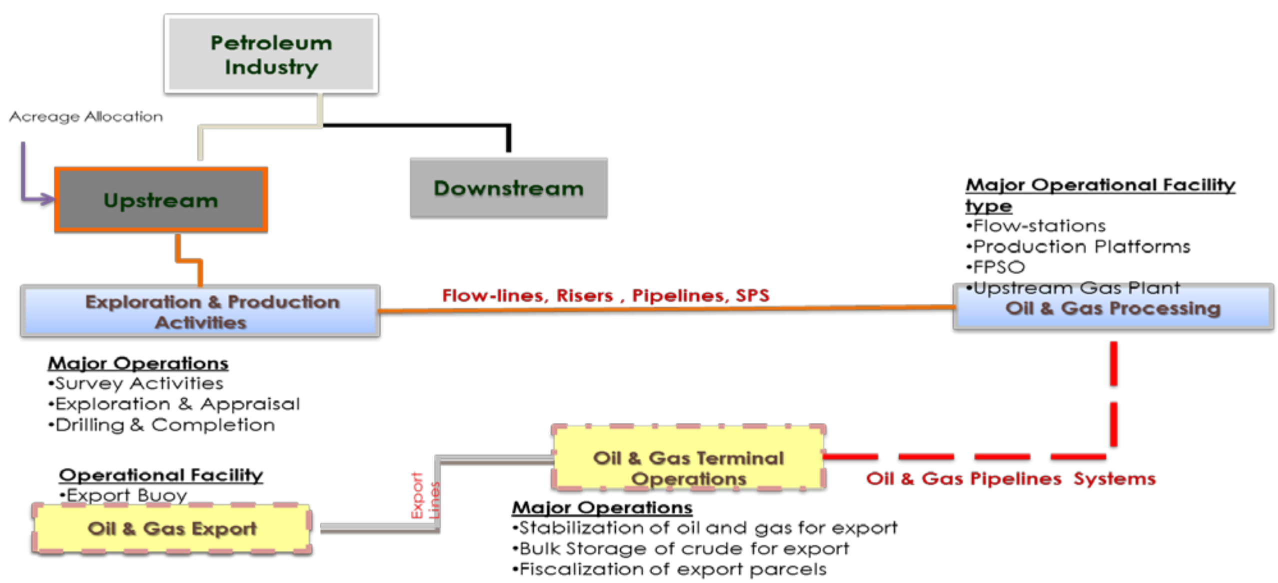
9.1.1.4.3 Upstream Activities

The roles of DPR in the upstream sector are:

- Regulate oil and gas activities
- Conserve Nigeria's hydrocarbon resources
- Optimize government take in oil and gas activities

The scope of DPR covers all aspect of the value chain, from Lease Management to Hydro Carbon Sales. The upstream activities are depicted in the diagram below:

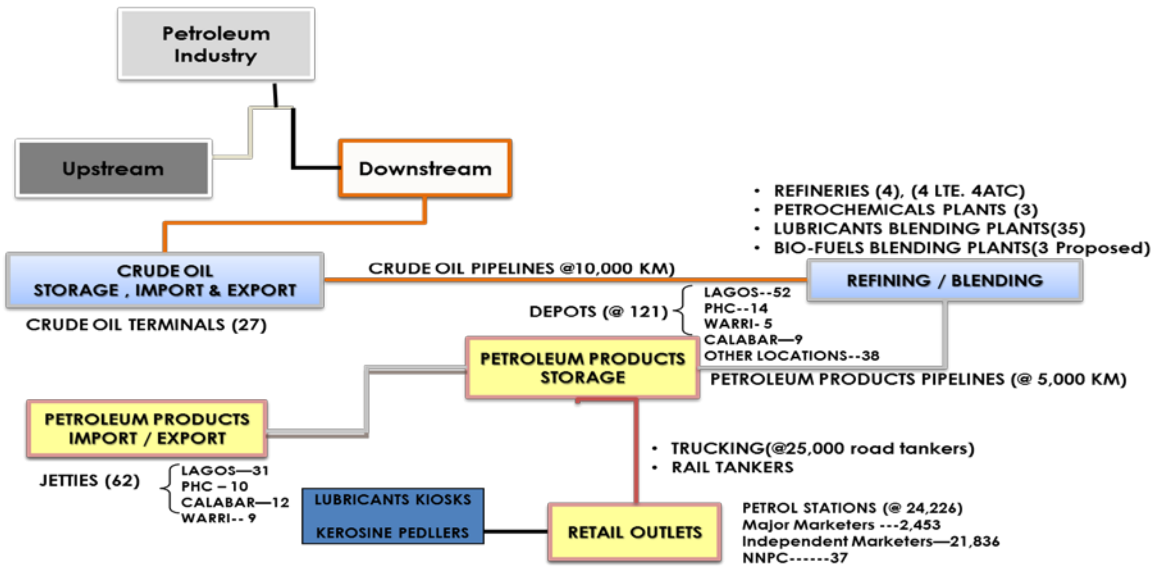
Figure 9.1.1.4.3: Key activities – Upstream



9.1.1.4.4 Downstream Activities of DPR

Downstream activities take place between the field transfer of crude oil and loading at the export terminal as well as the use of the oil by the end user. This encompasses the ocean transportation of crude oil, supply and trading, refining, distribution and marketing of the oil products. This is represented in the diagram:

Figure 9.1.1.4.4: Key activities – Downstream



9.1.1.4.5 Review of Acreages and Concessions

Acreage refers to an open oil block which can be offered to prospective investors while concessions refer to a piece of sedimentary basin demarcated into sizes for petroleum prospecting. The main purpose of a concession is to determine whether the particular area is viable for prospecting of hydrocarbon prior to allocation to investors.

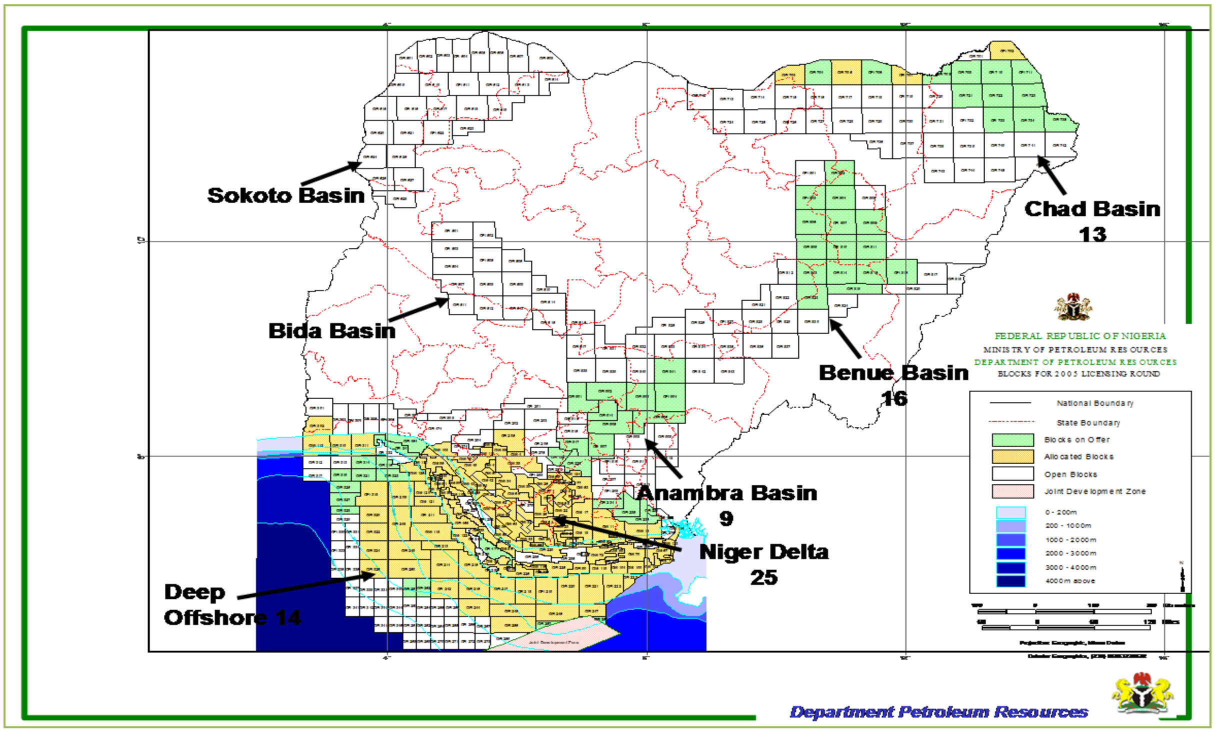
The Nigeria sedimentary is carved into seven basins as set out below:-

- Anambra Basin
- Benue Basin
- Bida Basin
- Chad Basin
- Dahomey Embayment/Benin Basin
- Sokoto Basin
- Niger Delta Basin (Onshore & Offshore)

9.1.1.4.6 Current Acreage situation

The current situation regarding acreage is shown below:

Figure 9.1.1.4.6: Nigeria basins and leases (acreage situation)



NOTE: In the period 2012 under review no acreage was awarded.

9.1.1.4.7 Types of revenue collected by DPR

DPR operates a Cashless Revenue Collection System. All the Revenue collected by the DPR is done either by Bank Drafts or direct wire transfer by the Oil companies into FGN accounts domiciled with the CBN.

DPR computes revenue due to the FGN using the reconciled field production figures. Companies are also allowed to do self-assessment, effect payments and advice DPR accordingly. Companies are allowed sixty days to make monthly payments. The DPR receives pay advice from companies, confirms payment on the CBN Monthly Statement and holds meetings with the companies to reconcile payments with the amounts due.

Various types of revenue are generated and collected by DPR on behalf of Federal Government of Nigeria namely:

- signature bonus
- concession rentals
- royalty on oil production
- royalty on gas sales
- gas flare penalty
- miscellaneous oil revenue

9.1.1.5 Signature Bonus

This is the premium paid on account of concession granted the winner of an oil block to express interest in the concession. The payment of signature bonus is made directly to the FGN designated Accounts as advised by the OAGF. Payments are usually made either by US Dollar drafts or wire/telegraphic transfer. The Accounts to which payments have been made include:

- CBN/FGN Independent Revenue accounts with JP Morgan Chase Bank, New York, USA
- CBN/AGF FGN account with JP Morgan Chase Bank NY, USA
- Consolidated Revenue Fund (CRF) account with CBN

***Finding:* There were no Bid Rounds in the period covering 2012 under review. The examination of CBN bank statements and DPR records did not reveal any payment of Signature Bonus during the period under review.**

9.1.1.6 Concession Rentals

Concession Rentals are paid by Oil and Gas companies as rent on oil blocks for which they have been granted concession. There are two categories of Rentals which are:

- Oil Prospecting Licenses (OPL)
- Oil mining Lease (OML)

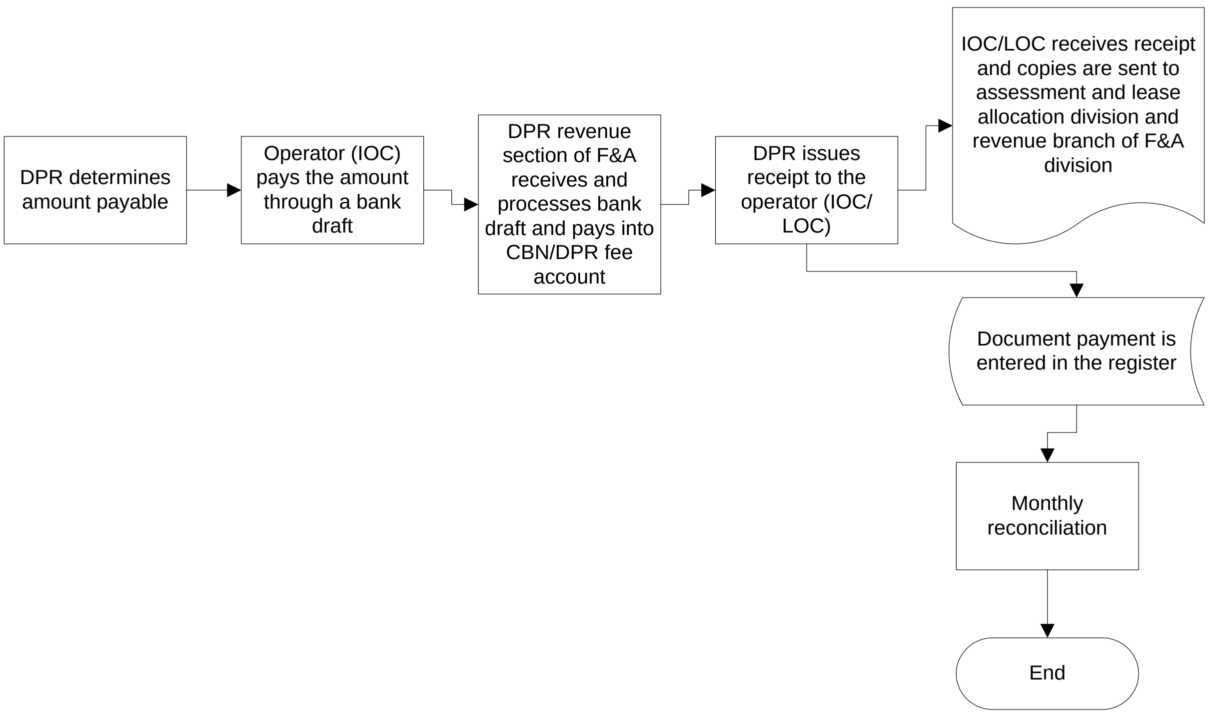
The license is non-exclusive and is granted for a period of one year. It is renewable annually. The applicable rental rates are;

- OPL - US$10/SQ KM or part there Off (Non-Producing Block)
- OML- US$20.00/SQ KM or part there Off (up to 10 years of Conversion) and US$15.00/SQ KM or part there off (until the Expiration of the Lease)

9.1.1.6.1 Concession Rentals Receipt Procedures

Concession rentals are paid either on the anniversary of the concession or in advance. It is usually paid either in Naira or US Dollars. The process is depicted in the diagram below:

Figure 9.1.1.6.1 :Concession rental receipt procedures



9.1.1.6.2 Concession Rentals Paid

Concession rentals paid for the period under review which has been validated at DPR and reconciled with the respective entities are shown below:

Table 9.1B: Summary of reconciliation of concession rentals and licenses

INTIAL TEMPLATE		ADJUSTMENTS			ADJUSTED FIGURE		UNRESOLVED
GOVT.(CBN)	**COMPANY**	**DIFF.**	**GOVT.(CBN)**	**COMPANY**	**GOVT.(CBN)**	**COMPANY**	**DIFF.**
US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2,387	**2,292**	**94**	**483**	**651**	**2,870**	**2,943**	**-73**

9.1.1.7 Royalty on Oil

Royalties originated in the United States of America, and takes the form of a percentage production which is payable in cash or in kind (Crude Oil) at the option of the host country. The purpose of royalties is to provide the owner of the subsoil with a steady income in compensation for the irreplaceable loss resulting from the exploitation of non-renewable reserves.

In the Nigerian Oil Industry, Royalty refers to payments, either in cash or in kind, made by a holder of a concession to the Federation based on the value of the quantity of Crude oil or Gas produced (saved after the oil has been separated from its components) from the field within the concession in line with the fiscal terms approved statutorily by the Government.

Royalty payment is a statutory obligation of every corporate body involved in the production of Oil and Gas. It is guided principally by the Petroleum Act of 1969 as amended by Cap 10 Volume 13 Law of Federation of Nigeria (LFN) 2004.

The Petroleum (Drilling and Production) regulations Act No. 69 LFN of
1996 Section 60 stipulates that Royalty on crude oil and casing head petroleum spirit is computed by applying the appropriate rate of royalty to the chargeable value of crude oil and casing head petroleum spirit under the regulation. Calculation of chargeable oil as provided in the 1996 regulation Act is as follows: -

a) ascertaining the quantity of crude oil produced on a field by field basis in the relevant OML; and
b) reducing that quantity by the deduction of:
    i. Quantities used for production operations
    ii. Quantities used for re-injection.
    iii. Quantities lost through evaporation.

The above Act Interpretations (section 63) also explains that "casing-head petroleum spirit" means any liquid hydrocarbons which

- have been obtained from natural gas by natural separation or by any chemical or physical process; and
- have not been refined or otherwise treated;

From the above it can be inferred that Royalty is calculated on net crude oil produced on a field by field basis.

Finding: ***During the course of our audit, the Department of Petroleum Resources (DPR) interprets this to mean that royalty is assessed on net crude oil production after removal of associated gas, water, sediments and other impurities. Although there are others who may disagree with this definition, on our part, we believe that the DPR's interpretation is correct.***

The Royalty rate table is shown below:

Table 9.1.1.7: Royalty rate table

DESCRIPTION	RATES
FISCAL TERMS FOR JV AND SOLE RISK (PETROLEUM DRILLING AND PRODUCTION AMENDMENT REGULATIONS	
ROYALTIES ON OIL	
TERRAIN	**RATES**
ONSHORE	20%
OFFSHORE	
100M WATER DEPTH	18.50%
101-200M WATER DEPTH	16.50%
201-500M WATER DEPTH	12%
501-800M WATER DEPTH	8%
801-1000M WATER DEPTH	4%
>1000M WATER DEPTH	0%
INLAND BASINS	10%
ROYALTIES FOR ONSHORE AND SHALLOW OFFSHORE PSC (2003 AMENDMENT)	
ONSHORE	

Description	Rates
FOR PRODUCTION BELOW TWO THOUSAND BOPD	5%
FOR PRODUCTION BETWEEN 2 AND 5 THOUSAND BOPD	7.5%
FOR PRODUCTION BEWEEN 5 AND 10 THOUSAND BOPD	15%
FOR PRODUCTION ABOVE 10 THOUSAND BOPD	20%
OFFSHORE UP TO WATER DEPTH OF 100 METERS	
FOR PRODUCTION BELOW 5 THOUSAND BOPD	2.5%
FOR PRODUCTION BETWEEN 5 AND 10 THOUSAND BOPD	7.5%
FOR PRODUCTION BETWEEN 10 AND 15 THOUSAND BOPD	12.5%
FOR PRODUCTION ABOVE 15 THOUSAND BOPD	18.5%
OFFSHORE BETWEEN WATER DEPTH OF 100 AND 200 METERS	
FOR PRODUCTION BELOW 5 THOUSAND BOPD	1.5%
FOR PRODUCTION BETWEEN 5 AND 10 THOUSAND BOPD	3%
FOR PRODUCTION BETWEEN 10 AND 15 THOUSAND BOPD	5%
FOR PRODUCTION BETWEEN 15 AND 25 THOUSAND BOPD	10%
FOR PRODUCTION ABOVE 25 THOUSAND BOPD	16.67%
FISCAL TERMS FOR PSC (DEEP OFFSHORE AND INLAND BASIN 1999 PSC)	
ROYALTY RATES FOR DEEP OFFSHORE	
In areas from 201 to 500 metres water depth	12%
From 501 to 800 metres water depth	8%

DESCRIPTION	RATES
FROM 801 TO 1000 METRES WATER DEPTH	4%
IN AREAS IN EXCESS OF 1000 METRES DEPTH	0%
ROYALTY RATES FOR INLAND BASIN	10%
FISCAL TERMS FOR MARGINAL FIELDS (MARGINAL FIELDS OPERATIONS REGULATIONS 2005)	
FOR PRODUCTION BELOW 5,000 BOPD	2.5%
FOR PRODUCTION BETWEEN 5000 BOPD AND 10,000 BOPD	7.5%
FOR PRODUCTION BETWEEN 10,000 BOPD AND 15,000 BOPD	12.5%
FOR PRODUCTION BETWEEN 15,000 BOPD AND 25, 000 BOPD	18.5%

9.1.1.7.1 Royalty Computation

The calculation and payment of royalty on oil is guided principally by Section 61 of the 1969 Petroleum Act as amended.

Royalty (R) = V*P*R

Where:

R =	Royalty rate (depending on the terms and terrain
V =	Production volume
P (Crude oil price) =	Official selling price (OSP) or releasable price (RP) as adjusted by API gravity of the crude oil

Note: the royalty paid is also determined by the operating contract.

9.1.1.7.2 Royalty on Oil paid

The Royalty (Oil) reconciliation carried out between Central Bank of Nigeria's data and the companies' data together with adjustments resulting from the reconciliation of unresolved differences are as presented below:

Table 9.1.1.7.2: 2012 Royalty oil reconciliation

INTIAL TEMPLATE		ADJUSTMENTS			ADJUSTED FIGURE		UNRESOLVED
CBN	COMPANY	DIFF.	CBN	COMPANY	CBN	COMPANY	DIFF.
US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
5,626,171	**5,176,017**	**450,154**	**1,204,173**	**1,650,337**	**6,830,345**	**6,826,354**	**3,991**

9.1.1.8 Royalty on Gas

Royalty on gas is based on gas sales. Royalty on gas sales refers to the sum paid by the holder of a Concession to the Federation based on the volume of gas produced and sold from the fields within the concession in line with the following fiscal terms:

- Onshore 7% of gas sale
- Offshore 5% of gas sale

***Finding:* DPR could not provide any data on gas production or Gas stock data due to some inherent difficulties associated with gas production and storage, coupled with the lack of proper equipment to handle such problems. Maintenance of accurate gas production and stock figures may only be attainable in the future.**

9.1.1.8.1 Royalty on Gas paid

The Royalty (GAS) reconciliation carried out between Central Bank of Nigeria's data and companies' data together with adjustments resulting from the reconciliation of unresolved differences are as given below:

Table 9.1.1.8.1: 2012 Royalty gas reconciliation table

INTIAL TEMPLATE		ADJUSTMENTS			ADJUSTED FIGURE		UNRESOLVED
CBN	COMPANY	DIFF.	CBN	COMPANY	CBN	COMPANY	DIFF.
US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
97,519	**106,407**	**8,888**	**7,112**	**-1,409**	**104,631**	**104,999**	**-368**

9.1.1.9 Gas Flared Penalty

This refers to the amount paid for flaring gas in Nigeria (it is a penalty). The regulations governing gas flare penalty include:

- Regulation 42 of the Petroleum (Drilling and Production) Regulations, 1969.

- Associated Gas Re-injection Act, 1979.
- Associated Gas Re-injection (Continued Flaring of Gas) Regulations, 1984.
- Cap. 26 Laws of the Federation of Nigeria, 1990.

Gas flare penalty rates used under various fiscal regimes are:

- 2K applicable from 1985 to June 1992
- 50K applicable from July 1992 to December 1997
- N10 applicable from January 1998 to March 2008
- $3.5 applicable from April 2008 to Date (still in contention)

The rate of N10 as provided by the Regulation of January, 1998 is still being applied. We understand that lack of political will on the part of Government to uphold the April 2008 Regulation may be responsible for the non-implementation. The companies complete a Self - Assessment based on the parameters in the Act and make monthly payments to the designated JP Morgan Accounts which are subsequently reconciled with the DPR after receipt of calculations from the fields.

9.1.1.9.1 Royalty on Gas paid

The Gas Flaring Penalties reconciliation carried out between Central Bank of Nigeria's data and companies' data together with adjustments resulting from the reconciliation of unresolved differences are as given below:

Table 9.1.1.9.1 2012 Gas flare penalty reconciliation

INTIAL TEMPLATE		ADJUSTMENTS			ADJUSTED FIGURE		UNRESOLVED
CBN	COMPANY	DIFF.	CBN	COMPANY	CBN	COMPANY	DIFF.
US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
15,503	15,223	280	9,416	9,877	24,919	25,100	-181

9.1.1.10 Miscellaneous Oil Revenue

This term refers to miscellaneous oil revenue paid on behalf of the government namely:

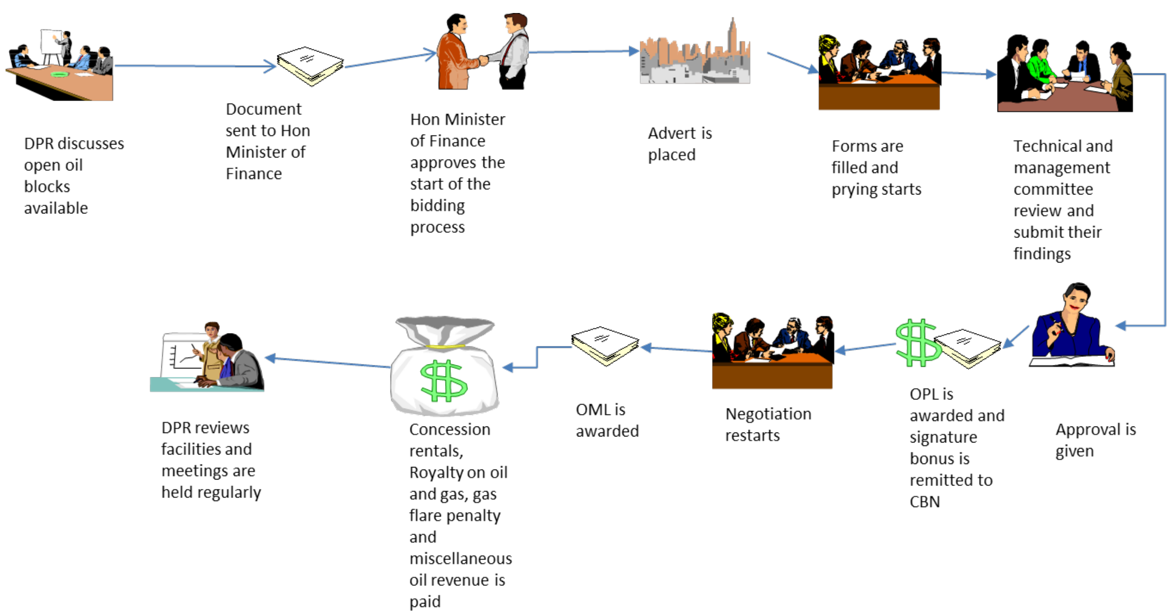
- Oil Industry service companies permit
- Marketing permits and license for Kerosene, Petroleum Depot, Product Import permit, Coastal vessels, Drilling, Oil Pipeline, Rig, Petrol Station, LPG, Blending Plant, Peddling, Aviation Depot and Petroleum Storage

- Bunkering permit
- Pipe lines permits
- Drilling permit
- Rig licenses
- Approval to construct
- License to establish refineries, terminals, etc.
- Operational penalty fees, etc.

9.1.1.11 Review of DPR processes

The high level process is depicted in the diagram below:

Figure 9.1.1.11: DPR high level process



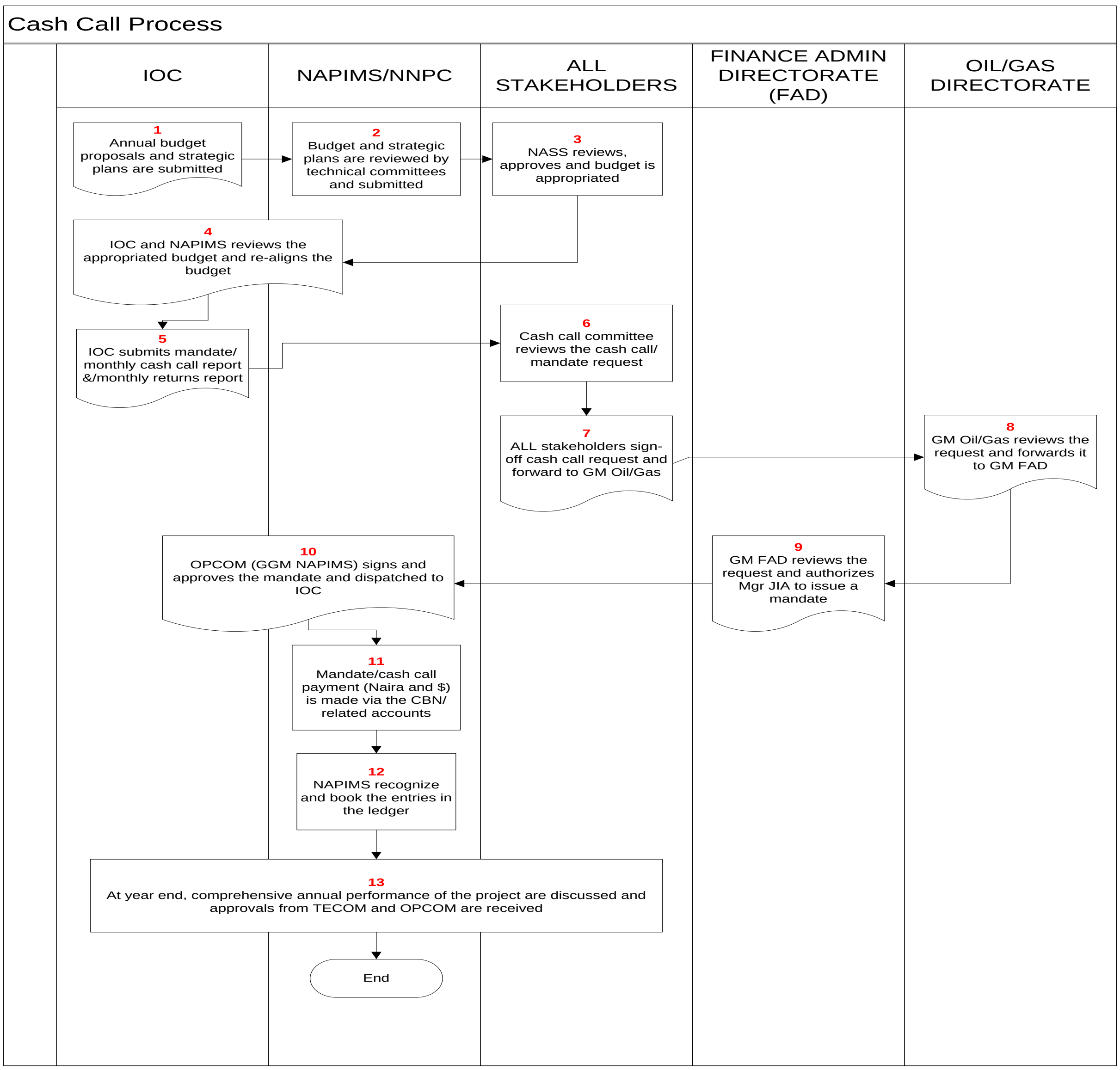
9.1.1.12 National Petroleum Investment Management (NAPIMS)

National Petroleum Investment Management Services (NAPIMS) is the Corporate Services Unit (CSU) and the Exploration and Production (E&P) Directorate of the NNPC. It is charged with the responsibility of managing the Nigerian Government's investment in the upstream sector of the Oil and Gas industry.

NAPIM's objective is to enhance the margin accruing to the Nigerian Federal Government through effective supervision of the Joint Venture Companies (JVCs), Production Sharing Companies (PSCs) and Service Companies (SCs). It aims to achieve its objective through adequate supervision of budgets and performance, as well as ranking of projects that give higher "returns on investment" to the Nigerian government. It also participates in direct exploration of the frontier and inland basins.

9.1.1.13 Review of NAPIMS process – cash call process

Figure 9.1.1.13: Cash call process



9.1.1.14 Alternative Funding

Alternative Funding is a mechanism of funding equity contributions involving a third party or one or more of the Joint Venture (JV) partners through means other than the normal cash call method provided by Joint Venture Agreement (JOA).

The purpose is to augment a shortfall often encountered in funding attractive JV projects which could not be funded through cash call mechanism as provided in the JOA.

Joint Venture arrangements are funded from two main sources as follows:

- Cash Call Funding, and
- Alternative Funding Mechanisms.

The Federal Government has increasingly found it difficult to meet its cash call obligations in full. This has resulted in a funding gap in terms of the Federation share of its cash call contributions. The Federal Government, through NNPC, entered into Alternative Funding/Financing arrangements with its joint venture partners to address these funding gaps.

The Alternative Funding Mechanisms utilized at NNPC include:

- Third-party Financing,
- Modified Carry Arrangement (MCA) and
- Bridge Loans and Term Loans.

From 2005 to date, the following projects have been financed through the Alternative Funding Mechanism:

Table 9.1.1.14: Alternative funding projects

Mechanism	Third Party Financing	Modified Carry Arrangement (MCA)	Bridge/Term Loans
Projects	• NNPC/MPN Satellite Oil Field Development • NNPC/MPN Natural Gas to Liquids II (NGL II) Upsizing • 2012NNPC/MPN Reserves Dev Program	• MCAs with 5 Joint Venture Partners • 2012 MCA with Nigeria Agip Oil Company (NAOC)	• IOC bridge/term loans

Generally, to initiate a process for any alternative funding mechanism a joint venture partner may propose capital project opportunities. Once a joint venture partner determines what

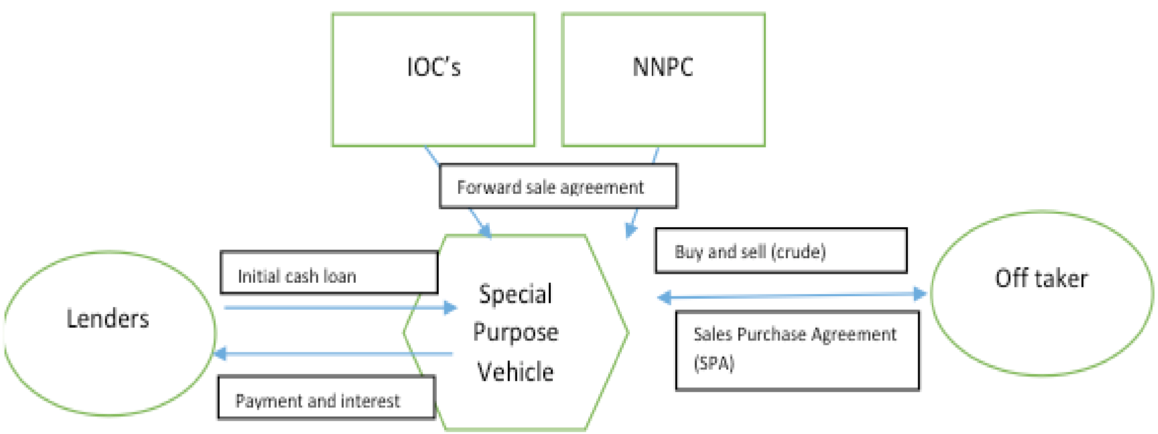
should be specifically recognised as capital project opportunities, they discuss it with NAPIMS who would go ahead to prioritize and determine which of the three alternative funding mechanisms to be applied to the project.
This process of prioritizing projects for alternative funding will lead to applying either third party financing and modified carry arrangement. Below are descriptions of these processes.

9.1.1.15 Third Party Financing

In order to overcome the challenges of funding, NNPC and its Joint Venture Partners, form a Special Purpose Vehicle (SPV) to borrow money from banks with an agreed equity. Third party financing therefore involves using the SPV to access funds from the financial markets. The SPV which is formed by Sponsors who have pre-sold an agreed volume of future crude oil sales to the SPV.

The process is depicted in the diagram below:

Figure 9.1.1.15A: Third Party Financing



The IOC (operator) is tasked with conducting the day-to-day management and operation of the joint venture, focusing on achieving the technical milestones. The IOC is compensated for the management and operation of the SPV and is compensated through their participating interest in the equity. The third party process requires the SPVs to enter into long-term Sales and Purchase Agreements with “Off Takers” (buyers). The agreements are used as security for the loan required for the financing of the selected project. The SPV acts as the borrower of records.

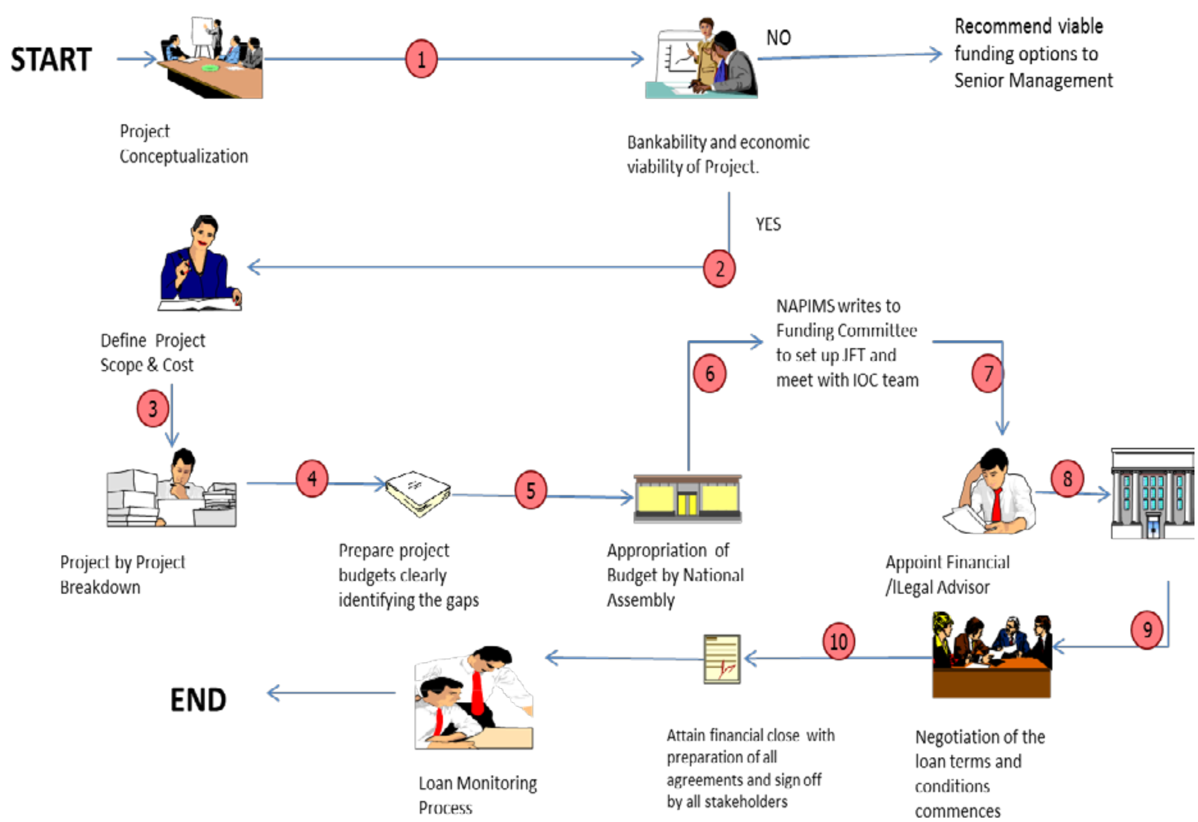
As shown in the diagram above, a "dedicated" escrow account is opened at a nominated Account bank, to which the buyers "off takers" deposit proceeds from the sale of crude oil and gas. Allotted carry oil/gas is sold on behalf of the partners and the proceeds are paid into an escrow account. Proceeds from the sale of the crude oil/gas are remitted to a dedicated "proceeds account" domiciled with the Account bank. Payments are made from this proceeds account to service the debt (both Principal and Interest) and any other loan obligations. The balance in the account is distributed in accordance with the JV equity holding.

NNPC's share from this arrangement is paid to CBN/NNPC Crude Oil and Gas Dollar Revenue Account and subsequently swept into the Federation Account. The current third party financing arrangements are:

- NGL (Nigeria Gas Limited) I and II.
- SOF (Satellite Oil Fields)
- RDP (Reserves Development Program)

The high level process is depicted in the diagram below:

Figure 9.1.1.15B High level third party financing process II



9.1.1.16 Modified Carry Arrangement

The Modified Carry Arrangement (MCA) is a modification of existing Carry Arrangements (CA) where in the past, IOCs finance the NNPC's share of agreed project costs as a loan and repayment of this loan was paid with oil.

Under the MCA, NNPC's Joint Venture (JV) partners finance their share of agreed project costs and pay compensation and interest on cash basis instead of payment with oil. The party that funds a project on behalf of the other(s) is called the Carrying Party. The Carrying Party recovers its costs through Tax offset and a share of the equity production of the party being funded.

Before any project is accepted and admitted as an MCA project, there are certain specific requirements that the project is expected to satisfy. If the project fails to satisfy these requirements, it would either remain part of the JV project or recommended for another type of alternative funding.

The specific requirements include the fact that incremental production revenue as well as benefits under the JV would have to be clearly identified, showing what incremental production is going to be realized.

Secondly the "Business Economics" of the project should be calculated taking into cognizance the Internal Rate of Return (IRR) of 8% and also confirming that the project cannot be financed under the JV. In doing so the costs for the projects should be known and shown clearly in the Capital costs and Operating Expenditure (CAPEX and OPEX) as well as any other associated costs.

The Capital Cost that is agreed and approved by all parties is settled as follows:

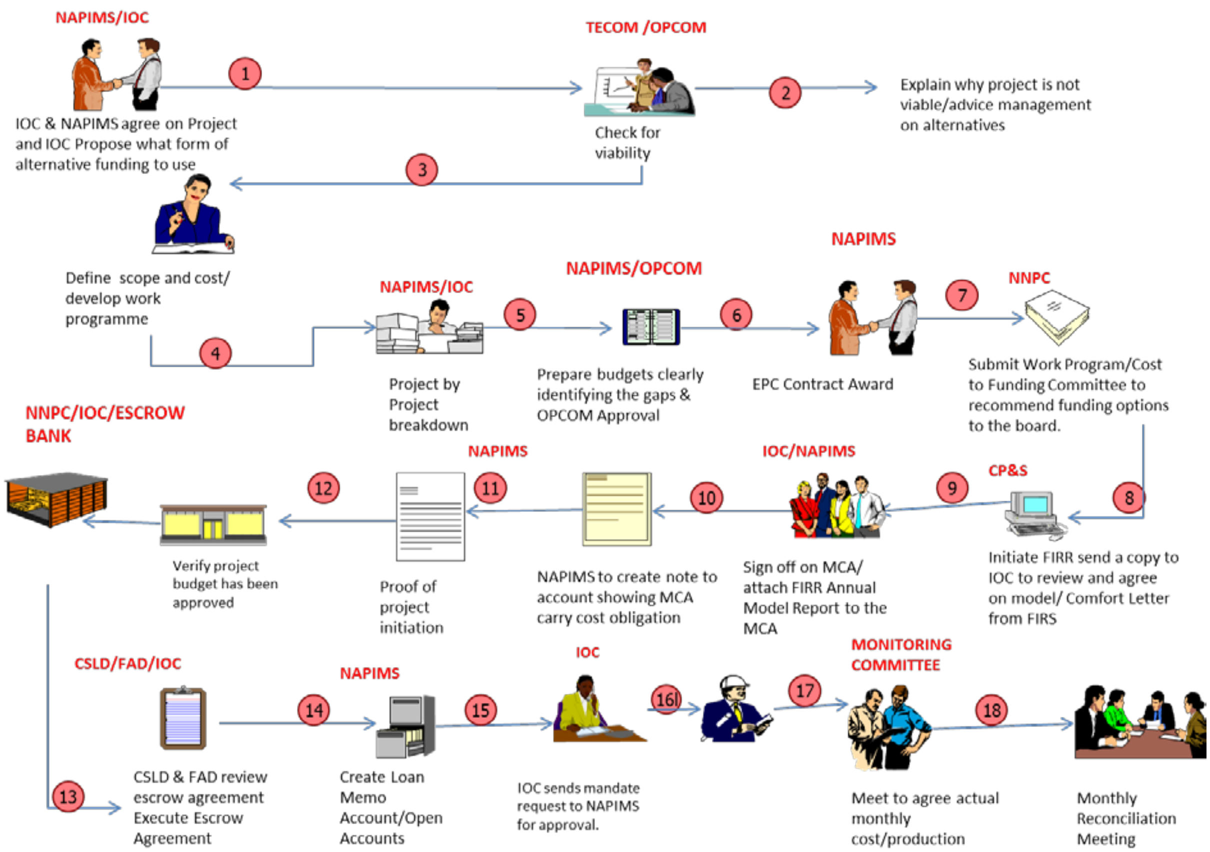
- Tax Relief at 85% is paid through transfer of NNPC's tax benefits to the Carrying Party.
- Balance of 15% referred to as Residual Carry Oil is paid from the NNPC's equity portion of the incremental oil and gas production from the relevant projects which are lifted and marketed by NNPC.
- Compensation (Interest): In consideration of financing the Carry capital expenditure (CAPEX), the Carrying Party is compensated at an interest rate that would yield a financial internal rate of return (FIRR) of 8%. This payment comes from the NNPC's equity portion of the incremental oil and gas production from the relevant projects which are lifted and marketed by NNPC.

- An important feature of MCA is that Carry Capital Cost (CCC) is only recovered in monetary terms (dollars) for both Carry Oil and Share Oil transactions. NNPC sells the crude at a set price and the monetary values of the equivalent barrels are paid into the escrow account.

MCA High level Process flow chart

The high-level process of the modified carry arrangement is shown in the diagram below:

Figure 9.1.1.1.16 High level MCA process



9.1.1.17 Review of Federal Inland Revenue Service (FIRS) tax assessment processes and regimes

The Federal Inland Revenue Service (FIRS) is saddled with the following key responsibilities:

- Assessment and collection of Taxes
- Accounting for taxes collected and maintenance of tax records
- Enforcement of payment of taxes as may be due to the Government
- Review the tax regimes and promote the application of tax revenues to stimulate economic activities and development.
- Establishment and maintenance of a system for monitoring international dynamics of taxation in order to identify suspicious transactions and perpetrators and other persons involved.
- Issuance of taxpayer identification number
- Advising the Federal Board of Inland Revenue on professional and technical tax issues referred to it.

Taxes with respect to the oil and gas industry are handled by three major departments/sections of FIRS:

- Upstream
- Downstream (for marketing companies)
- Oil Services

9.1.1.17.1 Upstream section of FIRS

The upstream section of FIRS typically is expected to assess tax and collect (from exploration and production companies) and remit to government. The unit is headed by a Tax Controller.

9.1.1.17.2 Downstream section of FIRS

The downstream section is expected to assess and collect taxes from the marketing companies (for products like AGO, lubricants, tank farms (storage of imported products), kerosene, petrol, diesel e.t.c. Currently there are twenty-five (25) approved companies allowed to import fuel into Nigeria.

9.1.1.17.3 FIRS structure

The structure of the upstream and downstream unit is shown below:

Figure 9.1.1.17.3 FIRS (upstream/downstream) organisation chart

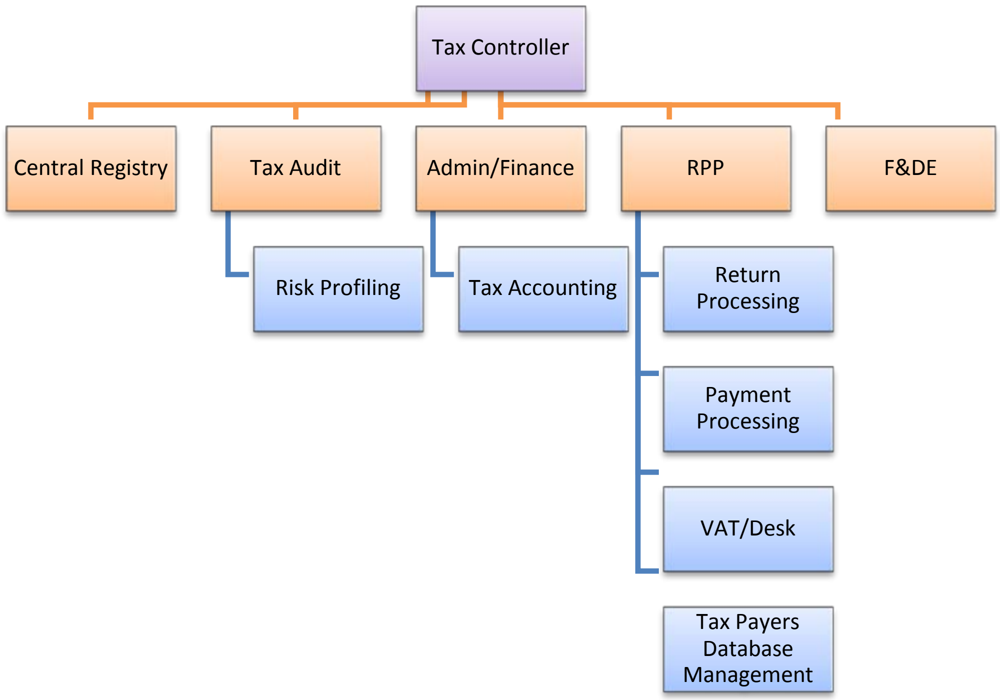


Table 9.1.1.17.3 FIRS department functions

Units/Departments	Description/function
Central Registry	• This unit keeps custody of tax payers file and staff personal files • It maintains master list of all tax payers file
Tax Audit	• The unit risk profiles taxpayers file and selects the taxpayer with the highest risk of tax revenue losses to ensure there are no losses to the Federal Government of Nigeria
Administration/Finance	• Receives all requisition and monitors staff attendance Tax accounting • Keeps custody of all source documents (assessment notices, receipt of all tax types etc.)

Units/Departments	Description/function
Returns Payment Processing (RPP)	• This unit receives tax returns from IOC/LOC and VAT returns. • Reviews the tax returns • Examines financial statements • raises of additional assessment (where necessary) and tax queries • follow ups on all issues of Tax Clearance Certificates (TCC) • Maintains assessment lists.
Fraud and Debt Enforcement (FDE)	• Maintains collection case files • Ensures prompt payment of overdue taxes • Carries out enforcement when a tax payer fails to pay

9.1.1.17.4 Overview of the FIRS Processes – Tax Identification Number (TIN) Issuance

Tax Clearance Certificate Issuance

The tax clearance certificate issuance process is depicted the chart below:

Figure 9.1.1.17.4A: TIN process

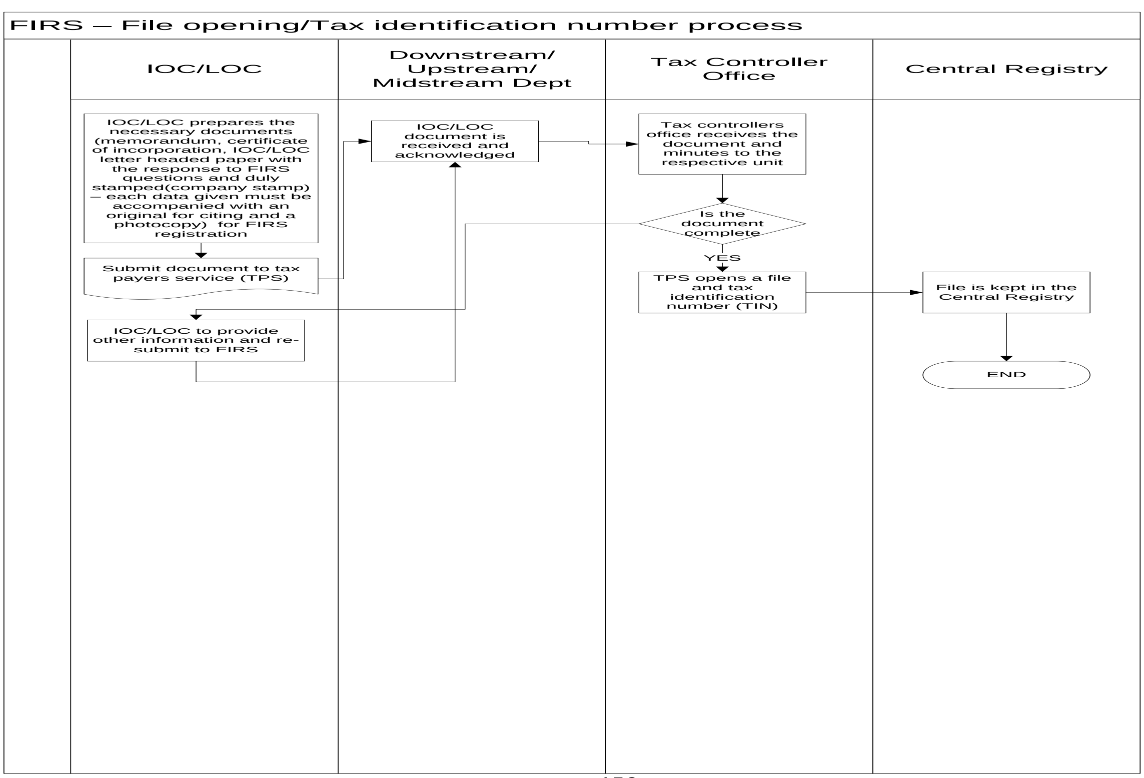
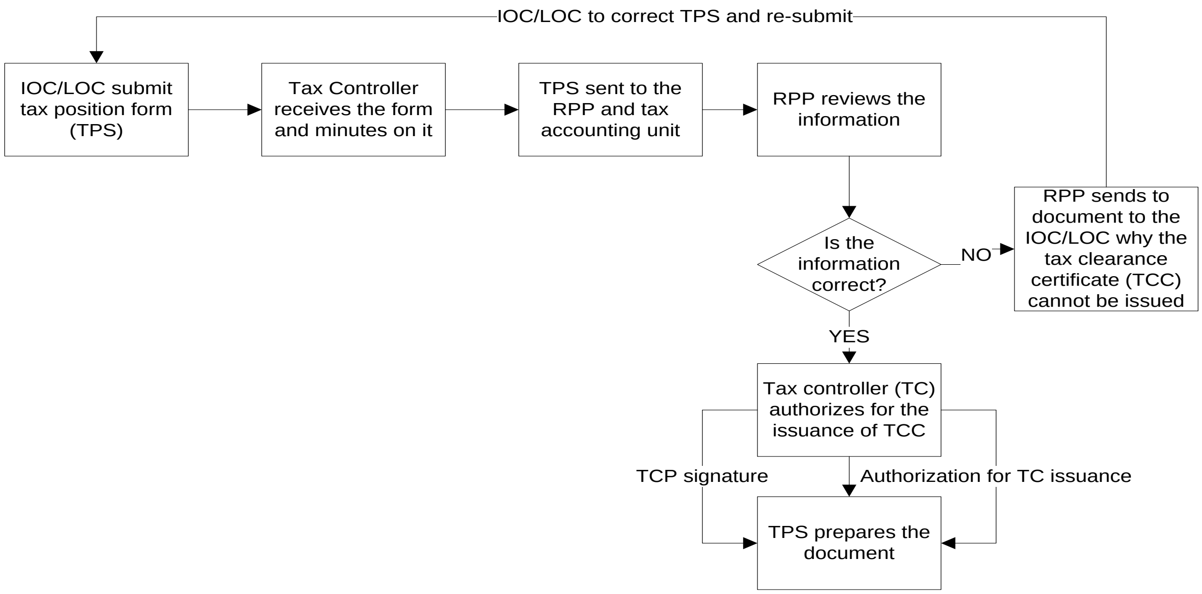


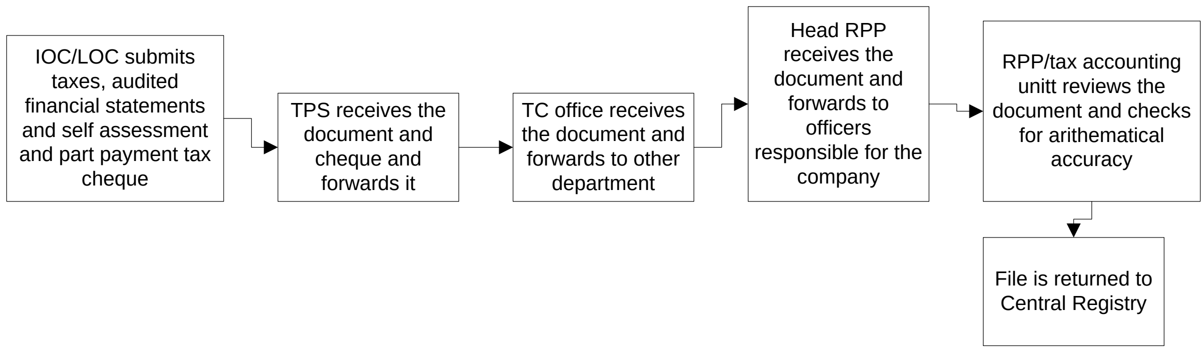
Figure 9.1.1.17.4B: Tax clearance certificate process



9.1.1.17.5 Filing of Returns

The filing of returns process is depicted in the chart below:

Figure 9.1.1.17.5 :Filing of returns process



9.1.1.17.6: Tax Monitoring

On a regular basis the various taxes are being monitored by the RPP unit. VAT (returns are expected by the 21st of every month) and WHT are being monitored too. The RPP unit reviews VAT returns and communicates to taxpayers.

