



NIGERIA EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE

FINANCIAL AUDIT 1999-2004

REPORT ON FINANCIAL FLOWS

Presented to

The National Stakeholder Working Group

by

Hart Nurse Ltd

in association with

SS Afemikhe & Co

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

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PREFACE

This is the final report under The Nigeria Extractive Industries Transparency Initiative (NEITI) financial audit. This report presents summaries of the financial flows between Covered Entities in the period 1999-2004. In April 2006, an earlier version of this report was presented; the present report reflects the findings of certain further work undertaken in the period May – August 2006.

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

The report comprises:

Volume 1 (this) Report on Financial Flows

Volume 2 Issues in Government Financial Systems

In addition, Appendices are bound separately.

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

The report reflects data and information received by Hart Group from covered entities up to 30th June 2006, which was the cut-off date specified by NSWG. Comments and adjustments received after that date have been taken into account where feasible but not all could be accommodated.

1 EXECUTIVE SUMMARY

Objective

The purpose of this report is to summarise, analyse and confirm the financial flows between the Federation and the oil and gas industry in the years 1999 to 2004.

1.1 Financial flows to / from the Federation

The financial flows to the Federation were:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
	US\$ m	US\$ m	US\$ m	US\$