9.1.1.18 Petroleum Product Pricing Regulatory Agency (PPPRA)

This Agency was established by Act of the National Assembly No. 8 of May 2003. The PPPRA Act No. 8 of 2003, under section 7, empowers the Agency to carry out its functions as follows:

1) Determine the pricing policy of petroleum products;

2) Regulate the supply and distribution of petroleum products;
3) Establish an information and data bank through liaison with all relevant agencies to facilitate the making of informed and realistic decisions on pricing policies;
4) Moderate volatility in petroleum products prices, while ensuring reasonable returns to operators:
5) Oversee the implementation of the relevant recommendation and programmes of the federal Government as contained in the white paper on the Report of the Special Committee on the Review of Petroleum Products Supply and Distribution specified in the second schedule to the Act as they relate to its functions, taking cognizance of the phasing of special proposals;
6) Establish parameters and codes of conduct for all operators in the downstream petroleum sector;
7) Maintain constant surveillance over all key indices relevant to pricing policy and periodically approve benchmark prices for all petroleum products;
8) Identify macro-economic factors with relationship to prices of petroleum products and advice the federal Government on appropriate strategies for dealing with them;
9) Establish firm linkage with key segments of the Nigerian society, and ensure that its decisions enjoy the widest possible understanding and support;
10) Prevent collusion and restrictive trade practices harmful in the sector;
11) Exercise mediatory role where necessary for all the stakeholders in the sector.

In line with its mandate above, the agency has to perform the following responsibilities:

- Plan and programme the receipt and distribution of petroleum products to ensure uninterrupted products availability in the country based on determined petroleum products supply gaps.
- Deploy PPPRA staff to monitor and verify data on products reception and distribution at the jetties, refineries and depots nationwide.
- Demand from refineries, monthly production volume on products basis and from the Operators, data on products supply and distribution.
- Maintain a reliable databank on the activities of the Fund and the industry.
- Collaborate with DPR on adherence to produce specification and HSE.
- Collaborate with petroleum equalization fund management board (PEF(M)B) and other Stakeholders on products movements to ensure efficient products supply and distribution to every part of the country.
- Collaborate with CBN/FMF on data exchange, FOREX allocation and reconciliation.
- Embark on wide publicity and enlightenment programme to educate Stakeholders and the public at large on the benefits of the initiative (Petroleum Support Fund).

- Collaborate with the PEF(M)B and DPR on intelligence monitoring to check malpractices and apply appropriate sanction to the defaulters.
- Perform conciliatory and mediatory roles among Stakeholders/Operators.
- Set regulations on holding of petroleum stocks and ensure compliance.
- Security of supply: Collaborate with the NNPC and other Marketers to release their reserved stocks into the market in time of emergencies and supply gaps arising from the inability of the Marketers in fulfilling their obligation on products procurement and short fall in refinery production.
- The PPPRA may from time to time review the PSF Guidelines in line with its statutory mandate.

9.1.1.19 Review of OAGF systems and procedures over oil and gas financial flows

Brief Description

The enactment of Civil Service Re-organization Decree No. 43 of 1998 established the Office of the Accountant-General of the Federation, which hitherto was a Department in the Federal Ministry of Finance known as "Treasury Department".

The Office was established for Treasury Management of Government. It has responsibility for providing adequate accounting systems and controls in the ministries, extra ministerial offices and other Arms of Government. The office also has the mandate of collating receipts and reporting on revenues of the Federal Government derived from Sec. 80(1) of the Constitution 1999 which stipulates that "All revenues or other money raised are received by the Federation (not being revenues or other moneys payable under this constitution or any Act of the National Assembly into any other public fund of the Federation established for a specific purpose) shall be paid into and from one Consolidated Revenue Fund of the Federation."

The Accountant- General of the Federation (OAGF) is the Chief Accounting Officer and he is charged with the constitutional role of repairing the nation's financial statements arising from collection and receipts of income, fees, rentals and taxes and payment out of the Federation Account. Accordingly Sec 85 S.5 of the Constitution provides that, "the Auditor-General shall, within ninety days of the receipts of the Accountant-General's Financial Statement, submit his reports under this section to each House of the National Assembly responsible for public accounts".

The office of the Accountant-General of the Federation (OAGF) is the executive arm of Government responsible for maintaining records for all revenues and receipt and payments into and out of the Federation Account.

The OAGF is structured into eight (8) departments namely:

Table 9.1.1.19: OAGF Departments and functions

OAGF Departments	Functions
Funds: This is sub-divided into: Federation Account & Expenditure and Fiscal Division	**Federation Account Division:** (a) Monthly Distribution of Revenue collected into the Federation Account as per Central Bank of Nigeria Component Statement among the three tiers of the government. (b) Presentation of the distribution at the monthly Federation Account Allocation Committee (FAAC) meeting. (c) Disbursement of the distributable funds to the beneficiaries via issuance of mandates to the Central Bank of Nigeria. (d) Preparation of Ministerial Memo for the approval of the Honorable Minister of State for Finance. (e) Maintaining Federation Account, Value Added Tax (VAT) Account and other Special Accounts, (Development of National Resources Account, Ecology, Stabilization Account, Excess Crude Oil Account). (f) Reconciliation of various Revenue Agencies' Accounts. (g) Serves as the Secretariat for the Technical Sub-Committee of the Federation Account Allocation Committee (FAAC) (h) Updates Monthly Publication of FAAC Distribution.
Revenue and investment	This department is charged with the responsibility for ensuring that the revenues from Oil and Gas, Custom Tariffs and Excise duties, Value Added Tax (VAT), With-Holding Tax (WHT) and income from other government interests are collected and promptly remitted to the appropriate Federal Government Account. It is also charged with the custody of all the Federation Revenue Accounts with the Central Bank of Nigeria. They include: (a) Revenue from sales of export crude oil (b) Revenue from sales of domestic crude oil

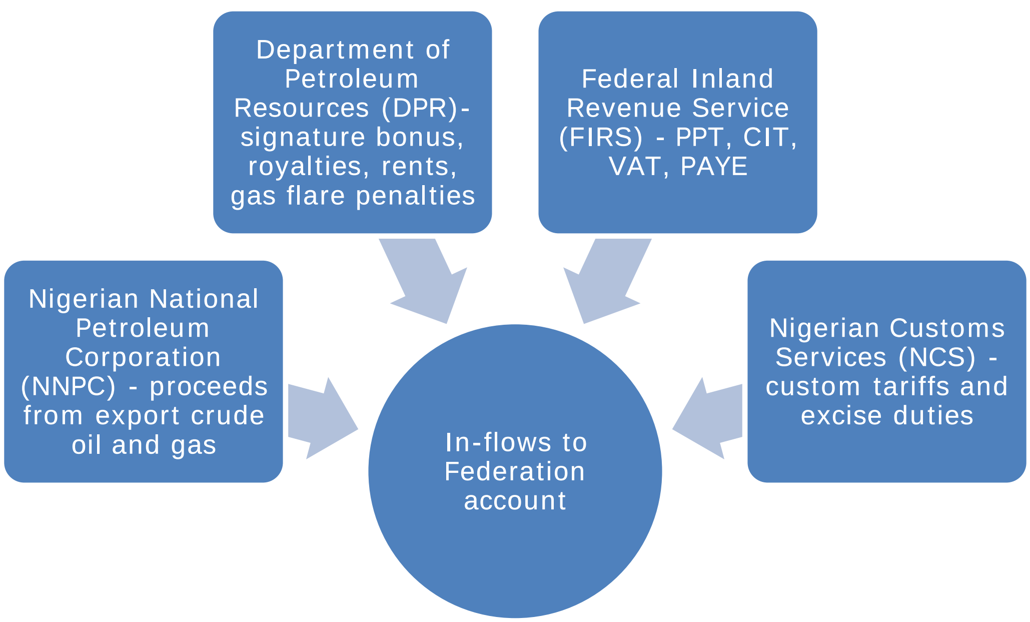
OAGF Departments	Functions
	(c) Petroleum profit tax (d) Royalties (e) Gas flared penalty (f) Rentals (g) Fees and miscellaneous oil receipts (h) Receipts from sales of oil blocks (Signature Bonus)
Finance and accounts	This department is charged with the following responsibilities amongst others: • Provides Financial Services to the OAGF • Preparation of Annual budget for the AGF • Submission and defense of the Budget to Budget Office of the Federation and the National Assembly • Receipt and Disbursement of Funds to OAGF Headquarters, Zonal and Federal Pay Offices • Monitoring of Budget Performance • Process all approved payments in OAGF • Preparation and payment of salaries in OAGF • Maintains all the necessary and statutory books of Accounts
Inspectorate	The Inspectorate Department consists of Inspection, Investigation, Board and Losses, Monitoring and Enforcement divisions and the functions are: • Conduct routine and in-depth inspection of the books of accounts of Federal Ministries, Extra-Ministerial Departments and other Arms of Governments to ensure compliance with rules, regulations, policy decisions and accounting codes and Internal Audit Guides. • Ensure Compliance with Financial Rules and Regulations; • Ensure there is no misuse of public funds; • Investigating cases of fraud, loss of funds, assets and store items and other financial malpractices in Ministries/Extra-

OAGF Departments	Functions
	Ministerial Departments, Agencies and Parastatals within and outside Abuja.
Internal audit	Audit monitoring department is responsible for Internal Auditing of Federal Government Finance Service-wide through the instrumentality of Internal Audit in MDAS, FPOs, PPOs, and periodic audit monitoring of internal audit of MDAs, FPOs, and PPOs.
Administration	The functions are administrative. The Administration department comprises of: • Appointment, Promotion & Discipline • Pools Management • Supplies Division • Training & Staff Welfare
Planning ,Research, Statistics and Information Technology (PR&IT)	The Planning, Research ,Statistics and Information Technology Division performs, among others, the following functions: (a) Prepare the development plans (medium and perspective) for the Office which are fed into the National rolling plan (b) Co-ordinates the preparation of annual budget of the Office of the Accountant-General of the Federation. (c) Monitoring and evaluation of plan implementation in the Office. (d) Remits returns on development projects to the National Planning Commission. (e) Preparation of OAGF Annual Report. (f) Research into internal organization and operational modalities of the Office of the Accountant General of the Federation. (g) Publishes the quarterly and annual manpower statistics of the OAGF.

OAGF Departments	Functions
	(h) Researching into sectors over which the Office has jurisdiction (i) Regular and on call inspection of personal computers (PCs) in OAGF; (j) Repairs and fixing of PCs and related peripherals; (k) Administration and maintenance of OAGF Local Area Network (LAN);
Consolidated accounts	

The inflows into the Federation account are depicted in the diagram below:

Figure 9.1.1.19 Federation payment in-flows



9.1.1.19.1 OAGF Finance Transaction Flows

9.1.1.19.1.1 Central Bank of Nigeria (CBN) Financial Transaction Flows

The Central Bank of Nigeria has full responsibility for the custody of Federal Government Fund and is the Supreme Monetary Authority in Nigeria. It issues Nigerian naira currency, maintains foreign currency reserves and is charged with the responsibility for maintaining monetary stability. It is also the lender of last resort for Nigeria banks. It was established by law in 1958.

The CBN operates various accounts for the federation (on behalf of the relevant agencies) in-flows shown in the table below:

Table 9.1.1.19.1.1: CBN inflows account details (oil and gas sector revenue)

<table>
<tr><th>Government Agencies</th><th>Account description</th><th>Account details</th></tr>
<tr><td colspan="3">NNPC

NNPC operates Domiciliary Accounts with JP Morgan Chase Bank New York USA in the Central Bank of Nigeria (CBN) where revenue payments from the sales of Export Crude Oil and Gas to foreign Customers are paid and received. Nigerian National Petroleum Corporation (NNPC) Crude Oil Marketing Department (COMD) make Sales of Crude Oil and Gas to Foreign Customers, issues invoices to their foreign banks in line with terms of Letter of Credit, and payment is received within 30 (Thirty) days.</td></tr>
<tr><td rowspan="3">NNPC

The following accounts were in operation during the 2012 Audit Year. All payments were received in United States of America (USA) Dollar.

The accounts and records were maintained by the Foreign Operations Division of the CBN Banking and Payment Systems Department.</td><td>NNPC/CBN Crude Oil and Gas Revenue (Export) Account</td><td>000000400941775</td></tr>
<tr><td>NNPC/CBN Gas Revenue Account</td><td>000000816296438</td></tr>
<tr><td>CBN/JV Cash Call Account</td><td>000000011658366</td></tr>
<tr><td>NNPC-</td><td>NNPC/CBN Domestic Crude Oil Revenue</td><td>0020157141024</td></tr>
</table>

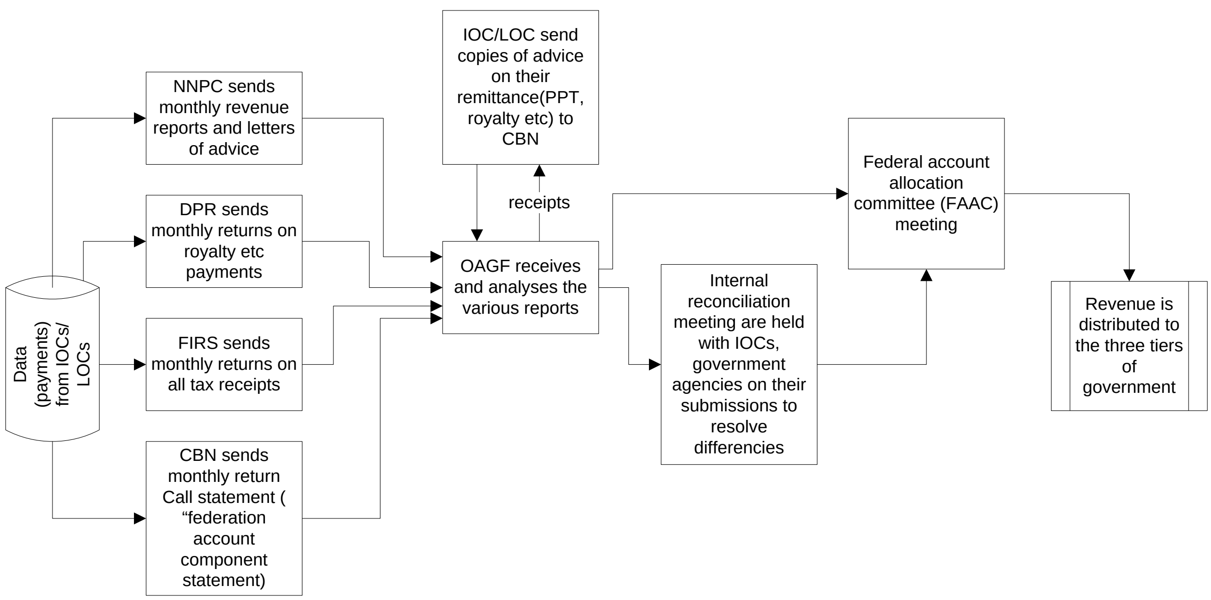
Government Agencies	Account description	Account details
The Revenue proceeds arising from the sales of Domestic Crude Oil and Gas by the Crude Oil Marketing Department (COMD) of Nigerian National Petroleum Corporation (NNPC) was also maintained by the Central Bank (CBN) Banking Operations Department of the Banking and Payment Systems. The accounts were called NAIRA ACCOUNTS. All transactions were made and recorded in Naira.	Account	
	NNPC/CBN Gas Revenue Account	20157141105
DPR It maintains JP Morgan Chase Bank New York with CBN for the collection of revenue i.e. signature bonus etc.	CBN Joint Venture Royalty	000000802906875
	CBN Production Sharing Contract Royalty	000000802906883
	CBN Gas Flared Penalty	000000802906909
	CBN Concession Rentals	000000802906917
	CBN Miscellaneous Oil Revenue	000000802906925
	CBN Gas Royalty	000000802906891
	CBN Signature Bonus	000000753811397
FIRS It maintains JP Morgan Chase Bank New York with CBN for the	FIRS/Petroleum Profit Tax	000000400216647
	FIRS/Companies Income	000000400216620

Government Agencies	Account description	Account details
collection of taxes	Tax	
	FIRS/Value Added Tax	000000400216698
	FIRS/With Holding Tax	000000400216639
	FIRS/Education Tax	000000400216728

9.1.1.19.1.2 OAGF Transactions Recording Procedures

The OAGF transaction recording procedures can be depicted in the diagram below:

Figure 9.1.1.19.1.2: OAGF transaction recording process



Revenue reconciliation committee and FAAC committee descriptions are stated below:

Table 9.1.1.19.1.2: OAGF Committees composition and functions

Description	Composition	Functions
Crude sales reconciliation committee	• Accountant-General of the Federation • Federal Inland Revenue Services (FIRS)	The Committee looks at the submissions of all collection agencies in the light of the actual submission of the Central Bank of Nigeria, Foreign Operations and Banking

<table>
<tr><th>Description</th><th>Composition</th><th>Functions</th></tr>
<tr><td></td><td>

Central Bank of Nigeria
Petroleum Equalization Fund
Federal Ministry of Finance
Nigerian Customs Services
National Economic Intelligence Committee (NEIC)
Revenue Mobilization Allocation and Fiscal Commission
Crude Oil Marketing Division (COMD) of NNPC
Nigerian National Petroleum Corporation (NNPC)
Pipeline Products Marketing Company of (NNPC) PPMC
Budget Office of the Federation
Sub-Treasury of the Federation
National Bureau of Statistics

</td><td>
Operation Divisions of the Banking and Payment Systems Department.

Collection Analysis Summary
Each collection agency presents its collection analysis summary for the month showing.

Types of Revenue/Income/Taxes
Actual collected for similar month in the previous year
Budget for the current year
Monthly average (budget for the types of revenue)
Variance showing differences between actual collection and average monthly collections.
The exchange rate used
Unremitted/over remitted revenue carried forward or brought forward.
Un-transferred/over transferred revenue carried forward/brought forward.
Revenue transferred to the Federation Account.

NOTE: The committee reconciles all the Federation Revenue including the Independent Revenue of the Federal Government.

Consolidated Account Reconciliation Statement

At the end of the reconciliation, each collection agency prepares a Consolidated-Account Reconciliation
</td></tr>
</table>

Description	Composition	Functions
		Statement in the format shown below:- **Consolidated Account Reconciliation Statement** Agency Collections for the month of xxx 2012 Add: Direct Remittance to CBN not yet advised by CBN xxx Balance as per CBN Statement/Summary for the month xxx Thereafter exchange of Reconciled Statements/Reports follows between the various collection agencies with all submitting their Reconciled Reports to the Office of the Accountant-General of the Federation for recording and documentation.
FAAC committee	The Committee which is made up of representatives from each state of the Federation comprises of the States' Commissioner of Finance and their Accountants-General.	
Technical sub-committee of FAAC	Accountant-General of the Federation (Chairman) • States' Accountant-General • Representatives of Revenue Collection	The Technical Sub-Committee meets and considers:- • Reports of the Revenue Collection Agencies • Report of the CBN Component Statement

<table>
<tr><th>Description</th><th>Composition</th><th>Functions</th></tr>
<tr><td></td><td>Agencies: NNPC, DPR, FIRS and NCS
• Representatives of Revenue Mobilization Allocation and Fiscal Commission (RMAFC)
• Representative of Federal Ministry of Finance
• Representative of National Planning Commission
• Representative of Central Bank of Nigeria
• Representative of Office of the States and Local Government Affairs
• Representative of Office of the Vice President
• Representative of the Director of Military Pension
• Representative of the Office of Head of Service of the Federation, Department of Civilian Pension
• Representative of the Budget Office of the Federation.</td><td>• Accounts of Revenue available for distribution
• Examine Report for sharing prepared by the OAGF

NOTE: At this meeting, recommendations are made to the Plenary Session for adoption of the accounts.

PLENARY SESSION

The Plenary Session of the Committee which comprises of the States Commissioners of Finance and all members of the Technical Sub-Committee are chaired by the Hon. Minister of State for Finance. This session further deliberates on the accounts and adopts it for distribution to the statutory beneficiaries.</td></tr>
<tr><td>Presidential Revenue Monitoring and Reconciliation</td><td colspan="2">This is the last reconciliation meeting after the Federation Accounts, Allocation Committee (FAAC) meeting. The PRMRC is a two legged meeting consisting of a Technical sub-committee (TSC) meeting held at the Central Bank of Nigeria (CBN) Office in Lagos and second leg of the meeting held at the Budget Office of the Federation (BOF) Federal Ministry of Finance Abuja.</td></tr>
</table>

<table>
<tr><th>Description</th><th>Composition</th><th>Functions</th></tr>
<tr><td></td><td colspan="2">The CBN serves as the Secretariat for the TSC meeting while the BOF serves as the main Secretariat of the Committee at Abuja.

The Report produced at the conclusion of the PRMRC meeting is the Official Report of all the revenue collected in the Federation for a particular month and shows:-
Revenue Agencies and the type of revenue they collect
The Annual Budget figure for each item of revenue
The Monthly average budget figures for each revenue items
The Revenue collected for the month
The cumulative budgeted revenue for the period
The actual revenue collected for the same period in the previous year
The variance between the budget and the actual revenue.</td></tr>
</table>

9.1.1.19.3 Revenue Allocation

In Nigeria, the Revenue Mobilization and Fiscal Commission (RMAFC) is the statutory body empowered by the constitution to enforce the design of revenue allocation formula and principles in conformity with changing realities. The commission is also empowered to monitor disbursements from the Federation Accounts.

9.1.1.19.1.4 Monitoring of Disbursements from the Federation Account

The RMAFC monitors the disbursements of revenue from the Federation Account to the three tiers of Governments (i.e. Federal, States and Local Governments). The sharing to the various levels of government is done in accordance with the extant rules (Sec.162) of the Constitution of the Federation. The Commission ensures that revenue declared for distribution by the Federation Account Allocation Committee (FAAC) is shared according to the approved Revenue Allocation Formula and Indices.

Submission of Component Statements

The Central Bank of Nigeria Submits its component statement to the Office of the Accountant-General of the Federation two days to the Federation Account Allocation Committee Meeting

(FAAC) detailing amounts collected from each of those sources and after certain deductions as stated below have been made from the account.

- Excess Crude Oil (Domestic and Export)
- Excess Petroleum Profit Tax
- Excess Royalties
- Cash Calls for Joint Venture Operations

Adjustment for foreign exchange fluctuations giving rise to differences between amounts budgeted for the annual budget and amount realized on monthly basis are made in the component statement for each of the financial inflows. It is the net of the pool account that is swept into the Federation Account for Distribution to various tiers of government.

Distributable Federation Revenue

The Funds Department of the Office of the Accountant-General of the Federation on the receipt of the Central Bank Component Report as adopted by the Technical Committee and the Federation Account Allocation Committee Meeting process the data using the sharing formula and indices as provided by the Revenue Mobilization Account and Fiscal Commission to distribute the available revenue.

The following deductions are made before arriving at the distributable amount in the Federation Account.

- 7% cost of collection to the Nigerian Customs Services.
- 4% Cost of Collection to the Federal Inland Revenue Service.
- Transfers to/from Domestic Crude Oil to Subsidy
- 13% Derivation is also deducted from Total Oil money Revenue and distributed to all Oil producing States.
- Then the remaining 77% is added to other Non-oil Mineral Revenue and shared to the Federal Government, State Governments and the Local Government Councils.

There are two (2) formulae for distribution namely:

- ***Vertical*** and
- ***Horizonta*l** Revenue sharing.

The ***Vertical*** formula is one used for distribution among the three beneficiaries i.e. Federal, States and Local Governments. The present arrangement has been in existence since the Supreme Court judgment of 2002 that declared Special Funds illegal and therefore adjusted the arrangement and added the percentages of special funds to the Federal Government. The arrangement is as follows:

Table 9.1.1.19.1.4A: Revenue sharing formula

Sharing formula of federation account	
Description	**%(percentage)**
Federal Government of Nigeria	52.68
State Governments	26.72
Local Government Councils	20.60
Total	**100**

Table 9.1.1.19.1.4B: Distribution of Federal Government Share percentages

Distribution of Federal Government Share	
Description	**%(percentage)**
Federal Government of Nigeria	48.50
Federal Capital Territory	1.00
Development of Natural Resources	1.68
Stabilization Fund	0.50
Total	**52.68**

The ***Horizontal*** formula is the sharing arrangement among the States and the Local Governments and their percentages are shared in accordance with the following:

Table 9.1.1.19.1.4A: Horizontal sharing formula

Description	%(percentage)
Equality	40
Population	30
Land Mass and Terrain	10
Internal Revenue Efforts	10
Social Development Factor	10
Total	**100**

Funding from Consolidated Revenue Account

The FGN portion (48.50%) of the distributable fund is pooled into the Consolidated Revenue Fund (CRF). The authority to spend from this account emanates from the Federal Ministry of Finance through issue of Warrants to OAGF for all budgeted and approved expenditures as contained in the Annual Estimate and which is usually cash-backed. The mandate to incur expenditure is also based on the budget as approved by the National Assembly.

The OAGF issues payment mandate to the Central Bank of Nigeria to effect payment to beneficiary as specified in the instrument.

9.1.1.20 Issues and Recommendations:

The issues with regards to the value chain process and its recommendations are stated below:

Table 9.1.1.20A: Issues and recommendations

Value chain process	Related Agency	Issues	Recommendation
Awarding licenses & contract	DPR	DPR: **SIGNATURE BONUS** The government of the Federation did not conduct bid rounds for the sale of oil blocks in the year 2012, and no templates were received from any company in respect of Signature Bonus. Our examination of CBN bank statements and DPR records did not also reveal any payment of Signature Bonus during the period under review.	We recommend that bidding should be done as this will enable other proven reserves to be realized and more revenue for the FGN.
Monitoring production	DPR	**Interpretation of the law** regarding the definition to crude oil Crude oil volume is regarded as saved after all impurities have been separated not necessarily what has been read on the meter from the well head as this contains a percentage of water and other items	The law should be unambiguous. With the probable enactment of the PIB, it might clarify all this ambiguities.
	DPR	**Gas stock figures** could not be ascertained at DPR	The process of accounting and record keeping with regards to gas sales should be reconciled and the systems/procedures

			enhanced
	NAPIMS	**With regards to the cash call process:** -Technical committee and operating committee meetings are not up to date (this thereby affects the general resolution of issues with regards to modified carry arrangement and other issues) -Currently, the annual performance meeting for 2012 have not held	TECOM and OPCOM should ensure that all meetings are held and concluded by January of the following year.
	NAPIMS	**Cash Calls** Government portion of call not being paid as at when due	Government should ensure that their portion of the cash call is funded adequately and if not, alternative source of funding should be sort so as not delay the project
Collecting taxes and other payments	FIRS	Pioneer status grant provides a huge loss of revenue to FGN	The grant of pioneer status to oil operators is a huge loss of revenue to the Federal Government. FGN should review the process in which pioneer status is granted. We have advised FIRS to raise a Best of Judgement (BOJ) assessment on the relevant companies.
Allocating the revenue	OAGF	**Record keeping** is poor with the Government regulatory authorities	The OAGF system of record keeping should be enhanced by the installation of an

			enterprise system. So that data/transactions can be seen be real time and easily accessed.
	OAGF	**Receipts** – The OAGF rarely issues treasury receipts for advices received from the upstream companies There is no formal structure for the reconciliation of accounts on one-on-one basis with the upstream companies	Treasury receipts should be issued to IOCs/LOCs once government revenue portion has been remitted. Also, a defined process structure should be put in place that will guide all transactions between OAGF and IOCs/LOCs.
	OAGF	**Federation interface with Upstream Companies**. It was also observed that the submission of copies of payment advices to OAGF is discretionary advices are not usually received on regular basis, and more often than not, the Upstream companies do not bother to collect their treasury receipts issued by OAGF in respect of Direct Payment made to JP Morgan Chase Bank with the Central Bank Of Nigeria. In fact, the Office of the Accountant-General of The Federation cannot determine at any point in time which Upstream Company has paid, or which company is in arrears. There is no formal structure on ground for the reconciliation of account on one to one basis with the Upstream	The Office of the Accountant-General of the Federation should put in place a formal structure on ground for the monthly reconciliation of accounts with the Upstream companies.

		Companies.	
	OAGF	**Federation interface with other revenue agencies** The monthly Returns from NNPC, FIRS, and DPR are merely checked against monthly Central Bank Returns. There is no formal structure in place for the tripartite meeting for internal reconciliations except at the enlarged Federation Revenue Reconciliation Committee Meeting.	The OAGF should put in place a formal structure for a tripartite (NNPC, FIRS, DPR) meetings for individual reconciliations of their differences before the enlarged Federation Revenue Reconciliation Committee Meeting.
	OAGF	It appears that the Office of the Accountant-General of the Federation have no independent records or any other source of information for cross-checking or vetting the Revenue Returns from the various revenue collection agencies, they merely depend and rely on submissions from the Revenue Agencies like NNPC, DPR, FIRS, etc.	OAGF should establish a proper database system that will enable proper/efficient keeping and storage of records for all transactions without necessarily depending on the returns made by the government agencies
	OAGF	**The allocation of revenue** should be made more transparent	A system of transparency should be established in the allocation of funds to ensure funds reach the targeted people in rural areas to assist in the development of communities, provision of healthcare etc.

	CBN	During the validation of payment received from foreign customers' bankers, some deficiencies were observed. Many receipts were credited to the appropriate accounts, but transfer instruments were made without names of payee oil companies. The bankers narration were incomplete resulting to improper classification and recording .An account called Unidentified Memorandum was created to post those items without the names of the payee oil companies. Since the particulars of the payee were not known it becomes difficult for accounting. The implication is that the payment could not be traced to the customer, hence accounts prepared gives incomplete information as per credit status. Reconciliation becomes difficult and this resulted to false information on outstanding credits. This applied to Petroleum Profit Tax (PPT), Value Added Tax (VAT) Royalty Payments, and Payment for Gas Flared Penalty.	The Central Bank Desk Officers in the Banking and Payment Systems, especially in the Foreign Operations Division should always sort out clear information on foreign remittances. Proper narration should be made and the beneficiaries' revenue collection agencies should always meet for reconciliation of account with the Central Bank.
		NDDC It was also observed that there was no information in the Office Of the Accountant- General Of the Federation in respect of the three percent (3%) Statutory Fund	The Office of the Accountant –General of the Federation should put in place a formal structure to monitor the financial contributions from the Oil Companies to the

		Contribution for the development of the Niger Delta Region by the International Oil Companies during the year 2012.The information available was only the Federal Government Funding. The implication is that the OAGF has no record of accounts to report to the Federation as the Chief Accounting Officer of the Federal Government on the amount of funding from the Oil Companies. There was no record or means of monitoring those companies who paid and those that defaulted.	Niger Delta Development Commission. In order to ensure transparency, the revenue received by NDDC should be used to populate a table on the disbursements.
		Nigerian Content Development and Monitoring Board (NCDB) We also observed that there was no information in the Office Of the Accountant- General Of the Federation in respect of the one percent (1%) Statutory Fund Contribution for the development and promotion of Nigeria Content Policy from every contracts awarded, sub contracts, services by International Oil Companies during the year 2012.The information available was only the Federal Government Funding. The implication is that the OAGF has no record of accounts to report to the Federation as the Chief Accounting Officer of the Federal Government on the amount of funding from the Oil Companies.	The Office of the Accountant –General of the Federation should put in place a formal structure to monitor the financial contributions from the Oil Companies to the Nigeria Development and Monitoring Board as stipulated in the Act. Monies received from the IOCs should be simplified into utilization explained to ensure transparency (about allocation of revenue and how it benefits the nation).

		There was no record or means of monitoring those companies who paid and those that defaulted.	
Others	Legislature	**Regulatory uncertainty** Uncertainty in the passage of PIB	The Legislature should be encouraged to pass the PIB into law
	Govt.	**Funding** Government's inability to pay its equity contribution of the cash call stifles E&P operations	Government should ensure that its equity contribution for the JV project is remitted so as not to stall the projects
		Security The rising security problems relating to oil theft, pipeline sabotage and vandalism has discouraged exploration activities.	Security should be improved to forestall oil theft/attack /bunkering etc.

Current Issues and Recommendations:

There are some issues with regards to the DPR processes namely:

Table 9.1.1.20B: DPR Issues and Recommendations

Issue	Recommendation
Bidding process No bidding process occurred in the year under review	We recommend that bidding should be done as this will enable other proven reserves to be realized and more revenue will be realized
Law Interpretation of the law regarding crude oil – crude oil volume is regarded as saved after all impurities have been separated not necessarily what has been read on the meter from the well head as this contains a percentage of water and other items	The law should be unambiguous. With the probable enactment of the PIB, it might clarify all this ambiguities.

The issues regarding the cash call process are:

Table 9.1.1.20C: NAPIMS Issues and Recommendations

Issue	Recommendation
Management meetings TECOM and OPCOM are not up to date. The annual performance for 2012 has not held as at August 2014.	TECOM and OPCOM should make effort to ensure that all meetings be held and concluded by January of the following year as stipulated.
MCA reports	The SAP system recently deployed should be configured to accommodate the reporting of alternative funding
MCA data differentiation Data with regards to MCA are not readily available	The SAP system should be configured to suit data relating to MCA process and third party financing process.

9.2 Oil and Gas Production Companies in 2012

Production is defined by DPR to mean "Crude Mineral Oil or Liquid Hydrocarbons that remain after the extraction of associated gas, water and other sediments from the produced casing head oil" and the implication of this is that computation of Royalty and other production related data is based on net crude oil produced from the fields after the normal dewatering and shrinkages before the terminal storage facilities.

The under listed are the name of companies that produced in 2012.

Table 9.2A: Name of Companies that produced in 2012

Oil and Gas Production Companies in 2012			
1.	Chevron.	2.	Exxon/Mobil
3.	NAOC	4.	Mobil
5.	Pan Ocean	6	Phillips Oil
7.	SPDC	8.	Total
9.	APDNL	10.	SNEPCO

11.	TUPNI	12.	TEPNG
13.	Allied Energy	14.	AMNI
15.	Atlas/Summit	16.	Brittania Oil
17.	CONOIL	18.	Continental Oil
19.	Dubri Oil	20.	Energia JV
21.	Esso Exploration	22.	Express Pet.
23.	First Hydrocarbon	24.	GLENCORE
25.	Midwestern	26.	NAE
27.	Moni Pulo	28	NDPR
29.	NPDC	30.	Oriental Oil
31.	Pillar Oil	32.	Platform
33.	SEPLAT	34.	Voyage Oil & Gas
35.	WalterSmith		

Table 9.2B: Alternative Funding Arrangements

COMPANY	PROJECT
SPDC	Nembe Creek Bundle ; Cowthorne Channel; Gbaran- Ubie
MPN	2007 -2009 Drilling Bundle; Osso Condensate
CNL	2008 CNL MCA
Total Exploration	Ofon 2 and OML 58
NAOC	NLNG T4/T5; Ebocha – Beniboye

9.2.1 Review of Licensing

There was no Bids or allocation of new blocks in the year 2012 and so no new licenses were issued in 2012.However, **Appendix 3.8** to this report contains a spread sheet showing the status of Oil Prospecting and Oil Mining Licenses, equity holding companies, type of commercial arrangements (JVs, PSCs, and Sole Risks etc.), effective date of subsisting ownership and other field data in 2012.

9.2.2 The Licensing Process

As part of the statutory functions of the Department of Petroleum Resources (DPR), it processes applications for various Licenses, Permits and approvals across the entire Oil and Gas value chain. This ranges from Oil Exploration Licenses (OEL) to Lubricant Retailers License.

9.2.3 Procedures for oil blocks bidding and licensing rounds

In accordance with the Petroleum Act, 1969 (as amended), the Ministry of Petroleum Resources, through the Department of Petroleum Resources (DPR) is empowered to oversee Oil Blocks Licensing in Nigeria. The relevant legislations are;

a) Petroleum Act 1969 and the Petroleum (Amendment) Decree 1996.
b) Petroleum (Drilling and Production) Regulations, 1969 with amendments in 1973, 1979, 1995, 1996 and Petroleum (Amendment) Decree 1996.
c) Mineral Oils (Safety) Regulations, 1963.
d) Petroleum Profit Tax Act, 1959 with amendments in 1967, 1970, 1973 and 1979.
e) Oil Pipeline Act 1956, as amended in 1965.
f) Nigerian National Petroleum Corporation Decree 1977.
g) Associated Gas Re-injection Decree 1979, as amended in 1985. (viii) Production Sharing Decree 1999.
h) Deep Water Block Allocations to companies (Back-in-Rights) Regulations 2003
i) Oil Prospecting Licenses (Conversion to Oil Mining Leases etc) Regulations 2003

The above legislation contains details of the License and permit types, as well as the obligations and rights of the concessionaire to guide new entrants and all other existing operating companies.

Terms and conditions of operations, technical specifications of the equipment and installations, health, safety and the environment matters are also covered in the legislation.

9.2.4 National Policy on Petroleum Exploration and Development

The policy allows participation by both public and private (indigenous or foreign) interests in the exploration and development of petroleum resources of the country. The main objectives of the policy are as follow:

(i) Expand the scope of participation in Nigeria's oil industry and diversify the sources of investment and inflow of funds.
(ii) Increase the oil and gas reserves base through aggressive exploration.
(iii) Promote indigenous participation in the oil industry thereby fostering technological transfer, local goods and services utilization, and indigene employees' skills and competencies acquisition.

(iv) Ensure that periodic, open competitive bidding for acreages are carried out and that awardees do not hawk these blocks in the open market to third parties.

9.2.5 Ownership of Petroleum Resources in Nigeria and State Powers

All the hydrocarbon resources in Nigeria are vested in the Federal Government, whose sole responsibility is to control the resources and only permit their exploitation under license, in accordance with the Petroleum Act 1969.

The State allocates acreages (licenses) to operators in any such areas deemed to have potential for petroleum accumulation at the discretion of the Minister of Petroleum Resources.

The allocations shall be based on a set of criteria made known to qualified and deserving companies at the time such blocks are open for bidding.

The State reserves the right to participate in the operations of any block and to determine the type of contractual arrangements between the awardees and the Government.

The State reserves the right to recommend Local Content providers to participate in any block for the purposes of furthering the Local Content policy aspirations of Government. The Local Content Development Act 2010 has now given legal backing to local content requirements in the industry for participation in oil and gas operations in Nigeria.

9.2.6 Participation in Petroleum Exploration and Production Operations in Nigeria

Only the holder of a concession or assignee, or their accredited contractors shall engage in petroleum exploration and production operations in Nigeria.

Concessions shall be allocated to operators based on Open Competitive Bidding process.

Concessions or licenses may be granted only to a company incorporated in Nigeria to carry out petroleum operations under the Petroleum Act, 1969, as amended.

The company must be registered solely to carry on the business of Petroleum operations.

Special incentives are given to investors willing to participate in exploration and production activities in the inland basins comprising Chad, Benue, Bida, Sokoto, Anambra, etc.

9.2.6.1 Participation in Bids

To participate in Licensing Rounds, a company must:

- ✓ Be a Limited Liability Company incorporated in Nigeria with a share capital of not less than Two Million Naira in ordinary shares.
- ✓ Have a recognizable office and employing not less than 20 personnel.

- ✓ Have at least two of its Directors as Nigerians with Oil and Gas experience.

9.2.6.2 Oil Block Bidding and Award Procedures

The approval of the Hon. Minister of Petroleum Resources is required for the granting of an Oil Prospecting License (OPL). The approval procedures are as follows:

9.2.6.3 Advertisement

The Department of Petroleum Resources (DPR) is charged with the responsibility to advertise all blocks available for bidding in Nigeria through:

a. National dailies and magazines, and International publications as approved by Government.
b. Dedicated DPR website, which shall also provide the platform for various bid processes including registration, qualification, analysis and interactive communication with bidders.

9.2.6.4 Bid Guidelines

Bid Guidelines are issued by the DPR to prospective Bidders to guide them. The Guidelines contain details of the application modalities, documentation to be provided, application fees payable and deadline for submission of Bid Documents.

9.2.6.5 Bid Application and Application Fees

A Bidding Form shall be provided by the Department of Petroleum Resources (DPR) and the non-refundable chargeable fees shall be **$10,000.00 (Ten Thousand US Dollars)** per block.

9.2.6.6 Bid Processing and Processing Fees

Bid Processing Fee is usually US $10,000.00 (Ten Thousand US Dollars) per block. The Bid Processing Fee shall be paid in Certified Bank Draft into a DPR Domiciliary Account. The amount shall be used by the DPR to meet the processing expenses of the Licensing Rounds.

9.2.6.7 Data Prying Fees

Data prying fee is $25,000.00 (Twenty Five Thousand US Dollars) per block and is optional. It enables prospective Bidders to have access to general Seismic Data already acquired with respect to the particular blocks on offer. Data may also be purchased or leased at commercial rates from certain oil services companies, a list of which will be made available by the DPR.

9.2.6.8 Pre-Qualification Requirements

The following are the Pre-qualification requirements for the bid process;

a. **Evidence of Registration**

The Company must be registered solely for Exploration and Production business and shall provide evidence of such registration by way of a Certificate of Incorporation and a copy of the Articles and Memorandum of Association.

b. **Evidence of Financial Resources**

Companies intending to obtain Operator status shall present a letter from their bank confirming that the Company has at least US $10,000,000.00 (Ten Million Dollars) or N1,000,000,000.00 (One Billion Naira) as the case may be.

In the case of a Nigerian company with technical partner, they shall provide such joint evidence of same amount.

There must be evidence also that the company has maintained an account balance of at least One Billion Naira or Ten Million United States Dollars for at least six months prior to the date of application.

Companies intending to participate as Local Content providers or those intending to obtain upstream acreage owing to their involvement in strategic downstream projects should demonstrate the ability to pay their equity participation.

c. **Evidence of the Company's Technical Capability.**

Evidence of a company's technical capacity, capability and track record with emphasis on experience and expertise in exploration, development and production shall be required. The ability of an applicant to fully meet the objective of encouraging expeditious, efficient exploration to identify and produce oil and gas resources of the nation will enhance its application.

d. **Environmental Policies of Applicant**

Detailed Health, Safety and Environment (HSE) policies and procedure of the company should be stated with particular reference to environmental impact assessment/analyses.

e. **Local Content**

Local content refers to those activities (or parts of them) in the proposed work programme which the applicant shall mandate to a Local Content provider approved or designated by Government. A list of the activities that qualify as Local Content is published in the DPR website. The Local Content Development Act, 2010 has given legal backing to local content requirements which are expected to be strictly observed by prospective Bidders.

Government's intention since 2005 is to make local content a biddable item in Bid Rounds with the introduction of the Local Content Vehicle (LCV) in Oil Blocks allocation procedures.

f. **Evidence of Payments**
   This will include evidence of payment of the Application Fee and Bid Processing Fee.

9.2.6.9 Bid Evaluation

9.2.6.9.1 Technical Evaluation

The objective of this phase is to analyze and weight the technical capacities and competencies of prospective bidders. Those qualified as Operators are classified in three categories:

- Class (A) operator: qualified to operate in the deep offshore and frontier inland basins;
- Class (B) operator: classified to operate in blocks located in Niger Delta shallow waters or onshore and Inland basins; and
- Class (C) operator: qualified to operate in Niger Delta shallow waters or onshore only.

At the end of the qualification exercise the Bid Committee shall publish a list of all qualified operators and partners (including the list of blocks that partners may participate in, and their allocated equity.

A company may qualify both as an operator in certain zones and as a partner in other zones.

9.2.6.9.2 Commercial Evaluation

The objective of this phase is to obtain a fair value for the State and determine the companies to be designated Operators on the basis of the commercial package offered by the companies. Only qualified operators can submit commercial offers in respect of the blocks applied for. The Commercial Offers shall consist of the following:

a. **Signature Bonus:** This is the amount in US$ that the company is willing to pay at once on signing the production sharing contract (PSC) Agreement. The Bid Guidelines will normally indicate a minimum value of the Signature Bonus. The sum paid shall be equal to or exceed the prescribed minimum.
b. **Work Programme Commitment:** The work programme (seismic and wells expressed in both volume and US$ value) that the company is willing to carry out on the block. Again, this shall be equal to or exceed the prescribed minimum.
c. **Local Content:** The activities that the Operator is willing to mandate to its local content partner from the Activity List defined for Work Programme Commitment expressed in US$ value.

d. **Ceiling for Cost Oil Recovery:** The Maximum level of Cost Oil expressed as a percentage of total production that the company is willing to accept in the Production Sharing Contract. The ceiling shall not exceed 80%.

9.2.6.9.3 Commercial Evaluation Parameters

The Commercial Bids shall normally be based on the following four parameters:

1) Signature Bonus (Weight 40%): The maximum is scored by bids that are twice the minimum or more. Bids are then evaluated at percentage over the minimum.

2) Cost Oil Ceiling (Weight 20%): The maximum is scored by bids that specify 70% or below. Bids are then evaluated at percentage below 80%

3) Local Content (Weight 20%): The percentage of the work programme commitment to score the minimum is 30%. Bids are scored according to the percentage of work commitment prorated below 30%.

4) Work Commitment. (Weight 20%): The maximum is scored by bids that are twice the minimum. Bids are then evaluated at percentage over the minimum.

9.2.6.9.4 Bidding Conference

The companies offer the commercial bids on the date set for the bidding conference. The bidding shall normally be a two day event to which all stakeholders –industry including the press are invited. The offers are presented openly, verified, evaluated and announced on the spot, with the aid of a computer system and the result displayed on a video screen in front of the audience.

Procedures at the Bidding conference

a. **Registration**

This involves delivery of offers (in specific Registration Form and envelopes), as well as in magnetic media such as CD-ROM or Floppy disk. The company's accredited representative is called to place their offer in an envelope and deliver an electronic copy on disk to the Bid Round staff. The company's accredited representative places the Offer envelope and waits for the opening;

b**. Analyses and comparisons of Offers**

The Bidding Round staff pronounces the opening of each envelope (provided by the company's representative); the offer is validated and checked against the electronic copy (checking for errors or offers not adherent to requirements). The analysis of the offer is done based on the given parameters and weights to finally establish a winner for the block.

9.2.6.9.5 Bid Winner and Contract Signing

a. **Announcement of the winner.**
Announcement of results to stakeholders is done through certain channels - website, press (official or private) and also instantly to the Bid Round participants through wide screen TV platforms.

b. **Closing of the Bid Round**
The closing is the last part of the Licensing Round overall process and is composed by:
i. Finalization of the draft PSC Agreement by including the company data and adjusting specific clauses of contract.
ii. PSC Signing -Effective signature of contract and dissemination of relevant information about it to the other relevant arms of Government -NNPC, FMF, Justice, FIRS etc. The main objective here is to synchronize information about the PSC agreement and allow further follow-up of company activities.

9.2.6.10 Payment of Signature Bonus

On the grant of an Oil Prospecting License (OPL), the signature bonus shall be due for payment within a period of 90 days from the date of signing the applicable agreement.

If the company fails to pay the required Signature Bonus at the expiration of the 90-day period, revocation notices, which will last 30 days, shall be given. This brings the maximum allowable period for Signature Bonus payment to 120 days.

If the company is not able to pay up within the 30 days of revocation notice the allocation shall be revoked without further notice.

9.3 Review of Management of Sector Finances

9.3.1 Introduction

The Management of the Oil and Gas Sector is an enormous task. The Nigeria Extractive Industries Transparency Initiative(NEITI) has the responsibility for monitoring and ensuring that all payments due to the Government from all extractive industry companies, including taxes, royalties, dividends, bonuses, penalties, levies and such other income streams from the industry, are duly made. NEITI is also charged with ensuring that all fiscal allocations and statutory disbursements of revenue from EI sources due from the Federation Account to statutory recipients are made and properly accounted for.

The Accountant- General of the Federation (OAGF) is the Chief Accounting Officer charged with the constitutional role of preparing the nation’s financial statements arising from collection and Receipts of income, Fees, Rentals and Taxes and payment out of the Federation Account. Accordingly, Sec 85 S.5 of the Constitution provides that, “The Auditor-General shall, within ninety days of the receipts of the Accountant-General's Financial Statement, submit his reports under this section to each House of the National Assembly responsible for public accounts".

The office of the Accountant-General of the Federation (OAGF) is the executive arm of Government responsible for maintaining records for all revenues and receipt and payments into and out of the Federation Account.

The key issues centres around this areas:

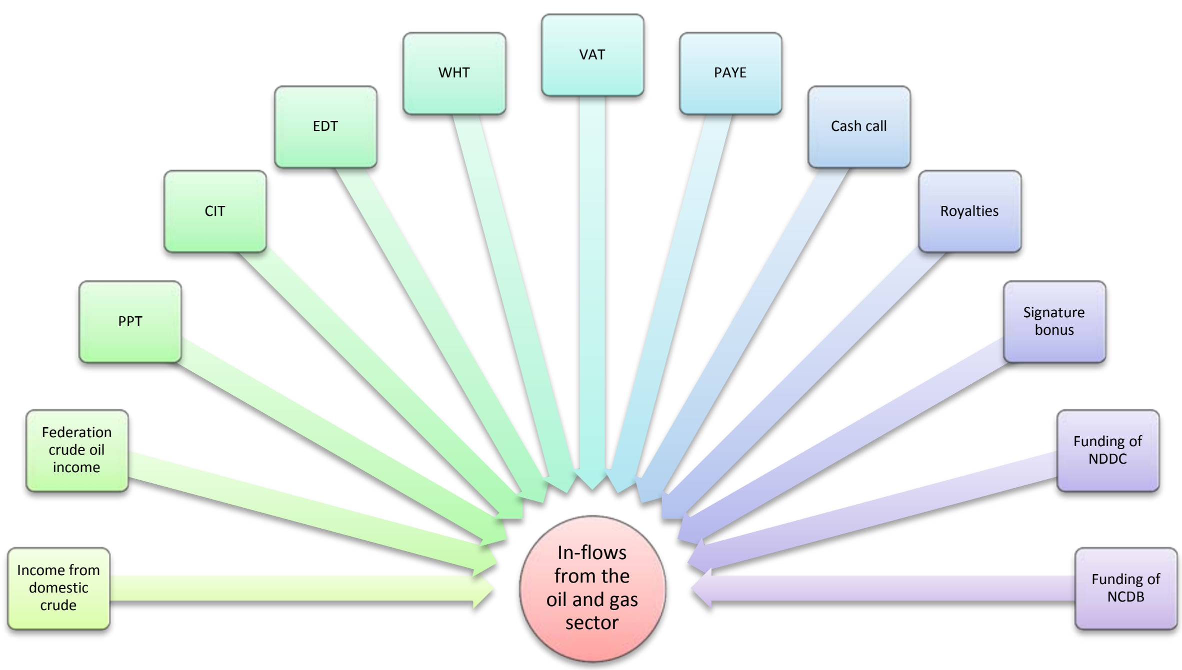
1) Recording of transactions
2) Receipting of transactions

In order for the relevant agencies to be transparent, all transactions must be recorded appropriately and against the accounts. Receipts must be given to the IOCs/LOCs once payment has been effected. Proper narration should always be made of every payment received by the bank to enhance easy and proper recording and accounting. We encourage that monthly reconciliation meetings be held between the Central Bank Of Nigeria, the oil companies, and the beneficiary revenue agencies to reconcile Records of transactions. The Office of the Accountant –General of the Federation should put in place a formal structure to monitor the financial contributions from the Oil Companies to the Niger Delta Development Commission (NDDC) and Nigeria Content Development and Monitoring Board (NCDMB).

In-Flows from the Oil and Gas Sector

The inflows from the oil and gas sector are depicted in the diagram below:

Figure 9.3.1: Financial Flows



1. Income from Domestic Crude Oil

The Income is realised from the sale of unrefined crude allocation for domestic refining. NNPC pays for domestic crude allocated in Naira at a converted export crude price using CBN exchange rate on the day of invoicing. Unrefined crude in excess capacity are sold and proceeds received into NNPC Account.

2. Federation Crude Oil Income

The revenue proceeds are from the sale of crude oil and gas by the NNPC to international oil market. Proceeds are received in United States Dollar. This flow is reported by the Central Bank of Nigeria which is the receiving entity since payments are made to it on instruction of the foreign customer.

3. Petroleum Profit Tax

Petroleum Profit Tax is tax paid on profit generated by companies in the Upstream Sector of the oil industry. Petroleum Profit Tax is regulated by the PPT Act of 2007. Petroleum producing operators like Joint Venture Companies, Production Sharing Companies and other oil producers are statutorily required to prepare estimate of their income within the first two months and to forward the same to the Federal Inland Revenue Services. The agreed estimate of tax is payable in twelve equal monthly instalments.

4. Royalties

This is a regular payment from the oil companies in the Upstream to the Federal Government in return for the right of access to the crude oil. Royalty is a sum of money paid by a holder of a concession to the Federation based on the value of quantity of oil extracted at the fixed percentage from time to time. Department of Petroleum Resources, DPR is the government agency that receives the amount paid as royalty.

5. Signature Bonus

The revenue is received at the time Oil Prospecting License is given to an oil company. Payments are made to the Department of Petroleum Resources DPR's designated account at the Central Bank of Nigeria for the allocation of oil blocks.

6. Company Income Tax

Company Income Tax is tax paid on profit arising from gas operations of companies. Oil and Gas companies pay Company Income Tax in United States Dollar, on profit arising from gas operations.

7. Value Added Tax

This is consumption tax that is placed on a product whenever value is added at a stage of production and at the point of Sales. The rate of Value Added Tax is currently five percent (5%). Value Added Tax is paid by all covered entities in local and foreign currencies to the Federation Account with J.P. Morgan Chase Bank Domiciliary account at the Central Bank of Nigeria.

8. Withholding Tax

With Holding Tax is a government requirement for the payer for an item of income to withhold or deduct tax from payment, and pay the tax to the relevant government authority, the Federal Inland Revenue Services. Withholding tax is paid by all covered entities in Naira to the State Government and in the USD to the Federation Account with the Central Bank of Nigeria.

9. Pay As You Earn

Pay As You Earn Tax (PAYE) is a tax on Income of Employees on a monthly basis. The relevant deductions are paid by all covered entities in Naira to the State Government to which they relate, as required by the specific State Personal Income Tax Enactments as amended to date.

10. Cash Call

This is cash advance payment required to be paid by each Joint Venture operating company to meet up with the cash operation requirements of the Joint Venture. The payment is made on monthly basis for each of the financial year. This only applies to the Joint Ventures between NNPC and the Joint Venture Operators.

Payments are made to the Joint Venture Operators both in local and foreign currencies by NNPC on behalf of the Federal Government.

11. Education Tax Fund

Education Tax Fund was created by an Act first in 2003 and then 2004.However the tertiary education tax fund (TETFUND) Act was enacted in 2011 and repealed the previous Acts. It aims at providing funding for Tertiary Institutions in the Country. The fund is provided through Education Tax collected by the Federal Inland Revenue Services (FIRS).

Education Tax is chargeable on assessable profit of petroleum companies at a rate of two percent (2%)

The tax is an allowable deduction in computing an Exploration and Production (E&P) company adjusted profit.

12. Funding of Niger Delta Development Commission

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. It became a parastatal under the Niger Delta ministry which was created in September 2008.

Presently, three percent (3%) Statutory Contribution is required from upstream companies to the NDDC based on their Annual Budget. The Act establishing the NDDC provides that in addition to monies from the Federal Government, it has to be funded by annual contributions of the total budget of any oil producing company, operating on-shore and off-shore in the Niger Delta area of the country. Contributions are made in both foreign and local currencies to the commission.

13. Funding of Nigerian Content Development and Monitoring Board (NCDMB)

The Nigerian Content Development and Monitoring Board is the Regulatory Agency vested with the responsibility of regulating local content in the oil and gas industry in Nigeria. The Board was established by the Nigeria Oil and Gas Development Act which applies to all operators in Nigeria Oil and Gas Industry, including Exploration and Production and Services Companies.

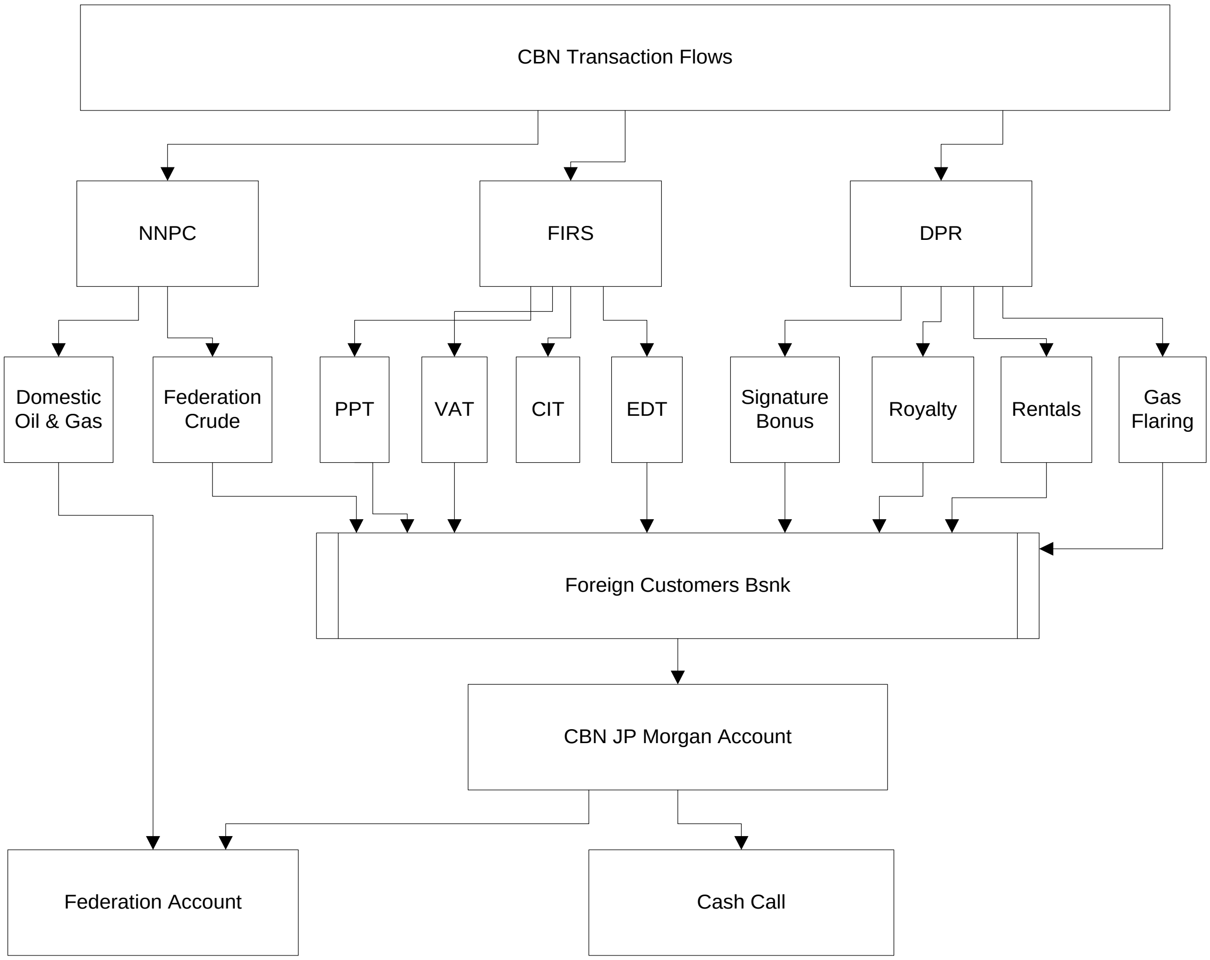
The board is funded by the Federal Government of Nigeria and by the Upstream Companies through remittance of one percent (1%) Statutory deductions from any contract awarded to any operator, contractors, sub-contractors, alliance partners or any other entity in any project operation activity in any transactions in the upstream sector of the Industry.

9.3.2 Central Bank of Nigeria (CBN) Financial Transaction Flows

The Central Bank of Nigeria has full responsibility for the custody of Federal Government Fund and is the Supreme Monetary Authority in Nigeria. It issues Nigerian naira currency, maintains foreign currency reserves and is charged with the responsibility for maintaining monetary stability. It is also the lender of last resort for Nigeria banks. It was established by law in 1958. 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 it is mandated to act as banker and financial adviser to the government.

The financial transaction flow can be seen in the diagram below:

Figure 9.3.2: CBN Financial Transaction Flows



9.3.3 Methodology for Pricing of Federation Equity Crude

Crude pricing in Nigeria like most African countries is benchmarked against the Dated Brent as a reference price for buyers and sellers of Crude Oil. Dated Brent or *Platts Dated Brent* as a reference crude is the recognized barometer of global sweet crude oil economics and is widely used as a key macro indicator for global economic growth. It is a widely accepted benchmark price assessment of spot market value of physical cargoes of North Sea light sweet crude oil and increasingly being used to determine the value of sweet crude in West Africa, the Mediterranean, South and Latin America, Canada and North America, Central Asia and in Russia. More than 60% of the world's internationally traded crude oil is priced against Dated Brent.

9.3.4 Crude Oil Marketing Division (COMD) of the NNPC

The NNPC-COMD markets crude oil on behalf of, and for the accounts of the Federation, DPR, FIRS, PPMC, Third Party Finance, Carry Agreements (CAs), Modified Carry Agreements MCAs), Trial Marketing Period (TMP) and NPDC respectively. In order to effectively discharge its responsibilities and functions, the NNPC-COMD operates through its four (4) Departments:

- Crude Oil Stock Management (COSM)
- Shipping and Terminal (S&T)
- Commercial
- Revenue and Accounts

Each of the above departments has various Units to ensure effective discharge of its assigned tasks.

9.3.4.1 International price monitors

In carrying out its crude Oil and Gas marketing functions, the COMD carries out wide research and relies on reports and publications from the following international crude oil market price monitors:

- Platt's Crude Oil Market wire
- Petroleum Argus Report
- London Oil Report (LOR) – West Africa - Crude Oil. (now ICIS).

The above agencies publish crude oil markets and price reports, based on extensive research, for the various crude oil grades sold across the world.

9.3.4.2 NNPC crude oil and gas pricing options

The NNPC – COMD has adopted three pricing options for the sale of crude oil to its customers. These pricing options are:

- ***Prompt Option***
- ***Advanced Option***
- ***Deferred Option***

Each of the above pricing options is based on average of five days Dated Brent quotation from the Bill of lading (B/L) date. A buyer is granted the right to choose one of the three pricing options to determine the value of crude oil purchase from Nigeria irrespective of the destination of the cargo around the world. However, where a buyer declines to choose any of the pricing options, such buyer is said to have defaulted and NNPC will apply the Prompt Option price automatically (by default) to determine the value of the crude oil cargo. The Commercial

Department of NNPC-COMD computes and determines the applicable price and value under option picked by the customer (or the Prompt Option by default) for purpose of invoicing the customer concerned. The valuation of the cargo, based on the chosen pricing option, is communicated in writing to the customer by the Commercial Department of COMD, who also advises the NNPC-FAD to Bill the customer accordingly.

Tables 9.3.4.2A, 9.3.4.2B and **9.3.4.2C** below provide illustrations on how the three pricing options operate in reality. The month of July 2012 has been chosen here for purpose of explanation only.

Table 9.3.4.2A: The Prompt/Default Pricing Option

Day of month	Transaction days/Public Holidays	Pricing process explanations
July 4	Bill of Lading Date	**4th July, 2012:** Date of Bill of Lading
July 5	Platt's dated Brent Price Quotation Publishing Day – Day 1	**5th July 2012:** First day of the 5 working days.
July 6	Price publishing Day 2 –	Platt's Dated Brent price quotation for this day is considered in the pricing equation
July 7	Saturday – Non-working day	No price quotation by Platts
July 8	Sunday- Non-working day	No price quotation by Platts
July 9	Bank Holiday (UK)	No price quotation by Platts. (Applicable to the UK only).
July 10	Price Publishing day 3	Platt's Dated Brent price quotation for this day is considered in the pricing equation
July 11	Price Publishing day 4	Platt's Dated Brent price quotation for this day is considered in the pricing equation
July 12	Price Publishing day 5	Final day of the 5 working day count.

Setting the Price under the Prompt Pricing Option

For the Prompt Pricing Option, the pricing period as illustrated above shall be the five (5) consecutive published quotations of Platt's Dated Brent prices AFTER the Bill of Lading date with the Bill of Lading date as Day zero(0) and applying the following pricing formula below:

OSP = DTB ± D + P
Where:
DTB = Ave. Dated Brent five days quotations after B/L date
D = Platts' Published **Differentials** advised by NNPC
P **= Premium** for Deffered/Advance pricing option

The Differentials refer to the value variance between the Nigeria crude grade and the benchmark crude BFOE (Brent-Fortis-Oseburg-Ekofisk i.e. Dated Brent reference crude, (taking into consideration such factors like Quality variance, parcel Size, freight costs, operations and yield pattern of the Nigeria crude). The Differential may be Positive (Premium) or Negative (Discount), depending on the established quality grade of the Nigeria crude.

The Premium is a token charged by the NNPC as compensation for the opportunity offered the customer to elect to choose either the Advanced or the Deferred Pricing Option.

Table 9.3.4.2B: Advanced Pricing Option

Day of month	Transaction days/Public Holidays	Pricing process explanations
July 4	Platt's dated Brent Price Quotation Publishing Day – Day 1	**4th July, 2012:** First day of the 5 working days.
July 5	Price publishing Day 2	Platt's Dated Brent price quotation for this day is considered
July 6	Price publishing Day 3	Platt's Dated Brent price quotation for this day is considered
July 7	Saturday – Non-working day	No price quotation by Platts
July 8	Sunday- Non-working day	No price quotation by Platts
July 9	Bank Holiday (UK)	No price quotation by Platts. Applicable to the UK only.
July 10	Price Publishing day 4	July 10 becomes the 4th day in the pricing

		equation
July 11	Price Publishing day 5	July 11 is the final day publishing day under the advanced pricing equation
July 12	Bill of Lading date	Date on Bill of Lading (B/L).

Setting the Price under the Advanced Pricing Option

Under the Advanced pricing option as illustrated above, the pricing period shall be five (5) consecutive published quotations, with the fifth day BEFORE the Bill of Lading day as Day one. That is to say the Bill of Lading day is Day six; again, applying the following pricing formula:

OSP = DTB ± D + P
Where:
DTB = Ave. Dated Brent five days quotations after B/L date
D = Platts' Published **Differentials** advised by NNPC
P = **Premium** for differed/advance pricing options by NNPC.

In this scenario, the Premium compensation to NNPC will apply as the customer is granted the opportunity to choose the advanced pricing option which provides the customer an opportunity for possible additional profit margin on the lifted cargo.

Table 9.3.4.2C: Deferred Pricing Option

Day of month	Transaction days/Public Holidays	Pricing process explanations
July 4	Bill of Lading date	Date on Bill of Lading (B/L) or final lifting day when the nozzle is unplugged from the vessel
July 5	1st non-counting working day	Deferred day 1
July 6	2nd non-counting working day	Deferred day 2
July 7	Saturday – Non-working day	No price quotation by Platts
July 8	Sunday- Non-working day	No price quotation by Platts
July 9	Bank Holiday (UK)	No price quotation by Platts. (UK only).
July 10	3rd non-counting day	Deferred day 3
July 11	4th non-counting day	Deferred day 4

July 12	5th non-counting day	Deferred day 5
July 13	Platt's dated Brent Price Publishing Day – Day 1	**13th July, 2012:** First day of the 5 Platts quotation publishing days.
July 14	Saturday	No Publishing of prices by Platts
July 15	Sunday	No publishing of Prices by Platts
July 16	Day 2 published prices	Published prices used in pricing equation.
July 17	Day 3 published prices	Published prices used in pricing equation.
July 18	Day 4 published prices	Published prices used in pricing equation.
July 19	Day 5 Published prices	Published prices used in pricing equation.

Setting the Price under the Deferred Pricing Option

Under the Deferred pricing Option as illustrated above, the pricing period shall be five consecutive published quotations, with the sixth quotation day AFTER the Bill of Lading date as day one. In effect the price to be paid for the lifting is deferred into future.

Again applying the following pricing formula:

OSP = DTB ± D + P
Where:
DTB = Ave. Dated Brent five days quotations after B/L date
D = Platts' Published **Differentials** advised by NNPC
P **= Premium** for deferred/advance pricing options by NNPC.

Also in this scenario, the Premium charged by the NNPC will apply as the customer is allowed to choose the deferred pricing option. Note that in either Advanced or Deferred Pricing Option, the customer is taking a risk that may or may not work in his favour at the end of the day as there is no certainty that the market fundamentals will work out as anticipated by the customer.

Presented in **Appendix 9.3.4.2A** to this report are the Platt's Dated Brent benchmark prices applicable for 2012 together with the published Differentials. **Appendix 9.3.4.2B** is a summary of the published Differentials by **ICIS** while **Appendix 9.3.4.2C** is a summary of Nigeria crude differentials as published by **ARGUS**.

The Research Unit of NNPC-COMD studies these published differentials but relies more on the Platts data as it has global acceptance.

The Official Selling Price (OSP) report summarizing the crude type, basis of valuation, the Differentials for crude type, and the pricing options are published on monthly basis by NNPC and advised to all concerned in the value chain.

Appendix 9.3.4.2D is a summary of the monthly Official Selling Price (OSP) as published and advised by NNPC for 2012 crude oil liftings.

It should be noted that where the customer elects to choose the Prompt pricing Option, the premium charge does not apply.

General observations on the pricing methodology

1 NNPC adopted three pricing options for the pricing of any crude cargo sold to Buyers who are under contract with the NNPC in accordance with the Sale and Purchase Agreement entered into with the Corporation.

2 Each Buyer (Off taker) was at liberty to select any of the three options and has six (6) working days within which to communicate the preferred pricing option to NNPC-COMD. Where the Buyer fails to choose a pricing option, NNPC applies the Prompt option by default. The pricing options are more of marketing significance and none has a permanent advantage over the others in terms of revenue accruable to the federation account.

3 The Official Selling Prices (OSP) published monthly by NNPC-COMD for sale of Nigeria's crude are normally based on a five- working day average of the Dated Brent prices, with necessary adjustments (plus or minus) for the quality grade of the Nigerian crude oil and the pricing option selected by the Buyer.

4 Crude differentials have been established and published by international crude oil and gas price monitoring and reporting organizations in reports available in the public domain – **Platt's Crude Oil Market wire; Petroleum Argus Report** and **London Oil Report (LOR)** – **West Africa - Crude Oil (now ICIS)**.

5 Off-takers are granted 30 days credit period within which to settle their crude oil bills while NNPC is granted 90 days.

6 NNPC acts as agent to and sells crude oil on behalf of the Federation but NNPC is also a customer for Nigeria's Crude oil and sells crude oil for domestic refining to itself through one of its subsidiaries – PPMC.

7 It is noted that whereas there are executed Sales and Purchase Agreement (SPAs) between NNPC and the other crude oil customers, there is no contract in place for the crude oil sales to NNPC-PPMC for domestic use.

9.3.4.3 Results of the compliance and consistency tests on the application of pricing methodology by NNPC-COMD

Compliance test carried out on the application of the three pricing options and also comparing the Official Selling Prices (OSP) published by NNPC-COMD for crude oil sales transactions during the year against the Dated Brent Market Wire prices for the same period revealed that in some instances, the OSP was slightly higher than the Dated Brent prices while in other instances the OSP was lower than the Dated Brent prices.

The overall result from the comparison test indicates that the Dated Brent prices are slightly better than the OSP. In view of the above, it is important that NNPC –COMD should carry out a review of the pricing model and set a price differential tolerance limit between the OSP and the Benchmark prices, taking into consideration the Nigerian crude oil quality grading as published by **Platts** and the other price monitoring agencies like **ICIS** and **Argus**.

Presented in **Appendix 9.3.4.3A** is the schedule containing the samples of crude oil sales invoices tested and the result obtained therefrom.

Observations:

- Results of the consistency tests carried out on the application of NNPC's pricing Methodology on 161 sampled domestic sales transactions (161 is 75% of total population) indicates that the pricing methodology was consistently applied on crude sales except for 7 out of the 161 (4%) sampled domestic crude oil transactions that failed the test (**Appendix 9.3.4.3B**) and this resulted in a shortfall of **1.344billion naira** from the seven transactions. NNPC's position had been that the corporation pays for domestic Crude but the fact that NNPC is also the price setter, punctures the argument.
- It is noted that a significant portion of the crude oil sold to NNPC for local refining is either re-exported for the account of NNPC or sent abroad for crude swaps; products exchange or offshore processing under Offshore Processing Agreements (OPAs) and SWAP arrangements entered into with some foreign refineries. Huge losses were recorded by NNPC in previous audits as well as in the current audit as analysed in chapter 8, section 4 of this report.
- NNPC does not strictly adhere to the 90 days credit period as we observed that payments were made without due regard to the credit period allowed.

Implications and Recommendations

- An unnecessary advantage is conferred on NNPC as NNPC hardly pays for crude liftings within the stipulated 90days whereas the corporation's off-takers pay within 30days as noted in (e) above. The implication also is that funds are unduly tied down with the

NNPC. NNPC should be made to pay within the stipulated period of 30days given other Off-takers.

The losses from domestic crude transactions are huge when the **N1.344billion** above is added to the **N37.429billion** reported on Product Importation Arrangements (chapter 8 section 4.2). This further confirms the need to limit domestic crude allocation to what the local Refineries can process.

9.4 Production Measurement/Metering Infrastructure - Upstream

9.4.1 Introduction

An accurate bulk liquid measurement in the Nigeria Oil and Gas Industry is very important in ascertaining fiscal value of hydrocarbon products. Products are transported over hundreds of kilometres and custody transfers do occur more than ones between the well head and the end user. There are a lot of instances where measurements do not match and these sometimes result in huge losses. An improved measurement and metering system will therefore improve hydrocarbon flow records, ease reconciliations, and also enhance transparency and accountability in the sector, in line with the core objectives of EITI.

This report is on the status of Measurement Systems in the Nigeria Oil and Gas Industry. It is the result of an assessment carried out with the objective of ascertaining sector progress in the designing and implementation of enhanced measurement arrangements with particular reference to progress made in the Industry between last audit cycle and the current Audit while drawing on the observations made in the previous audit report. The review of physical balances covers measurement system in both downstream and upstream operations viz:

- Physical Balance – Offshore
- Physical Balance – Onshore
- Physical Balance - Gas Flows
- Physical Balance – Downstream
- Physical and Financial Flows interface Volumetric appropriation and its translation into Financial Flows

The Two (2) independent measurements required for Physical Reconciliation were also considered.

1. The Terminal Operators measure “IN” and “OUT” of the terminals
    - And keep track of which entity owns what.
    - “OUT” is measured to fiscal standards
2. The Field Operators measure at Gathering stations
    - not to fiscal standards

- Gross production (oil + water + + +)
- and carry out periodic Well tests

The Field Operators (often) report field production using RF Factors, back-calculated from Fiscal Meters.

9.4.2 Physical Flow Schematics

The systems flow for each of the physical balances and their peculiarities are shown in the schematics below:

Figure 9.4.2A: Physical Balance Offshore

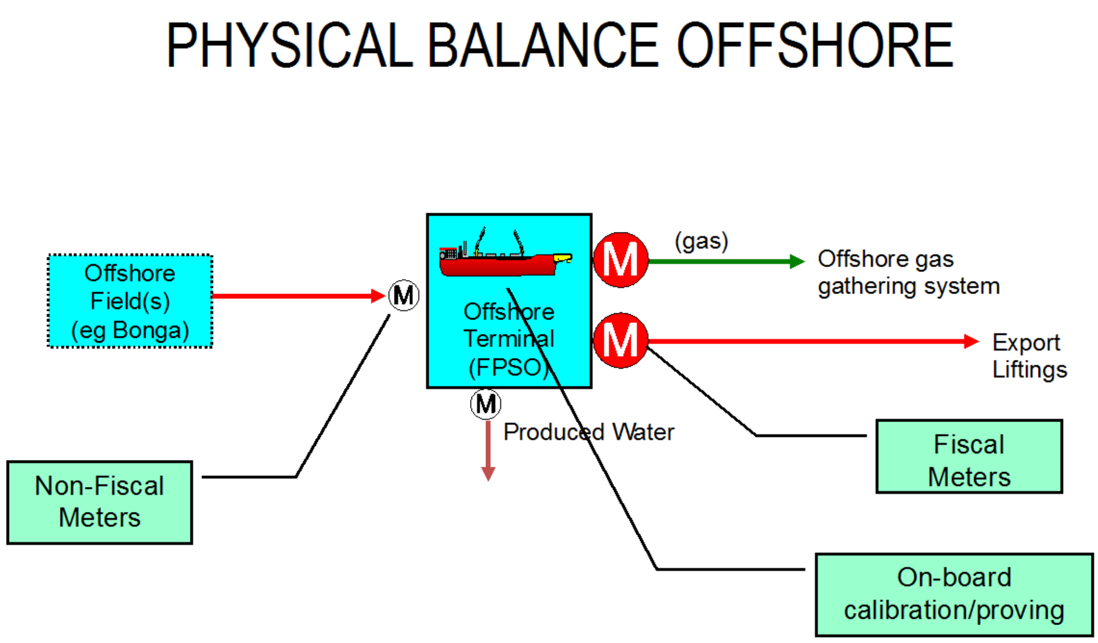


Figure 9.4.2B: Physical Balance Onshore

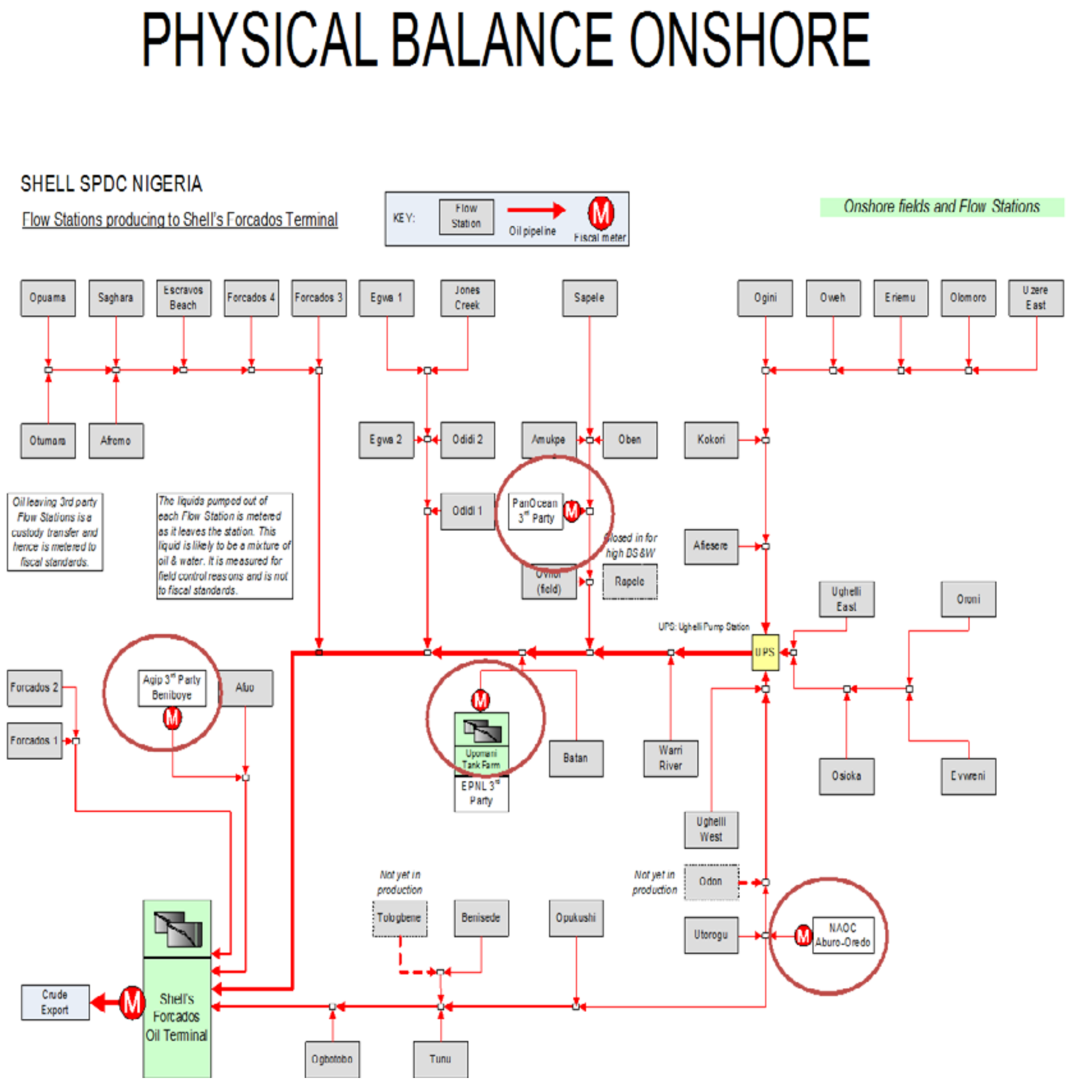


Figure 9.4.2C: Physical Balance Downstream

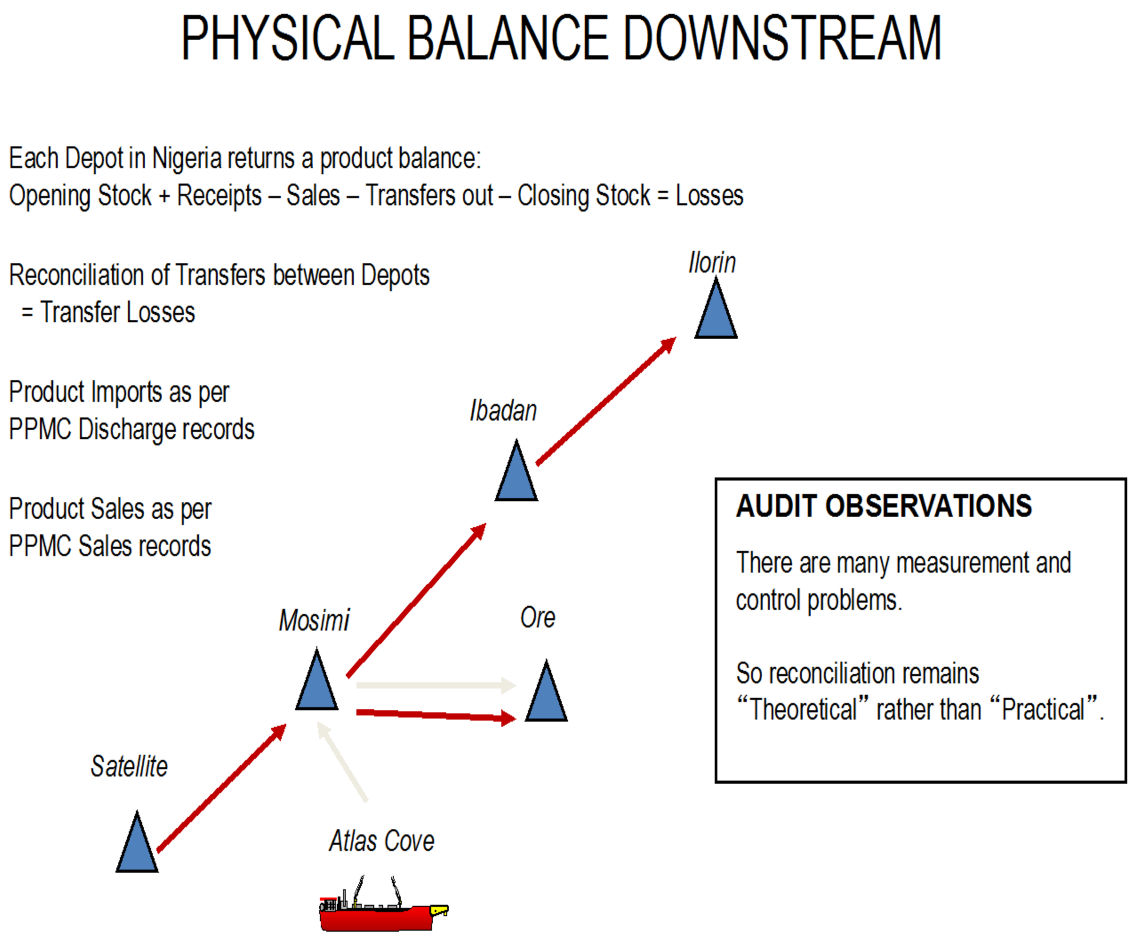
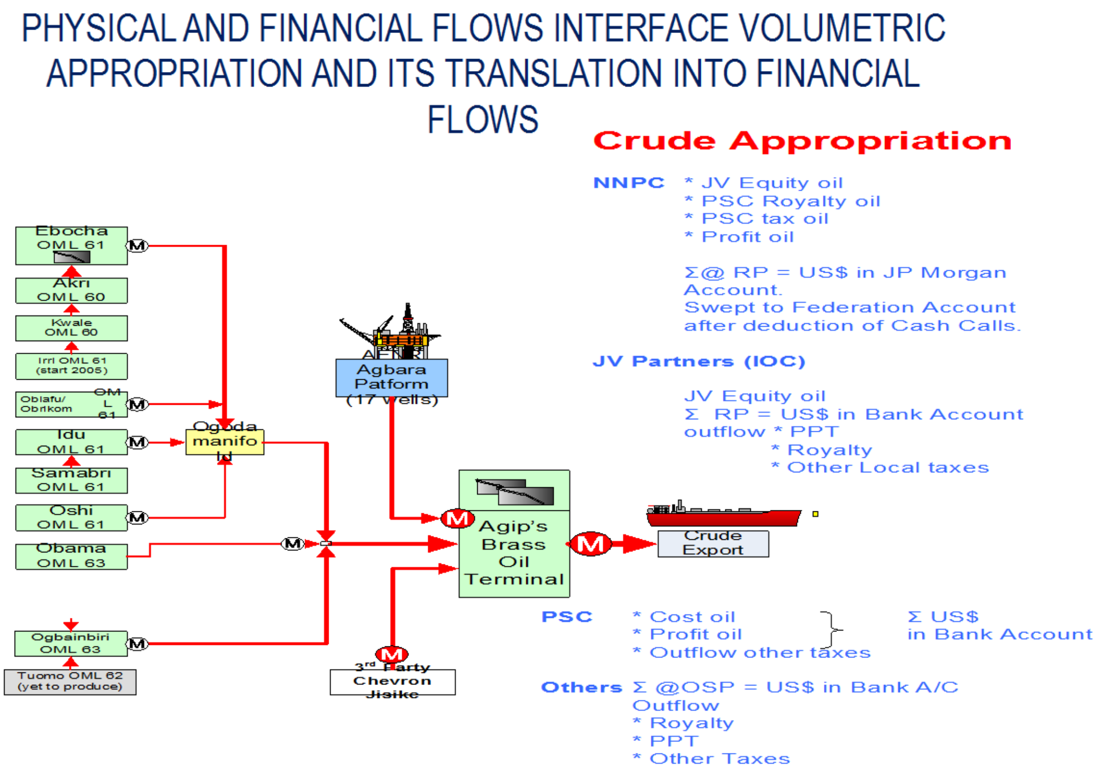


Figure 9.4.2D: Physical and Financial Flows Interface



9.4.3 Physical Inspections and Assessment

The field review covered the following critical tasks in the field measurement and metering infrastructures:

- Assessment of the measurement facilities and metering systems
- Checking system statuses
- Identification of system changes / upgrade
- Check quality of control measures.

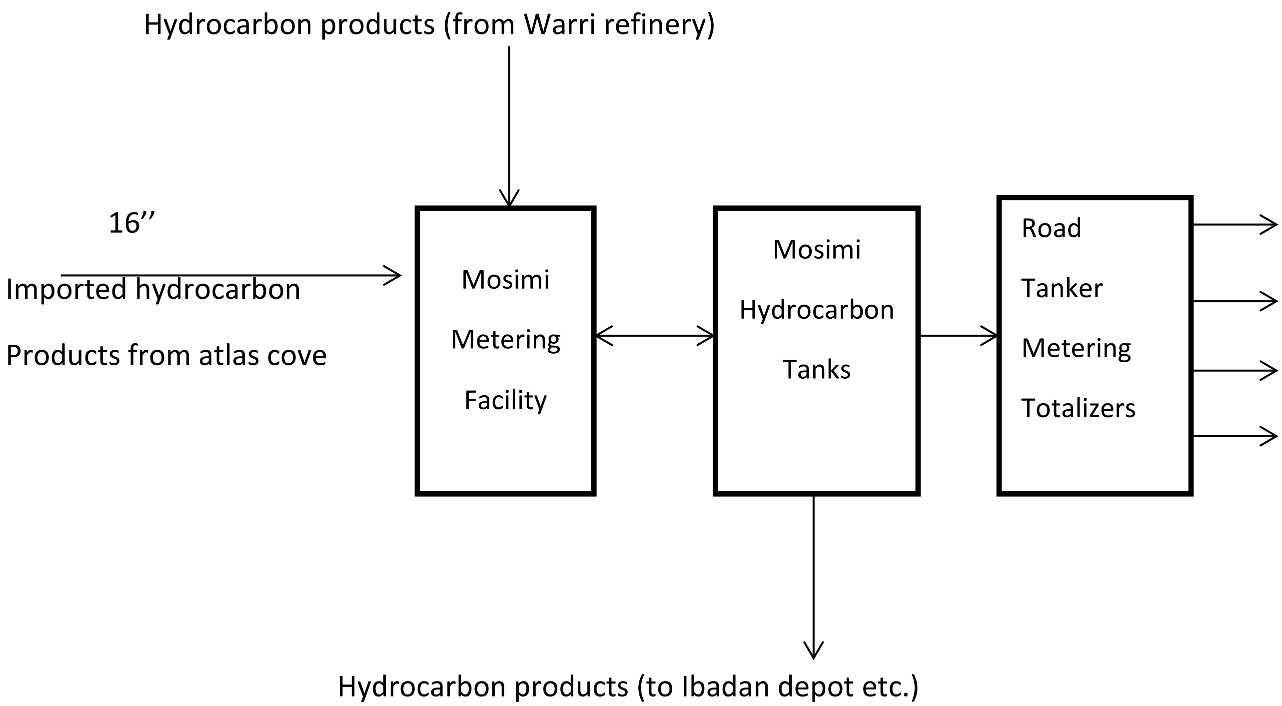
The facilities visited as reported in the last audit exercise were the same ones visited for the purposes of comparison. Below are the Oil and Gas infrastructure facilities visited and their flow schematics are shown in figures 9.4.3A, 9.4.3B, 9.4.3C, 9.4.3D and 9.4.3E.

I. Pipelines And Products Marketing Company Ltd (PPMC) Depots at Mosimi, PPMC jetty and Atlas Cove
II. Nigerian Gas Company Ltd (NGC) metering station at Egbin,
III. Shell Development Company of Nigeria (SPDC) Terminal, Forcados
IV. Chevron Terminal, Escravos

PPMC Depot, Mosimi

1. **System Description**
   Mosimi Depot forms part of an integrated network of pipelines that receives imported and locally refined fuel from Atlas Cove Jetty and Warri refinery respectively. The Depot distributes white fuels through pipelines to other depots and also through road tankers to filling stations.

Figure 9.4.3A: PPMC Depot Mosimi



2. **System Status**
   The system was completely shut down currently because of major vandalization on its trunk pipeline at Arekpo village. This was the situation as at the last audit report.

3. **Metering**
   Ultrasonic metering facility is in use at this depot and it is calibrated annually. In our view, it is not reliable and needs to be replaced with turbine meters.

4. **Tank Farm**
   It has seventeen tanks. There is need to install automatic radar gauge in the tanks.

5. **Laboratory**
   The laboratory and loading bay were inactive during our visit.

6. **Recommendation**

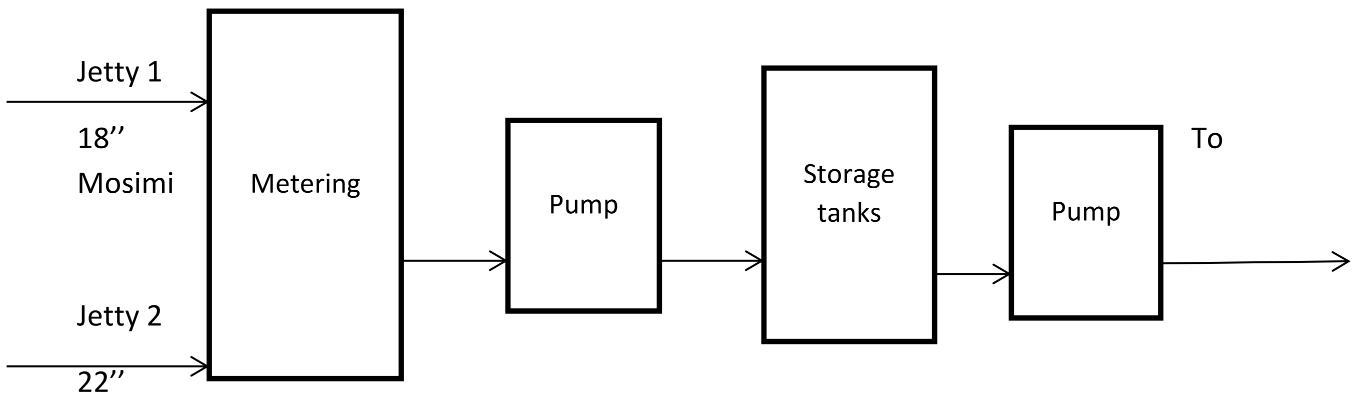
PPMC should address the frequent systems pipeline vandalization and security seriously, improve record keeping and install automatic tank gauges in their tanks.

PPMC Jetty, Atlas Cove

1. **System Description**

PPMC jetty, Atlas cove is the main jetty where imported fuels are received, stored, discharged, measured and pumped through pipelines to inland depots for delivery to filling stations.

Figure 9.4.3B PPMC Jetty, Atlas Cove



2. **System Status**

The jetty was on complete shut down when the team visited because of serious vandalization of its downstream pipeline system.

3. **System Metering**

Atlas cove has ultrasonic metering facility installation managed by Julius Berger Plc. This facility was not in operation because there was no discharging of products from the vessels.

4. **Tank Farm/Laboratory**

There are eight tanks in the jetty and gauging is manual. One new tank was under construction during our visit. The laboratory needs a revamp.

5. **Recommendation**

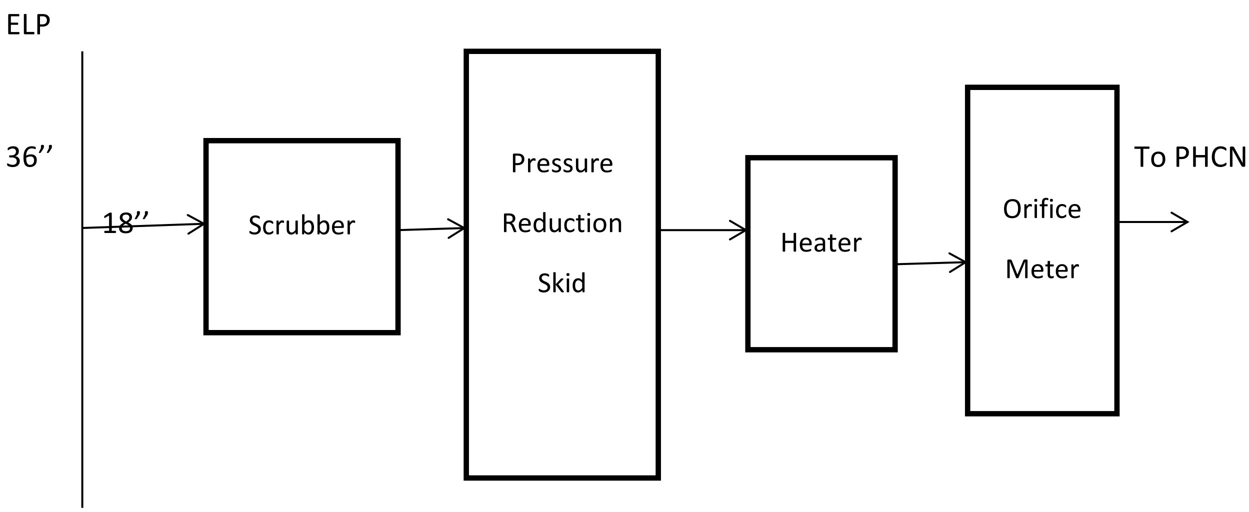
PPMC should improve system security, install turbine facility metering in the jetty, conduct regular meter calibration, and improve on the quality and number of manpower in the laboratory.

NGC Metering Station, Egbin

1. System Description

NGC gets its natural gas supply from its Escravos –Lagos pipeline systems (ELP), processes the gas, meters it and distributes to Power Holding Company of Nigeria (PHCN) power plant at EGBIN.

Figure 9.4.3C: NGC Metering Station Egbin



2. System Status

The system is working well as gas supply to PHCN's plant was normal. All the station's major equipment, which includes scrubbers, heaters, reduction units, control room and metering facility were working optimally during our visit,

3. Orifice Metering Facility

Egbin metering station uses orifice-metering device for measurement of gas that is transmitted to PHCN power plant. This system is of international standard and it is working well.

4. Recommendation

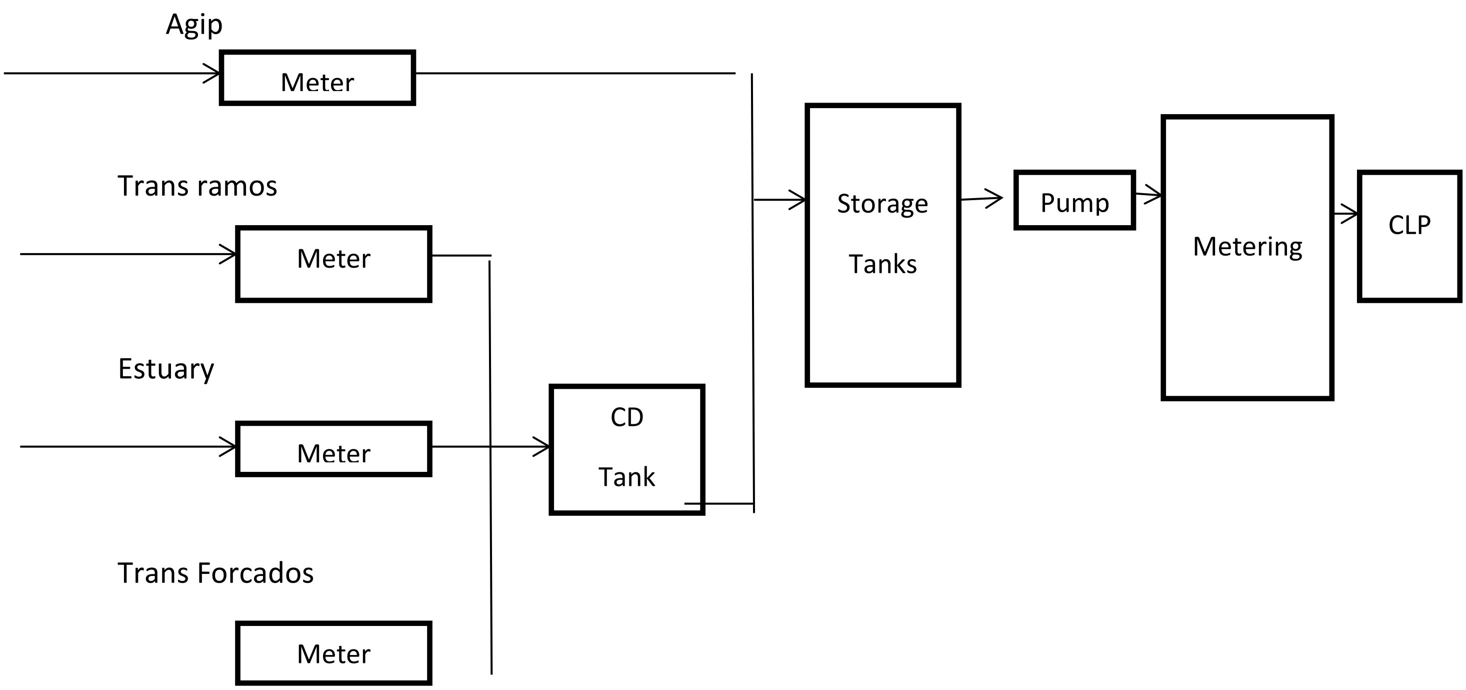
NGC should install an online gas chromatograph to continuously monitor the gas quality that is delivered to PHCN.

SPDC Terminal, Forcados

1. **System Description**

   SPDC oil production in the western zone is transported through pipelines to the terminal where it is treated, stored, measured and exported through large oil tankers. Agip also uses this Terminal for some of its western oil production.

Figure 9.4.3D: SPDC Terminal Forcados



2. **System Status**

   The system is working well as loading activity has been on smoothly during the period 2012.

3. **Control Room, Tank Farm and Laboratory**

   The control room, laboratory and tank farm are working well. The control room and the laboratory are well equipped and manned by competent staff. There are ten tanks in the terminal and the installed radar gauges are working well.

4. **Metering**

   The crude oil supply into the terminal is metered through ultrasonic metering facility, which has not been commissioned many years after installation because of its reliability. However, the sales lines are equipped with positive displacement (PD) meters, which are working.

5. **Recommendation**

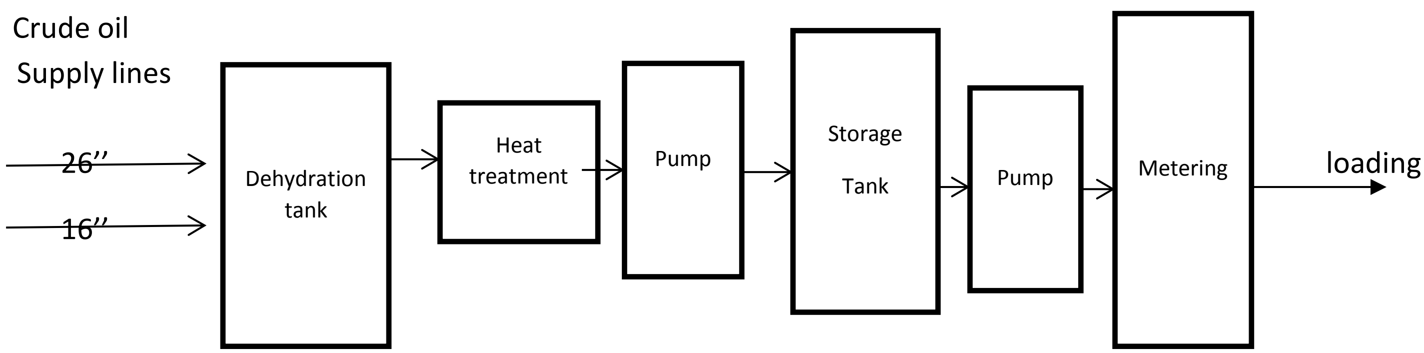
SPDC should install PD meters to replace the inlet ultrasonic meters, install auto sampler on the sales line and conduct regular meter proving before each loading.

Chevron Terminal, Escravos

1. **System Description**

Chevron's crude oil production and a few of the marginal field operators' productions are transported through pipelines to Escravos terminal where the oil is dehydrated, heated, stored, gauged and metered for export.

Figure 9.4.3E: Diagrammatic representation of flow systems at Chevron Terminal



2. **System Status**

The system is working efficiently.

3. **Control Room**

The control room is well equipped and manned by competent staff.

4. **Laboratory**

It is highly sophisticated and all relevant crude oil parameters are analyzed there.

5. **Tank Farm**

Escravos tank farm has a total of eleven tanks that are well maintained. The tanks are properly equipped with automatic radar gauges whose results compare favourably with the manual gauge results. The terminal is a world-class system. Crude oil produced from various fields is transported through a twenty-six inch (26") and sixteen inch (16") diameter pipelines to the terminal dehydration tanks where water is removed. The crude oil is treated to improve the quality before it is sent to the storage tanks and gauged to know the quantity.

6. **Metering**

   No metering of incoming crude oil from the flow stations, however, four positive displacement (PD) meter runs are all installed on the export delivery lines. These meters are provided before every loading in the presence of DPR and ship owners.

7. **Recommendation**

   Chevron should reintroduce pigging of their delivery lines and install an inlet metering facility to measure the production from the flow stations.

9.4.4 General observations and recommendations

Observation

Reports of our field visits and assessments revealed that no remarkable improvements or progress has been made on the implementation of enhanced measurement arrangements for both downstream and upstream hydrocarbon flows.

Recommendations

The recommendations from the last audit reports are yet to be implemented and this include amongst others the following:

- DPRs measurement guideline should be updated, approved and implemented.
- The Weights and Measurement Department of the Federal Ministry of Trade and Investments should be more incisive in its monitoring activities in the oil and gas industry.
- Periodic hydrocarbon mass balance meetings should be held regularly and NEITI should be in attendance. The current practice of reconciling hydrocarbon volumes between covered entities and DPR for 2012 in 2014 is not encouraging.
- Establishment of a national frame work on hydrocarbon measurement.
- Define minimum standards of measurement at each stage of the flow from Wellhead to Terminal (that is to stipulate the uncertainty limits of measuring equipment; the "level of proof" that the measurement method is meeting that requirement).
- Define frequency of independent calibration required to provide assurance that the measurements are sufficiently accurate on an on-going basis.
- Define the records to be kept of measurements, meter settings, calibrations and maintenance activities.
- Define the procedure it would require to accept a "new" measurement technology as sufficiently accurate.

- ➢ Define the certified records to be lodged with DPR confirming that meter proving/tank calibration had been/certified and confirming the current meter factors and tank calibration charts.
- ➢ Develop a pilot programme (in addition to the existing national data repository-NDR) for an on-line production reporting tool that would be based on the definitions identified above.
- ➢ Terminal operators should install meters at their incoming trunk lines to serve as back-up for the meters at the tanks and hand dips.
- ➢ There should be an approved standard measurement in the upstream and downstream operations. The acceptable range should be clearly specified in order to minimize inconsistencies in the measurement process.

We strongly recommend the implementation of the suggestions listed above.

9.5 Production Arrangements

Production arrangements in the Nigerian Oil and Gas industry as currently operated is classified into Joint Venture Agreements (JVs), Production Sharing Contracts (PSCs), Marginal Fields/Sole Risk Operations, the Service Contracts and the Modified Carry Agreements (MCA). The diagram below shows the Production (Funding) Arrangements in the Nigerian Oil and Gas industry.

Figure 9.5: Production Arrangements and Contracts

JOINT VENTURE (JV)	• Partnership Between NNPC & IOCs funded by Cash Call • **Production shared on equity basis**
Production sharing and service contracts	• 100% funding by PSC contractors • Production shared based on entitlements • **Crude Allocated for Royalty, Tax, Cost and Profit**
Third Party Financing	• Alternative Funding (Carry & Modification Agreements). • Third party funding. • **Crude Allocation to defray Financing and compensation**
Independents Production	• Sole Risk. • Marginal Fields & Indigenous Producers. • **Crude owned by operators**

Source: NNPC - It must be noted that these arrangements are backed by legislations or Federal Government approvals and all contribute to total Nigeria daily crude oil production

Details of each of the above Production Arrangements are presented as follows:

9.5.1 Joint Venture Agreements

This type of contractual arrangement in the Oil and Gas Industry is usually governed by a contract known as the Joint Operating Agreement (JOA). In Nigeria, the JOA contains the following:

a) Scope of JOAs
b) Percentage Interest of the Parties
c) Selection and Appointment of the Operator
d) Duties of the Operator
e) The formation and membership of the Management Committee teams - the operating committee, the technical committee, and various sub- committees.
f) The control of Bank Accounts and payment of Cash Calls - Sharing Working Interest Obligations
g) Format and periodicity of financial and technical reports to the non- Operator
h) Nominations for crude oil liftings
i) Audit rights of Parties
j) Liability of the Operator
k) Sole Interest Operations
l) Force Majeure, etc.

9.5.2 Production Sharing Contracts (PSCs)

Production Sharing Contracts are variants of typical participating Joint Ventures. PSCs took root because of the need of the host countries to:

- Exercise sovereignty over exploitation of petroleum resources
- Spread financial risks
- Establishment of secure supply for domestic use
- Development of viable markets for surplus petroleum
- Development of indigenous technical capability and managerial skills
- Maximization of national revenue

Under the Production Sharing Contracts, the oil company undertakes to fund the operations to explore, develop and produce petroleum within a concession area, under an oil prospecting license for a period not longer than 10 years. If the effort is successful, the company will be subject to pay PPT, Royalty and other bonuses to the Government. The company is entitled to recover its costs through 'Cost Oil'. It pays PPT and Royalty through product lift of Cost Oil, Tax Oil and its share of Profit oil usually shared in a pre-determined ratio. PSC frees the Government from financial burden since the company sources the entire fund. The lists of Production Sharing Operators in 2012 are as contained in **3.4.2** above.

9.5.3 The Service Contract

Service Contract is a risk contract adapted from the Production Sharing Contract. The primary term covering the exploration period is usually five years or for a shorter period, and is renewable for another two years. If there is no commercial discovery during this period, the contract terminates with no obligations on either party. In the event of a commercial discovery, provisions are made as to how the contractor would be remunerated. Each Service Contract covers a single contract area, and there is no provision for carrying over expenses incurred in one block as unrecovered costs onto another block.

The Government/NNPC signed Service Contract Agreements with three companies in 1979, and only that of AGIP ENERGY survives till date.

In a Service Contract, the company is just a contractor. The concession area is held in the name of the Government, through NNPC. The company works on behalf of Government and is paid in cash for its cost plus some interest. An example is the Service Contract between Government and Agip Energy and Natural Resources in the Agbara fields. This type of Contract is not popular with oil companies because the Government does not meet its financial obligations on a timely basis. An agreement was, however, reached to pay Agip Energy with crude oil, after its cost has been verified through an audit by NNPC and a certificate issued to that effect.

9.5.4 Marginal Fields/Sole Risk

Due to persistent pressure on the Federal Government of Nigeria to encourage and increase indigenous participation in the Oil and Gas Industry, the Federal Government reallocates marginal fields hitherto held by multinational oil companies to indigenous concession holders. To achieve this objective, Government made a rule that all oil companies are mandated to report to DPR, portfolio of all their oil fields known to have some crude oil reserves that has remained unproduced for a period of over ten years.

These fields are reallocated to indigenous operators (List of Operators in 2012 is as shown in **3.4.2** above) as "Marginal Fields". Marginal Fields are subject to a different Royalty, Petroleum Profits Tax and Investment Tax Credit regimes as follows:

Petroleum Profits Tax (PPT)	**50% Flat**
Investment Tax Credit	50% Flat
ROYALTY: graduated as follows for Deep Offshore -	
In areas up to 200 meters of water depth	16.67%
In areas from 201 to 500 meters of water depth	12%

From 501 to 800 meters of water depth	8%
From 801 to 1000 meters of water depth	4%
Areas in excess of 1000 meters of water depth	0%
Royalty rate for Inland Basins is a flat rate of 10%	

9.5.5 Alternative Funding Arrangements under Joint Ventures

9.5.5.1 Modified Carry Agreements (MCAs)

Resulting from the difficulty the NNPC/Government was experiencing in sourcing funds to satisfy its Cash Call obligations on a timely basis, Alternative Funding arrangements were entered into with some Joint Venture companies to provide the funds to enable the running of oil and gas operations of certain fields. These new arrangements are termed Modified Carry Agreements. Under this financing structure, the oil produced from the fields is sold by NNPC and the proceeds deposited into an Escrow Bank Account. Royalty and Petroleum Profits Tax (PPT) are paid to the Federal Inland Revenue Service (FIRS) and the Department of Petroleum Resources (DPR) respectively. The Operator's financial entitlements, which include his share of profit, are also paid from the proceeds. Whatever funds that may remain after the satisfaction of the PPT, Royalty and Operator's entitlements, are later swept into the Federation Account.

9.6 Gas Utilization

9.6.1 Introduction

Nigeria is the 6th largest producer of liquefied petroleum gas (LPG) and the second largest on the African continent. Globally, the country is one of the top 10 countries (ranking in the 7th position) in the world in terms of proven natural gas reserves.

In energy terms, the quantity of natural gas in Nigeria is said to be more than twice the quantity of crude oil. It is estimated that the country’s reserve-production ratio is about 120 years compared to that of crude oil of 42 years.

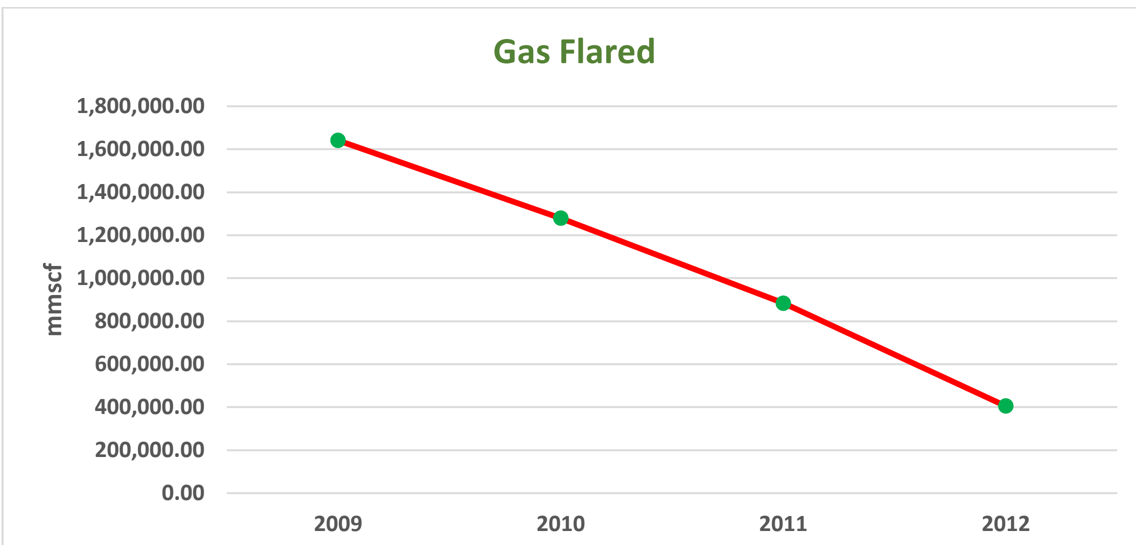
Consequently, petroleum experts often describe Nigeria as a natural gas province with some oil in it. The Niger Delta Basin is primarily designated as an oil province with original proven plus probable oil and condensate reserves found to date of 37 billion barrels. This compares with natural gas reserves found to date of 182 trillion cubic feet (TCF). Overall, Nigeria’s gas stocks are equitably distributed between associated and non-associated.

As an energy resource, the gas industry in Nigeria is highly strategic, not only because of its export capacity but for its domestic capability, especially as a key contributor to electricity generation, as well as for the sustainable growth of other segments of the local market such as cement, steel, fertiliser, methanol, aluminum and the entire industrial sector as a whole.

In spite of the strategic importance of gas to the economy, Gas utilization still remains marginal and exacerbated by lack of affordability and accessibility, which is further intensified by the inadequacy of the policy framework to encourage the required investment in the sector.

Gas utilization from the production point of view consists of Gas used as fuel (internal power generation and system purge), gas reinjection and gas flaring.

Figure 9.6A: Gas Flared



The trend over the years has been that of a steady interest in gas utilization and a decline in gas flaring as shown in the figure above. Gas utilization in Nigeria is for fuel, gas lifting, and feedstock and also for power generation.

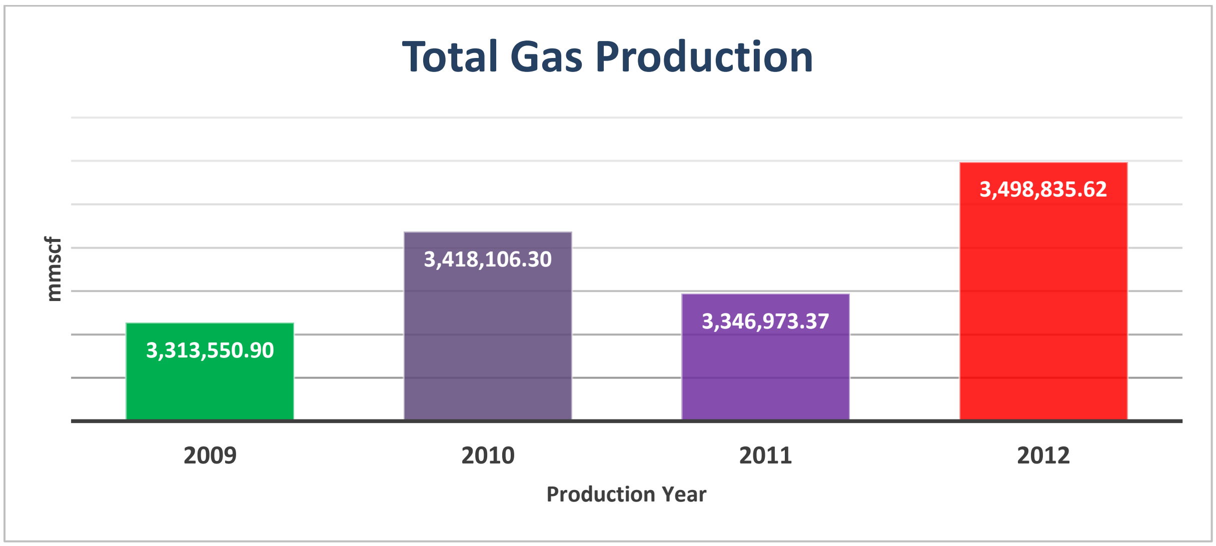
The total gas production and utilization (sales, re-injection/lift and fuel) and flared within this audit period is shown below.

Table 9.6A: Total Gas Production

Usage (mmscf)	2009	2010	2011	2012
A. Total Gas Production	3,313,550.90	3,418,106.30	3,346,973.37	3,498,835.62
Gas Sales	842,515.24	1,265,966.87	1,436,856.29	1,425,598.36
Gas Flared	1,641,516.72	1,279,272.84	884,357.98	405,165.16
Utilised/Fuel Gas	95,997.14	115,738.97	129,329.38	151,202.23
B. Total (Sales, Flared, Utilised/Fuel)	**2,580,029.10**	**2,660,978.68**	**2,450,543.65**	**1,981,965.75**
C. Gas Re-injected **	595,528.02	756,124.53	764,261.90	1,266,556.25
D. Total (B+ C)	3,175,557.12	3,417,103.21	3,214,805.55	3,248,522.00
E. Difference (A-D)	**137,993.78**	**1,003.09**	**132,167.82**	**250,313.62**

Source: Companies Gas Volumetric Flows Template

Figure 9.6B: Total Gas Production



Some companies did not populate Gas Volumetric Flows Template thus the data shown above is incomplete. Such companies include SEPCOL and SEPLAT. The individual company's gas flaring activity in 2012 is shown below:

Table 9.6A: Company-by-Company Gas Production and Utilization

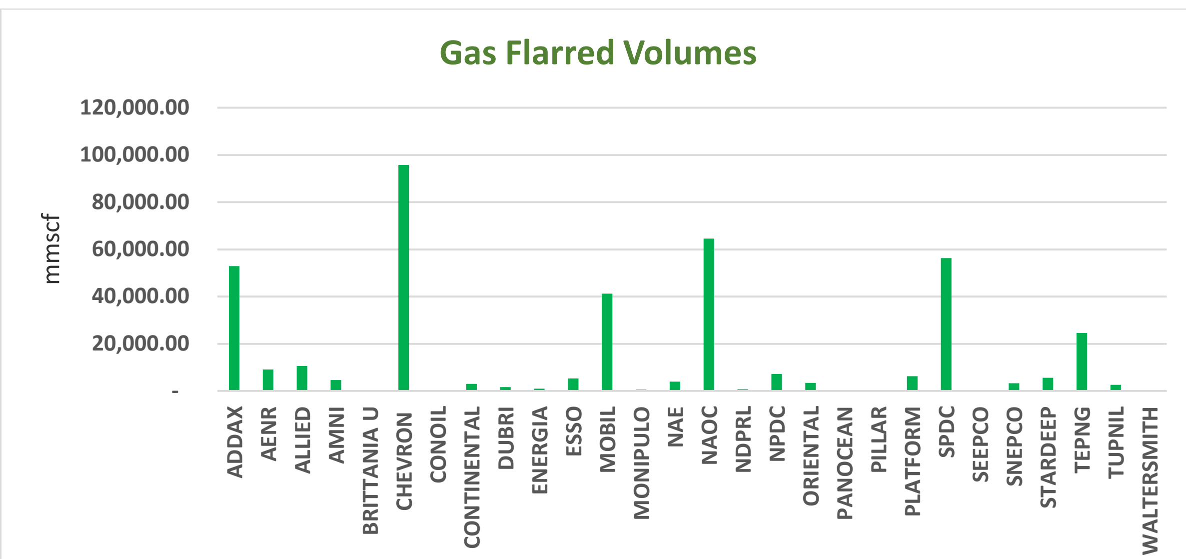
SUMMARY OF GAS PRODUCTION AND UTILIZATION (MMSCF)						
COMPANIES	GAS PRODUCED	UTILIZED/FUEL	REINJECTED	FLARED	SALE	NGL SALES (bbls)
ADDAX	78,221.00	2,844.00	19,811.00	52,902.00		
AENR	9,207.19	69.54		9,137.65		
ALLIED	14,895.64	890.62	3,400.49	10,603.25		
AMNI	5,083.67	190.50	194.97	4,698.20		
BRITTANIA U	497.43	392.71		109.68		
CHEVRON †	266,874.86	25,867.47	37,497.64	95,680.70	119,177.08	4,182,365
CONOIL	217.81			161.44		
CONTINENTAL	3,068.82			2,965.22		
DUBRI	1,708.71	21.14		1,687.56		
ENERGIA	1,361.92	391.75		970.17		
ESSO	138,942.29	7,113.68	126,539.77	5,288.84		
MOBIL	839,508.05	31,851.39	766,397.92	41,258.74		
MONIPULO	619.80	1.89		617.91		
NAE	15,484.17	1,346.41	10,145.32	3,992.44		
NAOC	650,032.92	35,683.46	7,952.03	64,538.86	290,654.22	
NDPRL	1,780.94	35.96		753.87	1,010.47	
NPDC	10,082.16	965.14		7,274.13	1,802.70	
ORIENTAL	3,970.42		549.39	3,421.03		
PANOCEAN	12,048.42	528.62	11,284.26	131.51		
PILLAR	71.22			71.22		
PLATFORM	6,562.32	237.03		6,325.29		
SPDC	846,541.88	15,774.43	23,681.97	56,298.82	742,153.69	
SEEPCO	313.27	232.37	44.40	36.48		
SNEPCO	58,609.36	4,669.54		3,308.00	50,677.13	
STARDEEP	140,263.30	7,524.72	127,100.40	5,638.18		
TEPNG	229,181.46	8,444.49	82,472.23	24,630.37	114,700.06	
TUPNIL	163,551.66	6,125.38	49,349.52	2,663.62	105,423.00	
WALTERSMITH	134.94		134.94			
TOTAL	**3,498,835.62**	**151,202.23**	**1,266,556.25**	**405,165.16**	**1,425,598.36**	**4,182,365.00**

SOURCE: Companies Gas Volumetric Flows Template

†Fuel gas reported includes all Fuel usages and Gas Equivalent of (LPG/NGL/C5+)

†NGL gas equivalent is included in Total Gas Production

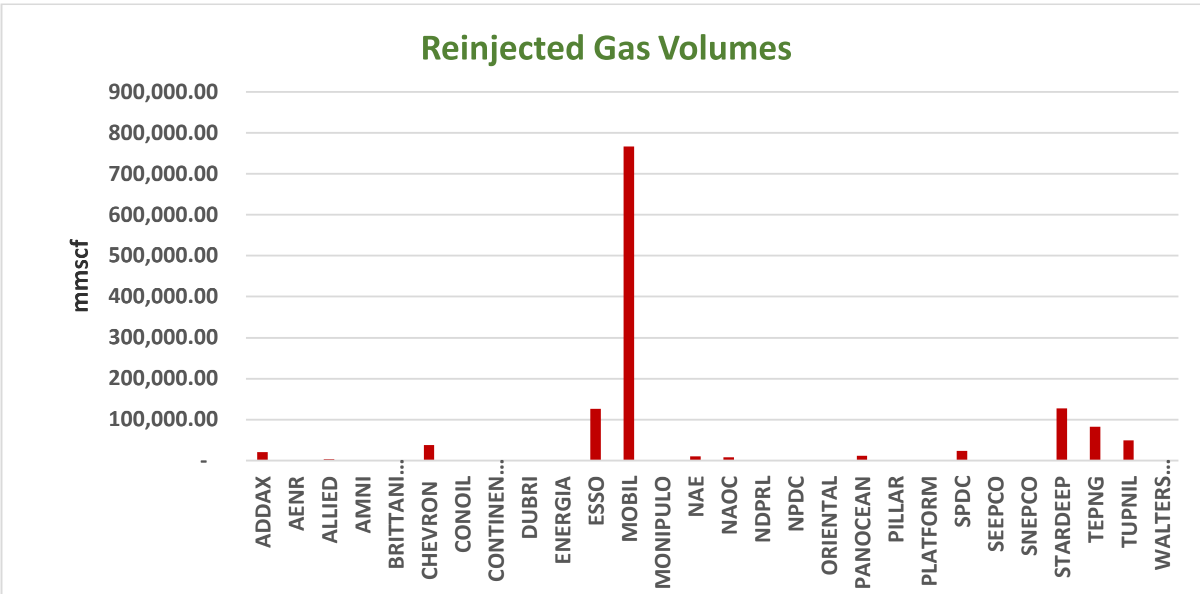
Figure 9.6C: Gas Flared Volumes



From the above chart, Chevron flared the highest volume of gas in 2012, a position that was occupied by NDPRL in 2011. The total volume of gas flared in 2012 is 11.920% as against 26.42% in 2011. This decline in flared gas volume was attained as a result of increased re-injected gas volume.

The Figure below shows companies re-injected gas volumes:

Figure 9.6D: Re-injected Gas Volumes



The overall re-injected volume in 2012 is 1,266,556.25 mmscf which is a 65.72% increase on 2011 re-injected volume of 764,261.90 mmscf.

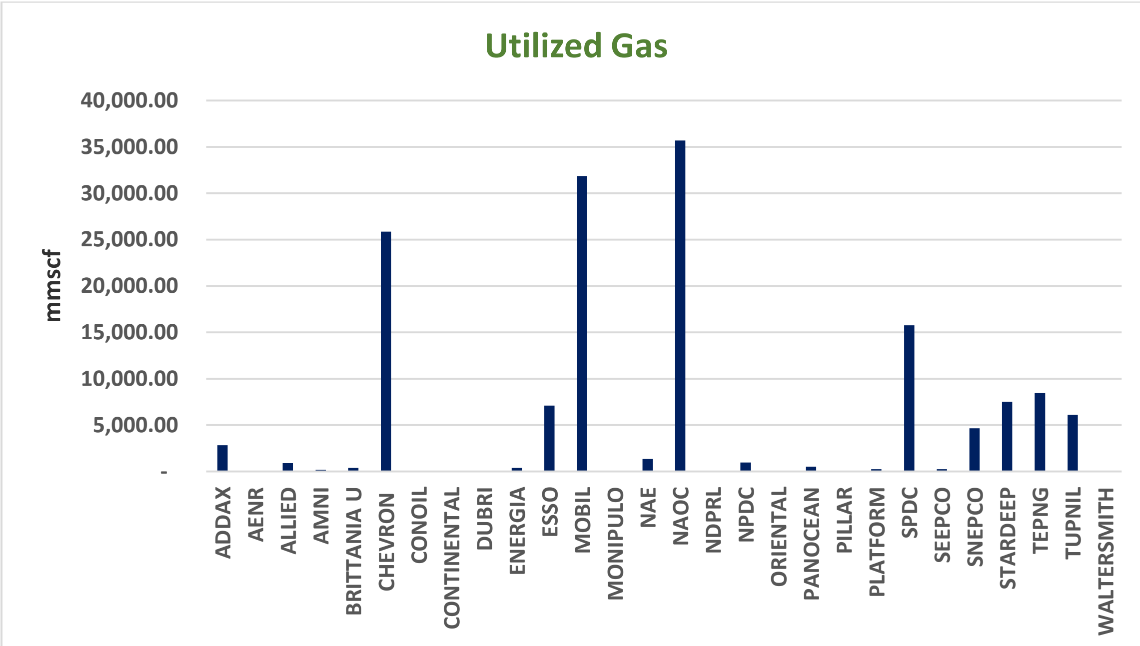
Mobil Producing Nigeria Unlimited (MPNU) re-injected the highest volume of gas in 2012, accounting for 60.51% of the overall re-injected gas volume in 2012.

Gas is re-injected into formation to assist oil production. Some oil reservoirs need gas pressure to push oil to the surface. If this gas pressure depletes, the desired rate of oil production will be affected. To maintain the desired reservoir pressure, the gas is re-injected into the reservoir to assist oil flow to the surface. This gas is not sold or lost, but re-cycled in operation to produce more oil.

Gas is utilized by the producing companies to power plants or as purge gas or both. In installations, you use a gas purge for one or more of these reasons;

- to make a system inert (safety)
- to prepare for production or as part of a product change
- to cool a system down
- to put out a fire in a system (by driving the oxygen out)

Figure 9.6E: Utilized Gas



There were unaccounted gas volumes as shown in the Gas summary table. A total of 250,313.62 mmscf of gas could not be accounted for. Out of this volume, NAOC reported 145,305.26 mmscf as unaccounted gas.

9.6.1 Government Interest in the Sale of Gas to NLNG

The Joint Venture (JVs) gas production accounted for a huge slice of total production. The top 5 gas producers are the JVs and this include, SPDC (33 percent), Mobil (15 percent), NAOC (18 percent), Chevron (10 percent) and Total E&P (9 percent) while the largest corporate buyers of gas in Nigeria are Nigeria Liquefied Natural Gas Company (NLNG) and the Nigeria Gas Company (NGC).

The NLNG which is a subsidiary of NNPC has long term Gas Supply Agreements (GSAs) with three Joint Ventures for the supply of natural gas (feedgas) to the plant. These JVs are Shell Petroleum Development Company of Nigeria Limited (SPDC), Total Exploration Production Nigeria (TEPNG) and Nigeria Agip Oil Company Limited (NAOC).

Feedgas is produced by the JVs from various concession areas in the Niger Delta, from onshore and offshore fields and supplied to NLNG under a long term Gas Supply Agreement with each JV. The agreements ensure efficient gas supply to the plant throughout the life of the projects.

SPDC-JV is currently supplying feedgas from a number of fields including Gbaran Ubie (with a capacity of 1.2 Bcf/d, which started-up in June 2010), Soku, Bonny (on-shore), Bonga, and EA (off-shore) supply facilities, each receiving gas from a wide range of oil and gas fields.

Additionally, under a special supply arrangement with the SPDC-JV, an indigenous marginal field concessionaire /operator - Niger Delta Petroleum Resources (NDPR) commenced natural gas supply to NLNG in November 2012 from its Ogbelle-Obumeze oil and gas process facilities. At 35mmcf/d, it currently supplies 1 % of NLNG daily feedstock with potential to grow to 100mmscf/d.

The NAOC-JV supplies gas to NLNG from its Obiafu-Obrikom (OB-OB) Integrated Gas Supply centre which receives gas from a wide range of fields including Idu, Akri, Kwale, Irri, Oshie, Tebidaba and Ebocha oil and gas fields.

The TEPNG-JV derives gas supplied to the plant from the on- shore Obite, Ibewa and Obagi fields. Additionally, natural gas rich in liquids is supplied to NLNG from its off-shore Amenam.

In accordance with the terms of reference, we carried out a review of the procedures for the protection of government interest in the sale of gas to NLNG.

9.6.2 Proceeds from NLNG feedstock paid to NNPC

We obtained narrative description from NLNG on processes for feedstock supplies and corroborated findings from the JV operators with supply contracts to NLNG.

Payment for Gas supplies from JVs is made by NLNG directly to the accounts of JV partners in the ratio of their equity holding, into the accounts designated as advised by the individual JV partners.

We confirmed total payment for Export Gas to NNPC by NLNG as **$1,760,908,674.82** in 2012 and this has been traced to NNPC CBN/JP Morgan export gas Account, from which part of the funds are transferred to an escrow account for CIT, Education Tax, Royalty and MCA payments and the balance transferred to the Federation account.

Table 9.6.2: Reconciliation of feedstock transactions between NNPC feedstock sales profile against NLNG payment schedule

RECONCILIATION OF FEEDSTOCK TRANSACTIONS BETWEEEN NNPC FEEDSTOCK SALES PROFILE AGAINST NLNG PAYMENT SCHEDULE		
	$	$
Feedstock Sales to NLNG in 2012 as per NNPC Sales Profile		1,845,369,559.36
SPDC Soku condensate (January - December 2012)		(251,400,432.00)
Credit Note (January - December 2012)		(825,389.34)
SPDC Soku condensate (January - December 2012)		(2,844,970.47)
		1,590,298,767.56
Feedstock sales in December 2012 (NNPC share into CBN/NNPC JP Morgan Gas Revenue Dollar Accoun) not due for payment		(135,002,563.37)
Feedstock sales invoice in November 2012 but paid in January 2013		(21,596,575.52)
Feedstock Sales (part sales) for November 2011 paid into JP Morgan Gas Revenue (Dollar) Account in January 2012		67,312,471.52
Feedstock Sales (part sales) for December 2011 paid into JP Morgan Gas Revenue (Dollar) Account in February 2012		65,851,272.48
NLNG Payment into the CBN/NNPC JP Morgan Gas Revenue (Dollar) Account not related to Feedstock Sales transactions as per NNPC Feedstock Profile in 2012		
SPDC - Invoice: 1800008331	84,545,954.60	
SPDC - Invoice: 8225925.73	8,225,925.73	
TEPNG-Invoice: 150006510	3,906,255.38	
NAOC- Invoice: 120156	4,009,307.01	
TEPNG-Invoice: 150007014	410,648.80	
TEPNG -part ($90,292,439.74 - 44119744.28)	46,172,695.46	
SPDC -part ($136,866,554.08 - 90,092,038.92)	46,774,515.16	194,045,302.14
NLNG Payments traced and Agreed to CBN/NNPC JP Morgan Gas Revenue(Dollar) Account in year 2012		**1,760,908,674.81**
NLNG Payment to NNPC as per NLNG Schedule		**1,760,908,674.81**
Difference		-

Table 9.6.2 above shows the reconciliation of the total amount paid by NLNG as contained in NLNG's template to NNPC's record for the sale of NLNG feedstock in the sum of **$1,845,369, 569.36** for 2012.

9.7 Upstream Mass Balance

9.7.1 Definition of 'Production'

Production is defined as 'the sum of barrels of crude oil extracted each day from drilling operations compounded with the equivalent production of natural gas liquid and refinery gains from domestic or imported petroleum production'.

The United States Energy Information Administration defines 'Crude Production' as "the volume of oil produced from oil reservoir during given periods of time. The amount of such production for a given period is measured as volumes delivered from lease storage tanks. (i.e. the point of custody transfer) to pipelines, trucks, or other media for transport to refineries or terminals with adjustments for-net differences between opening and closing lease inventories, basic sediment and water (BS&W)."

Section 63 of the Nigeria Petroleum (Drilling and Production) Regulations 1969 (as amended) defines 'casing-head petroleum spirit' or 'crude oil production' as any liquid hydrocarbon which:

a. has been obtained from natural separation or by any chemical or physical process, and

b. has not been refined or otherwise treated.

Accurate measurement of crude oil takes place only at transfer of custody. Such fiscal measurement is carried out when oil is sent from an onshore terminal or offshore FPSO or FSO for sale by export or to a Nigerian refinery. There are also fiscal measurements where oil from one party's operation is pumped to an export point via another party's pipeline.

9.7.2 Crude Oil Terminals in Nigeria

The table below shows the various/respective crude oil terminals in Nigeria:

Table 9.7.2: Crude Oil Terminals In Nigeria

Name	Operator	Location	CAPACITY (Barrels)	CRUDE STREAM
Bonny	SPDC	On-shore	5,580,000	Bonny Light
Forcados	SPDC	On-shore	4,600,000	Forcados blend
Escravos	CNL	On-shore	2,223,730	Escravos Light

Escravos (LPG)	CNL	Off-shore	385,000	Gas
Qua Iboe	MPNU	On-shore	4,200,000/2,000,000	Qua Iboe light/Condensate
BRT	MPNU	Onshore	690,000x2/570,000	C1,C2,C3
Oso	MPNU	On-shore		OSO Condensate
Brass	NAOC	On-shore	3,217,000	Brass blend
Anthan	Addax	Knock Adon (Off-shore)	1,040,000	Anthan blend
Okwori	Addax	Sendje Berge (Off-shore)	1,415,726	Okwor1 crude
Ima	Amni	Alisa Kraig (Off-shore)	1,391,265	Ima condensate
Okoro	Amni	Armada Perkasa(Off-shore)	200,000	Okoro crude
Oloibiri	CNL	Pennington (Off-shore)	1,35,000	
Obe *	Cavendish	Crystal Sea*(Off-shore)	212,067	Obe Crude(Not operational)
Ukpokiti	Express/Sepcol/Atl	Trinity Spirit (Off-shore)		
Yoho	MPNU	Falcon(Off-shore)	2,00,000	Yoho Crude
Abo	NAE	Gray Warrior (Offshore)	932,076	Abo Crude
Okono	NPDC/AENR	Mystras (Off-shore)	1,055,000	Okono Crude
EA	SPDC	Sea Eagle (Off-shore)	1,400,000	Sea Eagle Crude

Bonga	SNEPCO	Bonga (Off-shore)	2,000,000	Bonga Crude
Amenam	TEPNG	Unity (Off-shore)	2,418,000	Amenam blend
Akpo	TEPNG	FPSO (Off-shore)	2,000,000	AKPO Condensate
Erha	EEPNL	Erha (Off-shore)	2,220,000	Erha Crude
Agbami	Stardeep	FPSO (Off-shore)	2,200,000	Agbami Crude
Tulja	SEEPCOL	Senge Barge (Offshore)	2,000,000	Okwuibome Crude
OYO	Allied Energy	Off-shore	1,005,000	OYO Crude
USAN	**TEPNG**	Off-shore	2,131,639	USAN Crude

Source: DPR

- Cavendish did not operate within this audit period.
- Some of the Companies that operated within this audit period do not have their own terminals. They injected their crude oil to other terminals listed above and exported from those terminals. There is usually an agreement for use of the terminals between the terminal owners and the companies. The agreements among other issues dwell on crude oil handling, management of terminal stock and lifting.

9.7.3 Upstream Crude Oil Volumetric Reconciliation

The volumetric reconciliation deals with:

1. Production, terminal balances and stock changes in the terminal.
2. Crude export reconciliation between the volumes lifted as reported by the terminal operator, the companies and DPR records of liftings and,
3. Crude oil allocation to the equity participants.

9.7.3.1 Methodology

Templates were designed to capture the following information:

- Any third party crude oil injected into a particular flow station.
- The volume of gas produced and flared at the station.

- The volume of gas that is passed on/sold from the station for use elsewhere.
- The volume of gas re-injected to assist oil production.
- The volume of liquids (oil, water and sediments) passed on for further processing from the flow stations.

The operators attempt to know how much each well produces by testing each well every month at the flow station. This enables the approximate estimation of quantity of hydrocarbon a Well may produce. The aggregation of these parameters for all the wells that flow into the station will give the capacity of the flow station. Measurements are taken 8am-8am daily by DPR and 12am-12am daily by the companies at the flow stations in approximation because the meters are not very accurate (a range of ±10%).

Table 9.7.3A: All Companies Fiscalised Crude Oil Production Volumes by Operating Arrangement (Bbls)

PRODUCING COMPANIES	CRUDE TYPE	Actual Production(a) 2012	PER DAY	PERCENTAGE OF TOTAL PRODUCTION
SHELL	BONNY LIGHT	73,374,401	201,026	8.60
	FORCADOS BLEND	50,105,560	137,276	5.87
	FB(Condensates)	-	-	-
	BRASS BLEND	2,361,741	6,471	0.28
	EA (af)	21,072,517	57,733	2.47
Sub-Total		**125,841,702**	**344,772**	**14.75**
CHEVRON	ESC	61,836,739	169,416	7.25
	BONNY LIGHT	4,911,428	13,456	0.58
	BRASS BLEND	1,288,136	3,529	0.15
	FORCADOS BLEND	-	-	-
	ESC(af)	19,948,154	54,652	2.34
Sub-Total		**68,036,303**	**186,401**	**7.97**
AGIP	BRASS BLEND	25,296,926	69,307	2.97
	FORCADOS BLEND	1,159,738	3,177	0.14
Sub-Total		**26,456,664**	72,484	**3.10**
MOBIL	QUA IBOE LIGHT	37,958,288	103,995	4.45
	OSO CONDENSATES	1,210,850	3,317	0.14
	OSO(MCA)	3,289,377	9,012	0.39
	QIL(PIP-af)	21,424,700	58,698	2.51
	QIL(MCA)	57,600,016	157,808	6.75
	QIL(S-af)	7,369,123	20,189	0.86
	YOHO	27,682,565	75,843	3.24
Sub-Total		**66,851,703**	**183,155**	**7.84**
ELF	FORCADOS BLEND	-	-	-
	BONNY LIGHT	6,081,877	16,663	0.71
	EKANGA/ZAFIRO	4,130,550	11,317	0.48
	AMENAM BLEND	16,882,580	46,254	1.98
	AMENAM BLEND(af)	19,885,006	54,479	2.33
Sub-Total		**22,964,457**	**62,916**	**2.69**
TEXACO	PENNINGTON LIGHT	2,785,065	7,630	0.33
PAN OCEAN	FORCADOS BLEND	1,804,542	4,944	0.21
TOTAL: (JV)		**314,740,436**	**862,303**	**36.89**
TOTAL: (AF-JV)		**150,588,893**	**412,572**	17.65
TOTAL: (JV & AF-JV)		**465,329,329**	**1,274,875**	**54.54**
NIG. AGIP EXPL(NAE)	ABO (psc)	8,488,231	23,255	**0.99**
CHEVRON	AGBAMI (psc)	85,042,163	232,992	**9.97**
SA Petrol/Total Upstream Nigeria	AKPO (psc)	56,667,023	155,252	**6.64**
SNEPCO	BONGA(psc)	64,237,090	175,992	**7.53**
ESSO EXP&PRO NIG LTD	ERHA(psc)	45,680,674	125,153	**5.35**
ADDAX	BRASS BLEND(psc)	1,497,906	4,104	0.18
	ANTAN BLEND(psc)	16,971,273	46,497	1.99
	OKWB(psc)	11,118,187	30,461	1.30
Sub-Total		**29,587,366**	**81,061**	**3.47**
SEEPCO	OKWUIBOME (psc)	1,273,891	3,490	0.15
TUPNI	USAN (psc)	29,457,725	80,706	3.45
AGIP ENERGY	BB(sc)	3,056,412	8,374	0.36
Total: PSC & SC		**323,490,575**	**886,275.55**	**87.92**
NPDC/AGIP ENERGY	OKONO (NPDC)	13,488,363	36,954	1.58
	OKONO (AENR)	LIFTING FIGURE ONLY		
NPDC/SEPLAT	FB(NPDC)	5,491,367	15,045	0.64
	FB(SEPLAT)	4,473,789	12,257	0.52
NPDC/FIRST HYDROCARBON	FB (NPDC)	831,746	2,279	0.10
	FB (FHC)	637,117	1,746	0.07
NPDC/NECONDE	FB (NPDC)	1,522,469	4,171	0.18
	FB (NECONDE)	1,275,501	3,495	0.15
NPDC/ND WESTERN	FB (NPDC)	706,868	1,937	0.08
	FB (ND WESTERN)	248,380	680	0.03
NPDC/SHORELINE	FB (NPDC)	172,567	473	0.02
	FB (SHORELINE)	141,192	387	0.02
NPDC	FORCADOS BLEND	1,630,117	4,466	0.19
Sub-Total		30,619,476	83,889	**3.59**
CONSOLIDATED OIL	ESC	620,455	1,700	0.07
MONI PULO LTD.	ANTAN BLEND	1,671,262	4,579	0.20
DUBRI	ESCRAVOS	119,355	327	0.01
AMNI	IMA	356,966	978	0.04
	OKORO	5,380,238	14,740	0.63
ATLAS	UKPOKITI	207,634	569	0.02
EXPRESS PETROLEUM	UKPOKITI	204,226	560	0.02
CONTINENTAL OIL	PENNINGTON LIGHT	6,316,028	17,304	0.74
CAVENDISH PETROLEUM	OBE	0	-	-
NIG AGIP EXPL/ALLIED/CAMAC	OYO BLEND	749,826	2,054	0.09
Total: INDEPENDENT		**46,245,466**	126,700	5.42
NIGER DELTA PET. RES. LTD	BONNY LIGHT	407,871	1,117	0.05
PLATFORM PETROLEUM LTD	BRASS BLEND	748,627	2,051	0.09
MIDWESTERN OIL & GAS	BRASS BLEND	3,700,144	10,137	0.43
WALTER SMITH PET OIL LTD	BONNY LIGHT	672,309	1,842	0.08
PILLAR OIL	BRASS BLEND	410,526	1,125	0.05
ENERGIA LTD	BRASS BLEND	536,104	1,469	0.06
BRITTANIA U	ESC	471,783	1,293	0.06
ORIENTAL ENERGY	EBOK	11,113,915	30,449	1.30
Total: MARGINAL FIELDS		**18,061,279**	49,483	2.12
GRAND-TOTAL (b - Production Figures Excludes EKANGA/ZAFIRO)		**853,126,649**	**296,480,785**	**100**

Source: COMD ***Note: Ekanga/Zafiro production is not included in the Total Production Volume.***

Table 9.7.3B: All Companies Fiscalised Crude Oil Production by Stream

PRODUCING COMPANIES	ANNUAL TOTAL : CRUDE TYPE	Actual Production(a) THIS YEAR	PER DAY	% OF TOTAL PRODUCTION
NIG. AGIP EXPL	ABO	8,488,231	23,255	0.99
CHEVRON	AGBAMI	85,042,163	232,992	9.92
SAPETRO/TOTAL UPSTREAM NIGERIA	AKPO	56,667,023	155,252	6.61
ELF	AMENAM BLEND	36,767,586	100,733	4.29
ADDAX & MONI PULO	ANTAN BLEND	18,642,535	51,075	2.17
SPDC,CHEVRON,NAOC,ADDAX,AENR,PPL,MOGC,POL,&EL	BRASS BLEND	38,896,522	106,566	4.54
SPDC, CHEVRON, ELF, NIGER DELTA & WSPOL	BONNY LIGHT	85,447,886	234,104	9.97
SNEPCO	BONGA	64,237,090	175,992	7.49
SPDC	EA	21,072,517	57,733	2.46
ORIENTAL ENERGY	EBOK	11,113,915	30,449	1.30
TOTAL	EKANGA/ZAFIRO	4,130,550	11,317	0.48
MOBIL	ERHA	45,680,674	125,153	5.33
CHEVRON, CONOIL & DUBRI	ESCRAVOS	82,996,486	227,388	9.68
SPDC,CHEVRON,NAOC,ELF,PAN OCEAN&NPDC	FORCADOS	70,200,953	192,331	8.19
AMNI	IMA COND.	356,966	978	0.04
CAVENDISH PETROLEUM	OBE	-	-	-
NPDC/AENR	OKONO	13,488,363	36,954	1.57
AMNI	OKORO	5,380,238	14,740	0.63
ADDAX	OKWORI	11,118,187	30,461	1.30
SEEPCO	OKWUIBOME	1,273,891	3,490	0.15
MOBIL	OSO	4,500,227	12,329	0.52
NIG AGIP EXPL/ALLIED/CAMAC	OYO	749,826	2,054	0.09
TEXACO, CONTINENTAL & MOVIDO E&P	PENN. LIGHT	9,101,093	24,935	1.06
MOBIL	QUA IBOE	124,352,127	340,691	14.51
ATLAS & EXPRESS	UKPOKITI	411,860	1,128	0.05
TOTAL	USAN	29,457,725	80,706	3.44
MOBIL	YOHO	27,682,565	75,843	3.23
TOTAL (including Ekanga/Zafiro)		**857,257,199**	2,348,650	100.00

SOURCE: COMD ***Note:*** *Ekanga/Zafiro production is included in the Total Production Volume.*

Table 9.7.3C: All Companies Fiscalised Crude Oil Production by Month

MONTH	TOTAL PRODUCTION (BBLS)	PRODUCTION PER DAY (BBLS)
JANUARY	70,712,973	2,281,064
FEBRUARY	68,733,604	2,454,772
MARCH	72,404,540	2,335,630
APRIL	71,281,660	2,376,055
MAY	74,434,795	2,401,122
JUNE	71,297,180	2,376,573
JULY	75,662,718	2,440,733
AUGUST	74,650,098	2,408,068
SEPTEMBER	73,557,502	2,451,917
OCTOBER	67,775,468	2,259,182
NOVEMBER	61,166,906	1,973,126
DECEMBER	71,449,205	2,304,813
TOTAL	**853,126,649**	**2,337,333**

SOURCE: COMD (a) Production; Include JV, AF, PSC , Service Contracts and Independent producers.

From above tables, total fiscalised Crude Oil production for the year 2012 was 853,126,649 bbls with a daily average of 2,330,947 bbls excluding production from the unitized fields (Ekanga/Zafiro).

9.8 Crude Oil Mass Balance Reconciliation

The terminal operators report production figures under the various commercial arrangements, from where liftings are carried out by the different partners under the supervision of DPR.

9.8.1 Crude Oil Production and Lifting Data

There are differences between the figures reported for production by operators, DPR and NNPC; and there are differences between the figures reported for liftings by operators, DPR, NNPC and the lifters themselves.

A summary of the differences between NNPC and DPR is shown below:

Table 9.8.1: Summary of Oil Flows

	2009	**2010**	**2011**	**2012**
Production by Operators‘ Mbbls				
JVs (Joint Ventures)	463,668	529,166	521,517	465,329
Production Sharing Contract (PSC)	268,792	316,887	289,334	320,434
Service Contractors (SC)	3,327	2,711	2,802	3,056
Sole Risk (SR) Independent	41,389	41,938	44,511	46,246
Marginal Fields	3,878	3,804	8,081	18,061
Total	**780,964**	**894,506**	**866,245**	**853,126**
Reported by DPR	***785,461***	***897,067***	***866,267***	***856,765***
Difference	4,497	2,561	22	3,639

Liftings				
Reported by lifting Companies				
Joint Venture (JVs)	554,507	623,465	614,312	472,493
PSC/Service Contractors	190,358	229,737	199,062	325,513
Sole Risk (Independent)	40,785	40,760	46,655	50,778
Marginal Field	4,057	4,286	7,258	17,868
Total	**789,707**	**898,248**	**867,287**	**866,652**
Reported by DPR	***767,603***	***863,799***	***823,045***	***862,713***
Difference	-21,104	-34,449	-44,242	-3,939

Source: COMD 2012 CRUDE OIL PRODUCTION/LIFTING TEMPLATE and DPR 2012 PRODUCTION/LIFTING TEMPLATE

9.8.2 Federation Lifting

The Federal Government gets revenue from the oil and gas industry through direct equity participation or Joint Venture (JV) with the international oil companies. The funding is done through cash calls. Each party funds the operation according to their percentage share in the operation.

As the industry grew, more companies got involved in the operation in Nigeria. Funding on the Government part became a problem. The Government decided to fund emerging projects differently. With the JVs, the Government made an alternative arrangement called the 'Carry Agreement'. In this arrangement, the Government, represented by NNPC does not fund capital developments. The operators fund the capital developments and recover their costs from the Government in form of crude oil. The remaining production is then shared according to their equity holdings in the JV.

Later on, the Carry Agreement was modified and called 'Modified Carry Agreement'.

Under this agreement, the Government takes its share of the oil and gas produced, sells and pays cash to fund the operation.

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) and Crude that is allocated for domestic use (Domestic Crude)

9.8.2.1 Marketing

Export Crude is marketed on behalf of the Federation by NNPC Crude Oil Marketing Division (COMD) and Domestic Crude is sold to PPMC 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 four refineries in Nigeria. In 2010, as a result of production inefficiency of the refineries, PPMC engaged in Alternative Production arrangements such as Offshore Processing Arrangement (OPA) and Swap Arrangements to make available products for the increasing domestic demands.

9.8.2.2 Production Entitlement by Companies

All the producers have entitlements or equities to their production. NNPC also has entitlements to production from some of the producers.

- For the Sole Risk Companies, NNPC does not have any entitlements to their production.
- For the PSCs, NNPC has entitlement to production as per their contractual agreement. We analysed NNPC's entitlement to PSC production through the lifting volumes from the PSC Terminals.
- The Joint Venture companies have equity arrangements with NNPC and as such, their entitlements are not in dispute.

9.8.2.3 Joint Venture

The following tables show NNPC and Companies entitlement production of crude oil for 2012. The stated entitlement volumes are the volumes that the entities are entitled to pursuant to conditions laid down in the Joint Venture agreements (JOA). The production volumes are in Net Standard Volumes (NSV).

Table 9.8.2.3A: JV Entitlement to Production

JOINT VENTURE ENTITLEMENT TO PRODUCTION					
JV Operators	**Production**	**NNPC Equity**	**NNPC share**	**Companies' Equity**	**Companies share**
2012 (bbls)					
Shell	146,914,219	55	80,802,820	45	66,111,398.55
Chevron/Texaco	90,769,522	60	54,461,713	40	36,307,808.80
Nig. Agip Oil co.	26,456,664	60	15,873,998	40	10,582,665.60
Mobil	156,534,919	60	93,920,951	40	62,613,967.60
Total EPNG	42,849,463	60	25,709,678	40	17,139,785.20
Pan Ocean	1,804,542	60	1,082,725	40	721,816.80
Total	**465,329,329**		**271,851,886**		**193,477,443**

Source: COMD 2012 CRUDE OIL PRODUCTION/LIFTING PROFILE

Figure 9.8.2.3A: JV Entitlement to Production

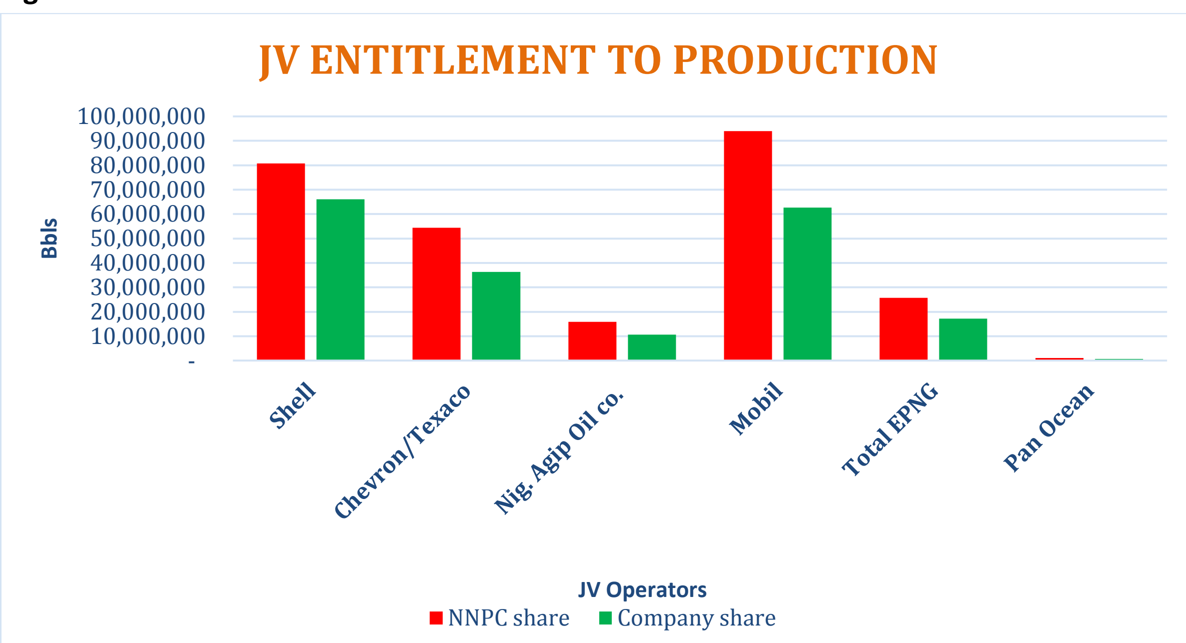


Table 9.8.2.3B: Comparison of Production Entitlement to Actual Volume Lifted

COMPARISON OF PRODUCTION ENTITLEMENT TO ACTUAL VOLUME LIFTED						
JV Operators	NNPC Equity	NNPC ACTUAL LIFTING	VARIANCE	Companies' Equity	COMPANIES ACTUAL LIFTING	VARIANCE
2012 (bbls)						
Shell	80,802,820	66,763,934	14,038,886	66,111,399	57,486,285	8,625,114
Chevron/Texaco	54,461,713	46,953,523	7,508,190	36,307,809	33,771,742	2,536,067
Nig. Agip Oil co.	15,873,998	17,403,175	(1,529,177)	10,582,666	11,743,307	(1,160,641)
Mobil	93,920,951	121,104,664	(27,183,713)	62,613,968	48,497,490	14,116,478
Total EPNG	25,709,678	27,814,385	(2,104,707)	17,139,785	12,291,857	4,847,928
Pan Ocean	1,082,725	1,074,450	8,275	721,817	716,300	5,517
Total	**271,851,886**	**281,114,131**	**(9,262,245)**	**193,477,443**	**164,506,981**	**28,970,462**

Source: COMD 2012 CRUDE OIL PRODUCTION/LIFTING PROFILE

Figure 9.8.2.3B: NNPC Equity Volumes vs Actual Lifted Volumes

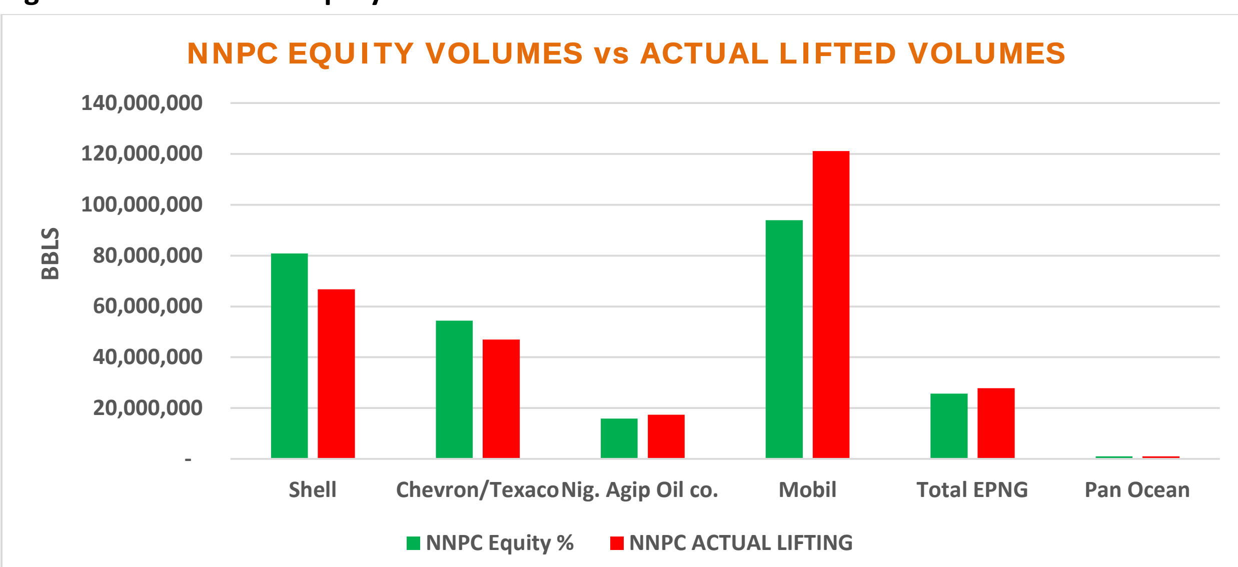


Figure 9.8.2.3C: Company Equity Volumes vs Actual Lifted Volumes

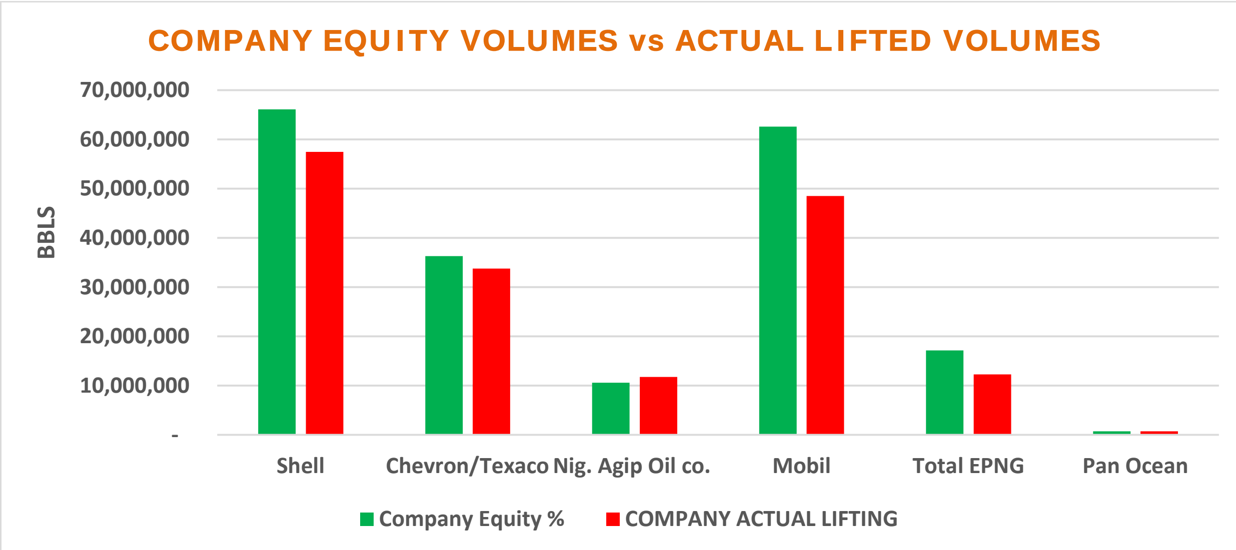


Table 9.8.2.3C: Entitlement to Production Dispatched through these Terminals (bbls)

Entitlement to Production Dispatched through these Terminals (bbls)								
	Bonny	**Brass**	**Ea**	**Escravos**	**Forcados**	**QIT**	**YOHO**	**Pennington**
2012;								
TEPNG	9,704,766	949,715	2,745,988		5,901,982			
SPDC	22,805,696	0	10,707,407		14,494,077			
NAOC	3,764,440	5,838,327	1,811,838		639,225			
CNL	1,954,825			33,656,270				1,881,677
NPDR	485,050							
AENR		1,095,000						
BRITANIA U				400,500				
DUBRI				130,000				
CONOIL				560,000				
NPDC								
WALTERSMITH	667,816							
PANOCEAN								
PILLAR		475,000						
ENERGIA		535,000						
MIDWESTERN		3,559,552						
CONOG								4,926,084
MPNU						52,820,620	11,540,354	
ADDAX		627,915						
PHILIPS		5,514,780						
NAOC								
PLATFORM		682,000						
NNPC	45,658,384	19,658,494	5,565,096	48,177,703	28,864,994	76,613,603	16,158,713	1,984,806
OTHERS					20,152,660			
TOTAL	**85,040,9'77**	**38,935,783**	**20,830,329**	**82,924,473**	**72,052,938**	**129,434,223**	**27,699,067**	**8,792,567**

SOURCE: DPR 2012 CRUDE OIL EXPORT PROFILE

Table 9.8.2.3D: Production through these JV Terminals and Total Production Allocated

Terminal	Production through Terminal	Production allocated	Variance
	2012 (BBLS)		
BONNY	85,516,915	85,040,977	475,938
BRASS	38,431,091	38,935,783	-504,692
EA	21,075,517	20,830,329	245,188
ESCRAVOS	82,992,947	82,924,473	68,474
FORCADOS	72,439,137	72,052,938	386,199
QIT	128,852,443	129,434,223	-581,780
YOHO	27,685,727	27,699,067	-13,340
PENNIGNTON	9,105,572	8,792,567	313,005
TOTAL	**466,099,349**	**465,710,357**	**388,992**

The table shows the volume of crude produced through the JV terminals and the volume of crude allocated to the lifters from each terminal.

Table 9.8.2.3E: Total Lifting between NNPC and the JV companies

Year	2009	2010	2011	2012
'000 bbls				
NNPC	**273,211**	**310,616**	**305,530**	**262,941**
JV Companies	**190,457**	**218,550**	**215,987**	**209,552**
Total(JV)Companies	**463,668**	**529,166**	**521,517**	**472,493**

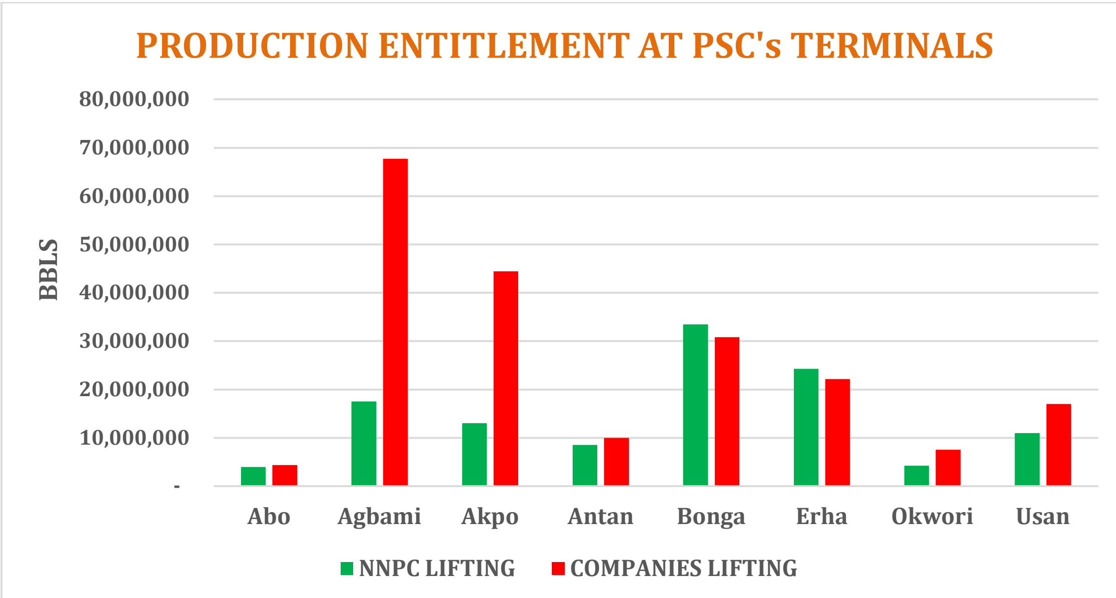
Source: COMD 2012 CRUDE OIL PRODUCTION/LIFTING PROFILE

Table 9.8.2.3F: Crude Lifting between NNPC and the PSC's through the PSC'S TERMINAL/FPSO

2012 CRUDE LIFTING BETWEEN NNPC AND THE PSC's THROUGH THE PSC'S TERMINAL/FPSO						
Company BBLS	**Production**	**NNPC Lifting**	**NNPC Lifting %**	**Companies Lifting**	**Companies Lifting %**	**Total Lifting**
Abo	8,488,231	3,955,311	47.5	4,363,553	52.5	8,318,864
Agbami	85,042,163	17,496,970	20.5	67,719,377	79.5	85,216,347
Akpo	56,667,023	13,008,567	22.7	44,421,314	77.3	57,429,881
Antan	18,642,535	8,550,237	46.1	10,001,527	53.9	18,551,764
Bonga	64,237,090	33,459,600	52.1	30,823,529	47.9	64,283,129
Erha	45,680,674	24,274,000	52.3	22,137,568	47.7	46,411,568
Okwori	11,118,187	4,212,011	35.8	7,555,906	64.2	11,767,917
Usan	29,457,725	10,949,193	39.2	16,993,401	60.8	27,942,594
Total	**319,333,628**	**115,905,889**		**204,016,175**		**319,922,064**

SOURCE: COMD 2012 CRUDE OIL PRODUCTION/LIFTING PROFILE

Figure 9.8.2.3D: Production Entitlement at PSC's Terminals



9.8.3 Comparison of Crude Oil Production between Companies and DPR

Table below shows the comparison between the volumes of crude oil produced by stream as reported by the companies and DPR.

Table 9.8.3A: Comparison of Production between DPR and Companies

STREAM	DPR	COMPANY	VARIANCE
ABO	8,489,519	8,488,131	1,388
AGBAMI	85,041,559	85,041,559	-
AKPO	56,667,023	56,667,027	(4)
AMENAM	36,765,692	36,765,692	-
ANTAN	18,640,807	18,640,807	-
BONGA	64,067,957	64,067,957	-
BONNY	85,516,915	85,516,915	-
BRASS	38,431,091	38,431,091	-

EA	21,075,517	21,075,517	-
EBOK	11,122,113	11,122,113	-
ERHA	45,680,658	45,680,658	-
ESCRAVOS	83,025,574	83,025,574	-
FORCADOS	72,439,137	72,439,137	-
IMA/OKORO	6,418,351	6,418,351	-
OKONO	16,348,665	16,303,397	45,268
OKWORI	12,094,784	12,094,784	-
OYO	1,009,842	1,009,842	-
PENNINGTON	9,105,572	9,105,572	-
QIT	128,852,443	128,852,443	-
TULJA	1,622,834	1,602,804	20,030
UKPOKITI	509,183	509,183	-
USAN	29,415,862	29,373,767	42,095
YOHO	27,685,727	27,685,727	-
TOTAL	**860,026,825**	**859,918,048**	108,777
ZAFIRO	4,512,780	4,512,780	-

SOURCE: DPR 2012 CRUDE OIL PRODUCTION PROFILE & COMPANY TERMINAL BALANCE

Table 9.8.3B: Comparison of Production between NNPC and DPR

STREAM	NNPC	DPR	VARIANCE
ABO	8,488,231	8,489,519	(1,288)
AGBAMI	85,042,163	85,041,559	604
AKPO	56,667,023	56,667,023	-
AMENAM	36,767,586	36,765,692	1,894
ANTAN	18,642,535	18,640,807	1,728
BONGA	64,237,090	64,067,957	169,133
BONNY	85,447,886	85,516,915	(69,029)
BRASS	38,896,522	38,431,091	465,431
EA	21,072,517	21,075,517	(3,000)
EBOK	11,113,915	11,122,113	(8,198)
ERHA	45,680,674	45,680,658	16
ESCRAVOS	82,996,486	83,025,574	(29,088)
FORCADOS	70,200,953	72,439,137	(2,238,184)
IMA/OKORO	5,737,204	6,418,351	(681,147)
OKONO	13,488,363	16,348,665	(2,860,302)
OKWORI	11,118,187	12,094,784	(976,597)
OYO	749,826	1,009,842	(260,016)
PENNINGTON	9,101,093	9,105,572	(4,479)
QIT	128,852,354	128,852,443	(89)
TULJA	1,273,891	1,622,834	(348,943)

UKPOKITI	411,860	509,183	(97,323)
USAN	29,457,725	29,415,862	41,863
YOHO	27,682,565	27,685,727	(3,162)
TOTAL	**853,126,649**	**860,026,825**	(6,900,176)
ZAFIRO	4,130,550	4,512,780	(382,230)

SOURCE: COMD/DPR 2012 CRUDE OIL PRODUCTION PROFILE

9.8.4 Comparison between Liftings Reported by Terminal Operators, DPR, NNPC and Companies

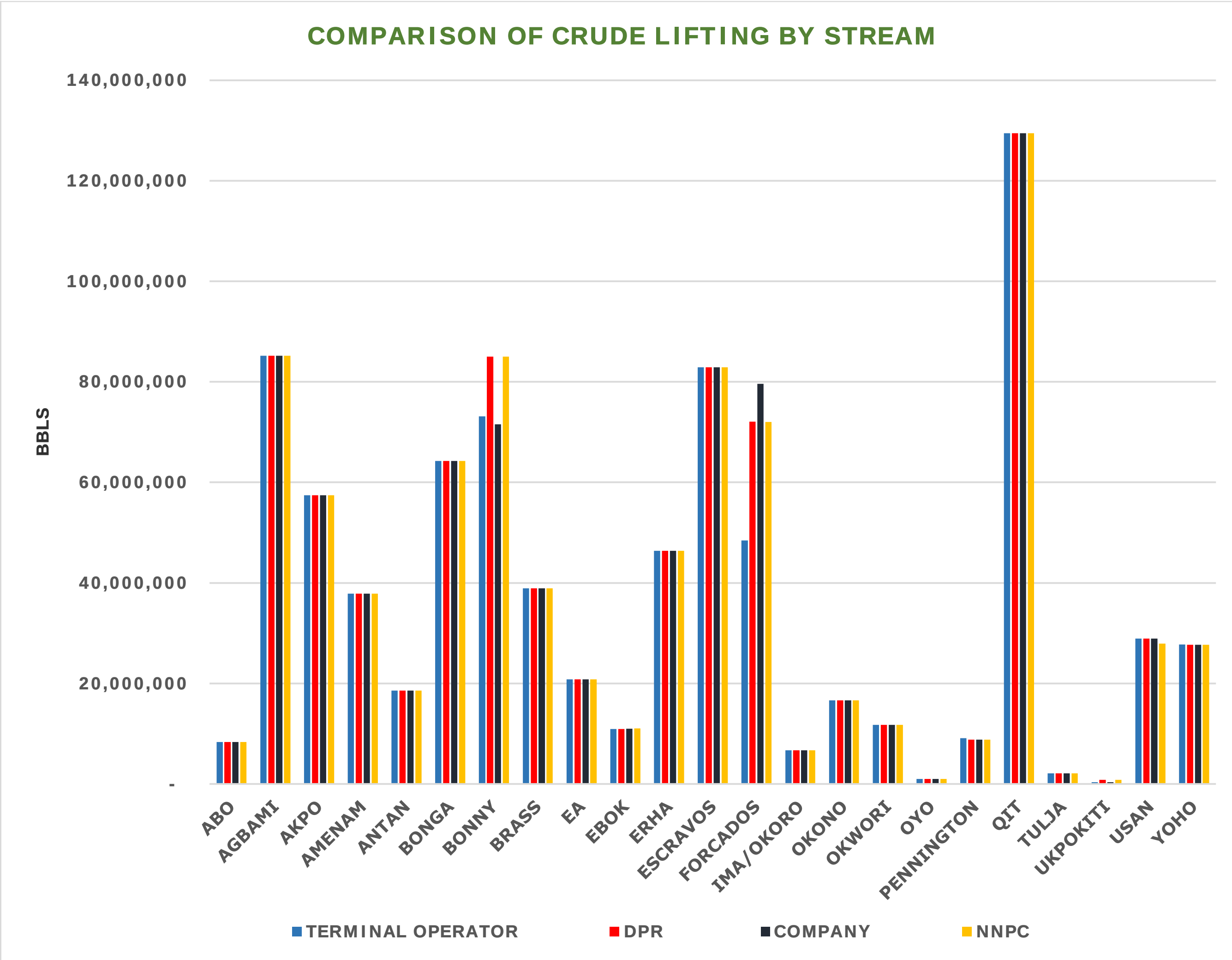
Table 9.8.4: Comparison of Fiscalised Crude Lifting by Stream (BBLS)

COMPARISON OF FISCALISED CRUDE LIFTING BY STREAM (BBLS)				
STREAM	**TERMINAL OPERATOR**	**DPR**	**COMPANY**	**NNPC**
ABO	8,318,864	8,318,864	8,318,864	8,318,864
AGBAMI	85,216,347	85,216,347	85,216,347	85,216,347
AKPO	57,429,881	57,429,881	57,429,881	57,429,881
AMENAM	37,841,145	37,841,145	37,841,145	37,841,145
ANTAN	18,551,764	18,551,764	18,551,764	18,551,764
BONGA	64,283,130	64,283,129	64,283,130	64,283,129
BONNY	73,162,438	85,040,977	71,536,429	85,036,147
BRASS	38,935,783	38,935,783	38,935,783	38,935,783
EA	20,830,329	20,830,329	20,830,329	20,830,329
EBOK	10,936,045	10,936,045	11,000,000	11,063,289
ERHA	46,411,568	46,411,568	46,411,568	46,411,568

ESCRAVOS	82,924,473	82,924,473	82,924,473	82,924,473
FORCADOS	48,453,965	72,052,938	79,612,102	72,019,938
IMA/OKORO	6,718,819	6,718,819	6,718,819	6,718,819
OKONO	16,630,272	16,630,272	16,630,272	16,630,272
OKWORI	11,767,917	11,767,917	11,767,917	11,767,917
OYO	1,015,747	1,015,747	1,015,747	1,015,747
PENNINGTON	9,105,572	8,792,567	8,792,567	8,792,567
QIT	129,435,223	129,435,223	129,435,223	129,435,223
TULJA	2,132,939	2,132,939	2,132,939	2,132,939
UKPOKITI	375,000	804,835	375,000	804,835
USAN	28,942,686	28,942,683	28,942,683	27,942,594
YOHO	27,746,965	27,699,067	27,699,067	27,699,067
TOTAL	**827,166,872**	**862,713,312**	**856,402,049**	**861,802,637**
ZAFIRO	4,844,592	4,844,592	4,844,592	4,844,592

Source: COMD/DPR 2012 Crude Oil Production Profile, Companies Terminal Balance And Terminal Operations

Figure 9.8.4: Comparison of Crude Lifting by Stream



9.8.5 Terminal Balance

Terminal balance is the reconciliation of gross volumes of crude oil (oil, water and sediments) produced and transferred to the terminals. This is how the operators calculate their net barrels in the terminals;

- The volume of water/sediments drained from the crude, the opening stock in the terminal, the shrinkages/terminal adjustments, the exported fiscalised crude (water content less than 0.5%) and the closing stock in the terminal are the parameters used for reconciliation of mass balance.

- In addition to using fiscal meters, the terminal operators use hand dips to back up meter readings at the terminal.

The designed templates for terminal balances seek to provide the following information in the terminal:

- The closing crude oil stock from the last month of previous year.
- Total volume of liquid entering the Terminal for the month (GSV or NSV)†
- Total volume of water and sediments (BSW) drained from the crude
- Terminal adjustments.
- Total volume of crude lifted from the Terminal.
- Closing crude oil stock in the Terminal.

The operators calculate their losses/shrinkages in the terminal by comparing the production figure after removing water and sediments. At the beginning of every year, there is always some volume of fiscalised crude oil left in the terminal from the previous year. This volume of crude is referred to as 'opening stock' for the new-year.

Gross crude (oil and water) transferred into the terminal is prepared for export by removing water and sediments from it. The balance left after this process is analysed to make sure that the water content is not more than 0.5%. This new fiscalised crude oil is added to the 'Opening stock' to form the total exportable crude oil from the terminal.

After export from the terminal, whatever volume of fiscalised crude oil that was not exported is left in the terminal which becomes the closing stock for the period as well as the opening stock on 1st of January of the following year.

We observed differences in the populated terminal balance templates. These differences were reconciled after reviewing the original log used by the operators.

Table 9.8.5: Comparison between terminal & calculated opening & closing stock

COMPARISION BETWEEN TERMINAL AND CALCULATED OPENING AND CLOSING STOCK			
	TERMINAL	2012	
BBLS		OPENING STOCK	CLOSING STOCK
Terminal values	ABO	345,588	514,855
Calculated values		345,588	514,855
Terminal values	AGBAMI	751,178	576,390
Calculated values		751,178	576,390
Terminal values	AKPO	1,401,121	638,267
Calculated values		1,401,121	638,267
Terminal values	ANTAN	625,243	716,017
Calculated values		625,243	716,017
Terminal values	BONGA	1,314,884	1,099,711
Calculated values		1,314,884	1,099,711
Terminal values	BONNY	589,103	851,775
Calculated values		2,262,314	1,516,404
Terminal values	BRASS	1,451,760	947,068
Calculated values		1,451,760	947,068
Terminal values	EA	636,768	881,956
Calculated values		636,769	881,956
Terminal values	EBOK	295,335	356,615
Calculated values		NA	356,615
Terminal values	ERHA	1,306,748	575,853
Calculated values		1,306,748	575,838
Terminal values	ESCRAVOS	847,004	915,478
Calculated values		847,004	915,478
Terminal values	FORCADOS	617,556	2,156,356
Calculated values		1,234,259	2,329,838
Terminal values	IMA/OKORO	1,085,665	781,486
Calculated values		NA	781,486
Terminal values	ODUDU/AMENAM	1,422,490	347,036
Calculated values		-1,736,479	347,037
Terminal values	OKONO	380,926	99,320
Calculated values		NA	54,051
Terminal values	OKWORI	176,175	503,042
Calculated values		176,176	503,042
Terminal values	PENNINGTON	0	0
Calculated values		-160	-4,930
Terminal values	QIT	1,891,115	1,309,328
Calculated values		1,891,115	1,309,328
Terminal values	TULJA	558,557	27,945
Calculated values		543,604	27,945
Terminal values	UKPOKITI	94,253	228,430
Calculated values		NA	228,430
Terminal values	USAN	0	581,879
Calculated values		NA	431,081
Terminal values	YOHO	488,643	474,578
Calculated values		488,645	474,578
Terminal values	EKANGA/ZAFIRO	656,389	324,577
Calculated values		NA	324,577
Terminal values	**TOTAL**	**16,936,501**	**14,907,962**
Calculated values		**13,539,769**	**15,545,062**

SOURCE: NEITI 2012 CRUDE OIL TERMINAL BALANCE TEMPLATES

Our analysis of each terminal balance revealed that data on some templates were incorrectly populated. There were issues of transposition of data as the companies tried to transfer data from their existing system to fit into NEITI templates. The main objective of reconciling respective terminals' opening and closing stocks is to make sure that there is volumetric balance between crude oil transferred into the terminal and exported.

9.8.6 Analysis of Net Oil Balances and Gross Volumes Mass Balances

Summaries of the reconciliations of the gross balances at each terminal are set out below. Data for each terminal is presented as follows:

- Reference to 2011 stock balance (closing stock)
- Production data as reported on P1.02 templates (with additional sections added for 3rd party injections if applicable).
- Terminal Balance (total receipts, liftings, terminal dewatering, terminal adjustment and stock change)
- Liftings data (as reported by the terminal operator, reconciled to data provided by each individual lifter)

9.8.6.1 Issues:

All producing companies attend Curtailment meetings to review (m-1) and forecast (m+2) production and export volumes with DPR and NNPC. NNPC/DPR holds Curtailment reconciliation meetings with JV and PSC operators where all parties sign-off reconciled production and export volumes.

From the previous audit (2009-2011), we observed that all parties were signatory to the annual reconciled volumes (production and export) but this was not the case in 2012. We observed that NNPC was not a signatory to the annual reconciled production volumes but signed-off on the annual reconciled export volumes.

This anomaly is responsible for the variances observed between the production volumes as reported by NNPC, DPR and the Terminal Operators. For some terminals, the Audit was able to obtain a complete reconciled sign-off from all respective parties including 3rd party injectors for each terminal while for some the audit only obtained partial or no reconciled positions at all.

Facility: Abo FPSO

Location: Offshore

Operator: Nigerian Agip Exploration (NAE)

Production Arrangement: Production Sharing Contract (PSC)

3rd Party Injector/Concession/Partners: OANDO E&P

Figure 9.8.6A: NAE Abo Terminal

ABO 2012 **Operator: NAE**

Production (P1.02)		
Gross Production	De-watering/Shrinkage	Liquid Passed
8,622,109	133,978	8,488,131
		8,488,131

Opening Stock from last Audit	Variance
345,588	-

NNPC Crude Production	variance (DPR - Coy)
8,488,231	-100

Opening Stock 1 Jan 12	345,588
Total Liquid Receipts	8,622,109
De-Water/Shrinkage	110,317
Terminal Adjustments	-23,661
Liftings	8,318,864
Closing Stock	514,855

DPR Production Crude	variance (DPR - Coy)
8,489,519	1,388

Calculated Closing Stock	variance
514,855	0

Liftings (Terminal Operator)	bbls
NNPC	3,955,311
NAE	3,703,553
OANDO	660,000
	8,318,864

Liftings (Lifting Coy)	bbls	Liftings (DPR) bbls	Variance (Coy vs DPR)
NNPC	3,955,311	3,955,311	0
NAE	3,703,553	3,703,553	0
OANDO	660,000	660,000	0
	8,318,864	8,318,864	0

Lifting Differences (TER. Vs Coy)	bbls
	0

Opening Stock from Last Audit = The reconcilled Closing Stock between the Auditors and the Operator for 2011 in the Last Audit

Calculated Closing Stock = The Computed Closing Stock by the Auditor using information provided by the Operator in Terminal Balance Template

Shows variances between the companies 2012 Opening Stock-Reconcilled 2011 Closing Stock, Company Fiscalised Crude Production-DPR Ficalised

Shows variance between Operators Fiscalised Crude Production-NNPC Fiscalised Crude Production

Source: COMD Crude Production/Lifting Profile, DPR Reconcilled Crude Production Template and Company's Terminal Balance/Crude Lifting Templates

Observations:

- The terminal operator (NAE) reported 8,488,131 bbls as production. This includes OANDO E&P share of production.
- NNPC (COMD) reported 8,488,231 bbls as production.
- DPR reported 8,489,519 bbls as production.
- There is a variance of (100) and 1,388 bbls with NNPC and DPR respectively.

The audit could not obtain signed reconciled production and lifting profiles to clarify these variances, hence the auditor’s analysis is based on the individual parties’ submissions.

Facility: Agbami FPSO

Location: Offshore

Operator: Star Deep Water

Production Arrangement: Production Sharing Contract (PSC)

3rd Party Injector/Concession/Partners: Chevron, Famfa Oil, Petrobras & Statoil

Figure 9.8.6B: STARDEEP Agbami Terminal

AGBAMI 2012 — **Operator: STARDEEP**

Production (P1.02)		
Gross Production	De-watering/Shrinkage	Liquid Passed
85,041,559	0	85,041,559
		85,041,559

Opening Stock from last Audit	Variance
751,178	-

NNPC Crude Production	variance (DPR - Coy)
85,042,163	-604

Opening Stock 1 Jan 12	751,178
Total Liquid Receipts	85,041,559
De-Water/Shrinkage	0
Terminal Adjustments	0
Liftings	85,216,347
Closing Stock	576,390

DPR Production Crude	variance (DPR - Coy)
85,041,559	0

Calculated Closing Stock	variance
576,390	0

Liftings (Terminal Operator)	bbls
NNPC	17,496,970
TNOS	6,795,223
PETROBRAS	6,421,026
STATOIL	7,819,697
FAMFA	3,916,557
STARDEEP	42,766,874
	85,216,347

Liftings (Lifting Coy)	bbls	Liftings (DPR) bbls	ariance (Coy vs DPR)
NNPC	17,496,970	17,496,970	0
TNOS	6,795,223	6,795,223	0
PETROBRAS	6,421,026	6,421,026	0
STATOIL	7,819,697	7,819,697	0
FAMFA	3,916,557	3,916,557	0
STARDEEP	42,766,874	42,766,874	0
	85,216,347	85,216,347	0

Lifting Differences (TER. Vs Coy)	bbls
	0

Opening Stock from Last Audit = The reconcilled Closing Stock between the Auditors and the Operator for 2011 in the Last Audit

Calculated Closing Stock = The Computed Closing Stock by the Auditor using information provided by the Operator in Terminal Balance Template

Shows variances between the companies 2012 Opening Stock-Reconcilled 2011 Closing Stock, Company Fiscalised Crude Production-DPR Ficalised

Shows variance between Operators Fiscalised Crude Production-NNPC Fiscalised Crude Production

Source: COMD Crude Production/Lifting Profile, DPR Reconcilled Crude Production Template and Company's Terminal Balance/Crude Lifting Templates

Observations:

- The terminal operator (Stardeep) reported 85,041,559 bbls as production. This includes all the partners' share of production.
- NNPC (COMD) reported 85,042,163 bbls as production.
- There is a variance of (604) with NNPC.

NNPC was not a signatory to the reconciled production volumes, thus NNPC's figures are as provided in COMD crude by Stream production profile.

Facility: Akpo FPSO

Location: Offshore

Operator: Total Upstream Nigeria Limited

Production Arrangement: Production Sharing Contract (PSC)

3rd Party Injector/Concession/Partners: Sapetro, CNOOC & Petrobras (Brasoil)

Figure 9.8.6C: TUPNIL Akpo Terminal

AKPO 2012 — Operator: TUPNI

Production (P1.02)		
Gross Production	De-watering/Shrinkage	Liquid Passed
56,667,027	0	56,667,027
		56,667,027

Opening Stock from last Audit	Variance
1,401,121	-

NNPC Crude Production	variance (DPR - Coy)
56,667,023	4

Opening Stock 1 Jan 12	1,401,121
Total Liquid Receipts	56,667,027
De-Water/Shrinkage	0
Terminal Adjustments	0
Liftings	57,429,881
Closing Stock	638,267

DPR Production Crude	variance (DPR - Coy)
56,667,023	-4

Calculated Closing Stock	variance
638,267	0

Liftings (Terminal Operator)	bbls
NNPC	13,008,567
SAPETRO	6,079,378
CNOOC	14,099,781
BRASOIL	10,090,650
TUPNI	14,151,505
	57,429,881

Liftings (Lifting Coy)	bbls	Liftings (DPR) bbls	Variance (Coy vs DPR)
NNPC	14,044,033	13,008,567	-1,035,466
SAPETRO	6,079,378	5,294,689	-784,689
CNOOC	13,064,315	14,099,781	1,035,466
BRASOIL	10,090,650	10,090,650	0
TUPNI	14,151,505	14,936,194	784,689
	57,429,881	57,429,881	0

Lifting Differences (TER. Vs Coy)	bbls
	0

Opening Stock from Last Audit = The reconcilled Closing Stock between the Auditors and the Operator for 2011 in the Last Audit

Calculated Closing Stock = The Computed Closing Stock by the Auditor using information provided by the Operator in Terminal Balance Template

Shows variances between the companies 2012 Opening Stock-Reconcilled 2011 Closing Stock, Company Fiscalised Crude Production-DPR Ficalised Crude Production,

Shows variance between Operators Fiscalised Crude Production-NNPC Fiscalised Crude Production

Source: COMD Crude Production/Lifting Profile, DPR Reconcilled Crude Production Template and Company's Terminal Balance/Crude Lifting Templates

Observations:

- The terminal operator (TUPNI) reported 56,667,027 bbls as production. This includes all the partners' share of production.
- NNPC (COMD) and DPR reported 56,667,023 bbls as production.
- There is a variance of 4 with NNPC and DPR figures.

The audit could not obtain signed reconciled production and lifting profiles to clarify these variances, thus the auditors' analysis is based on the individual parties' submission.

Facility: Odudu FSO

Location: Offshore

Operator: Total E&P Nigeria Limited

Production Arrangement: Joint Venture (JV)

3rd Party Injector/Concession/Partners: NNPC

Figure 9.8.6D: TEPNG Odudu Terminal

FSO UNITY ODUDU 2012 — **Operator: TEPNG**

Production (P1.02)		
Gross Production	De-watering/Shrinkage	Liquid Passed
36,765,692	0	36,765,692
		36,765,692

Opening Stock from last Audit	Variance
(1,736,479)	(3,158,969)

NNPC Crude Production	variance (DPR - Coy)
36,767,586	-1,894

Opening Stock 1 Jan 12	1,422,490
Total Liquid Receipts	36,765,692
De-Water/Shrinkage	0
Terminal Adjustments	0
Liftings	37,841,145
Closing Stock	347,036

DPR Production Crude	variance (DPR - Coy)
36,765,692	0

Calculated Closing Stock	variance
347,037	-1

Liftings (Terminal Operator)	bbls
NNPC	20,844,867
TEPNG	16,996,278
	37,841,145

Liftings (Lifting Coy)	bbls	Liftings (DPR) bbls	ariance (Coy vs DPR)
NNPC	20,844,867	20,844,867	0
TEPNG	16,996,278	16,996,278	0
	37,841,145	37,841,145	0

Lifting Differences (TER. Vs Coy)	bbls
	0

Opening Stock from Last Audit = The reconcilled Closing Stock between the Auditors and the Operator for 2011 in the Last Audit

Calculated Closing Stock = The Computed Closing Stock by the Auditor using information provided by the Operator in Terminal Balance Template

Shows variances between the companies 2012 Opening Stock-Reconcilled 2011 Closing Stock, Company Fiscalised Crude Production-DPR Ficalised

Shows variance between Operators Fiscalised Crude Production-NNPC Fiscalised Crude Production

Source: COMD Crude Production/Lifting Profile, DPR Reconcilled Crude Production Template and Company's Terminal Balance/Crude Lifting Templates

Observations:

- TEPNG reported opening stock of 1,422,490 bbls varies with 2011 closing stock of (1,736,479) as reported in 2009-2011 NEITI Oil and Gas Audit.
- The terminal operator (TEPNG) reported 36,765,692 bbls as production.
- NNPC (COMD) reported 36,767,586 bbls as production.
- There is a variance of (1,894) bbls with NNPC.

NNPC was not a signatory to the reconciled production volumes, thus NNPC's figures are as provided in COMD crude by Stream production profile.

Facility: Akpo FPSO

Location: Offshore

Operator: Addax Petroleum Limited

Production Arrangement: Production Sharing Contract (PSC)

3rd Party Injector/Concession/Partners: Monipulo

Figure 9.8.6E: APENL Akpo Terminal

ANTAN 2012 | **Operator: ADDAX**

Production (P1.02)		
Gross Production	De-watering/Shrinkage	Liquid Passed
18,640,807	0	18,640,807
		18,640,807

Opening Stock from last Audit	Variance
625,243	-

NNPC Crude Production	variance (DPR - Coy)
18,642,535	-1,728

Opening Stock 1 Jan 12	625,243
Total Liquid Receipts	18,640,807
De-Water/Shrinkage	0
Terminal Adjustments	0
Liftings	18,551,764
Closing Stock	716,017

DPR Production Crude	variance (DPR - Coy)
18,640,807	0

Calculated Closing Stock	variance
716,017	0

Liftings (Terminal Operator)	bbls	Liftings (Lifting Coy)	bbls	Liftings (DPR) bbls	Variance (Coy vs DPR)
NNPC	8,550,237	NNPC	8,550,237	8,550,237	0
ADDAX	8,606,702	ADDAX	8,606,702	8,606,702	0
MONIPULO	1,394,825	MONIPULO	1,394,825	1,394,825	0
	18,551,764		18,551,764	18,551,764	0

Lifting Differences (TER. Vs Coy)	bbls
	0

Opening Stock from Last Audit = The reconcilled Closing Stock between the Auditors and the Operator for 2011 in the Last Audi

Calculated Closing Stock = The Computed Closing Stock by the Auditor using information provided by the Operator in Terminal Balance Template

Shows variances between the companies 2012 Opening Stock-Reconcilled 2011 Closing Stock, Company Fiscalised Crude Production-DPR Ficalised

Shows variance between Operators Fiscalised Crude Production-NNPC Fiscalised Crude Production

Source: COMD Crude Production/Lifting Profile, DPR Reconcilled Crude Production Template and Company's Terminal Balance/Crude Lifting Templates

Observations:

- The terminal operator (ADPNL) reported 18,640,807 bbls as production. This includes Monipulo's share of production.
- NNPC (COMD) reported 18,642,535 bbls as production.
- There is a variance of (1,728) bbls with NNPC.

NNPC was not a signatory to the reconciled production volumes, thus NNPC's figures are as provided in COMD crude by Stream production profile.

Facility: Bonga FPSO
Location: Offshore
Operator: Shell Nigeria Exploration and Production Company
Production Arrangement: Production Sharing Contract (PSC)
3rd Party Injector/Concession/Partners: TEPNG, ExxonMobil, NAE

Figure 9.8.6F: SNEPCO Bonga Terminal

BONGA 2012			Operator: SNEPCO	
Production (P1.02)			Opening Stock from last Audit	Variance
Gross Production	De-watering/Shrinkage	Liquid Passed	1,314,884	-
64,104,101	36,144	64,067,957		
		64,067,957	NNPC Crude Production	variance (DPR - Coy)
			64,237,090	-169,133

		DPR Production Crude	variance (DPR - Coy)
Opening Stock 1 Jan 12	1,314,884	64,067,957	0
Total Liquid Receipts	64,104,101		
De-Water/Shrinkage	-36,144		
Terminal Adjustments	0	Calculated Closing Stock	variance
Liftings	64,283,130	1,099,711	0
Closing Stock	1,099,711		

Liftings (Terminal Operator)	bbls	Liftings (Lifting Coy)	bbls	Liftings (DPR) bbls	Variance (Coy vs DPR)
NNPC	33,459,600	NNPC	33,459,600	33,459,600	0
SNEPCO	17,880,605	SNEPCO	17,880,605	17,880,604	-1
ESSO	5,912,423	ESSO	5,912,423	5,912,423	0
TEPNG	3,000,765	TEPNG	3,000,765	3,000,765	0
NAE	4,029,737	NAE	4,029,737	4,029,737	0
	64,283,130		64,283,130	64,283,129	-1

Lifting Differences (TER. Vs Coy)	bbls
	0

Opening Stock from Last Audit = The reconcilled Closing Stock between the Auditors and the Operator for 2011 in the Last Audit
Calculated Closing Stock = The Computed Closing Stock by the Auditor using information provided by the Operator in Terminal Balance Template
Shows variances between the companies 2012 Opening Stock-Reconcilled 2011 Closing Stock, Company Fiscalised Crude Production-DPR Ficalised Crude
Shows variance between Operators Fiscalised Crude Production-NNPC Fiscalised Crude Production
Source: COMD Crude Production/Lifting Profile, DPR Reconcilled Crude Production Template and Company's Terminal Balance/Crude Lifting Templates

Observations:

- The terminal operator (SNEPCO) reported 64,237,090 bbls as production. This includes all partners' share of production.
- NNPC (COMD) reported 64,237,090 bbls as production.
- <u>There is a variance of (169,133) bbls with NNPC.???</u>

- The terminal operator (SNEPCO) reported 64,283,130 bbls as total lifting. This varies with DPR's records of 64,283,129 bbls with a variance of 1 bbl

NNPC was not a signatory to the reconciled production volumes, thus NNPC's figures are as provided in COMD crude by Stream production profile.

The audit could not obtain signed reconciled lifting profiles to clarify these variances, hence the auditors' analysis is based on the individual parties' submissions.

Facility: Bonny Terminal
Location: Onshore
Operator: Shell Petroleum Development Company (SPDC)
Production Arrangement: Joint Venture (JV)
3rd Party Injector/Concession/Partners: TEPNG, Chevron, WalterSmith, Agip & NDPR
Figure 9.8.6G: SPDC Bonny Terminal

BONNY 2012 — **Operator: SPDC**

Production (P1.02)		
Gross Production	De-watering/Shrinkage	Liquid Passed
85,516,915	0	85,516,915
		85,516,915

Opening Stock from last Audit	Variance
2,262,314	1,673,211

NNPC Crude Production	variance (DPR - Coy)
85,447,886	69,029

Opening Stock 1 Jan 12	589,103
Total Liquid Receipts	73,407,180
De-Water/Shrinkage	0
Terminal Adjustments	11,559
Liftings	-72,491,438
Closing Stock	851,775

DPR Production Crude	variance (DPR - Coy)
85,516,915	0

Calculated Closing Stock	variance
1,516,404	-664,629

Liftings (Terminal Operator)	bbls	Liftings (Lifting Coy)	bbls	Liftings (DPR) bbls	Variance (Coy vs DPR)
NNPC	39,476,902	NNPC	35,261,527	35,261,527	0
SPDC	22,805,696	SPDC	22,805,696	22,805,696	0
TEPNG	7,115,400	TEPNG	9,704,766	9,704,766	0
NAOC	3,764,440	NAOC	3,764,440	3,764,440	0
CNL	NO DATA	CNL	1,954,825	1,954,825	0
WSPOL	NO DATA	WSPOL	667,816	667,816	0
NDPR	NO DATA	NDPR	485,050	485,050	485,050
		REFINERY SUPPLY		10,396,857	10,396,857
	73,162,438		71,536,429	85,040,977	10,881,907

Lifting Differences (TER. Vs Coy)	bbls
	1,626,009

SPDC's Terminal Balance for Bonny only recorded Liquid receipts by SPDC JV arrangement and not Total Liquid receipts by SPDC and other users of Bonny Terminal. Lifting by other users of Bonny Terminal was not documented in SPDC's Crude Lifting Template

Opening Stock from Last Audit = The reconcilled Closing Stock between the Auditors and the Operator for 2011 in the Last Audit

Calculated Closing Stock = The Computed Closing Stock by the Auditor using information provided by the Operator in Terminal Balance Template

Shows variances between the companies 2012 Opening Stock-Reconcilled 2011 Closing Stock, Company Fiscalised Crude Production-DPR Ficalised Crude

Shows variance between Operators Fiscalised Crude Production-NNPC Fiscalised Crude Production

Source: COMD Crude Production/Lifting Profile, DPR Reconcilled Crude Production Template and Company's Terminal Balance/Crude Lifting Templates

Observations:

- The terminal operator (SPDC) reported 85,516,915 bbls as production. This includes all third parties share of production.
- NNPC (COMD) reported 85,447,886 bbls as production.
- There is a variance of 69,029bbls with NNPC.
- The terminal operator (SPDC) reported 589,103 bbls as opening stock for 2012 which varies with the closing stock of 2011 (2,262,314 bbls) as reported in NEITI 2009-2011 Oil & Gas Audit. This shows a variance of 1,673,211 bbls
- The terminal operator reported 851,775 bbls as closing stock which varies with the calculated closing stock of 1,516,404 by the Audit; a variance of (664,629) bbls.
- There were significant variances in the export volumes as reported by the Terminal Operator and DPR.

The audit could not obtain signed reconciled production and lifting profiles to clarify these variances, hence the auditors' analysis is based on the individual parties' submissions.

Facility: Brass Terminal
Location: Onshore
Operator: Nigerian Agip Oil Company (NAOC)
Production Arrangement: Joint Venture (JV)
3rd Party Injector/Concession/Partners: Philips Oil, SPDC, Agip Energy and Natural Resources, Addax Petroleum, Total E&P Nig. Limited, Midwestern Oil & Energia.
Figure 9.8.6H: NAOC Brass Terminal

BRASS 2012 | **Operator: NAOC**

Production (P1.02)		
Gross Production	De-watering/Shrinkage	Liquid Passed
83,079,828	44,648,737	38,431,091
		38,431,091

Opening Stock from last Audit	Variance
1,451,760	-

NNPC Crude Production	variance (DPR - Coy)
38,896,522	-465,431

Opening Stock 1 Jan 12	1,451,760
Total Liquid Receipts	83,079,828
De-Water/Shrinkage	44,162,378
Terminal Adjustments	-486,359
Liftings	38,935,783
Closing Stock	947,068

DPR Production Crude	variance (DPR - Coy)
38,431,091	0

Calculated Closing Stock	variance
947,068	0

Liftings (Terminal Operator)	bbls
NNPC	16,699,083
AGIP	5,688,327
PHILLIPS	5,514,780
SPDC	2,049,595
AENR	2,874,531
ADDAX	857,915
PLATFORM	5,251,552
	38,935,783

Liftings (Lifting Coy)	bbls	Liftings (DPR) bbls	Variance (Coy vs DPR)
NNPC	19,658,494	19,658,494	0
AGIP	5,838,327	5,838,327	0
PHILLIPS	5,514,780	5,514,780	0
SPDC	0	0	0
AENR	1,095,000	1,095,000	0
ADDAX	627,915	627,915	0
PLATFORM	682,000	682,000	0
TOTAL	949,715	949,715	0
MIDWESTERN	3,559,552	3,559,552	0
PILLAR	475,000	475,000	0
ENERGIA	535,000	535,000	0
	38,935,783	38,935,783	0

Lifting Differences (TER. Vs Coy)	bbls
	0

Opening Stock from Last Audit = The reconcilled Closing Stock between the Auditors and the Operator for 2011 in the Last Audit
Calculated Closing Stock = The Computed Closing Stock by the Auditor using information provided by the Operator in Terminal Balance Template
Shows variances between the companies 2012 Opening Stock-Reconcilled 2011 Closing Stock, Company Fiscalised Crude Production-DPR Ficalised Crude
Shows variance between Operators Fiscalised Crude Production-NNPC Fiscalised Crude Production
Source: COMD Crude Production/Lifting Profile, DPR Reconcilled Crude Production Template and Company's Terminal Balance/Crude Lifting Templates

Observations:

- The terminal operator (NAOC) reported 38,431,091 bbls as production. This includes all partners and third parties share of production.
- NNPC (COMD) reported 38,896,522 bbls as production.
- There is a variance of (465,431) bbls with NNPC.

NNPC was not a signatory to the reconciled production volumes, thus NNPC's figures are as provided in COMD crude by Stream production profile.

Facility: Sea Eagle FPSO

Location: Offshore

Operator: Shell Petroleum Development Company (SPDC)

Production Arrangement: Joint Venture (JV)

3rd Party Injector/Concession/Partners: Total E&P Nig. Limited & Nigerian Agip Oil Company (NAOC).

Figure 9.8.6i: SPDC Sea Eagle Terminal

EA 2012 | **Operator: SPDC**

Production (P1.02)		
Gross Production	De-watering/Shrinkage	Liquid Passed
21,075,517		21,075,517
		21,075,517

Opening Stock from last Audit	Variance
636,769	1

NNPC Crude Production	variance (DPR - Coy)
21,072,517	3,000

Opening Stock 1 Jan 12	636,768
Total Liquid Receipts	21,075,517
De-Water/Shrinkage	0
Terminal Adjustments	0
Liftings	-20,830,329
Closing Stock	881,956

DPR Production Crude	variance (DPR - Coy)
21,075,517	0

Calculated Closing Stock	variance
881,956	0

Liftings (Terminal Operator)	bbls	Liftings (Lifting Coy)	bbls	Liftings (DPR) bbls	Variance (Coy vs DPR)
NNPC	5,565,096	NNPC	5,565,096	5,565,096	0
SPDC	10,707,407	SPDC	10,707,407	10,707,407	0
TEPNG	2,745,988	TEPNG	2,745,988	2,745,988	0
NAOC	1,811,838	NAOC	1,811,838	1,811,838	0
	20,830,329		20,830,329	20,830,329	0

Lifting Differences (TER. Vs Coy	bbls
	0

Opening Stock from Last Audit = The reconcilled Closing Stock between the Auditors and the Operator for 2011 in the Last Au

Calculated Closing Stock = The Computed Closing Stock by the Auditor using information provided by the Operator in Terminal Balance Template

Shows variances between the companies 2012 Opening Stock-Reconcilled 2011 Closing Stock, Company Fiscalised Crude Production-DPR Ficalised

Shows variance between Operators Fiscalised Crude Production-NNPC Fiscalised Crude Production

Source: COMD Crude Production/Lifting Profile, DPR Reconcilled Crude Production Template and Company's Terminal Balance/Crude Lifting Templates

Observations:

- The terminal operator (SPDC) reported 21,075,517 bbls as production. This includes all partners share of production.
- NNPC (COMD) reported 21,072,517 bbls as production.
- There is a variance of 3,000 bbls with NNPC.

NNPC was not a signatory to the reconciled production volumes, thus NNPC's figures are as provided in COMD crude by Stream production profile.

Facility: Ebok

Location: Offshore

Operator: Oriental Energy

Production Arrangement: Sole Risk

3rd Party Injector/Concession/Partners: Afren Resources Limited

Figure 9.8.6J: ORIENTAL Energy Ebok Terminal

EBOK 2012 — **Operator: ORIENTAL ENERGY**

Production (P1.02)		
Gross Production	De-watering/Shrinkage	Liquid Passed
13,572,053	2,449,940	11,122,113
		11,122,113

Opening Stock from last Audit	Variance
NA	

NNPC Crude Production	variance (DPR - Coy)
11,113,915	8,198

Opening Stock 1 Jan 12	295,335
Total Liquid Receipts	13,572,053
De-Water/Shrinkage	2,449,940
Terminal Adjustments	-124,788
Liftings	10,936,045
Closing Stock	356,615

DPR Production Crude	variance (DPR - Coy)
11,122,113	0

Calculated Closing Stock	variance
356,615	0

Liftings (Terminal Operator)	bbls
ORIENTAL	NO DATA
	10,936,045

Liftings (Lifting Coy)	bbls	Liftings (DPR) bbls	ariance (Coy vs DPR)
ORIENTAL	11,000,000	10,936,045	63,955
	11,000,000	10,936,045	63,955

Lifting Differences (TER. Vs Coy)	bbls
	-63,955

Opening Stock from Last Audit = The reconcilled Closing Stock between the Auditors and the Operator for 2011 in the Last Audit

Calculated Closing Stock = The Computed Closing Stock by the Auditor using information provided by the Operator in Terminal Balance Template

Shows variances between the companies 2012 Opening Stock-Reconcilled 2011 Closing Stock, Company Fiscalised Crude Production-DPR Ficalised

Shows variance between Operators Fiscalised Crude Production-NNPC Fiscalised Crude Production

Source: COMD Crude Production/Lifting Profile, DPR Reconcilled Crude Production Template and Company's Terminal Balance/Crude Lifting Templates

Observations:

- The terminal operator (Oriental) reported 11,122,113 bbls as production. This includes all partners share of production.
- NNPC (COMD) reported 11,113,915 bbls as production.
- There is a variance of 8,198 bbls with NNPC.
- The terminal operator reported 10,936,045 as Terminal lifting as against 11,000,000 bbls reported by the same company as lifting volume.
- The audit observed that the company rounded-up the lifting volumes as reported in the Crude lifting and Fiscal Value template.

There was no terminal record for Ebok in the last audit thus the audit could not compare the reported opening stock of 2012 to the reported closing stock of 2011.

NNPC was not a signatory to the reconciled production volumes, thus NNPC's figures are as provided in COMD crude by Stream production profile.

Facility: Erha FPSO

Location: Offshore

Operator: Esso Exploration and Production Nigeria Limited (EEPNL)

Production Arrangement: Production Sharing Contract (PSC)

3rd Party Injector/Concession/Partners: SNEPCO

Figure 15.8K: EEPNL Erha FPSO Terminal

ERHA 2012 — **Operator: ESSO EXPLORATION**

Production (P1.02)		
Gross Production	De-watering/Shrinkage	Liquid Passed
45,680,658	0	45,680,658
		45,680,658

Opening Stock from last Audit	Variance
1,306,748	-

NNPC Crude Production	variance (DPR - Coy)
45,680,674	-16

Opening Stock 1 Jan 12	1,306,748
Total Liquid Receipts	45,680,658
De-Water/Shrinkage	0
Terminal Adjustments	0
Liftings	46,411,568
Closing Stock	575,853

DPR Production Crude	variance (DPR - Coy)
45,680,658	0

Calculated Closing Stock	variance
575,838	15

Liftings (Terminal Operator)	bbls
NNPC	24,274,000
SNEPCO	9,768,420
EEPNL	12,369,148
	46,411,568

Liftings (Lifting Coy)	bbls	Liftings (DPR) bbls	ariance (Coy vs DPR)
NNPC	24,274,000	25,274,006	1,000,006
SNEPCO	9,768,420	8,768,414	-1,000,006
EEPNL	12,369,148	12,369,148	0
	46,411,568	46,411,568	0

Lifting Differences (TER. Vs Coy)	bbls
	0

Opening Stock from Last Audit = The reconcilled Closing Stock between the Auditors and the Operator for 2011 in the Last Audit

Calculated Closing Stock = The Computed Closing Stock by the Auditor using information provided by the Operator in Terminal Balance Template

Shows variances between the companies 2012 Opening Stock-Reconcilled 2011 Closing Stock, Company Fiscalised Crude Production-DPR Ficalised

Shows variance between Operators Fiscalised Crude Production-NNPC Fiscalised Crude Production

Source: COMD Crude Production/Lifting Profile, DPR Reconcilled Crude Production Template and Company's Terminal Balance/Crude Lifting Templates

Observations:

- The terminal operator (EEPNL) reported 45,680,658 bbls as production. This includes all partners share of production.
- NNPC (COMD) reported 45,680,674 bbls as production.

- There is a variance of (16) bbls with NNPC.
- The terminal operator reported 575,853 bbls as closing stock for 2012 as against 575,838 bbls which is the calculated closing stock by the Audit.
- There is a variance of 15 bbls in the Closing stock computation.

NNPC was not a signatory to the reconciled production volumes, thus NNPC's figures are as provided in COMD crude by Stream production profile.

Facility: Escravos Terminal

Location: Onshore

Operator: Chevron Nigeria Limited (CNL)

Production Arrangement: Joint Venture (JV)

3rd Party Injector/Concession/Partners: Britania-U, ConOil, Dubri Oil

Figure 9.8.6K: CNL Escravos Terminal

ESCRAVOS 2012 — **Operator: CHEVRON**

Production (P1.02)		
Gross Production	De-watering/Shrinkage	Liquid Passed
82,992,947	0	82,992,947
		82,992,947

Opening Stock from last Audit	Variance
847,004	-

NNPC Crude Production	variance (DPR - Coy)
82,996,486	-3,539

DPR Production Crude	variance (DPR - Coy)
83,025,574	32,627

Opening Stock 1 Jan 12	847,004
Total Liquid Receipts	82,992,947
De-Water/Shrinkage	0
Terminal Adjustments	0
Liftings	82,924,473
Closing Stock	915,478

Calculated Closing Stock	variance
915,478	0

Liftings (Terminal Operator)	bbls
BRITANIA U	400,500
DUBRI	130,000
CONOIL	560,000
NNPC	48,177,703
CNL	33,656,270
	82,924,473

Liftings (Lifting Coy)	bbls	Liftings (DPR) bbls	ariance (Coy vs DPR)
BRITANIA U	400,500	400,500	0
DUBRI	130,000	130,000	0
CONOIL	560,000	560,000	0
NNPC	48,177,703	48,177,703	0
CNL	33,656,270	33,656,270	0
	82,924,473	82,924,473	0

Lifting Differences (TER. Vs Coy)	bbls
	0

No reconciled production figure

NNPC Lifting is made up of 26,114,603 bbls of Export Crude and 22,063,100 bbls of Refinery Crude.

Opening Stock from Last Audit = The reconcilled Closing Stock between the Auditors and the Operator for 2011 in the Last Audit

Calculated Closing Stock = The Computed Closing Stock by the Auditor using information provided by the Operator in Terminal Balance Template

Shows variances between the companies 2012 Opening Stock-Reconcilled 2011 Closing Stock, Company Fiscalised Crude Production-DPR Ficalised

Shows variance between Operators Fiscalised Crude Production-NNPC Fiscalised Crude Production

Source: COMD Crude Production/Lifting Profile, DPR Reconcilled Crude Production Template and Company's Terminal Balance/Crude Lifting Templates

Observations:

- The terminal operator (CNL) reported 82,992,947 bbls as production. This includes all partners share of production.
- NNPC (COMD) reported 82,996,486 bbls as production.
- DPR reported 83,025,574 bbls as production.
- DPR volume is reconciled with all the companies and is made up of 483,823 bbls (Brittania-U), 128,295 bbls (Dubri), 625,331 bbls (Conoil) and 81,788,125 bbls (Chevron)
- There is a variance of (3,539) and (32,627) bbls with NNPC and DPR respectively.

Facility: Forcados Terminal

Location: Onshore

Operator: Shell Petroleum Development Company (SPDC)

Production Arrangement: Joint Venture (JV)

3rd Party Injector/Concession/Partners: Total E&P Nig. Limited, NAOC, Philips Oil, NPDC, Seplat, First Hydrocarbon, Neconde, Septa & ND Western

Figure 9.8.6L: SPDC Forcados Terminal

FORCADOS 2012 — **Operator: SPDC**

Production (P1.02)		
Gross Production	De-watering/Shrinkage	Liquid Passed
72,439,137	0	72,439,137
		72,439,137

Opening Stock from last Audit	Variance
1,234,259	616,703

NNPC Crude Production	variance (DPR - Coy)
70,200,953	2,238,184

Opening Stock 1 Jan 12	617,556
Total Liquid Receipts	50,169,328
De-Water/Shrinkage	0
Terminal Adjustments	3,081
Liftings	-48,453,965
Closing Stock	2,156,356

DPR Production Crude	variance (DPR - Coy)
72,439,137	0

Calculated Closing Stock	variance
2,329,838	-173,482

Liftings (Terminal Operator)	bbls	Liftings (Lifting Coy)	bbls	Liftings (DPR) bbls	Variance (Coy vs DPR)
NNPC	25,752,931	NNPC	23,203,337	26,398,418	3,195,081
SPDC	14,494,077	SPDC	16,799,052	14,494,077	-2,304,975
TEPNG	5,901,982	TEPNG	5,901,982	5,901,982	0
NAOC	2,304,975	NAOC	2,304,975	2,639,225	334,250
PHILLPS	NO DATA		NO DATA	205,950	205,950
NPDC	NO DATA		26,215,348	10,377,278	-15,838,070
SEPLAT	NO DATA		5,187,408	5,187,409	1
FHN	NO DATA		NO DATA	965,571	965,571
NECONDE	NO DATA		NO DATA	1,704,058	1,704,058
SEPTA	NO DATA		NO DATA	1,312,394	1,312,394
ND WESTERN	NO DATA		NO DATA	400,000	400,000
REFINERY	NO DATA		NO DATA	2,466,576	2,466,576
	48,453,965		79,612,102	72,052,938	-7,559,164

SPDC's Terminal Balance for FORCADOS only recorded Liquid receipts by SPDC JV arrangement and not Total Liquid receipts by SPDC JV arrangement and other users of FORCADOS Terminal. Lifting by other users of FORCADOS Terminal was not documented in SPDC's Crude Lifting

Lifting Differences (TER. Vs Coy	bbls
	-31,158,137

Opening Stock from Last Audit = The reconcilled Closing Stock between the Auditors and the Operator for 2011 in the Last Audit

Calculated Closing Stock = The Computed Closing Stock by the Auditor using information provided by the Operator in Terminal Balance Template

Shows variances between the companies 2012 Opening Stock-Reconcilled 2011 Closing Stock, Company Fiscalised Crude Production-DPR Ficalised

Shows variance between Operators Fiscalised Crude Production-NNPC Fiscalised Crude Production

Source: COMD Crude Production/Lifting Profile, DPR Reconcilled Crude Production Template and Company's Terminal Balance/Crude Lifting Templates

Observations:

- The terminal operator (SPDC) reported 72,439,137 bbls as production. This includes all partners and third parties share of production.
- NNPC (COMD) reported 70,200,953 bbls as production.
- There is a variance of 2,238,184 bbls with NNPC.

- The terminal operator reported 617,556 bbls as Terminal opening stock for 2012 against 1,234,259 bbls as reported in the NEITI 2009-2011 Industry Audit as closing stock for 2011.
- There is a significant variance of 616,703 bbls
- The terminal operator reported 2,156,356 bbls as the Terminal closing stock for 2012 which is less by 173,482 bbls of 2,329,838 bbls as calculated closing stock by the audit.
- The terminal Operator reported 48,453,965 bbls as Terminal liftings as against 79,612,102 bbls and 72,052,938 bbls reported by the companies and DPR respectively
- The terminal operator did not report liftings by the 3rd parties thus the huge variances.

The audit could not obtain signed reconciled lifting profiles to clarify these variances, hence the auditors' analysis is based on the individual parties' submissions as available.

NNPC was not a signatory to the reconciled production volumes, thus NNPC's figures are as provided in COMD crude by Stream production profile.

Facility: Okoro/Ima

Location: Offshore

Operator: AMNI

Production Arrangement: Marginal

3rd Party Injector/Concession/Partners: Total E&P Nigeria Limited

Figure : AMNI Okoro/Ima Terminal

IMA/OKORO 2012 — **Operator: AMNI**

Production (P1.02)		
Gross Production	De-watering/Shrinkage	Liquid Passed
6,418,351	0	6,418,351
		6,418,351

Opening Stock from last Audit	Variance
NA	

NNPC Crude Production	variance (DPR - Coy)
5,737,204	681,147

Opening Stock 1 Jan 12	1,085,665
Total Liquid Receipts	6,418,351
De-Water/Shrinkage	0
Terminal Adjustments	-3,711
Liftings	6,718,819
Closing Stock	781,486

DPR Production Crude	variance (DPR - Coy)
6,418,351	0

Calculated Closing Stock	variance
781,486	0

Liftings (Terminal Operator)	bbls
OKORO	6,358,125
IMA	360,694
	6,718,819

Liftings (Lifting Coy)	bbls	Liftings (DPR) bbls	ariance (Coy vs DPR)
OKORO	6,358,125	6,358,125	0
IMA	360,694	360,694	0
	6,718,819	6,718,819	0

Lifting Differences (TER. Vs Coy	bbls
	0

Opening Stock from Last Audit = The reconcilled Closing Stock between the Auditors and the Operator for 2011 in the Last Audit

Calculated Closing Stock = The Computed Closing Stock by the Auditor using information provided by the Operator in Terminal Balance Template

Shows variances between the companies 2012 Opening Stock-Reconcilled 2011 Closing Stock, Company Fiscalised Crude Production-DPR

Shows variance between Operators Fiscalised Crude Production-NNPC Fiscalised Crude Production

Source: COMD Crude Production/Lifting Profile, DPR Reconcilled Crude Production Template and Company's Terminal Balance/Crude Lifting Templates

Observations:

- The terminal operator (AMNI) reported 6,418,351 bbls as total production for IMA and Okoro fields.
- NNPC (COMD) reported 5,737,204 bbls as production.
- There is a variance of 681,147 bbls with NNPC.

There was no record for IMA/OKORO in the 2009-2011 NEITI Industry audit thus no available data to compare Amni's opening stock for 2012

Facility: Okono

Location: Onshore

Operator: Nigerian Petroleum Development Company (NPDC)

Production Arrangement: Sole Risk

3rd Party Injector/Concession/Partners: Agip Energy and Natural Resources (AENR)

Figure 9.8.6 O: NPDC Okono Terminal

OKONO 2012 — **Operator: NPDC**

Production (P1.02)		
Gross Production	De-watering/Shrinkage	Liquid Passed
18,594,789	2,291,392	16,303,397
		16,303,397

Opening Stock from last Audit	Variance
NA	

NNPC Crude Production	variance (DPR - Coy)
13,488,363	2,815,034

Opening Stock 1 Jan 12	380,926
Total Liquid Receipts	18,594,789
De-Water/Shrinkage	2,308,750
Terminal Adjustments	17,358
Liftings	16,630,272
Closing Stock	99,320

DPR Production Crude	variance (DPR - Coy)
16,348,665	45,268

Calculated Closing Stock	variance
54,051	45,269

Liftings (Terminal Operator)	bbls
AENR	2,199,340
NPDC	14,430,932
	16,630,272

Liftings (Lifting Coy)	bbls	Liftings (DPR) bbls	ariance (Coy vs DPR)
AENR	2,199,340	2,199,340	0
NPDC	14,430,932	14,430,932	0
	16,630,272	16,630,272	0

Lifting Differences (TER. Vs Coy	bbls
	0

Opening Stock from Last Audit = The reconcilled Closing Stock between the Auditors and the Operator for 2011 in the Last Audit

Calculated Closing Stock = The Computed Closing Stock by the Auditor using information provided by the Operator in Terminal Balance Template

Shows variances between the companies 2012 Opening Stock-Reconcilled 2011 Closing Stock, Company Fiscalised Crude Production-DPR

Shows variance between Operators Fiscalised Crude Production-NNPC Fiscalised Crude Production

Source: COMD Crude Production/Lifting Profile, DPR Reconcilled Crude Production Template and Company's Terminal Balance/Crude Lifting Templates

Observations:

- The terminal operator (NPDC) reported 16,303,397 bbls as total production which includes all parties' production volumes.
- NNPC (COMD) reported 13,488,363 bbls as production.
- DPR reported 16,348,665 bbls as production.
- There is a variance of 2,815,034 bbls and 45,268 bbls with NNPC and DPR respectively.
- There was no record for OKONO in the 2009-2011 NEITI Industry audit thus no available data to compare NPDC's opening stock for 2012.

- The terminal Operator (NPDC) reported 99,320 bbls as Terminal closing stock as against 54,051 bbls reported by the audit as calculated closing stock.
- There is a variance of 45,269 bbls.

The audit could not obtain signed reconciled production and lifting profiles to clarify these variances, hence the auditors' analysis is based on the individual parties' submissions.

Facility: Okwori

Location: Offshore

Operator: Addax Petroleum Exploration Nigeria Limited (APENL)

Production Arrangement: Production Sharing Contract (PSC)

3rd Party Injector/Concession/Partners:

Figure 9.8.6P: APENL Okwori Terminal

OKWORI 2012	**Operator: ADDAX**

Production (P1.02)		
Gross Production	De-watering/Shrinkage	Liquid Passed
21,061,085	8,966,301	12,094,784
		12,094,784

Opening Stock from last Audit	Variance
176,176	1

NNPC Crude Production	variance (DPR - Coy)
11,118,187	976,597

Opening Stock 1 Jan 12	176,175
Total Liquid Receipts	21,061,085
De-Water/Shrinkage	-8,966,301
Terminal Adjustments	0
Liftings	11,767,917
Closing Stock	503,042

DPR Production Crude	variance (DPR - Coy)
12,094,784	0

Calculated Closing Stock	variance
503,042	0

Liftings (Terminal Operator)	bbls
NNPC	4,212,011
ADDAX	7,555,906
	11,767,917

Liftings (Lifting Coy)	bbls	Liftings (DPR) bbls	Variance (Coy vs DPR)
NNPC	4,212,011	4,212,011	0
ADDAX	7,555,906	7,555,906	0
	11,767,917	11,767,917	0

Lifting Differences (TER. Vs Coy)	bbls
	0

Opening Stock from Last Audit = The reconcilled Closing Stock between the Auditors and the Operator for 2011 in the Last Audit

Calculated Closing Stock = The Computed Closing Stock by the Auditor using information provided by the Operator in Terminal Balance Template

Shows variances between the companies 2012 Opening Stock-Reconcilled 2011 Closing Stock, Company Fiscalised Crude Production-DPR Ficalised Crude

Shows variance between Operators Fiscalised Crude Production-NNPC Fiscalised Crude Production

Source: COMD Crude Production/Lifting Profile, DPR Reconcilled Crude Production Template and Company's Terminal Balance/Crude Lifting Templates

Observations:

- The terminal operator (APENL) reported 12,094,784 bbls as production.
- NNPC (COMD) reported 11,118,187 bbls as production.

There is a variance of 976,597 with NNPC. NNPC was not a signatory to the reconciled production volumes thus NNPC's figures are as provided in COMD crude by Stream production profile.

Facility: Oyo

Location: Offshore;

Operator: Allied Energy Plc.

Production Arrangement: Marginal

3rd Party Injector/Concession/Partners:

Figure 9.8.6Q: Allied Energy Oyo Terminal

OYO 2012 | **Operator: ALLIED ENERGY**

Production (P1.02)		
Gross Production	De-watering/Shrinkage	Liquid Passed
1,009,842	0	1,009,842
		1,009,842

Opening Stock from last Audit	Variance
NA	

NNPC Crude Production	variance (DPR - Coy)
749,826	260,016

Opening Stock 1 Jan 12	110,164
Total Liquid Receipts	1,009,842
De-Water/Shrinkage	0
Terminal Adjustments	0
Liftings	1,015,747
Closing Stock	104,259

DPR Production Crude	variance (DPR - Coy)
1,009,842	0

Calculated Closing Stock	variance
104,259	0

Liftings (Terminal Operator)	bbls
ALLIED	1,015,747
	1,015,747

Liftings (Lifting Coy)	bbls	Liftings (DPR) bbls	Variance (Coy vs DPR)
ALLIED	1,015,747	1,015,747	0
	1,015,747	1,015,747	0

Lifting Differences (TER. Vs Coy)	bbls
	0

Opening Stock from Last Audit = The reconcilled Closing Stock between the Auditors and the Operator for 2011 in the Last Audit

Calculated Closing Stock = The Computed Closing Stock by the Auditor using information provided by the Operator in Terminal Balance Template

Shows variances between the companies 2012 Opening Stock-Reconcilled 2011 Closing Stock, Company Fiscalised Crude Production-DPR Ficalised

Shows variance between Operators Fiscalised Crude Production-NNPC Fiscalised Crude Production

Source: COMD Crude Production/Lifting Profile, DPR Reconcilled Crude Production Template and Company's Terminal Balance/Crude Lifting Templates

Observations:

- The terminal operator (Allied Energy) reported 1,009,842 bbls as total production.
- NNPC (COMD) reported 749,826 bbls as production.

- There is a variance of 260,016 bbls with NNPC.
- There was no record for OYO in the 2009-2011 NEITI Industry audit thus no available data to compare OYO's opening stock for 2012

NNPC was not a signatory to the reconciled production volumes thus NNPC's figures are as provided in COMD crude by Stream production profile.

Facility: Pennington

Location: Offshore

Operator: Chevron Nigeria Limited

Production Arrangement: Joint Venture (JV)

3rd Party Injector/Concession/Partners: CONOG

Figure 9.8.6R: CNL Pennington Terminal

PENNINGTON 2012 — **Operator: CHEVRON**

Production (P1.02)		
Gross Production	De-watering/Shrinkage	Liquid Passed
9,105,572	0	9,105,572
		9,105,572

Opening Stock from last Audit	Variance
(160)	(160)

NNPC Crude Production	variance (DPR - Coy)
9,101,093	4,479

Opening Stock 1 Jan 12	0
Total Liquid Receipts	9,102,862
De-Water/Shrinkage	0
Terminal Adjustments	2,710
Liftings	9,105,572
Closing Stock	0

DPR Production Crude	variance (DPR - Coy)
9,105,572	0

Calculated Closing Stock	variance
0	0

Liftings (Terminal Operator)	bbls	Liftings (Lifting Coy)	bbls	Liftings (DPR) bbls	Variance (Coy vs DPR)
CONOG	5,393,657	CONOG	4,926,084	4,926,084	0
NNPC	1,984,806	NNPC	1,984,806	1,984,806	0
CNL	1,727,109	CNL	1,881,677	1,881,677	0
					0
					0
	9,105,572		8,792,567	8,792,567	0

Lifting Differences (TER. Vs Coy	bbls
	313,005

Opening Stock from Last Audit = The reconcilled Closing Stock between the Auditors and the Operator for 2011 in the Last Audit

Calculated Closing Stock = The Computed Closing Stock by the Auditor using information provided by the Operator in Terminal Balance Template

Shows variances between the companies 2012 Opening Stock-Reconcilled 2011 Closing Stock, Company Fiscalised Crude Production-DPR Ficalised

Shows variance between Operators Fiscalised Crude Production-NNPC Fiscalised Crude Production

Source: COMD Crude Production/Lifting Profile, DPR Reconcilled Crude Production Template and Company's Terminal Balance/Crude Lifting Templates

Observations:

- The terminal operator (CNL) reported 9,105,572 bbls as total production including 3rd party volumes.
- NNPC (COMD) reported 9,101,093 bbls as production.
- There is a variance of 1,769 bbls with NNPC.

- There is a variance of (160) in the reported opening stock as against the reported closing stock of 2011 in NEITI Industry audit.
- The terminal Operator (CNL) reported 9,105,572 bbls as Terminal liftings as against 8,792,567 bbls reported by the companies in the Crude Lifting templates and DPR.
- There is a variance of 313,005 bbls.

Chevron explained the difference in the lifting volumes thus: The terminal balance template and the export reconciliation sign-off are not the same because “Direct Export” operations are employed in the production and export operations in Pennington Terminal since 2007. It follows therefore that some volumes in the terminal balance in a particular year gets lifted in the following year and this overlap continues into every year. The export data is only determined with the date on the Bill of Lading documents, while the data in the Terminal balance template is estimated for each year end.

Facility: Qua-Iboe

Location: Onshore

Operator: Mobil Producing Nigeria Unlimited (MPNU)

Production Arrangement: Joint Venture (JV)

3rd Party Injector/Concession/Partners:

Figure 9.8.6S: MPNU Qua -Iboe Terminal

QIT 2012 **Operator: MPNU**

Production (P1.02)		
Gross Production	De-watering/Shrinkage	Liquid Passed
128,852,443	0	128,852,443
		128,852,443

Opening Stock from last Audit	Variance
1,891,115	-

NNPC Crude Production	ariance (NNPC - Coy)
128,852,354	89

Opening Stock 1 Jan 12	1,891,115
Total Liquid Receipts	128,852,443
De-Water/Shrinkage	0
Terminal Adjustments	0
Liftings	129,434,223
Closing Stock	1,309,328

DPR Crude Production	variance (DPR - Coy)
128,852,443	0

Calculated Closing Stock	variance
1,309,328	0

Liftings (Terminal Operator)	bbls
MPN	52,821,620
NNPC	76,612,603
	129,434,223

Liftings (Lifting Coy)	bbls	Liftings (DPR) bbls	Variance (Coy vs DPR)
MPN	52,821,620	52,820,620	-1,000
NNPC	76,612,603	76,613,603	1,000
	129,434,223	129,434,223	0

Lifting Differences (TER. Vs Coy)	bbls
	0

2011 Closing Stock for OSO Condensate of 237,315 bbls was transferred to QIT operations which added to QIT Closing stock of 2011.

Opening Stock from Last Audit = The reconcilled Closing Stock between the Auditors and the Operator for 2011 in the Last Audit

Calculated Closing Stock = The Computed Closing Stock by the Auditor using information provided by the Operator in Terminal Balance Template

Shows variances between the companies 2012 Opening Stock-Reconcilled 2011 Closing Stock, Company Fiscalised Crude Production-DPR Ficalised Crude Production, Operators Closing Stock-Auditors Calculated Closing Stock and Lifting Differences between Operator, Company and DPR

Shows variance between Operators Fiscalised Crude Production-NNPC Fiscalised Crude Production

Source: COMD Crude Production/Lifting Profile, DPR Reconcilled Crude Production Template and Company's Terminal Balance/Crude Lifting Templates

Production from OSO platform is exported through QIT hence OSO platform data is part of QIT data.

Observations:

- The terminal operator (MPNU) reported 128,852,443 bbls as production.
- NNPC (COMD) reported 128,852,354 bbls as production.
- There is a variance of 89bbls with NNPC.

NNPC was not a signatory to the reconciled production volumes thus NNPC's figures are as provided in COMD crude by Stream production profile

Facility: Tulia

Location: Offshore

Operator: Sterling Oil Exploration and Energy Production Company Limited (SEEPCO)

Production Arrangement: Production Sharing Contract (PSC)

3rd Party Injector/Concession/Partners:

Figure 9.8.6T: SEEPCO Tulia Terminal

TULJA 2012	**Operator: SEEPCO**

Production (P1.02)		
Gross Production	De-watering/Shrinkage	Liquid Passed
1,622,834	2,030	1,620,804
		1,620,804

Opening Stock from last Audit	Variance
543,604	(14,953)

NNPC Crude Production	variance (DPR - Coy)
1,273,891	346,913

Opening Stock 1 Jan 12	558,557
Total Liquid Receipts	1,622,834
De-Water/Shrinkage	2,030
Terminal Adjustments	0
Liftings	2,132,939
Closing Stock	27,945

DPR Production Crude	variance (DPR - Coy)
1,622,834	2,030

Calculated Closing Stock	variance
27,945	0

Liftings (Terminal Operator)	bbls
STERLING	2,132,939
	2,132,939

Liftings (Lifting Coy)	bbls	Liftings (DPR) bbls	ariance (Coy vs DPR)
STERLING	2,132,939	2,132,939	0
	2,132,939	2,132,939	0

Lifting Differences (TER. Vs Coy)	bbls
	0

Opening Stock from Last Audit = The reconcilled Closing Stock between the Auditors and the Operator for 2011 in the Last Audit

Calculated Closing Stock = The Computed Closing Stock by the Auditor using information provided by the Operator in Terminal Balance Template

Shows variances between the companies 2012 Opening Stock-Reconcilled 2011 Closing Stock, Company Fiscalised Crude Production-DPR Ficalised

Shows variance between Operators Fiscalised Crude Production-NNPC Fiscalised Crude Production

Source: COMD Crude Production/Lifting Profile, DPR Reconcilled Crude Production Template and Company's Terminal Balance/Crude Lifting Templates

Observations:

- The terminal operator (SEEPCO) reported 1,620,804 bbls as production.
- NNPC (COMD) reported 1,273,891 bbls as production.
- DPR reported 1,622,834 bbls as production.

- There is a variance of 346,913 and 2,030 bbls with NNPC and DPR respectively.
- The terminal operator (SEEPCO) reported 558,557 bbls as 2012 Terminal opening stock as against 543,604 bbls reported in NEITI 2009-2011 Industry Audit as 2011 closing stock.
- There is a variance of (14,953) bbls.

The audit could not obtain signed reconciled production and lifting profiles to clarify these variances, hence the auditors' analysis is based on the individual parties' submissions.

Facility: Ukpokiti

Location: Offshore

Operator: Shebah E&P Company Limited (SEPCOL)

Production Arrangement: Sole Risk

3rd Party Injector/Concession/Partners: Express Petroleum, Atlas Petroleum & SOGW

Figure 15.8U: SEPCOL Ukpokiti Terminal

UKPOKITI 2012 — **Operator: ATLAS/EXPRESS/SHEBAH**

Production (P1.02)		
Gross Production	De-watering/Shrinkage	Liquid Passed
509,183	0	509,183
		509,183

Opening Stock from last Audit	Variance
NA	

NNPC Crude Production	variance (DPR - Coy)
411,860	97,323

DPR Production Crude	variance (DPR - Coy)
509,183	0

Opening Stock 1 Jan 12	94,253
Total Liquid Receipts	509,177
De-Water/Shrinkage	0
Terminal Adjustments	0
Liftings	375,000
Closing Stock	228,430

Calculated Closing Stock	variance
228,430	0

Liftings (Terminal Operator)	bbls
ATLAS	187,500
SOGW	187,500
	375,000

Liftings (Lifting Coy)	bbls	Liftings (DPR) bbls	Variance (Coy vs DPR)
EXPRESS	187,500	429,835	242,335
SOGW	187,500	375,000	187,500
	375,000	804,835	429,835

Lifting Differences (TER. Vs Coy)	bbls
	0

Opening Stock from Last Audit = The reconcilled Closing Stock between the Auditors and the Operator for 2011 in the Last Audit

Calculated Closing Stock = The Computed Closing Stock by the Auditor using information provided by the Operator in Terminal Balance Template

Shows variances between the companies 2012 Opening Stock-Reconcilled 2011 Closing Stock, Company Fiscalised Crude Production-DPR Ficalised

Shows variance between Operators Fiscalised Crude Production-NNPC Fiscalised Crude Production

Source: COMD Crude Production/Lifting Profile, DPR Reconcilled Crude Production Template and Company's Terminal Balance/Crude Lifting Templates

Observations:

- The terminal operator (SEPCOL) reported 509,183 bbls as production.
- NNPC (COMD) reported 411,860 bbls as production.

- There is a variance of 97,323 bbls with NNPC.
- There was no record for SEPCOL in the 2009-2011 NEITI Industry audit thus no available data to compare SEPCOL's opening stock for 2012
- The terminal operator (SEPCOL) reported 375,000 bbls as total Terminal lifting.
- DPR reported 804,835 bbls as total Terminal lifting.
- There is a variance of 429,835 bbls in lifting volumes.

The audit could not obtain signed reconciled production and lifting profiles (for all parties) to clarify these variances, hence the auditors' analysis is based on the individual parties' submissions.

Facility: Usan

Location: Offshore

Operator: Total E&P Nigeria

Production Arrangement: Production Sharing Contract (PSC)

3rd Party Injector/Concession/Partners: Chevron, ESSO & Nexen Petroleum Nigeria

Figure 9.8.6V: TEPNG Usan Terminal

FPSO USAN 2012 — **Operator: TEPNG**

Production (P1.02)		
Gross Production	De-watering/Shrinkage	Liquid Passed
29,373,767	0	29,373,767
		29,373,767

Opening Stock from last Audit	Variance
NA	

NNPC Crude Production	variance (DPR - Coy)
29,457,725	-83,958

Opening Stock 1 Jan 12	0
Total Liquid Receipts	29,373,767
De-Water/Shrinkage	0
Terminal Adjustments	0
Liftings	28,942,685
Closing Stock	581,879

DPR Production Crude	variance (DPR - Coy)
25,726,777	-3,646,990

Calculated Closing Stock	variance
431,081	150,798

Liftings (Terminal Operator)	bbls
NNPC	2,996,104
TEPNG	5,590,156
EXXON	7,382,975
CNL	7,385,023
NEXEN	5,588,428
	28,942,686

Liftings (Lifting Coy)	bbls	Liftings (DPR) bbls	Variance (Coy vs DPR)
NNPC	10,949,193	10,949,193	0
TEPNG	3,998,833	3,998,833	0
EXXON	4,997,879	4,997,879	
CNL	5,000,122	5,000,122	
NEXEN	3,996,656	3,996,656	
	28,942,683	28,942,683	0

Lifting Differences (TER. Vs Coy)	bbls
	3

Opening Stock from Last Audit = The reconcilled Closing Stock between the Auditors and the Operator for 2011 in the Last Audit

Calculated Closing Stock = The Computed Closing Stock by the Auditor using information provided by the Operator in Terminal Balance Template

Shows variances between the companies 2012 Opening Stock-Reconcilled 2011 Closing Stock, Company Fiscalised Crude Production-DPR Ficalised

Shows variance between Operators Fiscalised Crude Production-NNPC Fiscalised Crude Production

Source: COMD Crude Production/Lifting Profile, DPR Reconcilled Crude Production Template and Company's Terminal Balance/Crude Lifting Templates

Observations:

- The terminal operator (TEPNG) reported 29,373,767 bbls as total production including partners' volumes.
- NNPC (COMD) reported 29,457,725 bbls as production.
- DPR reported 25,726,777 bbls as production.
- There is a variance of (83,958) bbls and (3,646,990) bbls with NNPC and DPR respectively.
- The terminal operator (TEPNG) reported 581,879 bbls as terminal closing stock as against 431,081 bbls as reported by the audit as calculated closing stock of 2012.
- The terminal Operator (TEPNG) reported 28,942,686 bbls as Terminal liftings as against 28,942,683 bbls reported by the companies in the Crude Lifting templates and DPR.
- There is a variance of 3 bbls.

The audit could not obtain signed reconciled production and lifting profiles to clarify these variances thus the auditors' analysis is based on the individual parties' submissions.

Facility: Usan

Location: Offshore

Operator: Mobil Producing Nigeria Unlimited (MPNU)

Production Arrangement: Joint Venture (JV)

3rd Party Injector/Concession/Partners:

Figure 9.8.6W: MPNU Usan Terminal

YOHO 2012 | **Operator: MPNU**

Production (P1.02)		
Gross Production	De-watering/Shrinkage	Liquid Passed
27,685,727	0	27,685,727
		27,685,727

Opening Stock from last Audit	Variance
488,645	2

NNPC Crude Production	variance (DPR - Coy)
27,682,565	3,162

Opening Stock 1 Jan 12	488,643
Total Liquid Receipts	27,732,398
De-Water/Shrinkage	0
Terminal Adjustments	-108
Liftings	27,746,355
Closing Stock	474,578

DPR Production Crude	variance (DPR - Coy)
27,685,727	0

Calculated Closing Stock	variance
474,578	0

Liftings (Terminal Operator)	bbls
MPN	11,560,390
NNPC	16,185,965
	27,746,355

Liftings (Lifting Coy)	bbls	Liftings (DPR) bbls	Variance (Coy vs DPR)
MPN	11,540,354	11,540,354	0
NNPC	16,158,713	16,158,713	0
	27,699,067	27,699,067	0

Lifting Differences (TER. Vs Coy)	bbls
	47,288

Opening Stock from Last Audit = The reconcilled Closing Stock between the Auditors and the Operator for 2011 in the Last Audit

Calculated Closing Stock = The Computed Closing Stock by the Auditor using information provided by the Operator in Terminal Balance Template

Shows variances between the companies 2012 Opening Stock-Reconcilled 2011 Closing Stock, Company Fiscalised Crude Production-DPR Ficalised

Shows variance between Operators Fiscalised Crude Production-NNPC Fiscalised Crude Production

Source: COMD Crude Production/Lifting Profile, DPR Reconcilled Crude Production Template and Company's Terminal Balance/Crude Lifting Templates

Observations:

- The terminal operator (MPNU) reported 27,685,727 bbls as total production volumes.
- NNPC (COMD) reported 27,682,565 bbls as production.
- There is a variance of 3,162 bbls with NNPC.
- There is an insignificant variance of 2 bbls between the Terminal operators' 2012 opening stock and the reported 2011 closing stock as contained in NEITI 2009-2011 Industry Audit report.
- The terminal Operator (MPNU) reported 27,746,355 bbls as Terminal liftings as against 27,699,067 bbls reported by the companies in the Crude Lifting templates and DPR.
- There is a variance of 47,288 bbls.

NNPC was not a signatory to the reconciled production volumes thus NNPC's figures are as provided in COMD crude by Stream production profile.

Facility: Zafiro

Location: Offshore

Operator: TEPNG (Nigeria) & Mobil (Equatorial Guinea)

Production Arrangement: Joint Venture (JV)

3rd Party Injector/Concession/Partners:

Figure 9.8.6X: TEPNG Zafiro Terminal

EKANGA ZAFIRO 2012 — **Operator: TEPNG**

Production (P1.02)		
Gross Production	De-watering/Shrinkage	Liquid Passed
4,512,780	0	4,512,780
		4,512,780

Opening Stock from last Audit	Variance
NA	

NNPC Crude Production	variance (DPR - Coy)
4,130,550	382,230

Opening Stock 1 Jan 12	656,389
Total Liquid Receipts	4,512,780
De-Water/Shrinkage	0
Terminal Adjustments	0
Liftings	4,844,592
Closing Stock	324,577

DPR Production Crude	variance (DPR - Coy)
4,512,780	0

Calculated Closing Stock	variance
324,577	0

Liftings (Terminal Operator)	bbls
NNPC	1,942,848
TEPNG	2,901,744
	4,844,592

Liftings (Lifting Coy)	bbls	Liftings (DPR) bbls	Variance (Coy vs DPR)
NNPC	1,942,848	1,942,848	0
TEPNG	2,901,744	2,901,744	0
	4,844,592	4,844,592	0

Lifting Differences (TER. Vs Coy)	bbls
	0

Opening Stock from Last Audit = The reconcilled Closing Stock between the Auditors and the Operator for 2011 in the Last Audit

Calculated Closing Stock = The Computed Closing Stock by the Auditor using information provided by the Operator in Terminal Balance Template

Shows variances between the companies 2012 Opening Stock-Reconcilled 2011 Closing Stock, Company Fiscalised Crude Production-DPR Ficalised

Shows variance between Operators Fiscalised Crude Production-NNPC Fiscalised Crude Production

Source: COMD Crude Production/Lifting Profile, DPR Reconcilled Crude Production Template and Company's Terminal Balance/Crude Lifting Templates

This is a unitized zone jointly operated by TEPNG (60%) and Mobil Equatorial Guinea (40%).

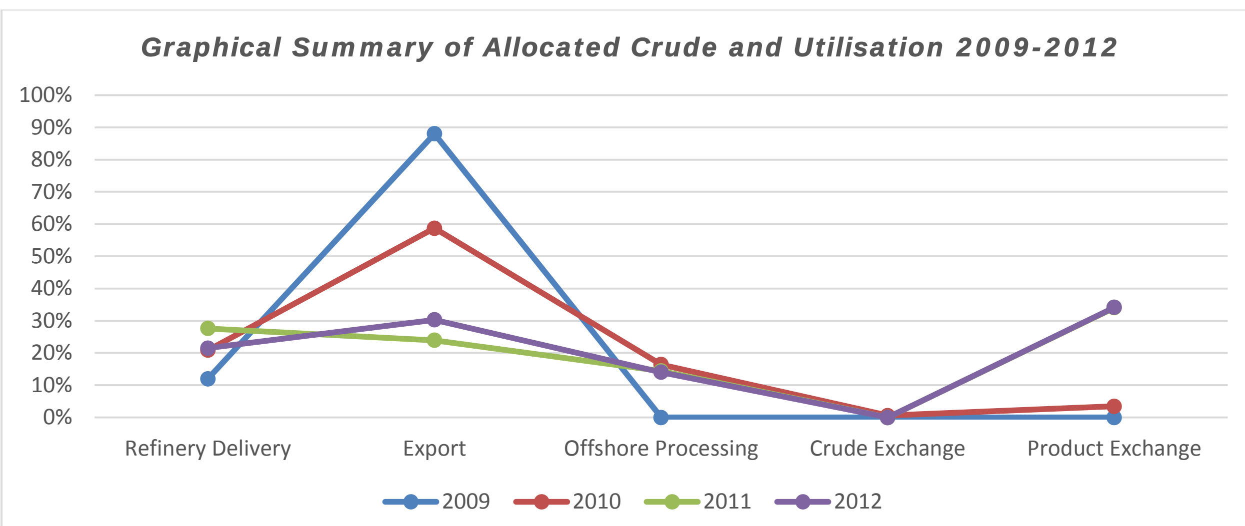
9.8.7 Domestic Liftings
9.8.7.1 Crude allocation to refineries

The total volume of crude oil allocated for the refineries in 2012 amounted to 162.343 million barrels and summary of how it was utilised is shown in Table 9.8.7.1A below.

Table 9.8.7.1A: Summary of Crude Oil Allocation to Refineries and Utilisation 2009 - 2012

Year	Allocated Crude	Refinery Delivery	Export	Offshore Processing	Crude Exchange	Product Exchange
	BBL'000	BBL'000	BBL'000	BBL'000	BBL'000	BBL'000
2009	161,914	19,363	142,551	-	-	-
Percentage (2009)		**12%**	**88%**	**0%**	**0%**	**0%**
2010	166,523	34,703	97,792	27,336	950	5,742
Percentage (2010)		**21%**	**59%**	**16%**	**1%**	**3%**
2011	164,455	45,394	39,341	23,688	-	56,032
Percentage(2011)		**28%**	**24%**	**14%**	**0%**	**34%**
2012	162,343	34,927	49,213	22,755	-	55,447
Percentage(2012)		**21.5%**	**30.3%**	**14.0%**	**0.0%**	**34.2%**

Figure 9.8.7.1A: Graphical Summary of Crude Oil Allocation to Refineries and Utilisation 2009 - 2012



The quantity of crude delivered to each of the four refineries for processing for the year under review compared to the previous years is as shown in the Table 9.8.7.1B below:

Table 9.8.7.1B: Summary of actual Refinery Deliveries 2009-2012

Year	PHR-New (bbl)	WRPC/KRPC (bbl)	Marine Operations (bbl)	Total (bbl)
2009	7,236,066	12,126,480	-	19,362,546
2010	6,240,265	28,460,708	-	34,700,973
2011	12,831,286	31,277,475	559,530	44,668,291
2012	10,396,857	10,655,145	13,874,531	34,926,533
Total	**36,704,474**	**82,519,808**	**14,434,061**	**133,658,343**

Source: NEITI's Audit Report 2009 - 2011 /COMD-PPMC

Figure 9.8.7.1B Summary of Refinaries Dlivery 2009-2012

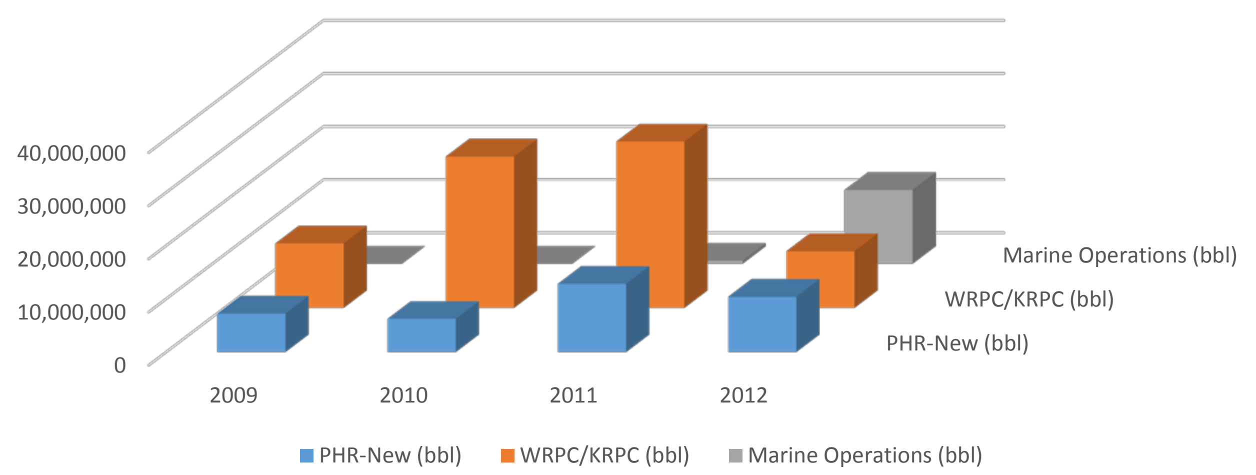


Table 9.8.7.1C: Monthly Breakdown of Refinery Deliveries in 2012

	PHRC	WRPC/KRPC (ESCRAVOS & UGHELLI B)	MARINE OPERATIONS	TOTAL
	BBLS	**BBLS**	**BBLS**	**BBLS**
January	1,549,862.00	545,279.00	1,397,640.00	3,492,781.00
February	310,265.00	-	1,596,536.00	1,906,801.00
March	1,234,318.00	-	1,697,454.00	2,931,772.00
April	-	1,704,525.00	698,302.00	2,402,827.00
May	-	1,628,944.00	1,696,238.00	3,325,182.00
June	-	1,010,302.00	1,098,650.00	2,108,952.00

	PHRC	WRPC/KRPC (ESCRAVOS & UGHELLI B)	MARINE OPERATIONS	TOTAL
July	-	2,003,849.00	1,495,663.00	3,499,512.00
August	912,561.00	166,138.00	-	1,078,699.00
September	1,952,125.00	313,190.00	1,098,451.00	3,363,766.00
October	1,095,250.00	716,077.00	1,297,340.00	3,108,667.00
November	1,849,598.00	1,488,544.00	1,798,257.00	5,136,399.00
December	1,492,878.00	1,078,297.00	-	2,571,175.00
TOTAL	**10,396,857.00**	**10,655,145.00**	**13,874,531.00**	**34,926,533.00**

Source: COMD

Observations:

- The quantity of domestic Crude Oil allocation processed by the refineries remains low (21.51%) as was recorded in the previous audit cycle where an average of 20% processing was achieved by the refineries over a period of three years (2009-2011).
- In 2012 out of a total allocation of 162.343million barrels, only 34.927 million barrels was processed in the country.
- Records from NNPC/COMD indicate that domestic crude was not delivered to PHRC for a period of 4 months at a stretch while product allocation to the moribund refinery continued at the rate of 215,000bpd. NNPC/PPMC however explained that supply to the refinery was through marine transportation due to incessant pipeline vandalisation during the period.
- Crude meant for KRPC is routed through the WRPC tank farm from where it is pumped to KRPC by pipeline.

Implications:

- The refineries have consistently operated below capacity over the years.
- The balance of 78.49% was either processed outside the country, exchanged for products or exported by NNPC.
- The daily refinery allocation of 445,000bpd is no longer an allocation for local refinery but an allocation to NNPC which must be justifiable.
- The routing of Crude Oil meant for KRPC through the WRPC tank farm makes reconciliations difficult.

Recommendations:

- ✓ The crude allocation to the NNPC for the refineries should be limited to their current refining capacity.
- ✓ The Federal Government through the appropriate agency should set the agenda for the privatization of the Refineries especially with the poor performance of the old and moribund Port Harcourt Refinery.
- ✓ The alternative arrangements with the balance of 78.49% domestic crude allocation is not economically efficient as shown in the analysis of Alternative product Importation Arrangements and also corroborated in the Review of Federation Equity crude section of this report. The alternative arrangements should therefore be abolished forthwith while Government should export the percentage of crude oil that is unrefined locally and purchase refined products.
- ✓ PPMC should stop the combination of KPRC and PHRC deliveries.

9.8.7.2 Deliveries to Refineries

The total crude oil allocated to the four refineries at Port Harcourt, Kaduna and Warri is analysed in the tables below to Show Crude intake and Utilsation in tonnage.

Table 9.8.7.2A: PORT HARCOURT REFINERY BALANCES 2012

Table 8.3A: Port Harcourt Refinery balances 2012										
CRUDE TYPE	PROCESSED VOLUME(MT)	PRODUCTS								
	(bbls)		Opening Stock	Production	Import	Evacuation	Losses	Closing Stock	Calculated Closing Stock	Variance
ESCRAVOS		OFF GAS								
		LPG	17,200	18,678	20	5,139	-	30,759	30,759	0
UGHELLI		PMS	126,481	339,182	463,610	802,020	-	127,248	127,253	5
		DPK	31,983	168,733	-	168,801	-	31,915	31,915	0
BONNY LIGHT	1,238,698	AGO	58,484	283,297	-	256,908	-	84,873	84,873	-0.045
	* 8,670,886	FUEL OIL	157,045	248,039	-	178,566	-	226,518	226,518	0

Source: Refinery Balance Template

*Fuel/Loss: The refinery recorded a total production utilization/loss of 180,769MT.This was not broken down by products.*There are a little over 7 barrels of Crude Oil in a Metric Ton*

Table 9.8.7.2B: KRPC REFINERY BALANCE									
Crude Type	**Processed Volume (Mt)**	**Products**							
	(bbls)		**OpeningStock**	**Product-ion**	**Evacua-tion**	**Losses**	**Closing Stock**	**Calculated Closing Stock**	**Variance**
ESCRAVOS	1,161,271	**OFF GAS**	-	23,975	-	-	-	23,975	23,975
	*8,128,897	**LPG**	88	43,518	-		84	43,606	43,522
URALS		**PMS**	6,786	336,079	355,110	-	11,509	-12,245	-23,754
		DPK	5,281	150,417	165,834	-	6,110	-10,136	-16,246
UGHELLI	285,818	**AGO**	8,371	325,346	301,037	-	8,532	32,680	24,148
	*2,000,726	**LPFO**	11,111	343,943	316,751	-	11,019	38,303	27,284
		Asphalt	15,689	-1,613	-	-	15,248	14,076	-1,172
		Kerosene Solvent	17	2,761	434	-	881	2,344	1,463
SLOP	132,896	**Intermediate Products**	215,697	99,734	-	-	237,492	315,431	77,939
		Internal Consumption	676	208,413	-	-	3,438	209,089	205,651

Source: Refinery Balance Template Production Loss: The refinery recorded a total production loss of 47,412MT. This was not broken down by products.

* There are a little over 7 barrels of Crude Oil in a Metric Ton

Table 9.8.7.2C : WRPC REFINERY BALANCES 2012									
	PROCESSED VOLUME (MT)	PRODUCTS							
	(bbls)		Opening Stock	Production	Evacuation	Losses	Closing Stock	Calculated Closing Stock	Variance
ESCRAVOS	918,183	**OFF GAS**							
	*6,427,281	**LPG**	33,710	63,942	15,957	-	84,340	81,695	-2,645
UGHELLI	16,082	**PMS**	40,025	340,196	484,118	-	24,288	-103,897	-128,185
	*112,574	**DPK**	14,242	282,329	280,111	-	16,560	16,460	-100
SLOP	-2,964	**AGO**	35,346	339,844	336,684	-	38,507	38,506	-1
		LPFO	37,213	386,275	378,593	-	42,122	44,895	2,773

Observations:

The KRPC recorded a huge difference between the refinery closing stock and the calculated closing stock which could be due to faulty metering systems, evaporation, and theft etc.

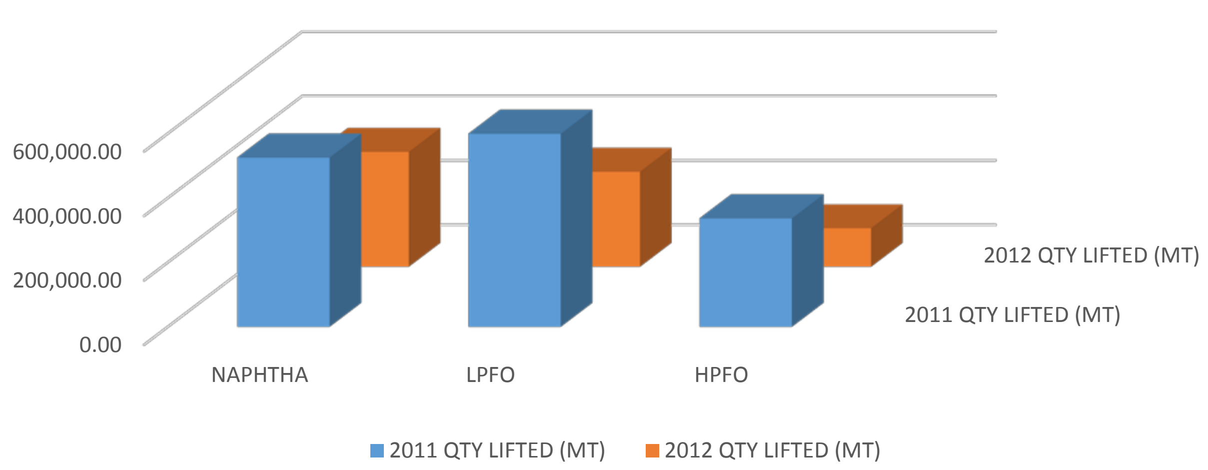
9.8.7.3 Domestic Export

The intermediate products from the refineries that could be processed further for the production of PMS and fuel components for other industrial needs are usually exported. These intermediate products consisting of Naphtha, High Pour Fuel Oil (HPFO) and Low Pour Fuel Oil (LPFO) are blends of bottom of the barrel which are used for firing heaters in the industry. These are the products exported by NNPC. Naphtha, LPFO and HPFO are processed to petroleum products and Table 9.8.7.3A below shows a significant decrease in the exported volumes in 2012 as compared with 2011.This development is commendable.

Table 9.8.7.3A: 2012 EXPORT SALES SUMMARY				
PRODUCT	**2011 QTY LIFTED (MT)**	**2012 QTY LIFTED (MT)**	**GROSS VALUE ($)**	**NET VALUE ($)**
NAPHTHA	525,181.150	356,639.235	296,415,760.830	294,416,749.620
LPFO	599,243.913	294,925.362	178,034,662.980	175,136,688.210
HPFO	336,486.990	119,660.982	71,187,340.290	70,192,624.150

Source: PPMC

Figure 9.8.7.3 2012 Graphical Summary of Export Sales



9.8.7.4 Offshore Processing and Swap arrangements

NNPC/PPMC is the supplier of last resort of Petroleum Products and engages in stabilising supply of at least 50% of the national consumption of PMS based on PPPRA allocation and 100% of Household Kerosene (DPK).

In view of the above obligation, it is imperative for NNPC to continue to exceed its target in discharging its national responsibility of ensuring steady supply of petroleum products, bearing in mind the potential of none performance by other PPPRA marketers, as well as, the numerous challenges at our local ports.

In the past, NNPC petroleum importation was carried out on the basis of 'Open Account' through tender process from reliable Oil Trading Companies with proven track records of good performance and strong capital base. Under the system, the money realised from the sale of the unutilised Crude Oil (Crude not processed by local refineries) was used to pay the suppliers for the importation of the relevant products.

Incidentally, NNPC/PPMC experienced stark defaults in deliveries owing to high cost of products and freight, resulting in the 2009/2010 severe fuel scarcity with the attendant negative consequences on the Nigerian economy. Also, this type of products' import arrangement exposed NNPC to high debt as some of the products had to be bought on 'spot basis', especially in times of dire need, thereby attracting outrageous premiums. The arrangement was cash based, therefore, it became more difficult for NNPC to meet its payment obligations as and when due, since the same monies realised from the sale of the Unutilised Crude Oil was used to repair and secure the constantly vandalised pipelines, pay interest due on late payments and the unavoidable demurrage costs.

Consequently, in order to mitigate the price vulnerability, shortages in products availability and guarantee of nationwide steady supply while at the same time freeing cash for other expenditures, NNPC sought and obtained approval to enter into Crude oil offshore processing Arrangements (OPA) with Societe Ivoirienne de Raffinage (S.I.R.) and Crude Oil/Product Exchange Arrangement (SWAP) with Messrs Trafigura Beheer B.V and Duke Oil Company Incorporated (a fully owned subsidiary of NNPC). Duke Oil Company Incorporated **(**a wholly owned subsidiary of NNPC**)** is in partnership with TALEVERAS, AITEO, and ONTARIO in the transactions. NNPC / PPMC entered into Offshore Processing Arrangement (OPA) with Messrs S.I.R on September 1, 2010 and since then NNPC / PPMC continue to allocate crude oil for processing on daily basis at the SIR refinery located in Ivory Coast.

Under the OPA, NNPC delivers nominated Crude Oil grade to SIR for processing and subsequent delivery of the refined products to NNPC. In the execution of the programme two sets of operational costs are incurred by NNPC, i.e. costs associated with the Crude Oil delivery to the Refinery such as; processing fee, freight and demurrage and costs associated with the Petroleum Products Deliveries.

For the Products Deliveries, NNPC receives PMS, DPK and AGO (as required) in parcels of 30,000 to 60,000MT; while others - LPG, LPFO, VGO, Butane, Propane (referred to as Retained products in the contract) not required by NNPC are sold and proceeds remitted to NNPC's account.

The total value of each crude oil cargo designated for the OPA programme comprises of the Crude Oil Cost, Freight, processing fee and demurrage cost incurred in loading the cargo at the Terminals. On the other hand, the landing cost of the products delivered or the Net value of the product cargo is based on cost of the physical Products cargo (Platts quotations) plus the associated costs –freight and demurrage costs incurred while discharging the cargoes.

According to PPMC, reconciliation meetings are held between NNPC and S.I.R. to determine the quantities of Crude Oil supplied, the refined products received and also the value of the retained products. Any position taken at the end of each reconciliation meeting will be offset in the next cycle of transactions. The transaction therefore is an on-going account, i.e. until such a time that the contract is terminated and the final net positions ascertained. In 2012, a total of 24,657,100 barrels of crude oil valued at $2,750,815,143.38 was allocated to S.I.R under the NNPC/ PPMC-SIR Offshore Processing Arrangement for the period under review. An analysis of the transaction is shown in Table 9.8.7.4A below.

Table 9.8.7.4A: Off-Shore Processing Arrangement 2012

Off-Shore Processing Arrangement 2012					
PPMC-SIR					
CRUDE OIL					
VOLUME (BBLS)	VALUE ($)	FREIGHT ($)	DEMURRAGE ($)	PROCESSING FEE ($)	**TOTAL ($)**
24,657,100.00	2,750,815,143.38	48,044,474.95	67,639.28	61,642,750.00	**2,860,570,007.61**
RETURNED PRODUCTS					
		68,332,325.53	34,901,672.26		**103,233,997.78**
PMS					**2,304,133,161.070**
906,466.164	944,034,522.260				
DPK					
1,330,363.440	1,360,098,638.810				
RETAINED PRODUCTS					
LPG					**523,877,525.39**
47,798.780	38,413,639.560				
FUEL OIL					
375,227.555	244,623,050.350				
VGO					
331,639.625	240,840,835.480				
Net Difference To be reconciled (Over-Delivery)					**(135,793,318.94)**

The Net Value of 2012 OPA Crude (CIF Ivory Coast) is made up of the following components; Cost of Crude, Freight, Demurrage and Crude Processing Fee. This is valued as 2,860,570,007.61 USD. For the Product, The Net value (CIF Nigeria) is made up of; the value of the returned product, Freight and Demurrage. This is valued as 2,407,267,158.85 USD. The retained products are valued as 523,877,525.39 USD.

Because NNPC is responsible for all cost associated with the Crude leg of the transaction and the Freight/Demurrage cost associated with the Product leg, the total cost incurred by NNPC for OPA in 2012 is 2,963,804,005.39 USD. The total value of the returned and retained products (FOB Ivory Coast) is 2,828,010,686.46 USD.

Because the total cost incurred by NNPC is higher than the net value of the returned/retained product, there is an over-delivery of 138,793,318.94 USD.

The transaction is an on-going account, i.e. until such a time that the contract is terminated and the final net positions ascertained

PPMC RESPONSE

- PPMC's OPA own transaction analysis carried out indicates a net gain of $70,674,676 as shown in Table 9.8.7.5.1B below:
- PPMC explained that the Net Value of Returned Products is the value CIF Nigeria.

PPMC also explained that there is no cash transactions involved in the settlement of any of the associated costs (demurrage and freight) and that shortfalls are carried forward and settled by batter.

Table 9.8.7.4B: Analysis of OPA by PPMC – SIR 2012

CRUDE OIL		REFINED PRODUCTS		VALUE ($)
2012 S.I.R	VALUES ($)-(A)	2012	VALUES ($)-(B)	(B-A)
CRUDE OIL	2,750,815,144	PRODUCTS	2,304,133,161	
FREIGHT	48,044,475	RETAINED PRODUCTS	523,877,525	
DEMURRAGE	67,639	FREIGHT	68,332,326	
PROCESSING FEE	61,642,750	DEMURRAGE	34,901,672	
OPTA TOTAL	2,860,570,008		2,931,244,684	70,674,676

Source: PPMC

Observations:

- PPMC analysis added the costs incurred on inward freight and demurrage borne by it to the value of refined products (CIF Nigeria).
- If the total value of the benefits $2,828,010,686.46 (consisting of the value of products supplied and the payments received for the retained products) and the total costs (Crude oil cost and other associated costs for outward and inward product movements which are borne by NNPC), are compared, there is a shortfall of **$135,793,318.93**. The shortfall in naira value is **N20,912,171,115.22** (Twenty Billion Nine Hundred and Twelve Million, One Hundred and Seventy One Thousand, One Hundred and Fifteen Naira Twenty Two Kobo) at an exchange rate of N154 to $1.

Implications:

- OPA analysis by PPMC whereby costs incurred by PPMC are added to the value of products received as if the costs are benefits derived from the transaction is an abnormal accounting practice.
- There is no cost efficiency in the transaction under the Offshore Processing Arrangement with the company.

Recommendation:

We recommend that NNPC discontinue the OPA and concentrate on direct refined product importation as a short term measure while the privatisation of Refineries is pursued as a longer time solution.

Challenges of Offshore Processing and Swap Arrangements

The expected benefits of Offshore Processing and Swap Arrangements have been dwarfed by the huge operational cost of doing business in Nigeria. These costs can be attributed to Demurrage, corruption and security challenges. Demurrage is unavoidable in Oil and Gas business but could be minimized by having dedicated ports terminals for product movements.

The delays on berthing of a vessel at PPMC and other jetties in Nigeria have spontaneous effect on the waiting mother vessels time and turnaround time of hired vessels. Unfortunately these delays are inevitable considering the peculiar Nigerian business/operation environment.

Vessel loading and Discharges must be supervised by different Government agencies and are also guided by Maritime/Government laws. A typical Procedure of a vessel carrying DPK (Kerosene) is analysed below:

Mother (Import) Vessel cargo is about 30,000MT. DPK allocations to Coastal Marketers are 5,000MT lots. This Means that, the Vessel will have to discharge into 6 Shuttle (Daughter) vessels at an average discharge rate/day of 3 days (STS).

The Marine operation of bringing the Ship together on the high sea includes Fenders carriage and mooring operation which is also subject to the water/weather condition. The rough weather during or before Transhipment at the high sea will require suspension of operation till the favourable condition is attained.

However, the delay will also impact on the operation of the waiting vessels. The discharge of the Import vessels will be certified by DPR and cleared by Navy, other Government agencies like NIMASA, Custom, PPPRA, Ministry of Finance consultants and others, making the discharge impossible until all these approvals are acquired.

Discharges of PMS vessels at jetties are also hindered by pipeline vandalism, which occurs on daily based on all the pipeline segments across the country. The Impact is that Pipeline vandalism on a line will automatically halt the discharge of the vessel until the line is repaired; which is also a function of the extent of damage such as Fire, Leakages, multiple points vandalism and sometimes death of people along the Pipeline right of ways. PPMC will repair the line, clean up the place, displace with water, before resuming pumping of product.

While these operations last, the vessel sitting at the jetty would have spent at least 5 additional days before pumping resumes, which implies that all other vessels on the program waiting for the import vessel to complete are also affected by delays and unavoidable demurrage.

In other cases, vessels are placed on financial lien, Carbotage breach, or other factor at the jetties, before or after discharge by Banks or government agencies thereby causing delay in turnaround time of other vessels with the attendant demurrage.

Vessels are also being hijacked by pirates, example; MT Breakthrough at 21.30hrs of 10/10/2011 released 20/10/2011. MT Norte hijacked 12/8/2013 released 4/9/2013.

It is pertinent to mention that, PPMC is not in control of the Security agencies and institutions, whose primary assignment includes protection of lives and properties, security of Air, land and waters.

9.8.7.5 Crude Oil – Product Exchange Arrangement

In other to avoid scarcity of petroleum products in the country, NNPC has a barter arrangement otherwise known as Crude Oil-Product Arrangement (SWAP arrangement) in place to enable importation of products into the country within a short period of time. Under this arrangement crude Oil is exchanged for refined products.

This is a Value for Value arrangement where the operators deliver corresponding net product value, i.e. inclusive of demurrage cost, to the net value derived from the Crude Oil loaded, i.e. exclusive of associated costs - demurrage. Thus, the arrangement encompassed all costs (Crude Oil, Products and associated costs), thereby relieving NNPC of the burden of cash payment.

Therefore, an over delivery means PPMC owes the party the value in Crude Oil, while an under delivery means the other party owes PPMC the value in refined products; thus, either party is under obligation to settle the over/under delivery in subsequent transactions. Accordingly, any difference between the value of Crude Oil and that of refined products delivered are not construed as a net gain or loss, instead the balance is taken as either over delivery or under delivery.

Such barter agreements include:

- PPMC/Duke Oil-Taleveras-Crude Oil – Refined Products Exchange Agreement
- PPMC/Duke Oil-Trafigura-Crude Oil – Refined Products Exchange Agreement
- PPMC/Duke Oil-AITEO Crude Oil – Refined Product Exchange Agreement
- PPMC/Duke Oil-Ontario-Crude Oil - Refined Products Exchange Agreement

In 2012, the following transactions took place in accordance with the subsisting agreements.

Duke Oil -TRAFIGURA

Crude oil supplies to Trafigura in 2012 under the scheme were 20,494,470 barrels valued at $2,358,352,598 and this added to associated cost (demurrage on the product imported) of $28,811,608.40 ; bringing the total amount to $2,387,164,206.40.

CRUDE OIL -REFINED PRODUCT EXCHANGE ARRANGEMENT 2012						
PPMC-TRAFIGURA	CRUDE OIL		PRODUCT			UNDER-DELIVERY
	QUANTITY (BBLS)	VALUE ($)		QUANTITY (MT)	VALUE ($)	
CRUDE OIL	20,494,470	2,358,352,598.00	PMS	1,293,488.80	1,517,547,365.26	
			DPK	704,776.42	796,183,174.79	(73,433,666.35)
			DEMURRAGE		28,811,608.40	
TOTAL	20,494,470	2,387,164,206.40	TOTAL	1,998,265.22	2,313,730,540.05	

Source: PPMC 2012 Crude Product Exchange Template

The petroleum products received in return with their values are as stated in the table above. The total costs of crude oil and associated costs was $2,387,164,206.40 while the value of the products returned was $2,313,730,539.65. This gave an under-delivery of $73,433,666.75.

Duke Oil –TELEVERAS

The quantity of crude oil supplied to Televeras in 2012 was 14,026,372 barrels valued at $1,521,439,547.95 while the associated costs was $28,069,522.30; bringing the total amount for the transaction to $1,549,509,070.25

CRUDE OIL -REFINED PRODUCT EXCHANGE ARRANGEMENT 2012						
PPMC-TELEVERAS	CRUDE OIL		PRODUCT			OVER-DELIVERY
	QUANTITY (BBLS)	VALUE ($)		QUANTITY (MT)	VALUE ($)	
CRUDE OIL	14,026,372	1,521,439,547.95	PMS	1,334,999.10	1,549,534,908.43	
			DEMURRAGE		28,069,522.30	25,838.18
TOTAL	**14,026,372**	**1,549,509,070.25**		**1,334,999.10**		
			TOTAL		**1,549,534,908.43**	

Source: PPMC 2012 Crude Product Exchange Template

The quantity of the returned products in metric ton and its value is as shown in the table above:

The total cost of crude oil and demurrage charges on the imported product amounted to $1,549,509,070,25 while the value of the returned product was $1,549,534,908.43. This gave an over-delivery of $25,838.18.

Duke Oil –AITEO

The quantity of crude oil supplied in 2012 was 10,496,582 barrels valued at $1,174,887,505.72 with the demurrage charges on imported product of $17,351,550.52. This gave a total cost of $1,239,432,478.92.

CRUDE OIL -REFINED PRODUCT EXCHANGE ARRANGEMENT 2012						
PPMC-AITEO	CRUDE OIL		PRODUCT			OVER-DELIVERY
	QUANTITY (BBLS)	VALUE ($)		QUANTITY (MT)	VALUE ($)	
CRUDE OIL	10,496,582	1,222,080,928.40	PMS	1,092,251.36	1,259,744,737.68	
			DEMURRAGE		17,351,550.52	20,312,258.76
TOTAL	**10,496,582**	**1,239,432,478.92**		**1,092,251.36**		
			TOTAL		**1,259,744,737.68**	

Source: PPMC 2012 Crude Product Exchange Template

The quantity of returned product was 1,092,251.36 MT valued at $1,259,744,737.68.

The difference between the product value of $$1,259,744,737.68 and total costs (crude value and demurrage) was an over-delivery of $20,312,258.76.

Duke Oil – ONTARIO

The quantity of crude oil lifted was 10,430,838 barrels valued at $1,174,887,505.72 with the demurrage charges of $16,957,130.99; bringing the total cost to $1,191,838,636.71.

CRUDE OIL -REFINED PRODUCT EXCHANGE ARRANGEMENT 2012						
PPMC-ONTARIO	CRUDE OIL		PRODUCT			UNDER-DELIVERY
	QUANTITY (BBLS)	VALUE ($)		QUANTITY (MT)	VALUE ($)	
CRUDE OIL	10,430,838	1,174,887,505.72	PMS	953,033.68	1,071,472,256.67	
			DPK	59,873.25	66,209,633.83	(54,156,746.21)
			DEMURRAGE		16,951,130.99	
TOTAL	**10,430,838**	**1,191,838,636.71**		**1,012,906.93**		
			TOTAL		**1,137,681,890.50**	

Source: PPMC 2012 Crude Product Exchange Template

The quantity of returned product, PMS, was 1,012,906.93MTvalued at $1,137,681,890.50.

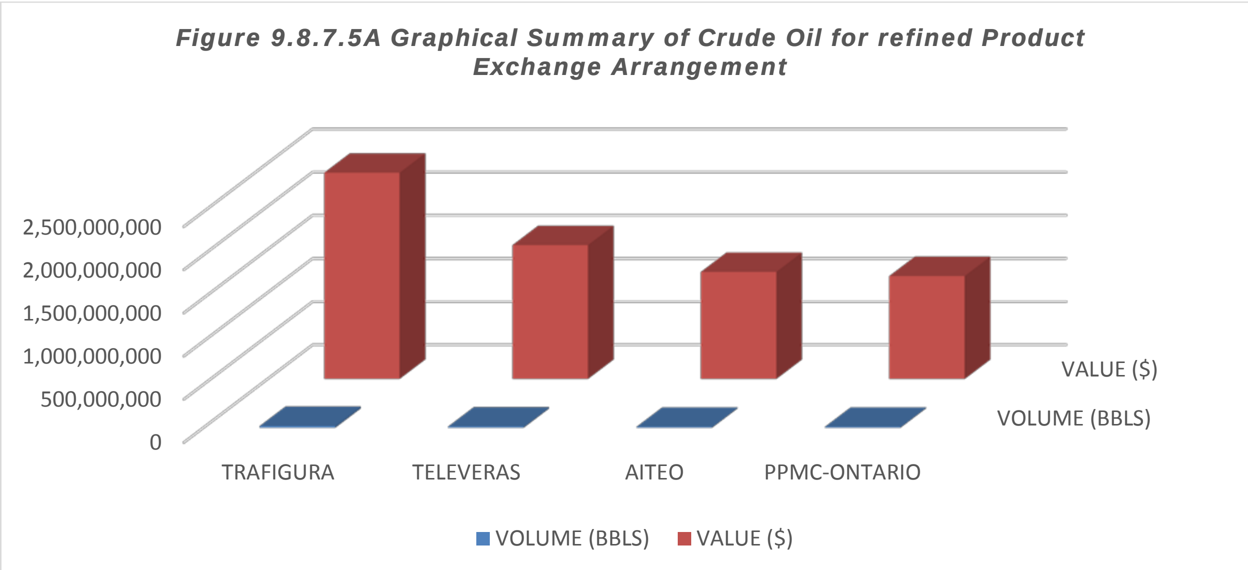
When the total cost of $1,191,838,636.71 was netted off the value of the returned product of $1,137,681,890.50, there was under-delivery of $54,156,746.21.

The summary of the Crude Oil for refined product arrangement in 2012 is as stated in Table 9.8.7.5A below:

Table 9.8.7.5A Summary of crude oil for Refined Product Exchange Arrangement

	VOLUME (BBLS)	VALUE ($)
TRAFIGURA	20,494,470	2,387,164,206.40
TELEVERAS	14,026,372	1,549,509,070.25
AITEO	10,496,582	1,239,432,478.72
PPMC-ONTARIO	10,430,838	1,191,838,636.71
TOTAL	**55,448,262**	**6,367,944,392.08**

Source: PPMC 2012 Crude Product Exchange Template



The total quantity of crude oil allocated for crude oil-product reported by COMD template was 55,447,262 barrels while PPMC reported 55,448,262 barrels. This difference of 1,000 barrels could not be reconciled.

The summary of the petroleum products imported in 2012 through the Refined Product Exchange Arrangement is stated in the table below.

Table 9.8.7.5B: Summary of product imports by Refined Product Exchange Arrangement

	PMS		**DPK**	
	PMS Qty (MT)	PMS Value (UD$)	DPK Qty (MT)	PMS Value (UD$)
TRAFIGURA	1,293,488.80	1,517,547,365,26	704,776.42	796,183,174.39
TELEVERAS	1,334,999.10	1,549,534,908.43	-	-
AITEO	1,092,251.36	1,259,744,737.68	-	-
ONTARIO	953,033.68	1,071,472,256.67	59,873.25	66.209,633.83
TOTAL	**4,673,772.94**	**5,398,299,268.04**	**764,649.67**	**862,392,808.22**

Source : PPMC 2012 Crude Product Exchange Template

Figure 9.8.7.5B Graphical Summary of product imports by Refined Product Exchange Arrangement

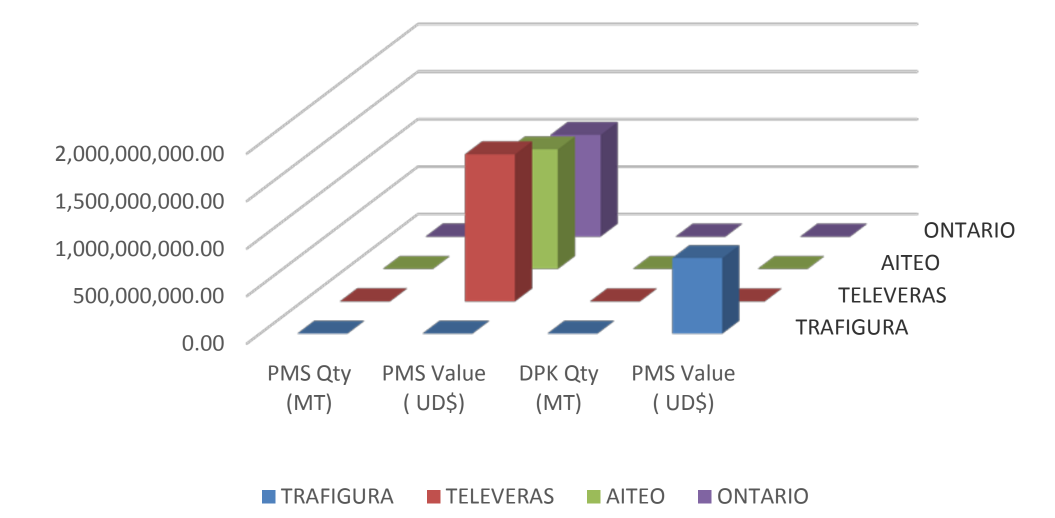


Table 9.8.7.5C PPMC Crude Oil-Product Exchange Arrangement

CRUDE OIL -REFINED PRODUCT EXCHANGE ARRANGEMENT 2012						
PPMC-TRAFIGURA	CRUDE OIL		PRODUCT			UNDER-DELIVERY
	QUANTITY (BBLS)	VALUE ($)		QUANTITY (MT)	VALUE ($)	
CRUDE OIL	20,494,470	2,358,352,598.00	PMS	1,293,488.80	1,517,547,365.26	
			DPK	704,776.42	796,183,174.79	(73,433,666.35)
			DEMURRAGE		28,811,608.40	
TOTAL	20,494,470	2,387,164,206.40	TOTAL	1,998,265.22	2,313,730,540.05	
CRUDE OIL -REFINED PRODUCT EXCHANGE ARRANGEMENT 2012						
PPMC-TELEVERAS	CRUDE OIL		PRODUCT			OVER-DELIVERY
	QUANTITY (BBLS)	VALUE ($)		QUANTITY (MT)	VALUE ($)	
CRUDE OIL	14,026,372	1,521,439,547.95	PMS	1,334,999.10	1,549,534,908.43	
			DEMURRAGE		28,069,522.30	25,838.18
TOTAL	14,026,372	1,549,509,070.25		1,334,999.10		
			TOTAL		1,549,534,908.43	
CRUDE OIL -REFINED PRODUCT EXCHANGE ARRANGEMENT 2012						
PPMC-AITEO	CRUDE OIL		PRODUCT			OVER-DELIVERY
	QUANTITY (BBLS)	VALUE ($)		QUANTITY (MT)	VALUE ($)	
CRUDE OIL	10,496,582	1,222,080,928.40	PMS	1,092,251.36	1,259,744,737.68	
			DEMURRAGE		17,351,550.52	20,312,258.76
TOTAL	10,496,582	1,239,432,478.92		1,092,251.36		
			TOTAL		1,259,744,737.68	
CRUDE OIL -REFINED PRODUCT EXCHANGE ARRANGEMENT 2012						
PPMC-ONTARIO	CRUDE OIL		PRODUCT			UNDER-DELIVERY
	QUANTITY (BBLS)	VALUE ($)		QUANTITY (MT)	VALUE ($)	
CRUDE OIL	10,430,838	1,174,887,505.72	PMS	953,033.68	1,071,472,256.67	
			DPK	59,873.25	66,209,633.83	
			DEMURRAGE		16,951,130.99	(54,156,746.21)
TOTAL	10,430,838	1,191,838,636.71		1,012,906.93		
			TOTAL		1,137,681,890.50	
OVERALL COST INCURRED BY PPMC FOR PRODUCT EXCHANGE			6,367,944,392.28		NET UNDER-DELIVERY	(107,252,315.62)
OVERALL PRODUCT VALUE TO PPMC FOR PRODUCT EXCHANGE			6,260,692,076.66			

Source: PPMC 2012 Crude-Product Exchange Template

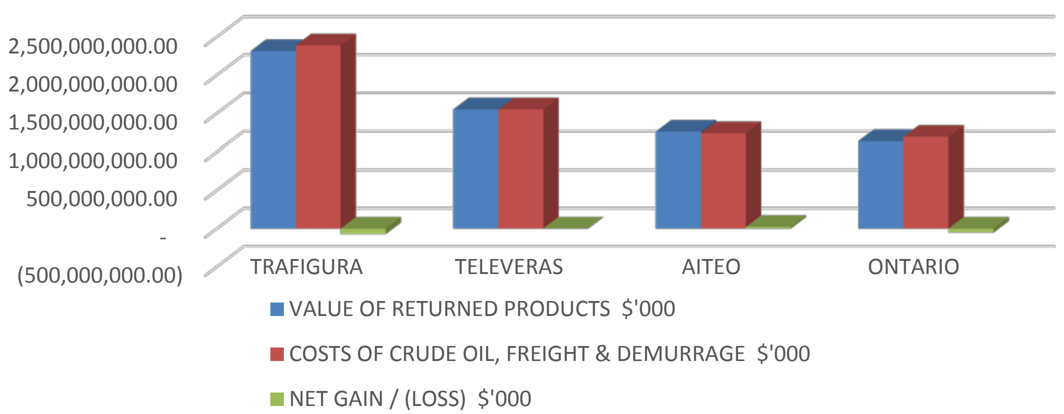
The comparison of the total costs of processing of crude oil with the value of returned refined products in product exchange showing a **Net Under-Delivery** is given below:

Table 9.8.7.5C: Summary of the value of the returned products compared with the costs of processing of refined product exchange

COMPANY	VALUE OF RETURNED PRODUCTS $'000	COSTS OF CRUDE OIL, FREIGHT & DEMURRAGE $'000	NET DELIVERY $'000
TRAFIGURA	2,313,730,539.65	2,387,164,206.40	(73,433,666.75)
TELEVERAS	1,549,534,908.43	1,549,509,070.25	25,838.18
AITEO	1,259,744,737.68	1,239,432,478.92	20,312,258.76
ONTARIO	1,137,681,890.50	1,191,838,636.71	(54,156,746.21)
TOTAL	**6,260,692,076.26**	**6,367,944,392.28**	**(107,252,316.02)**

Source: PPMC 2012 Crude Product Exchange Template

Figure 8.5.2C: Graphical Summary of the value of the returned products compared with the costs of processing of refined product exchange



Recommendation:

It is recommended that NNPC discontinue the Crude Oil – Product SWAP arrangements and concentrate on direct importation of refined products.

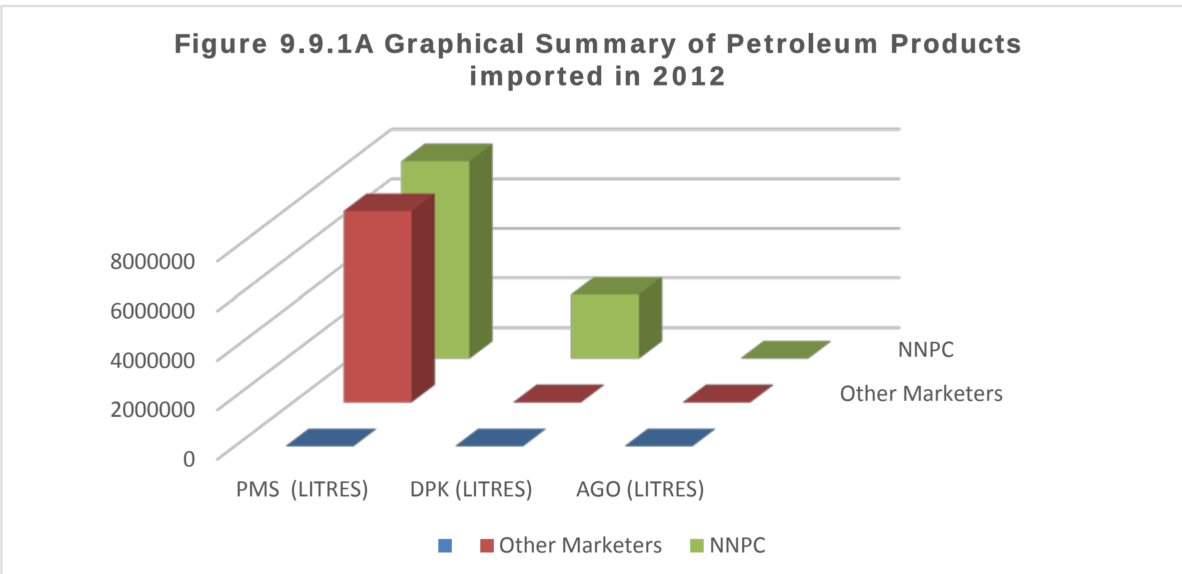
9.9 Petroleum Products Mass Balance Reconciliation

9.9.1 Importation of Petroleum Products

Table 9.9.1A : Summary of Petroleum Products Imported in 2012

MARKETERS	PMS (LITRES) 000	DPK (LITRES) 000	AGO (LITRES) 000
Other Marketers	7,714,725.58	-	-
NNPC	7,948,354.30	2,576,590.73	-
TOTAL	**15,663,079.88**	**2,576,590.73**	-

Source: PPPRA/PPMC



The total PMS imported during the period under review amounted to 15.662billion litres while that of DPK was 2.577billion litres.

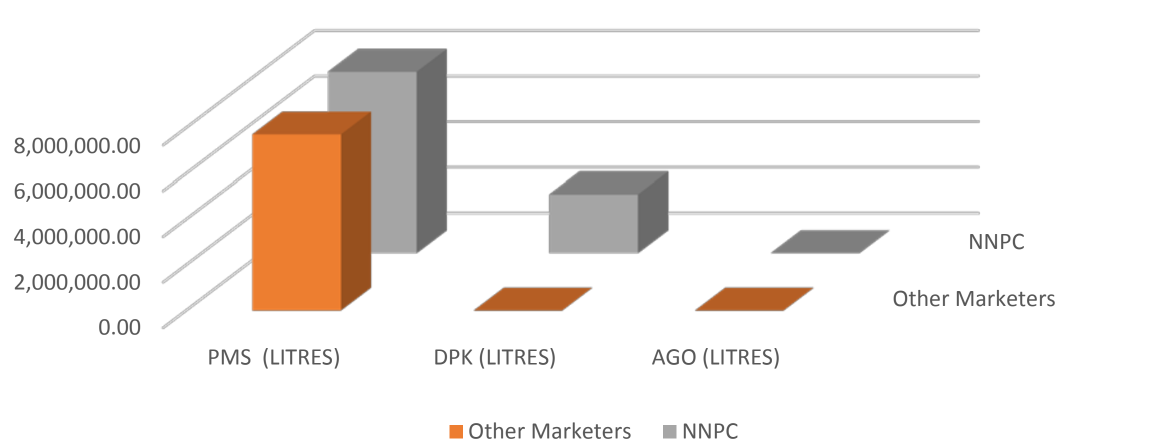
The total volume of products (both imported and produced by the refineries) in 2012 is shown in Table 9.9.1A below.

Table 9.9.1B: Summary of Total Products Imported and Produced in 2012

MARKETERS	PRODUCTS		
	PMS (LITRES) '000	DPK (LITRES) '000	AGO (LITRES) '000
Other marketers through PPPRA	7,714,725.58	-	-
Sub Total (A)	**7,714,725.58**	**-**	**-**
NNPC:			
Import	7,948,354.30	2,576,590.73	-
Refinery	1,788,372.61	750,319.46	443,792,518.00
Sub Total (B)	**9,736,726.91**	**3,326,910.19**	**443,792,518.00**
GRAND TOTAL (A+B)	**17,451,452.49**	**3,326,910.19**	**443,792,518.00**

Source: PPPRA

Figure 9.9.1B Graphical Summary of Petroleum Products imported and Produced in 2012



The total volume of PMS was 17.451billion litres while DPK and AGO were **3.3261billion** litres and **443.792million** litres respectively in 2012. This is compared with the previous audit cycle as shown in the table below.

Table 9.9.1C: Summary of Products Supplied (2009-2012)

	2009	2010	2011	2012
	LTRS'000	LTRS'000	LTRS'000	LTRS'000
Other Marketers				
PMS	5,344,922	6,225,562	14,584,792	7,714,726
DPK	729,381	-	-	-
Sub-Total	**6,074,303**	**6,225,562**	**14,584,792**	**7,714,726**
NNPC				
PMS	7,850,234	9,896,586	8,321,582	9,736,727
DPK	1,229,053	1,809,530	2,040,981	3,326,910
AGO	-	-	-	443,792,518
Sub-Total	**9,079,287**	**11,706,116**	**10,362,563**	**456,856,155**
Grand Total	**15,153,590**	**17,931,678**	**24,947,355**	**464,570,881**

9.9.2 Production from Refineries

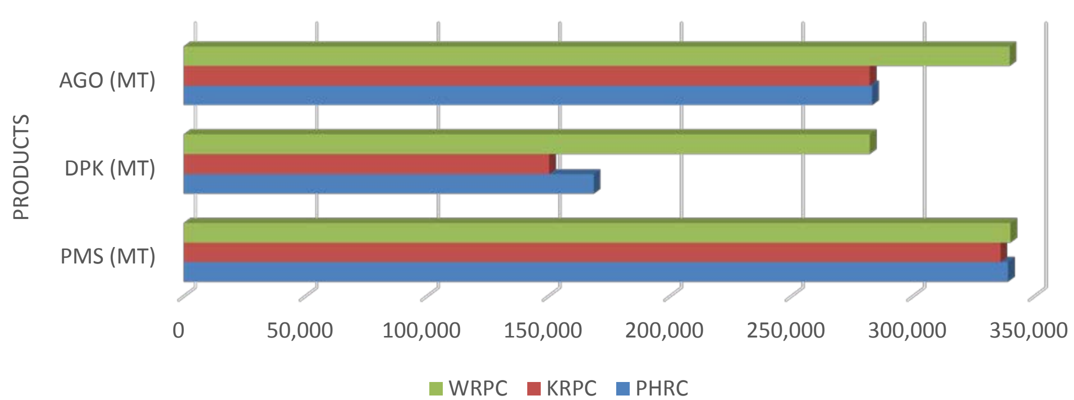
Petroleum products supply from the Nation's Refineries together with imported products are distributed through NNPC/ PPMC pipeline networks to the depots before the products are transported by roads, rails etc. to the marketers outlets.

Table 9.9.2A: Summary of petroleum products Refined in 2012 by the Refineries

REFINERY	PRODUCTS		
	PMS (MT)	DPK (MT)	AGO (MT)
PHRC	339,182	168,733	283,297
KRPC	336,079	150,417	282,329
WRPC	340,196	282,329	339,844
TOTAL	**1,015,457**	**601,479**	**905,470**

Source: COMD

Figure 9.9.2 Graphical Summary of Petroleum Products Refined in 2012 by the Refineries



The quantities of processed products by the Refineries as indicated in Table 9.9.2A above is grossly inadequate to meet the Nation's supply, hence the need to augment it with products importation.

Observations:

PPMC presented two conflicting summary of total products supply during the audit exercise. There is the reconciliation carried out by DPR, PPPRA and NNPC/PPMC which was later withdrawn by PPMC in favour of the summary shown above. Although the differences in the figures are not material, this places doubt on the integrity of the figures.

9.9.3 Petroleum products transportation/distribution

The petroleum products produced by the Nation's refineries and imported need to be distributed to the retailer's outlets throughout the country through NNPC / PPMC vessels and pipeline networks to the depots before the products are transported by roads, rail etc. to the marketers retail outlets.

9.9.3.1 Pipeline movement

Crude Oil Pipelines move crude oil from production sites to storage facilities, refineries etc. The Inter- state Pipeline moves crude oil from Warri to KRPC.

9.9.3.2 Products Pipeline

The Product Pipelines move finished products from refineries, storage facilities and ports to terminals for truck distribution to retail outlets.

Table 9.9.3.1A: Pipeline Movement Summary

Product		Dispatched	Received	(Loss)/gain	%
		MT	MT	MT	
PMS	2012	2,868,774	2,693,564	-175210	6.1%
	Total				
DPK	2012	5,392	5,324	-68	1.3%
	Total				
AGO	2012	35,203	35,074	-129	0.4%
	Total				

9.9.3.3 Marine Shipment

PPMC operates a fleet of marine vessels used for moving products along Nigeria's coastal waters. These marine vessels move products from Port Harcourt and Warri to Lagos and from Port Harcourt to Calabar. These vessels are of varying capacities.

Products moved into Lagos through the coastal vessels are discharged primarily at the Atlas Cove Terminal where they are received into storage tanks for onward pumping to Mosimi depot in Ogun State. It is from here that the products are pumped to other depots such as Ibadan, Ore and Ilorin.

PPMC has agreements on throughput with some private depot owners for use of their storage tanks and load out facilities for product reception and distribution. Calabar depot can only be supplied products by marine vessels as no pipeline network link with Calabar. There are other vessels that are dedicated to the Port Harcourt and Warri refineries for export.

9.9.3.4 Coastal Liftings

The products (PMS, AGO & DPK) are either imported or refined locally while LPFO is processed in the refineries in Kaduna, Warri and Port Harcourt.

The distribution of products within the coastal areas of Port Harcourt, Warri and Calabar are shown in the table below.

Table 9.9.3.4: Coastal Lifting's Summary for 2012

SUMMARY OF COASTAL LIFTINGS IN 2012			
PRODUCT	**VOLUME(MT)**	**VOLUME (LT)**	**VALUE(N)**
PMS	773,242.86	1,044,473,633.00	87,984,694,449.73
AGO	131,039.76	152,578,991.00	18,439,877,680.20
DPK	1,992,948.63	2,468,835,291.00	100,753,413,838.72
LPFO	135,961.88	147,700,982.00	12,987,114,022.38

Coastal Lifting Template

9.9.4 PPMC crude losses

Crude Oil loss is not only synonymous with upstream operations but also experienced in the midstream operations. There are cases of loss of domestic crude allocated to refineries.

The Escravos/Chevron Warri Line suffered the highest losses in 2012. These losses were mainly due to crude theft from these lines. Theft along these lines was at its highest from April to July, 2012 with the highest loss in April (281,026 bbls). The months of May, June and July recorded losses of 188,449 bbls, 198,856bbls and 192,204 bbls respectively.

The Gross loss of domestic crude oil in 2012 was 3,045,625 bbls which amounted to an estimated value of $304,562,474 based on a flat rate of $100/bbls. At an exchange rate of N154 to a dollar, the estimated loss value would be **N46,902,620,996** (Forty six billion nine Hundred and Two Million Six Hundred and Twenty Thousand Nine Hundred and Ninety Six naira) only.

Table 9.9.4: Summary of PPMC Crude Losses in 2012

FLOW LINES/PIPELINES	LOCATION	CRUDE TYPE	QUANTITY(BBLS)	ESTIMATED VALUE	
				UNIT($)	VALUE
ESCRAVOS/CNL-WARRI	WR	ESC/UG/UR	(1,236,515)	100	(123,651,543)
WARRI-KADUNA	WR	ESC/UG/UR	(752,598)	100	(75,259,833)
SPDC-WARRI	WR	ESC/UG/UR	(88.989)	100	(8,898,947)
BONNY-PHRC	PH	BL	(967,522)	100	(96,752,150)
TOTAL			**(3,045,625)**		304,562,473

Note: The Estimated value is based on a flat rateof $100/bbls

Source: PPMC Crude Loss Template

9.9.4.1 PPMC product losses at the Jetty

The product losses as shown in the table below occurred during loading and discharging of these products. These losses are not the same as those recorded by the depots in depot balances which are classified as *"unaccounted losses".*

Table 9.9.4.1: Summary of PPMC product losses

JETTY	DEPOT	LOCATION	PRODUCT	QUANTITY(Ltrs)	ESTIMATED VALUE

				SHIP/SHORE DIFF.	UNIT (N)	VALUE (N)
WRPC	WARRI	WARRI	PMS	916	84.66	77.548.56
CALABAR	CALABAR	CALABAR	PMS	557	84.66	47,155.62
OKRIKA	PH	PH	PMS	5,231	84.66	442,856.46
NACJ/SBM			PMS	1,530	84.66	129,529.80
WRPC	WARRI	WARRI	DPK	22	40.90	899.80
WRPC	WARRI	WARRI	AGO	255	122.43	31,219.65
SBM			AGO	17	123.20	2,094.40
				8,528	**TOTAL**	**731,304.29**

The above table shows a total loss (variance) of 8,528 Litres. This could be as a result of many factors such as Metering errors, Line leakages, Line packing errors etc.

9.9.4.2 PPMC movements between depots

Imported and refined products are transferred from one depot to another through the existing pipelines. Due to persistent vandalization over the years, transfer of products through pipelines has reduced significantly.

9.9.5 Depot balances

The summary of the petroleum products (PMS, DPK & AGO) imported and locally produced that is discharged at the various depots and jetties are shown in the tables below:

Table 9.9.5A: Summary of Depot Balances for PMS in Metric Tons in 2012

OPENING STOCK	RECEIPTS	SALES	TRANSFERS OUT	OTHERS	CLOSING STOCK
MT	MT	MT	MT	MT	MT
309,244.21	7,729,876.72	5,121,478.26	2,702,218.09	5,764.34	191,528.94

Source: PPMC

Observations:

Calabar depot reported 2,577.92MT as opening stock as against 3,381.59MT recorded as closing stock for 2011. There is no record for 803.67MT which is equivalent to 1,090,136litres. If

1,090,136 litres is multiplied by the pump price of N97 / litre, the loss in naira amounted to **N105,743,192**

Ilorin depot reported 7,871.63MT as opening stock as against 10,426MT recorded as closing stock for 2011. There is no record for 2,554.37MT which is equivalent to 3,487,857.35lts. The equivalent loss in naira value is **N338,322,162.95**

Ore depot reported 4,101.16MT as opening stock as against 17,803.66MT recorded as closing stock for 2011. There is no record for 13,702.5MT which is equivalent to 18,586,717.66lts. The equivalent loss in naira value will be **N1,802,911,613.02,** at pump price of N97/litre.

Port Harcourt depot reported 2,555.88MT as opening stock as against E807.12MT which is equivalent to 1,094,815.66lts. The loss in naira amounted to **N102,912,672.04**

Aba depot reported 12,525.56MT as opening stock as against 16,481MT recorded as closing stock for 2011. There is no record for 3,955.44MT which is equivalent to 5,365,345.496lts. The equivalent loss in naira value amounted to **N520,438,513.11**

Third Party depot reported 38,079.59MT as opening stock as against 105,200.32MT recorded as closing stock for 2011. There is no record for 67,120.73MT which is equivalent to 91,045,725.8lts. The equivalent naira value of the loss is **N8,831,435,402.6**

The total loss to the nation on PMS through depots amounted to **N11,701,763,555.72** (Eleven Billion Seven Hundred and One Million Seven Hundred Sixty Three, five hundred and fifty-five naira and seventy-two kobo).

Table 9.9.5B: Summary of Depot Balances for DPK in Metric Tons in 2012

OPENING STOCK	RECEIPTS	SALES	TRANSFERS OUT	OTHERS	CLOSING STOCK
MT	MT	MT	MT	MT	MT
25,110.47	689,925.07	672,824.18	39.32	30.89	44,959.28

Observations

3rd (Third) Party depot reported 2,878.76MT as opening stock as against 26,591.65MT recorded as closing stock for 2011. There is no record for 23,712.89MT which is equivalent to 29,019,017.3lts. The estimated value of the loss at N50 /Litre is **N1,450,950,850.00** (One billion Four Hundred and Fifty Thousand Nine Hundred and Fifty Thousand Eight Hundred and Fifty naira) only.

Table 9.9.5C: Summary of Depot Balances for AGO in Metric Tons in 2012

OPENING STOCK	RECEIPTS	SALES	TRANSFERS OUT	OTHERS	CLOSING STOCK
MT	MT	MT	MT	MT	MT
118,503.84	889,672.45	439,372.13	446,054.98	259.86	122,303.87

Observations:

PH depot reported 3,125.04MT as opening stock as against 3,592MT recorded as closing stock for 2011. There is no record for 467MT which is equivalent to 527,684lts. At an average pump price of N150 / litre the estimated value of the loss is **N82,902,600** (Eighty Two Million Nine Hundred and Two Thousand Six Hundred Naira) only.

Enugu depot reported 3,438.24MT as opening stock as against 3,952MT recorded as closing stock for 2011. There is no record for 514MT which is equivalent to 580,791lts. The estimated value of the loss at N150 / litre is **N87,118,650** (Eighty Seven Million One Hundred and Eighteen Thousand Six Hundred and Fifty Naira) only.

3rd Party depot reported 9,562.85MT as opening stock as against 10,833.13MT recorded as closing stock for 2011. There is no record for 1,270.28MT which is equivalent to 1,435,344.63lts. The estimated loss is **N215,301,694.5** (Two Hundred and Fifteen Million Three Hundred and One Thousand Six Hundred and Ninety Four Naira Fifty Kobo) only. This give a total loss of **N385,322,944.50** (Three Hundred and Eighty Five Million Three Hundred and Twenty Two Thousand Nine Hundred and Forty four Naira Fifty Kobo) only.

Observations:

We observed irreconcilable differences between opening stock balances and closing stock balances. PPMC data on depot balances appear to be incomplete. In inventory accounting, stock balances should be a reflection of the transactions between opening stock and closing stock dates; these transactions include receipts, sales, transfers and other uses. This is not so from the three tables above as all the products (PMS, AGO, DPK) throughout the reporting period with exception of a few depots had irreconcilable balances.

9.9.6 Crude Oil Theft in 2012

Crude oil theft may refer to any activity relating to the theft or sabotage of crude oil, facilities or installations in form of illegal bunkering, pipeline vandalism, fuel scooping, illegal refining and transport and oil terrorism. Illegal oil bunkering is the most commonly known form of oil theft and it involves direct tapping of oil. Though oil bunkering is a necessity for maritime shipping within the maritime sector, it becomes an illegal oil bunkering when it is carried out without requisite statutory licenses or valid documents, or in violation of the Nigerian Maritime Sector and the guidelines made by the statutory institutions regarding it.

9.9.6.1 Impact of Crude Oil Theft

Economic

Nigeria produces about two million barrels of crude oil per day going by her Approved Quota from the Organization of Exporting Countries (OPEC).However, it is widely speculated that about the same quantity of crude is being lost to Oil Theft. This accounts for estimates that Nigeria loses about $20bn yearly which could have Provided Massive Infrastructure, Employment and Provide Social Amenities like Clean Water, Basic Healthcare and Schools and Stronger Cash Reserves needed to finance development in the country.

Environmental

Among the many factors responsible for the Degradation of the Environment is oil spillage resulting from oil theft especially the hacking of pipelines and the activities of illegal refineries which is responsible for the uncontrolled emission of Carbon into the atmosphere. Sabotage and Crude oil theft according to a report are responsible for a large percentage of Oil Spills. Oil Spills result in Ground Water Poisoning, Destruction of Agricultural Land, Fishery and Livestock and fast Disappearing Mangrove Forests.

Social

Crude Oil theft and militancy constitute a major inhibitor to the socioeconomic development of the Niger-delta. Another worrisome trend is the increasing percentages of school aged children who are denied access to formal education and aspiration by the various militant groups who see them as potential recruits for their illegal trade thus initiating them into a criminal lifestyle characterized by violence and restiveness, teenage parenthood and anti-societal tendencies.

Health

Crude Oil theft largely contributes to the deteriorating health conditions prevalent in the Niger Delta region of the Country. It is reported that Liquid, Solid Waste and Residues from Dumps which are not properly disposed or treated causes Contamination of Domestic Water Supplies which is responsible for a host of known diseases in this region. Respiratory diseases which constitute another percentage of the diseases in this area can also be attributed to uncontrolled emissions and gas flaring.

Governance

As the International spotlight beams on Nigeria due to the various activities of Crude Oil theft and Illegal Bunkering, our government is being challenged to protect its credibility and reputation with other nations and multinational groups. Oil theft is threatening Foreign Direct investment into the Extractive sector of the economy. These activities constitute a threat to National Security as perhaps a greater percentage of this illegal oil trade is being organized and controlled by Warlords who in turn result to arms trading and alliances with criminal organizations to guaranty supplies and protection for their local gangs.

9.9.6.2 Factors Responsible for Crude Oil Theft

- Thriving black market
- Collusion with Security Agents,
- Bribery and corruption
- Foreign buyers of stolen crude
- Inadequate funding & resources to combat Crude Oil theft

9.9.6.3 Solutions to Crude Oil Theft

I. Creating awareness about crude oil theft and engendering cooperation between the public, stakeholders and relevant local and international agencies

II. Enabling legislation, special courts and swift prosecution of offenders and their backers

III. Financial reporting through close monitoring & sharing of information on transactions relating to oil theft

IV. Adoption of a standard scientific process as benchmark for the crude oil trade such as crude oil fingerprinting

V. Allocation of adequate resources; technology, equipment and logistics to security agencies to enable them function effectively. These may include the use of Unmanned Aerial Vehicles (UAV's) such as quad copters for surveillance and integrity pipeline monitoring system to detect leaks.

For purposes of knowing the magnitude of the problem, we requested data from Companies (SPDC, NAOC, Chevron and PPMC) that operate on land and swamp areas of the Niger Delta, and were exposed to these thefts and sabotage to provide information on volumes stolen or lost within the audit period (2012)

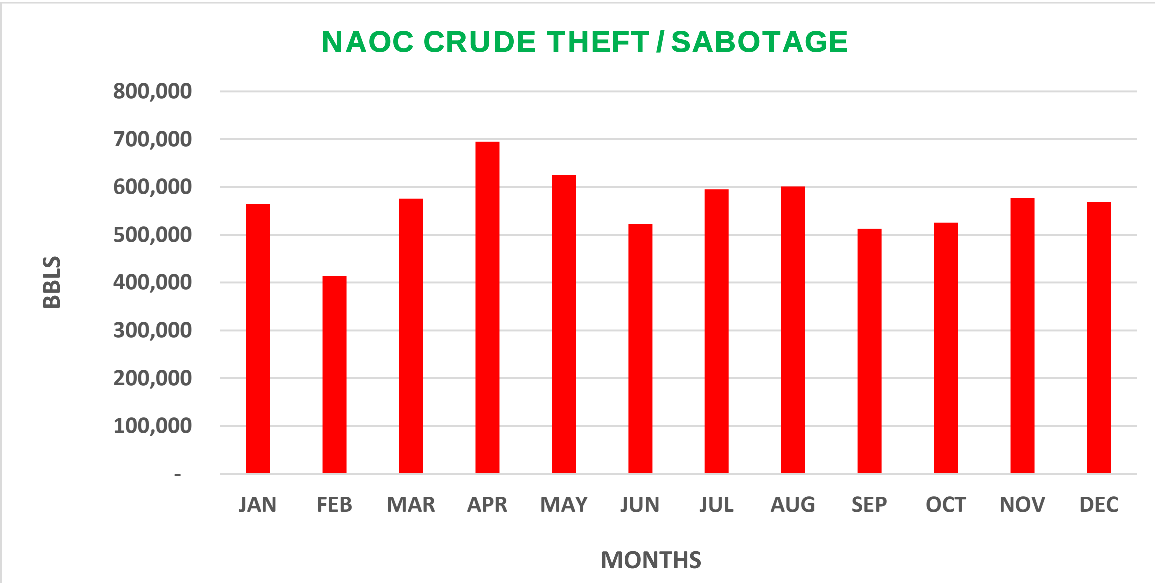
NNPC-NAOC JV

Table 9.9.6.3 A NAOC 2012 Crude Oil Theft and Sabotage

NAOC 2012 CRUDE OIL THEFT AND SABOTAGE (BBLS)				
MONTHS	**VOLUME**	**FACILITY**	**PRICE ESTIMATE (USD)**	**VALUE (USD)**
JAN	565,053	DELIVERY PIPELINES	113.81	64,308,634
FEB	414,663		121.87	50,534,947
MAR	576,082		128	73,738,467
APR	694,950		122.62	85,214,711
MAY	625,137		113.08	70,690,503
JUN	522,316		98.06	51,218,329
JUL	595,279		104.62	62,278,044
AUG	601,058		113.76	68,376,311
SEP	512,832		114.36	58,647,509
OCT	525,834		108.92	57,273,843
NOV	577,317		111.05	64,111,094
DEC	568,229		111.49	63,351,820
TOTAL	**6,778,749**			**769,744,213**

SOURCE: 2012 NAOC CRUDE THEFT/SABOTAGE TEMPLATE, CBN 2012 CRUDE OIL PRICE FOR BONNY LIGHT

Figure 9.9.6.3A: NAOC Crude Theft/Sabotage



From the table above, there was an average theft of 564,896 bpm of Crude Oil with the highest in the month of April (694,950 bbls) and the lowest in February (414,663 bbls).

NNPC operates a 60-40% Joint Venture with Nigerian Agip Oil Company (NAOC 20%, ConocoPhilips 20%) thus the losses due to theft are distributed in accordance with the equity holdings as shown below.

Table 9.9.6.3B: Entitlement to Loss (NNPC-NAOC JV)

ENTITLEMENT TO LOSS (NNPC-NAOC JV)			
	TOTALS	NNPC (60%)	NAOC (40%)
VOLUME (BBLS)	6,778,749	4,067,249	2,711,499
VALUE (USD)	769,744,213	461,846,528	307,897,685

From the above table, NNPC lost $461,846,528 (estimated based on CBN's 2012 Crude prices for Bonny Light) to Crude theft.

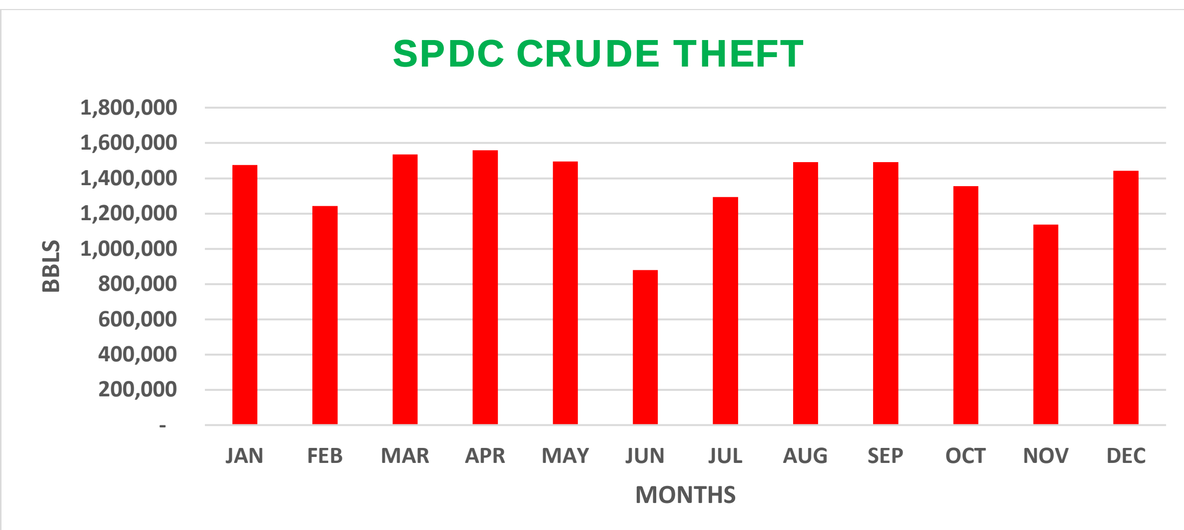
NNPC-SPDC JV

Table 9.9.6.3C: SPDC 2012 CRUDE OIL THEFT AND SABOTAGE

SPDC 2012 CRUDE OIL THEFT AND SABOTAGE (BBLS)				
MONTHS	**VOLUME**	**FACILITY**	**PRICE ESTIMATE (USD)**	**VALUE (USD)**
JAN	1,476,149	**Theft are established monthly at the various Terminals [Bonny & Forcados] as a function of total Loses. Total loses is the apprent shortfall in Terminal Receipts following Fiscalisation at 08:00 of every month under supervision of DPR & NNPC**	113.81	168,000,464
FEB	1,241,926		121.87	151,353,579
MAR	1,535,267		128	196,514,130
APR	1,558,620		122.62	191,117,943
MAY	1,495,516		113.08	169,112,951
JUN	880,103		98.06	86,302,855
JUL	1,293,140		104.62	135,288,337
AUG	1,491,855		113.76	169,713,473
SEP	1,491,855		114.36	170,608,587
OCT	1,355,692		108.92	147,662,019
NOV	1,138,215		111.05	126,398,778
DEC	1,441,951		111.49	160,763,139
TOTAL	**16,400,290**			**1,872,836,255**

SOURCE: 2012 SPDC CRUDE THEFT/SABOTAGE TEMPLATE, CBN 2012 CRUDE OIL PRICE FOR BONNY LIGHT

Figure 9.9.6B: SPDC 2012 CRUDE OIL THEFT AND SABOTAGE



From the table above, there was an average theft of 1,366,691 bpm of Crude Oil with the highest in the months of March (1,535,267 bbls) and the lowest in June (880,103 bbls). The table further shows that all through the year, the volume of crude oil stolen was steady.

Table 9.9.6.3D: Summary of Crude Losses-Theft(NNPC-NAOC-SPDC-JV)

Summary of Crude Losses -Theft (NNPC-NAOC-SPDC-JV)			
	TOTALS	NNPC	COMPANIES
VOLUME (BBLS)	23,179,039	13,087,408	10,091,629
VALUE (USD)	2,642,580,468	1,491,906,468	1,150,674,000

According to SPDC, Theft is established monthly at the various Terminals [Bonny & Forcados] as a function of total Losses. Total losses are the apparent shortfall in Terminal Receipts following Fiscalisation at 08:00 of every month under supervision of DPR & NNPC.

NNPC operates a 55-45% Joint Venture with Shell Petroleum Development Company (SPDC 30%, Elf 10% and Agip 5%) thus the losses due to theft are distributed in accordance with the equity holdings as shown below:

Table 9.9.6.3E: ENTITLEMENT TO LOSS (NNPC-SPDC JV)

ENTITLEMENT TO LOSS (NNPC-SPDC JV)			
	TOTALS	NNPC (55%)	SPDC (45%)
VOLUME (BBLS)	16,400,290	9,020,159	7,380,130
VALUE (USD)	1,872,836,255	1,030,059,940	842,776,315

From the above table, NNPC lost $1,030,059,940 (estimated based on CBN's 2012 Crude prices for Bonny Light) to Crude theft.

From the above, the total Crude Loss due to theft (SPDC-NAOC JV) is 10,091,629 bbls .NNPC 's gross equity is 13,087,408 bbls with a net value of $1,491,906,468.

NNPC-SPDC JV SABOTAGE (DEFERED PRODUCTION)

Incessant sabotage of oil and gas assets resulted into production challenges (deferred production) that in turn affected export and revenue.

The below table shows the volume and value of Crude Oil lost as a result of Deferred Production.

Table 9.9.6.3F: SPDC PRODUCTION DEFERMENTS

SPDC PRODUCTION DEFERMENTS ARE A RESULT OF SABOTAGE						
	LOCATIONS		FACILITY			
	SPDC EAST	SPDC WEST		TOTAL	PRICE ESTIMATE (USD)	VALUE (USD)
JAN	1,959,685	51,423	WELL HEADS/FLOW LINES	2,011,109	113.81	228,884,285.59
FEB	1,464,224	13,902		1,478,126	121.87	180,139,206.72
MAR	2,168,919	20,562		2,189,481	128	280,253,581.57
APR	1,800,588	679,977		2,480,565	122.62	304,166,853.32
MAY	3,887,862	12,571		3,900,433	113.08	441,060,977.89
JUN	5,173,193	71,680		5,244,873	98.06	514,312,210.59
JUL	1,741,848	197,936		1,939,783	104.62	202,940,124.98
AUG	2,044,249	190,284		2,234,534	113.76	254,200,569.41
SEP	1,273,835	328,545		1,602,381	114.36	183,248,263.26
OCT	1,683,102	1,220,320		2,903,422	108.92	316,240,684.59
NOV	1,269,293	59,138		1,328,432	111.05	147,522,348.17
DEC	429,667	-		429,667	111.49	47,903,585.42

TOTAL	**24,896,467**	**2,846,337**		**27,742,805**		**3,100,872,692**

SOURCE: 2012 SPDC CRUDE THEFT/SABOTAGE TEMPLATE, CBN 2012 CRUDE OIL PRICE FOR BONNY LIGHT

Table 9.9.6.3G: ENTITLEMENT TO LOSS (NNPC-SPDC JV)

ENTITLEMENT TO LOSS (NNPC-SPDC JV)			
	TOTALS	**NNPC (55%)**	**SPDC (45%)**
VOLUME (BBLS)	27,742,805	15,258,543	12,484,262
VALUE (USD)	3,100,872,692	1,705,479,980	1,395,392,711

The above table shows that the corporation (NNPC) lost revenue due to deferred production to a tune of $1,705,479,980 under the NNPC-SPDC JV in 2012.

NNPC-CNL JV

A month-by-month summary of estimated losses incurred by the NNPC/CHEVRON JV due to crude theft and sabotage is shown in table **9.9.6.3H** as presented in the company's templates.

Table 9.9.6.3H CHEVRON 2012 CRUDE OIL THEFT AND SABOTAGE

CHEVRON 2012 CRUDE OIL THEFT AND SABOTAGE (BBLS)				
MONTHS	**VOLUME**	**FACILITY**	**PRICE ESTIMATE (USD)**	**VALUE (USD)**
JAN	40,074	BONNY TERMINAL	113.81	4,560,822
FEB	39,198		121.87	4,777,060
MAR	68,074		128	8,713,472
APR	67,862		122.62	8,321,238
MAY	114,788		113.08	12,980,227
JUN	19,540		98.06	1,916,092
JUL	51,604		104.62	5,398,810
AUG	64,781		113.76	7,369,487
SEP	51,549		114.36	5,895,144
OCT	48,315		108.92	5,262,470
NOV	47,875		111.05	5,316,519
DEC	49,469		111.49	5,515,299
TOTAL	**663,129**			**76,026,640**

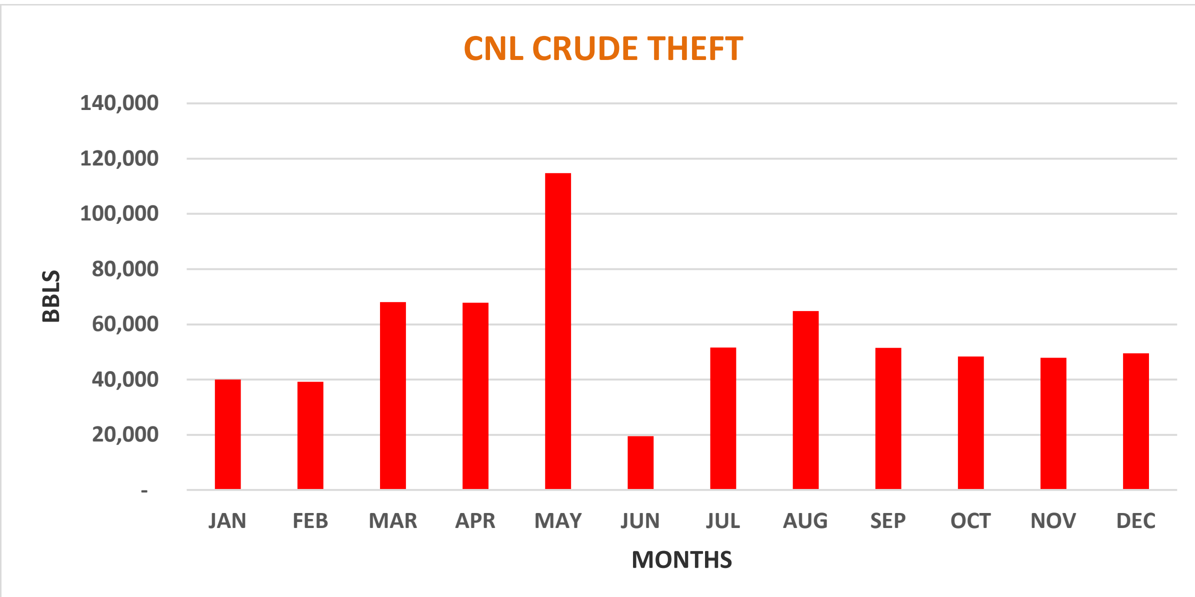
The total loss is estimated at $76,026,640 and highest loss ($12,980,227) was recorded in the month of May, 2012. See figure **9.9.6.3C** below.

NNPC share of loss is estimated at $45,615,984 as shown in **Table 9.9.6.3i**.

Table 9.9.6.3i ENTITLEMENT TO LOSS (NNPC-CNL JV)

ENTITLEMENT TO LOSS (NNPC-CNL JV)			
	TOTALS	NNPC (60%)	NAOC (40%)
VOLUME (BBLS)	663,129	397,877	265,252
VALUE (USD)	76,026,640	45,615,984	30,410,656

Figure 9.9.6.3C CNL CRUDE THEFT



9.9.7 2012 Domestic Crude Oil Losses

Crude Oil theft is not only synonymous with upstream operations but also an evil experienced in the midstream operations. There are cases of theft on the domestic allocated crude (refinery allocations) which is summarised below:

Table 9.9.7A: Domestic Crude Oil Losses

FLOW LINES/PIPELINES	PUMPED (BBL)	RECEIVED (BBL)	VARIANCE (BBL)	ESTIMATED VALUE	
				UNIT ($)	VALUE
ESCRAVOS/CNL – WARRI	8,386,983	7,150,467	(1,236,516)	100	(123,651,600)
WARRI - KADUNA	12,138,063	11,385,465	(752,598)	100	(75,259,800)

SPDC – WARRI	2,467,775	2,378,785	(88,990)	100	(8,899,000)
BONNY - PHRC	10,425,878	9,458,357	(967,521)	100	(96,752,100)
TOTAL	**33,418,699**	**30,373,074**	**(3,045,625)**		(304,562,500)

Note: The Estimated value is based on a flat rate of $100/bbls

Source: PPMC Crude Loss Template

From COMD records, a total of 34.927 mbbls was allocated to the refineries in 2012 for local refining as part of the domestic crude allocation of 445,000 bpd. However PPMC records 33.419 mbbls as the actually pumped crude oil to the refineries. This shows a variance of 1.508 mbbls of allocated crude and actually pumped crude oil.

From the actually pumped volume to the actually received volume, there is a variance of 3.046 mbbls (9.11%) which PPMC attributes to Theft along its lines.

PPMC commenced marine shipment of Crude oil in February 2011 to supply 3 refineries (2 in Port Harcourt and 1 in Warri) as against using pipelines to transport crude oil to the refineries. This was as a result of the constant attacks on the crude supply pipelines which over the years has created serious challenges for the refineries. The use of marine vessels to transport crude to the refineries is innovative and commendable as there has been steady supply of feedstock even though it has increased the cost of doing business.

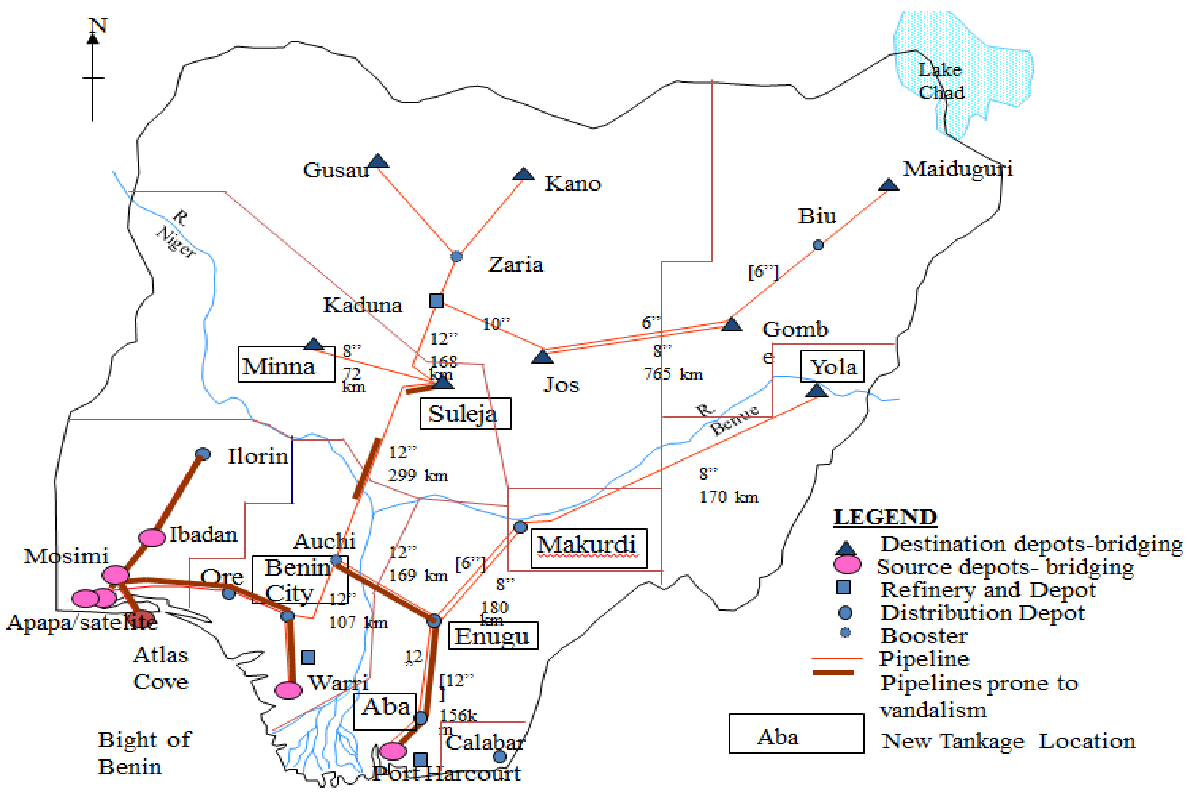
9.9.7.1 2012 PRODUCT LOSSES

PPMC is the dominant supplier of Refined Petroleum Products to the existing domestic and growing export markets within West African Sub-Region. It operates an integrated network of about 5,120 km of pipeline constructed through communities and different terrains (Land, Swamps, Forests, Savannah, Rivers, etc). Petroleum products are distributed through the pipeline network connecting 21 loading Depots and 24 Pump stations across the nation. Petroleum Products supply and distribution through pipeline is the most effective and cheapest means of transportation. The integrity of these pipeline networks over the years have been severely damaged by vandals for the purpose of illegal removal of petroleum products. Below are the existing pipeline networks operated by PPMC.

- System 2a: Warri-Ben -Ore-Mosimi
- System 2cx: Warri- Auchi-Benin
- System 2b: Atlas Cove-Mos-Ib-Ilorin

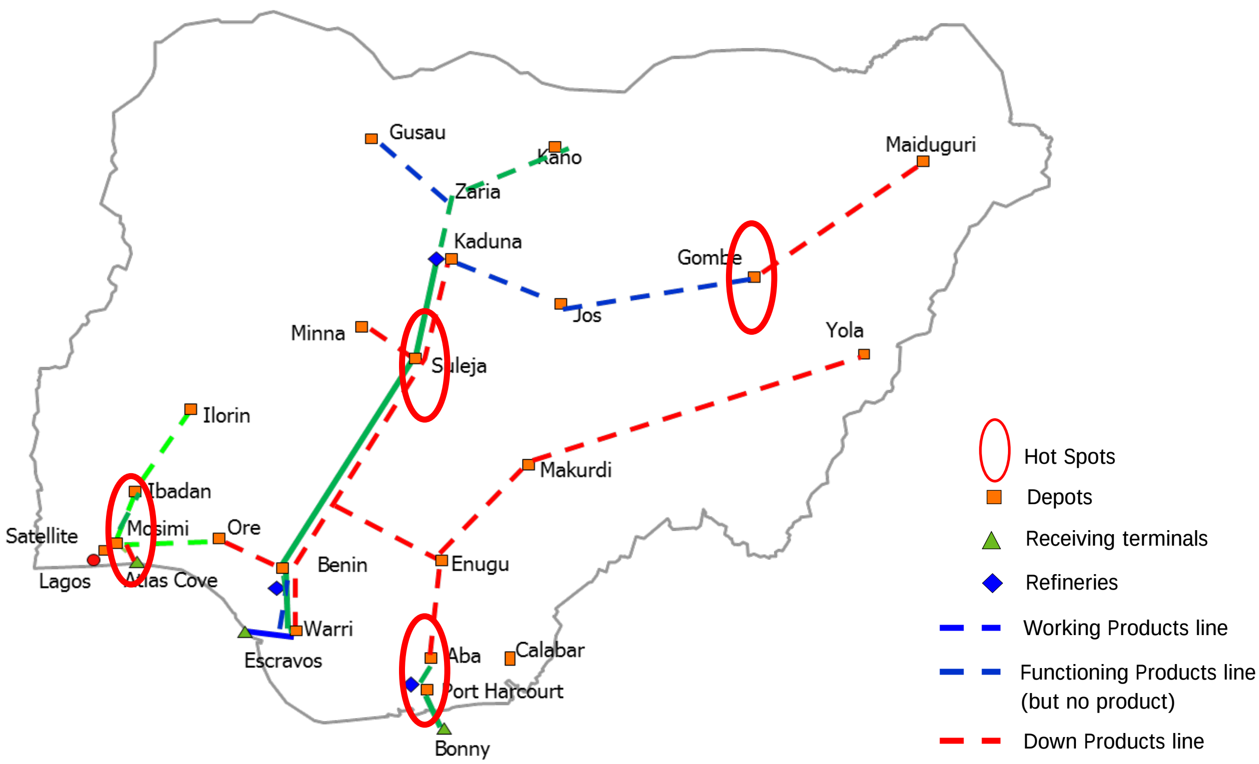
- System 2c: Esc-War-Kd(Crude Line)
- System 2d: Kd-Zar-Kn, Zar-Gusau, Kd-Jos
  Jos-Gombe-Maiduguri
- System 2e: Ph-Aba-Enugu-Yola
- System 2ex: Ph-Aba-Enugu-Makurdi-Yola
- System 2cx: Enugu-Auchi, Auchi-Suleja-Kd, Suleja-Minna
- System 2dx: Jos-Gombe –Maiduguri

Figure 9.9.7.1A : PPMC Pipeline Network I



Activities of vandals became noticeable in PPMC operations in 1999. It began progressively from the Port Harcourt and Warri Areas of PPMC operations and spread to every part of PPMC pipeline network.

Figure 9.9.7.1B: PPMC Pipeline Network II



From the above figure, the hotspots are the Atlas Cove, Mosimi , PH, Gombe and Suleja Areas.

Table9.9.7.1A: RECORDS OF PIPELINE BREAKS/RUPTURES (1999 - 2013)

YEAR	AREA					YEARLY TOTAL
	GOMBE	KADUNA	MOSIMI	PHC	WARRI	
1999	7	7	50	355	78	**497**
2000	1	3	46	732	217	**999**
2001	2	36	11	385	83	**517**
2002	6	46	28	360	93	**533**

2003	2	42	45	233	130	**452**
2004	2	122	152	429	266	**971**
2005	20	243	209	1,017	769	**2,258**
2006	265	176	480	2,091	662	**3,674**
2007	716	122	459	1,655	306	**3,258**
2008	357	129	530	557	745	**2,318**
2009	86	123	483	405	208	**1,305**
2010	1,712	371	394	2,226	815	**5,518**
2011	2,573	578	467	302	548	**4,468**
2012	1,994	646	309	284	475	**3,708**

Table 9.9.7.1B: Summary of Pipeline Losses

SUMMARY OF PIPELINE LOSSES (MT)							
	MOSIMI AREA						
	DEPOT						
PRODUCT	FROM	RECEIVED				TOTAL	LOSS
PMS	Atlas Cove	Mosimi			Satellite		
	2,428,385	1,666,762			600,881	2,267,643	160,742
	Mosimi	Ibadan			Ore		
	967,172	768,334			150,484	918,818	48,354
	Ibadan	Ilorin					
	156,520	148,234				148,234	8,286
							217,382
AGO	Atlas Cove	Mosimi					
	9,799	8,048				8,048	1,751
PH AREA							
							1,751
PMS	PHRC	Aba					
	79,371	76,463				76,463	2,908
							2,908
DPK	5,392	5,324				5,324	68
							68
AGO	35,203	32,850				32,850	2,353
KADUNA AREA							
							2,353
PMS	KRPC	Jos	Kano	Gusau	Suleja		
	88,608	11,317	28,004	6,439	41,218	86,978	1,630
	Suleja				Minna		
	12,384				10,374	10,374	2,010
							3,640
AGO	12,680				2,224	2,224	10,456
							10,456

SOURCE: PPMC Pipeline Movement Template

Table 9.9.7.1: Pipeline Theft and Vandalization

PRODUCT	(MT)	Ltrs	Unit Price (N)	Value
PMS	223,930	303,749,177	97	29,463,670,141
AGO	14,560	16,451,985	140	2,303,277,850
DPK	68	83,216	50	4,160,804
TOTAL				**31,771,108,795**

From the above tables, PPMC suffered a net loss of N31, 771,108,795 to pipeline theft and vandalization.

10.0 REVIEW OF THE FINDINGS AND RECOMMENDATIONS IN THE PREVIOUS AUDIT

Presented below is a summary of the main findings in the previous audit cycle together with recommendations proffered by the auditors and status of the remedial actions to date.

10.1 BID ROUNDS & SIGNATURE BONUS

Some oil blocks are subjects of court litigation in relation to Department of Petroleum Resources' (DPR) right to offer the blocks e.g. (OML 13, 16, & 69). The consequence of these litigations includes block sterilization, non-payment of signature bonus and eventual delay in allocation of blocks with attendant setbacks in production and income loss to the Federation.

Update: DPR has initiated an out of court settlement with Shell.

10.2 RIGHT OF FIRST REFUSAL

In the 2007 licensing round, the 'Right of First Refusal' was introduced with the approval of the Presidency. Preference was given to bidders who offered to construct downstream processing projects and infrastructure. Significant concessions were offered which were mostly not financially quantifiable raising transparency issues and the ability to manage the implementation.

Update: DPR has sent in a list of detailed projects meant to be executed by the companies. However, litigation and other issues arising from the bidders have affected the take-off of the projects. NNPC NAPIMS is presently engaged in developing strategies to address the scope and implementation of various downstream obligation projects on the active PSC blocks (Sterling-OPL 277/280, Sahara –OPL 274/284/286, ONGMC- Mittal- OPL 285 & Newcross- OPL 276/283).

10.3 PETROLEUM PROFIT TAX (PPT) VALIDATION.

- The Joint Venture (JV) operators were generating PPT fiscal value in 2006 – 2008 using Realisable Prices (RP) instead of Official Selling Price (OSP) stipulated in Clause 2.4 of the 2000 Memorandum of Understanding (MOU) which is the subsisting relevant arrangement with Federal Government.
- The value implication of the above led to PPT underpayment of $690,104,000.

10.4 IMPACT OF CARRY AGREEMENTS ON PPT

NNPC has carry agreements with some of its Joint Venture partners. The JV partners fund the full cost of executing the development of the field or for a Production Improvement Project (PIP) allowing it to recover its cost together with interest through capital allowances and investment tax allowances and sometimes by additional production entitlements. Some significant amount of PPT under assessment was noticed by the audits.

Update: Updated status report from FIRS to be provided on the current reconciliation exercise with the companies.

10.5 ROYALTY VALIDATION

An estimated sum of US$2,333 million was under assessment of royalty payments for the 2006-2008. This was attributable to inappropriate application of the price variable in the determination of fiscal value for royalty calculation. DPR also indicated that it is in the process of reconciling the outstanding royalty balance with companies. The exercise would cover 1990 to the period of the audit.

Update: DPR has set up a committee to resolve the issue of the termination of 2000 MOU in order to resolve this dispute. This has been finalized and is in the implementation stage. A new MOU has been proposed for signing.

10.6 NON FINANCIAL FLOWS

There are disputes on the 1993 Production Sharing Contract (PSC) Cost, PPT and Royalty Liabilities.
The audit observed that PSC contractors and NNPC are in dispute over the interpretation of:-

- ✓ Ring fencing of PSC cost recovery and PPT calculations.
- ✓ Royalty rate applicable and some expenditure deductions for PPT
- ✓ Issues on Capital Allowances and Investment Tax Credit (ITC).
- ✓ Management of Lifting Allocation and Scheduling

These have led to disagreement between the contractors and NNPC on crude oil allocation, amounts of PPT and Royalty payable. This dispute is presently before an arbitration panel.

Update: NNPC is making its best endeavour to ensure speedy resolution of the PSC arbitration and the various pending legal actions. Out of the 6 PSCs executed in 1993, 4 have gone through arbitral proceedings namely:

NAE (Abo)- NNPC obtained interlocutory order of stay of execution of the arbitral award and applied to set aside same. NAE subsequently appealed challenging the interlocutory award. This action and the substantive matter by the NNPC are still pending.
ESSO (Erha)- NNPC has applied for stay of enforcement and setting aside of the arbitral ward. The FHC in May 2012 upheld NNPC contention that arbitral tribunal lacks jurisdiction to entertain tax disputes which fall within the exclusive jurisdiction of the FHC. Esso filed an appeal challenging the judgment. The appeal is pending determination.
SNEPCO (Bonga) – the arbitral tribunal has since declined proceedings in compliance with FHC, which confirms that arbitral tribunals lack jurisdiction to entertain tax disputes.
STATOIL (Agbami Unit- Tract 2)-the restraining order sought by NNPC to stop Statoil's arbitration is awaiting the tribunal's judgment.
All other PSCs executed in 1993 have potential arbitral issues such as: Applicable Royalty Rate, Cost Consolidation, Manner of Capital Cost amortization and recovery, Treatment of Investment Tax Credit etc.
Implication: Total potential contingent liability against the NNPC currently stands at USD9 billion with annual increase of USD3 billion if the adverse ruling are not reversed.

10.7 DIVIDEND FROM NLNG TO NNPC

NNPC holds 49% share of NLNG on behalf of the Federation. Financial flows from NLNG include dividends and loan repayments. So far NNPC has reported receipt of $3.996billion for the years 2006 – 2008. It also confirmed receipt of the sum of $4.84 Billion in 2009-2011.
This brings the total non-remittance of NLNG dividends and loan repayments by NNPC to the Federation Account from 2006-2011 to $8.836 billion.
Update: No remittance has been made by NNPC.

10.8 REPLACEMENT OF THE 2000 MOU

A replacement (new) fiscal regime is yet to be determined with the result that the 2000 MOU terms continues to apply.

Update: The aspect of the 2000 MoU that should have been replaced in the MoU is the Fiscal Price. This has been developed and expected to be in place from January 2013 retroactively. A tripartite committee of DPR, NNPC and OPTS was formed to agree on a workable agreement on the issue of whether to use fiscal value of OSP or RP is still on going with differentials still in existence: DPR is insisting on OSP while the companies through OPTS are insisting on RP.

10.9 PRODUCTION SHARING CONTRACT (PSC) GAS TREATMENT

The PSCs do not make any provision on how the parties should treat gas available for commercial exploitation, other than that the parties should execute separate agreements. Such agreements have not been made. The absence of an agreement as in the Bonga field would result in loss of income to the Nation.

Update: Presently, there is cash-in-flow to the Federation Account from the Gas Sales agreement between NNPC/SPDC/Total/NAOC JV and NLNG; the federation gets 55% of the revenue while 45% is retained by SPDC pending the determination of service fees payable for the usage of NNPC/SPDC JV facilities. NAPIMS currently books the 45% as liability to SNEPCO pending the finalization of the relevant Agreement.

10.10 MEASUREMENT OF CRUDE OIL FOR ROYALTY PURPOSE.

The industry has no consistent practice regarding the point at which production is measured for royalty purposes. Some companies calculate royalty based on field production volumes while others use export volumes to calculate royalty. The situation is unclear as DPR is yet to propagate a standard measurement.

Update: DPR has proposed a new measurement guideline, which is meant to be in effect by the 3rd Quarter of 2014.

10.11 MANAGEMENT OF REFINED PRODUCT IMPORTATION AND DISTRIBUTION

The method of measuring and recording refined products by PPMC and DPR are not in accordance with best practices. The systems for recording the movement through the PPMC pipeline and marine transfers are fragmented, out dated, and paper based, and therefore subjected to error.

As a repeat observation in 2005 audit, NNPC confirmed its intention to upgrade the system. However no action has been taken.

Update: L/C for procurement of 100 tank gauging system is under establishment while installation of the gauges is expected to commence in September 2014. PPMC has embarked on the conversion of the loading meters in the depots from Analogue to Digital. The conversion project has already commenced at satellite, Ibadan, Ilorin, Ore, Jos, Benin, Port Harcourt and Kaduna Depots.

Meanwhile NNPC is to provide further update on the status of the project.

10.12 PIPLELINE MOVEMENTS AND LOSSES FROM CRUDE OIL THEFT AND SABOTAGE

By design, refined products are transferred from one depot to another through pipelines. Over the years, transfer of products through pipelines has significantly reduced due to huge losses arising from obsolete/defective equipment, theft and/or Vandalization. The report observed a loss of 529.422 million litres of PMS (equivalent of over =N= 34.4 billion) in the Mosimi area alone.

Update: NNPC is collaborating with the relevant security agencies to minimize losses. Specific actions include the following:

- Deployment of JTF to Port Harcourt and Warri Area offices
- Deployment of community guards on Bonny/Port Harcourt line.
- Additional use of community guards on Gombe and Kaduna Area.

NNPC is also currently reviewing various proposals on hi-tech option to minimise vandalism.

10.13 MEASUREMENT PROCESS

The 2006-2008 report checked the status of metering and measurement process for upstream and downstream to access reliability and quality controls among others things. The report observed the following:

- Poor metering calibration at Atlas Cove
- Poor location of electronics at Bonny terminal
- Measurement guidelines not updated by DPR.

IMTT Resolution: IMTT wrote Weights and Measures Department (WMD) of the Federal Ministry of Trade and Investment, who in response is currently in the process of implementing the IMTT resolution.

10.14 COVERED ENTITIES ENJOYING PIONEER STATUS

Some companies that have been long in operation are still enjoying pioneer status (with benefits of tax waivers), which should not be the case.

IMTT Resolution: IMTT has written Federal Ministry of Industry through NIPC to provide the basis for granting pioneer status to companies in operations longer than the stipulated duration. Concerns were also raised with the status being conferred on companies in existence that diversifies.

Update: The NIPC responded saying a company qualifies for pioneer status on the basis of its activity/product as declared by the enabling Law-Industrial Development (Income tax Relief) Act of 1970, as subsequently amended. The FIRS is awaiting directives from the Federal Ministry of Finance reviewing the pioneer status.

10.15 **DEDUCTION OF SUBSIDY FROM DOMESTIC CRUDE REVENUE.**

NNPC paid into the Federation Account domestic crude allocations less subsidy claims totalling N816.3million for 2006-2008 audits. NNPC could not provide the enabling Act of the National Assembly authorizing them to make such deductions.

UPDATE: NNPC yet to show evidence of formal approval to deduct subsidy claims from source.

10.16 **EXCHANGE RATES USED FOR CONVERSION OF US$ INTO NAIRA PAID INTO THE FEDERATION ACCOUNT FOR DOMESTIC CRUDE ALLOCATIONS**.

The audit discovered that domestic crude allocated to NNPC is in US$, to be paid into the Federation in the equivalent Naira value of the US$ prices. The audit revealed that the exchange rates used by NNPC in most instances are lower than Central Bank of Nigeria (CBN) advised rates.

NNPC should apply the CBN exchange rate in invoicing domestic crude allocation

UPDATE: IMTT resolved that NNPC, CBN, Revenue Mobilization, Allocation and Fiscal Commission are to meet and resolve the issue immediately.

10.17 **PRODUCT EXCHANGE AND IMPORTATION ARRANGEMENTS**

NNPC made agreements covering offshore processing, crude oil and product exchange in 2010-2011 with some companies for the processing of part of its domestic crude oil outside the country (offshore). These parts are then returned as refined products, while the other parts are retained and paid at negotiated price. There is no cost efficiency in the transactions.

Update: NNPC is advised to discontinue these arrangements. NNPC should resort to exportation of crude oil and importation of refined petroleum products only and not a mixture of both.

10.18 FISCAL REGIME USED BY ADDAX IN ROYALTY COMPUTATIONS

In computing their respective royalties, production volumes were graduated by Addax and Agip in tranches (apparently based on their interpretation of a side letter) rather than absolute production level as required in section 6 of PPTA (Sec 6 LFN 2004) , Sec 63(LFN 2004), and Sec 61(4) of the Petroleum (Drilling and Production) Regulations.

. The effect of this deviation by Addax alone is in the sum of $449,602,975, counting as a loss to the Federation for the period under review.

IMTT resolution: concept of tranches is unacceptable. Addax responded with notice of litigation. In the interim Royalties for Addax's assets are being computed.

11.0 SUMMARY OF RECOMMENDATIONS

The recommendations from 2012 NEITI Oil and Gas Audit are discussed under the following sections;

1) Financial Audit and Validation of Federation Equity Crude
2) Joint Venture Cash Calls
3) Downstream Product Importation and Fuel Subsidy
4) Governance/Process Issues from Nigerian Oil and Gas Industry
5) Pricing Methodology
6) Review of Production Measurement and Metering Infrastructure
7) NEITI Audit Challenges and Recommendation for future Audit

11.1 Financial Audit and Validation of Federation Equity Crude

S/N	ISSUES	AGENCY INVOLVED	ACTION REQUIRED	COMPANY/AGENCY'S RESPONSE
1.	**OMLs acquired from NNPC in 2010, 2011 and 2012** NNPC assigned its 55% equity in some OMLs covered under the SPDC JV arrangement on the approval of the Honourable Minister of Petroleum Resources. (see section 1.3.5.3) The following were observed from the transactions and operations of these assets: I. Due to the divestment by NNPC, the 55% equity crude proceeds from the operation of the acquired OMLs was not payable to the Federation Account in 2012 but to NNPC/NPDC Special Account II. The "good and valuable consideration" for the assignment of these assets was computed by DPR and communicated to NNPC by a letter titled "SPDC divested assets	NPDC NNPC NEITI	• NEITI should evaluate without prejudice to any relevant contractual obligation, the propriety, proprietary rights and processes regarding acquisition of the assets with a view to determine whether due process, transparency and accountability was adhered to in accordance with its mandate as contained in **section 3 (b)** of NEITI Act 2007. • NEITI to ensure that monies due to the Federation from the transactions and operations involving these OMLs be remitted to the Federation Account in accordance with its mandate in **section 3 (c - g)**	**NNPC RESPONSE:** "NNPC divested its interest in the NNPC/SPDC JV in OMLs 26, 30, 34, 40, and 42 to the NPDC in year 2011. The Divestment was consented to by the HMPR pursuant to the rights of the HMPR prescribed in the Petroleum Act. The Deed of assignment of the divested assets assigned 55% equity interest in addition to right of operatorship to NPDC. The Good and valuable Consideration has been determined by the DPR and NPDC has made part payment.

	to NPDC" on 13th November, 2012. The consideration is in the sum of USD 1,847,785,233.97 (One Billion, Eight Hundred and Forty Seven Million, Seven Hundred and Eighty Five Thousand, Two Hundred and Thirty Three United States Dollars and Ninety Seven Cents) III. NPDC made a payment of USD 100,000,000 (One Hundred Million United States Dollars) into CBN JP Morgan Chase Account on the 13th of February, 2014 with an outstanding amount of USD 1,747,785,233.97 (One Billion, Seven Hundred and Forty Seven Million, Seven Hundred and Eighty Five Thousand, Two Hundred and Thirty Three United States Dollars and Ninety Seven Cents). Documents were produced as evidence for the payment, but this could not be confirmed to the CBN account as at the time of reporting, due to late presentation of the documents.			The proceeds from these lifting therefore belong wholly to NPDC and not to the Federation account. By virtue of the assignment, NPDC assumed responsibility for capital and operating expenses with respect to erstwhile JV Assets. This entitles NPDC to lift corresponding production volumes from the assets and to discharge royalty, PPT and other obligations to the Government. The Federation no longer pays cash call for NPDC operations for the divested assets. Therefore, NPDC lifting proceeds are not subject to remittance to the Federation Account."
2.	**NLNG Dividends;** Total Dividends, loan and interest repayments from NLNG to NNPC in 2012 amounted to **USD$2.795 billion.** NNPC has not provided information or any evidence to show that the revenue flow was paid to the Federation Account. Cumulative amount received from NLNG by NNPC to date (including amounts revealed in previous audit reports) is **$11.631 billion.** The question of who has the 49% equity in NLNG has been asked in previous audit reports, it is expected that the federation should at least benefit from the huge investments in NLNG through operational surplus of NNPC if indeed the investment in NLNG actually belongs to NNPC.	NNPC NEITI	I. NNPC to comply with the provisions of the Fiscal Responsibility Act on payment of 80% of operating surplus to the CRF. II. NEITI to carry out a further review on the status of NLNG in view of the legal opinion and other documents provided by NNPC.	**NNPC Response:** The issue of NLNG dividend has been the subject of previous audits and is being dealt with by the Inter-Ministerial Task Team (IMTT) set up by Government to address remedial issues arising from NEITI audits. The position of NNPC remains that the Corporation has 49% equity in NLNG and has Presidential approval to sequester the NLNG Dividend to fund all Gas related projects."

	The report of the Auditor-General for the federation on the Accounts of the federation of Nigeria for the year ended 31st December, 2012 listed NNPC as one of the corporations that is not complying with provisions of Section 22 and 23 of Fiscal Responsibility act in the payments of its operating surplus to the CRF. See appendix 11.1.5 for the extract of the report. NNPC however provided a legal opinion on NLNG which concludes "… that any position to the effect that NNPC should treat its dividends from NLNG as revenue accruing to the Federation Account is unconstitutional …". NNPC also provided a Presidential approval dated 13th May, 2011 for the use of NLNG dividend to fund Brass LNG Project			
3.	**Poor Performance of Refineries and inefficiencies associated with the high costs incurred on Alternative Product importation arrangements;** The refineries have been operating far below capacity, processing only 21.5% of Domestic crude allocation in 2012 down from 28% in 2011 while the offshore crude import arrangements of OPA and SWAP (crude for product) arrangements was maintained at 48.2%, the rest of the domestic crude constituting 30.3% of total allocation of 445,000Bbbls/d was exported. The alternative arrangements for Product importation have been shown over time not to be cost efficient. In the transactions under both the Crude-product exchange and the Offshore Processing Arrangements in 2012, the NNPC/PPMC does not consider the costs associated with inward carriage of products to the country (freight and demurrage) as part of overall transaction cost but rather as part of the value of the product. Exported domestic crude is valued at a different price	NNPC PPMC	Government should stop allocation of domestic crude at a quantity far above the refinery capacity, privatize the refineries and stop the inefficiency of the product import arrangement which is passed on to the government in the form of subsidy costs. PPMC should participate in imports like other marketers.	**PPMC RESPONSE:** "Under the PPPRA domestic allocation, NNPC contributes about 50% of PMS National supply. The suggestion ignores the contribution of products' import supply through SWAP and OPA which are arrangements of necessity to bridge the national consumption gap. The total value of each crude oil cargo designated for the OPA programme comprises of the Crude Oil Cost, Freight, processing fee and demurrage cost incurred in loading the cargo at the Terminals. On the other hand, the landing cost of the products delivered or the Net value of the product cargo is based on cost of

	per barrel that is lower than the price per barrel of remittance to federation account. On the whole, the value received from Domestic crude sales is lower than what is received from the directly exported crude.			the physical Products cargo (Platts quotations) plus the associated costs – freight and demurrage costs incurred while discharging the cargoes. It is pertinent to note that demurrage is an intrinsic part of vessel operation everywhere in the world, thus, demurrage costs are inevitable. However, in Nigeria we have to take cognizance of the peculiar circumstances under which vessels are delayed at terminals while loading Crude Oil or discharging Products. Major causes of demurrage, particularly with regards to Nigeria business environment include the following: i. Incessant pipeline vandalism and line breaks – which hinders discharge operations between discharge terminals to receiving storage. ii. In order to maintain the Federal Government directive of maintaining 25 days national strategic PMS stock, holding stock is sometimes kept on marine vessel. This is necessary due to the inability of continuous pumping of products to inland Deports. iii. Draft limitations at our jetties as a result of non-dredging of

				channels by NPA, which prevents berthing of import vessels with full cargoes. iv. Lack of security which restricts vessels berthing at the jetties and Ship-to-Ship operations to daylight only The NEITI auditors in their review premised their analysis of the Products value solely on Platts quotations without considering the associated costs, which has far reaching negative implications on the programme, resulting in huge difference between the gross Crude Oil value and the gross delivered Products value. The present SWAP and OPA arrangements provide the most suitable trading option for management of the National supplies by NNPC; otherwise, NNPC will face challenge of funding product imports considering the volume the Corporation contributes to National supplies. Also NNPC Acts constraints the Corporation from exploring credit facility from financial Institutions like other marketers. - These arrangements have availed NNPC/PPMC the opportunity to sustain supply of products to the market, guarantee the security of supply and keep the entire country wet with petroleum products despite non-

				performance by other marketers during the most difficult times over the period. - Cost reduction in terms of premium paid to the suppliers for products import under the open account regime. - Flexibility for pre-delivery of product cargoes in the event of arbitrage in the market. - Prompt deliveries of the required product cargoes as a result of [high] liquidity in view of Crude Oil lifting ahead of future products deliveries. - Cost savings in terms of interest accruals for delayed payment above the contractual provisions in the open account transaction. - Fewer suppliers which allow for closer and easier monitoring. - Eliminate the likelihood of a gang up by suppliers to force increase in premium in the event of an arbitrage in the market. - Cashless transactions that frees the resources of NNPC/PPMC for other critical operations. -Crude Oil allocated is sold at the prevailing international market price and secured with confirmed irrevocable letter of credit (LC) for the full value of the cargoes lifted. - Relieves the burden and any likelihood of overdue debt as witnessed in recent times by the NNPC."
4.	**Remittance of Gas sales;**	NNPC	Since the Customers are required to pay in into	**<u>NNPC Response:</u>**

	NNPC gas sales revenue paid into the CBN/NNPC Account with JP Morgan resulted in Exchange loss totalling **$1,035,748.46** for the year. Gas sales were valued in Dollar, invoiced in Naira and payments made into JP Morgan account in Dollar for subsequent remittance into the Federation account in Naira. – Appendix 11.1.7		the foreign bank account, Gas sales should be invoiced in its original USD value to avoid exchange loss.	"There is an agreement between parties to the NGL project funding comprising NNPC, ExxonMobil and the Escrow Agents to value Domestic Gas Sales in USD and invoice customers in Naira at CBN Official exchange rates. The subsequent remittance of these Naira proceeds to the NGL Escrow Account in USD at Commercial Bank rate results in exchange rate loss"
5.	**Delays by NNPC in the payment for Domestic crude;** Amounts due from NNPC for settlement with respect to Domestic crude oil lifting in 2012 were not always paid in full at the due date and this led to a build-up of unpaid domestic crude oil transactions amounting to **N1.192 trillion** as at December 2012. This excludes the amount of **N692,856 billion** not yet due for settlement as a result of the 90 days credit normally granted to NNPC. This is despite the fact that the crude oil off-takers pay within 30days.	NNPC	NNPC should promptly pay debts to improve cash flows to the federation.	**<u>NNPC Response:</u>** "The **N1.192 trillion** represent value of PMS and DPK subsidies, Crude and Product losses, Pipeline repairs and Maintenance, Holding cost for strategic reserves and other NNPC cost of operations charged by NNPC to the crude oil cost. This has been validated by the forensic audits exercise conducted by National Assembly and the Ministry of finance as cost allowed for defrayment by the NNPC act. The Attorney General of the Federation has also advised that cost of operation and other related expense are chargeable to the cost of crude before remittance of the residual to the Federation account. "
6.	**NNPC Debtors Profile;** Export crude oil and gas debtors as at 31st December 2011 was disclosed in the previous NEITI audit report as **$1,602billion** whereas the NNPC debtors summary as at 31st December 2011 was stated as $**1,014million** thus revealing an un-reconciled difference of **$1.601**	NNPC	NNPC to reconcile debtors profile and produce age analysis of debts.	**<u>NNPC Response:</u>** "We affirm that our reconciled closing balance as at 31st December 2011 is $1,014 million excluding undue debts of $1.044 billion from December 2011 crude oil and Gas sales.

	billion between the NNPC year-end balance and the balance disclosed in the previous NEITI audit report. (Which was carried forward as opening balance in the current NEITI audit report). Crude oil and gas sales in the month of December 2011 as disclosed in the previous audit report amounted to **$1.044 billion** which was not yet due for settlement as at year end due to the 30 days credit limit. The debtor balance $1.01million will therefore not be right.			**NEITI to provide the schedule of the debtors' balance of $1,602billion in the previous NEITI audit report to enable further reconciliation.** Please see the attachment for the age analysis of the balance as at 31/12/11." – Appendix 11.1.9
7.	**NNPC subsidy claims;** An inter-agency reconciliation document (Appendix 8.8.7.) dated 3rd March, 2014 and tendered by PPMC with the trio of NNPC/PPMC, DPR and PPPRA as signatories, puts PPMC's subsidy claim for the period January 2012 to July 2013 at N2.316trillion and the amount that relates to 2012 (January,2012 to December, 2012) as **N871.122billion**. There is a disparity between this figure and the sum of **N893.746billion** contained in the initial template given to us by PPPRA.	PPMC NNPC DPR PPPRA	There is the need to further reconcile NNPC subsidy claims by NNPC.	**<u>NNPC Response:</u>** "The subsidy figure of **N871.122billion** was the position signed off during the interagency reconciliation exercise before PPPRA certified figure of **N893.746billion**. Accordingly, we confirm total that the total subsidy approved and certified by PPPRA for the period Jan. to Dec. 2012 amounted to **N893, 746,516,631.06."**
8.	**Royalty and PPT Validation;** PPT and Royalty validations carried out revealed a total under assessments of the sum of **$210.051million** and **$465.871million** respectively. See section 4.7 and 4.9 of the main report.	NEITI FIRS DPR	1. NEITI to advise FIRS and DPR to enforce the collection of the under assessment amounts. 2. The government and its regulatory agencies should act on the following: a. Agree on pricing methodology with the companies. b. Agree on disputed water depth level for the contentious OMLs Review of waivers (pioneer status) and disputed fiscal terms granted to	

			companies (e.g Addax)	
9.	**Process issues involved in the validation of NPDC Production and Liftings at NNPC-COMD;** The following observations were made in the validation of NPDC Production and Liftings (including those of Aroh and Egbema Fields where NPDC acts as Operator only) at the NNPC-COMD: I. Records made available by NNPC to show the breakdown of the liftings could not be reconciled to the actual production from the NPDC arrangements as given by NNPC-COMD. II. The record of liftings from the different OMLs provided by NNPC-COMD also contradicts Terminal receipts reconciliation data sheet signed by DPR, NNPC and the Terminal Operator. III. Production data for NPDC from the Terminals as indicated in the signed document in (II) above, is also in conflict with information provided by NNPC There is therefore the need to further reconcile the records of actual liftings due to NPDC from the records of total liftings carried out by NNPC on behalf of NPDC. The following mode of operation further confirms the need for such reconciliation. I. Crude is comingled and liftings are carried out at the terminals based on production figures II. NNPC crude liftings are on behalf of the	NNPC NPDC NEITI	1. NNPC/NPDC to make further clarifications and provide explanations on the revenue flows. 2. NNPC-COMD to transparently and separately record liftings on behalf of NPDC in accordance with the operating arrangements 3. NEITI to pursue the speedy passage of the PIB in order to achieve the fundamental objective of better management and allocation of petroleum resources in accordance with the principles of good governance, transparency and sustainable development of Nigeria.	

	Federation and also for the account NPDC which is a 100% owned subsidiary III. NNPC doubles as the transaction record keeper and also as the custodian of proceeds for both NNPC and NPDC. See appendix 11.1.2 for the breakdown of the liftings.			

AUDITOR'S COMMENT: NNPC/NPDC/PPMC responses to Audit observations above are noted but these are not material to warrant a change to Audit recommendations. NNPC's response is inclusive of the latest submission to NEITI on the 9th of March, 2015.

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11.2 Joint Venture Cash Calls

S/N	ISSUES	AGENCY INVOLVED	ACTION REQUIRED	COMPANY/AGENCY'S RESPONSE
1.	**Cash calls:** Review of the bank statements of Mobil and Shell revealed that the account is on debit balance from month to month. According to the JOA, every partner in the Joint Venture is expected to fund the cash call account within 5 working days prior to the cash call month. In all the months considered, Mobil and Shell made payments within 5 working days in compliance with the JOA. However, the Cash Call account after all JV parties have contributed their Cash Call funding is always thrown into debit at the end of the month. This implies that the account is being overdrawn at the end of the month. **Implications;** The associated bank charges on the overdrawn balances run into billions per annum, and this is material. This increases	Mobil Shell NNPC/NAPIMS	- Every party in the JV should be made to bear the bank charges in accordance with their participating interest as stated in the JOA. -Throwing the account into debit should be avoided. -NNPC should further investigate why the JV Operators' bank accounts are always in debit.	**NNPC Response:** "The interest on overdraft in shell and Mobil JV Accounts as observed by NEITI was not part of their operating cost, as it was rejected by NNPC. The JOA also provides in Section 6.5 (2) that partner approval is required for borrowing to become legal, binding and cost recoverable. JOA also requires that operator must file cash call request at least 15 working days before the Cash Call due day. This has never been adhered to by the Operators. Meanwhile, NNPC Management is considering appointment of KPMG Audit Firm to review the JV Bank Account Transaction

	JV expenditures and impacts negatively on cost of JV operations.			for the year 2012 for SPDC JV and MPNU JV. In addition to the above, we want to state that for Joint Venture operating cost to be legally binding and cost recoverable, Operators must follow due diligent process as highlighted below: • Operating cost of Joint Venture Operation are duly appropriated for in annual budget and approved by OPCOM. • All appropriate items are cash called, approved and paid by NNPC as at when due. As the Corporation did not default in the payment of cash call, the interest on overdraft was not recognized, not appropriated nor approved by OPCOM. Hence, it was not part of operating cost of Joint Venture. (Attached Schedule of Cash Call Payments to SPDC and MPNU for 2012)." Appendix 11.2.1 **Covered Entity - Oil and Gas JV Operators Comments.** • Interest on overdraft is part of JV operating cost but for the exclusive account of NNPC whose funding gap was bridged by the overdraft. NNPC only pays part of its share of JV cash call and funds are received 3 weeks late on the average. • JV Operators do not take term loans on behalf of the JV without Partner approval. However,

				overdraft facilities on JV bank accounts are drawn when the JV Operator instructs the JV bank to pay JV Creditors for contractual JV obligations and NNPC fails to pay its full share of JV cash call on time. • Contrary to NNPC's blanket assertion, deadline for filing JV cash call request ranges from 10 to 15 working days before the 1st day of the JV cash call month, for different JOAs. JV Operators have however always filed JV cash call requests at least 15 working days before the 1st day of the JV month. • For the period covered by the report, NNPC never paid its share of JV cash call on time and when made, payment is not made in full. Short payment of JV cash call is evidenced by the fact that as of March 2015, NNPC JV cash call arrears due since way back as 2012 remain unpaid. In addition, NNPC's underfunding of JV operations gave rise to alternative funding arrangements such as MCA. Monthly interest on JV overdraft amounts to millions dollars and not billions as erroneously stated in the audit report.
	<u>NON-CASH CALL PAYMENT</u> 4. Non – Cash Call payment described as Cash Call related items by NAPIMS totaling $2,389,759,658.59 and N13,690,132,244.30 were financed from the NNPC/CBN JP Morgan Chase Cash Call Dollar and Naira Accounts respectively. The payments were for the following: a. **<u>Dollar Account</u>** **$** **$**	NNPC NAPIMS	NAPIMS should operate separate account into which other expenditures appropriated in NAPIMS budget is to be paid. This is to ensure that cash call operations are separated from other appropriated costs.	"NAPIMS does not draw from JV Cash Call to settle Non-Cash Call items. Funding to NAPIMS cover JV Cash Call payments and other appropriated expenditure of NAPIMS on behalf of government. Such other expenditure include: 1. Government Domestic Gas and

	Special frontier exploration services 75,000,000 Prior year NAPIMS overhead 18,956,520 Current year NAPIMS overhead 275,800,000 (294,756,520) NIPP gas line payment 39,489,314.75 OB3 Gas Pipeline ifo Nestoil & oil services 281,358,328.86 Final Bridge loan repayment IFO SPDC 446,048,586.33 Prior year performance balances(2002-2009) 1,253,106,908.65 **2,389,759,658.59** **b. Naira Account N** 0.1% Crude oil export inspection and monitoring services 6,722,926,174.65 OB3 gas pipeline ifo Nestoil and Oil Services 6,967,206,069.65 **13,690,132,244.30**			Power Projects viz: NIPP, OB3 Gas Pipeline etc duly appropriated for and funded 2. Frontier Exploration which is the exploratory activity of government in the Chad Basin; 3. Bridge Loan is repayment of SPDC JV Partner Financing on Afam Gas Project; 4. NAPIMS management fee; and 0.1% Nigerian Export Supervision Scheme (NESS) payment in respect of federation crude export"

AUDITOR'S COMMENT: NNPC responses to Audit observations above are noted but these are not material to warrant a change to Audit recommendations. NNPC's response is inclusive of the latest submission to NEITI on the 9th of March, 2015.

11.3 Downstream Product Importation and Fuel Subsidy

S/N	ISSUES	AGENCY INVOLVED	ACTION REQUIRED	COMPANY/AGENCY'S RESPONSE
1.	-The quantity of domestic Crude Oil allocation processed by the refineries (see Table 8.2C) remains low (21.51%) as was recorded in the previous audit cycle where an average of 20% processing was achieved by the refineries over a period of three years (2009-2011). -In 2012 out of a total allocation of 162.343million barrels, only 34.927 million barrels was processed in the country. -Domestic crude was not delivered to PHRC for a period of		-The crude allocation to the NNPC for the refineries should be limited to their current capacity utilisation. -The Federal Government through the appropriate agency should set the agenda for the privatisation of the Refineries especially with the poor performance of the old and moribund Port Harcourt Refinery.	

	6 months at stretch while product allocation to the moribund refinery continued at the rate of 215,000bpd. **Implications;** -The refineries have consistently operated below capacity over the years. -The balance of 78.49% was either processed outside the country, exchanged for products or exported by NNPC. -The daily refinery allocation of 445,000bpd is no longer an allocation for local refinery but an allocation to NNPC which must be justifiable.		-The alternative arrangements with the balance of 78.49% domestic crude allocation is not beneficial to Nigeria as shown in the analysis of Alternative product Importation Arrangements and also corroborated in the Review of Federation Equity crude section of this report. The alternative arrangements should therefore be abolished forthwith while Government should export the percentage of crude oil that is unrefined locally and purchase refined products.	
2.	The KRPC recorded a huge difference between the refinery closing stock and the calculated closing stock. **Implications:** -The difference could be due to faulty metering systems, evaporation, and or theft etc.		PPMC to investigate the causes of the differences and take necessary actions in other to prevent future losses to the magnitude reported.	
3.	OPA resulted in a net under-delivery of $135,793,318.94It was observed in the last audit report that OPA transactions with PPMC-SIR also resulted in a net loss of $8,378,266.13 and $429,447,283.37 for 2010 and 2011respectively notwithstanding the fact that transaction costs were not provided to the Auditors in the previous Audit. **Implications;** -OPA analysis by PPMC whereby costs incurred by PPMC are added to the value of products received as if the costs are benefits derived from the transaction is an abnormal accounting practice. -There is no cost efficiency in the transaction under the Offshore Processing Arrangement with the company.		We recommend that NNPC discontinue the OPA and concentrate on direct refined product importation as a short term measure.	
4.	**Observations on Crude-Product Exchange (SWAP);**		It is recommended that NNPC discontinue	

	-PPMC analysis added the inward freight and demurrage borne by it to the value of refined products exchanged for Crude Oil. -If the total value of the Crude Oil and costs paid in incurred on freights and demurrage amounting to **$6,367,944,392.28** is compared to the value of the returned products totaling **$6,260,692,076.26,** there is a net loss of **$107,252,316.02.** -It was similarly observed in the last audit report that the SWAP transactions also resulted in a net loss/ under-delivery of **$500,075,239.29 or N78,761,850,188.18**		the Crude Oil – Product SWAP arrangements and concentrate on direct importation of refined products.	
5.	We observed irreconcilable differences between opening stock balances and closing stock balances. PPMC data on depot balances appear to be incomplete. In inventory accounting, stock balances should be a reflection of the transactions between opening stock and closing stock dates, these transactions include receipts, sales, transfers and other uses. Opening stock at the beginning of the year should also be the same as the closing stock balance at the end of the year. Surprisingly, this is not so in most depot balances. The total loss to the nation on PMS through depots amount to **N11,701, 763,555.72** (Eleven Billion, Seven Hundred and One Million, Seven Hundred Sixty Three thousand, five hundred and fifty five naira and seventy two kobo only) or **$74,296,911.46.**		PPMC to investigate the causes of the differences and take necessary actions in other to prevent future losses to the magnitude reported.	
6.	A few of the companies given approval (out of the 46 marketers) to import PMS in 2012 performed below average while four of them did not import any petroleum products.		-The four marketers should be appropriately penalized and black listed from future participation in the import process if confirmed to have received foreign exchange for product importation without supplying products. PPPRA should further also review the future participation of the companies that performed poorly. -The post payment audit system should be adjusted to ensure that vetting by the independent auditor is carried out before	

			payment. -There is also the need for increased coordination of all the activities of government agencies involved in the subsidy process. -PPPRA should ensure strict adherence to the rules in the subsidy determination process and appropriate penalties for breaches should be enforced. -After the 2012 Fuel Subsidy Probe by the National Assembly, the PPPRA management appears to have put together some Reform Policy Initiatives to strengthen the process of petroleum product importation and also ensure a sanitized system. The initiatives should be fine-tuned and information need to be timely shared between all the agencies involved in subsidy determination (including NNPC)	
7.	**Domestic crude losses;** Domestic crude oil losses reported by PPMC in its populated templates was **3,045,625 Bbls** with an estimated value of **USD$304,562,474.00** in 2012. The losses are very significant.		The losses recorded are significant and it is recommended that Government take necessary steps to prevent crude oil losses to the magnitude reported in 2012.	**NNPC Response:** "NNPC agrees with this observation/recommendation. Nonetheless NNPC is collaborating with relevant agencies of Government to minimize the losses. Also there should be an enabling law to deal with the issues of pipeline vandalism."

11.4 Governance/Process Issues From Nigerian Oil and Gas Industry

	ISSUES	AGENCY INVOLVED	ACTION REQUIRED	COMPANY/AGENCY'S RESPONSE

1.	There were no Bid Rounds in the period covering 2012 under review. The examination of CBN bank statements and DPR records did not reveal any payment of Signature Bonus during the period under review.	**DPR** **CBN**	Some transactions which involve transfers of ownership or discretionary approvals or farm out agreements with respect to OMLs that also attracts payment of signature bonuses and other fees took place in 2012. DPR should ensure payment of relevant fees to the federation. We also recommend that bidding should be conducted at appropriate intervals so as to enable other proven reserves to be realized and more revenue for the FGN.	
2.	DPR could not provide any data on gas production or Gas stock data due to some inherent difficulties associated with gas production and storage, coupled with the lack of proper equipment to handle such problems, that maintenance of accurate gas production and stock figures may only be attainable in the future.		DPR to acquire appropriate technological and human resource capacity to ensure appropriate record of gas production, gas utilization, gas flaring and other relevant gas data to enhance its regulatory role.	
3.	Inconsistency is observed in the interpretation or definition of Crude oil volume. Crude Oil quantity is regarded as saved after all impurities have been separated not necessarily while others consider what has been read on the meter from the well head.		The law should be unambiguous. With the probable enactment of the PIB, it might clarify all this ambiguities.	
4.	The following observations were made as regards the JVs as regards the cash call process:		TECOM and OPCOM should ensure that all meetings are held and concluded by	

	-Technical committee and operating committee meetings are not up to date and this affects the general resolution of issues with regards to modified carry arrangement and other issues. -The annual performance meeting for 2012 has not held as at the time of reporting.		January of the following year.	
5.	Government portion of cash calls are not being paid as at when due and this sometimes lead to overdrawn accounts and associated financial costs.		Government should ensure that her portion of the cash call is funded adequately and if not, alternative source of funding should be sort so as not delay projects.	
6.	Granting of Pioneer Status on Oil and Gas operations has been a huge cause of revenue loss to the federation.		Pioneer Status is a product of CITA and not applicable under PA. The Federal Government should review the process in which pioneer status is granted to Companies involved in oil production. We advise FIRS to seek court interpretation of the Pioneer status law.	
7.	We observed poor interface between the OAGF and companies in the in the Oil and Gas Sector. Companies do not bother to collect treasury receipts issued by OAGF with respect to Direct Payments made to JP Morgan Chase Bank with the Central Bank of Nigeria. The Office of the Accountant-General of The Federation cannot determine at any point in time which Upstream Company has paid, or which company is in arrears. There is therefore no formal structure on ground for the reconciliation of account on one to one basis with the Upstream Companies.		The OAGF system of record keeping should be enhanced by the installation of an enterprise system that will ensure that data/transactions can be processed and accessed in real time.	

8.	The Audit also revealed poor interface between the OAGF and the revenue generation agencies of government. The monthly Returns from NNPC, FIRS, and DPR are merely checked against monthly Central Bank Returns. There is no formal structure in place for the tripartite meeting for internal reconciliations except at the enlarged Federation Revenue Reconciliation Committee Meeting.		OAGF should establish a proper database system that will enable an independent and efficient record for all transactions without necessarily depending on the returns made by other government agencies.	
9.	During the validation of payment received from foreign customers' bankers, some transfer instruments were made without names of payee oil companies. The bankers narration were also incomplete and this resulted to improper classification and recording. An account called Unidentified Memorandum was created to post those items without the names of the payee oil companies. The implication is that certain payments could not be traced to their payees, hence accounts prepared gives incomplete information as per credit status and reconciliation is made difficult.		The Central Bank Desk Officers in the concerned Departments should sort out and record clear information on foreign remittances. The beneficiaries' revenue collection agencies should also meet at regular intervals for account reconciliations with the Central Bank.	
10.	During the of validation of CBN Templates for Company Income Tax, Value Added Tax and With-Holding Tax, we observed that the Federal Inland Revenue opened one account for each of the items of revenue warehousing both revenue receipts from Oil and Gas and that of Solid Mineral together. The practice has made it difficult to achieve hundred percent separation of oil and gas revenue from that		Proper narration should always be made of every payment received by the CBN to enhance easy and proper recording and accounting while the FIRS should re-examine the present mode of direct remittance to the concerned accounts with a view for improvement.	

	of solid minerals due to the lumping of both receipts together in the account.			

11.5 Pricing Methodology

S/N	ISSUES	AGENCY INVOLVED	ACTION REQUIRED	COMPANY/AGENCY'S RESPONSE
1.	-Off-takers are granted 30 days credit period within which to settle their crude oil bills while NNPC is granted 90 days. -NNPC acts as agent to and sells crude oil on behalf of the Federation but NNPC is also a customer for Nigeria Crude oil and sells crude oil for domestic refining to itself through one of its subsidiaries – PPMC. -It is noted that whereas there are executed Sales and Purchase Agreement (SPAs) between NNPC and the other crude oil customers, there is no contract in place for the crude oil sales to NNPC-PPMC for domestic use. Results of the consistency tests carried out on the application of NNPC's pricing Methodology on 161 sampled domestic sales transactions (161 is 75% of total population) indicates that the pricing methodology was consistently applied on crude sales except for 7 out of the 161 (4%) sampled domestic crude oil transactions that failed the test (**Appendix 12.5F**) and this resulted in a shortfall of **1.344billion naira** from the seven transactions. NNPC's position had been that the corporation pays for domestic Crude but the fact NNPC is also the price setter punctures the argument. It is noted that a significant portion of the crude oil sold to NNPC for local refining is either re-exported for the account of NNPC or sent abroad for crude	**NNPC**	An unnecessary advantage is conferred on NNPC as NNPC hardly pays for crude liftings within the stipulated 90days whereas the corporation's off-takers pay within 30days as noted in (e) above. The implication also is that funds are unduly tied down with the NNPC. NNPC should be made to pay within the stipulated period of 30days given other Off-takers. The losses from domestic crude transactions are huge when the **N1.344billion** above is added to the **N37.429billion** reported on Product Importation Arrangements (chapter 8 section 4.2). This further confirms the need to limit domestic crude allocation to what the local Refineries can process.	

	swaps; products exchange or offshore processing under Offshore Processing Agreements (OPAs) and SWAP arrangements entered into with some foreign refineries. Huge losses were recorded by NNPC in previous audits as well as in the current audit as analysed in chapter 8, section 4 of this report. NNPC does not strictly adhere to the 90 days credit period as we observed that payments were made without due regard to the credit period allowed.			

11.6 Review of Production Measurement and Metering Infrastructure

S/N	ISSUES	AGENCY INVOLVED	ACTION REQUIRED	COMPANY/AGENCY'S RESPONSE
1.	**Assessment measurement systems and infrastructure;** -Reports of our field visits and assessments revealed that no remarkable improvements or progress has been made on the implementation of enhanced measurement arrangements for both downstream and upstream hydrocarbon flows. The Ministry of Trade and Investment gave the makeup of the total crude oil lifted/exported amounting to **1.404 billion N/BBls,** which the Ministry, in its letter to NEITI dated 20th August 2014, said was based on returns from the exporters. This figures significantly contradicted the national crude oil production and lifting statistics in the public domain.		-There is the need to update measurement capabilities and establish a national framework for hydrocarbon measurement. The Ministry of Trade and Investment should apart from explaining the huge difference above but should also be more involved in reconciliation meeting to be held with covered entities. -In addition there is the need to revisit the recommendations from the last audit reports are yet to be implemented and this include amongst others the following: -DPR's measurement guideline should be updated, approved and implemented. -The Weights and Measure department of the Ministry of Trade and Investments should be more incisive in their monitoring activities as it concerns measurements in the oil and gas industry.	

			-Periodic hydrocarbon mass balance meetings should be held regularly and NEITI should be in accordance. The current practice of reconciling hydrocarbon volumes between covered entities and DPR for 2012 in 2014 is not desirable. - Establishment of a national frame work on hydrocarbon measurement. - Define minimum standards of measurement at each stage of the flow from Wellhead to Terminal (that is to stipulate the uncertainty limits of measuring equipment; the "level of proof" that the measurement method is meeting that requirement). - Define frequency of independent calibration required to provide assurance the measurements are sufficiently accurate on an on-going basis. - Define the records to be kept of measurements, meter settings, calibrations and maintenance activities. - Define the procedure it would require to accept a "new" measurement technology as sufficiently accurate. - Define the certified records to be lodged with DPR confirming that meter proving/tank calibration had been/certified and confirming the current meter factors and tank calibration charts. - Develop a pilot programme (in addition to the existing national data repository-NDR) for an on-line production reporting tool that would be based on the definitions identified above. - Terminal operators should install meters	

			at their incoming trunk lines to serve as back-up for the meters at the tanks and hand dips. - There should be an approved standard measurement in the upstream and downstream operations. The acceptable range should be clearly specified in order to minimize inconsistencies in the measurement process.	

11.7 NEITI Audit Challenges and Recommendation for Future Audit

S/N	ISSUES	AGENCY INVOLVED	ACTION REQUIRED	COMPANY/AGENCY'S RESPONSE
1.	**Challenges in Data Gathering from Covered Entities;** The challenges encountered in data gathering from the covered entities hampers timely Completion and this are in the form of: -Delays in populating and returning templates by covered entities.		All covered entities should establish designated desk offices to attend to NEITI audit enquiries. . NEITI should expedite the implementation of the NEITI Industry Audit Data Base Management System (NIADBMS).	**<u>NNPC Response:</u>** "NNPC established a full-fledged Division (Regulatory & Policy Compliance) that has been coordinating the engagement between NNPC covered entities and NEITI as regards data gathering and other submissions. NNPC is currently assisting NEITI in the implementation of NIADBMS project."
2.	**Refusal to Cooperate with the Audit Process;** • NECONDE Energy Limited, SEPTA Energy Limited, did not cooperate with the audit process. • SHELL made late submissions of gas volumetric data.		NEITI should apply appropriate sanction in accordance with the enabling Act.	

	• NIMASA did not complete template on the 3% statutory levy it collects on all oil and gas related cargos			
3.	**Discrepancies in data provided by Regulatory Agencies;** Production and lifting data supplied by DPR and NNPC shows some discrepancies. 2012 reconciliation of production and lifting figures carried out in august 2014.		Reconciliation should be carried out between the government agencies and the companies at least every quarter.	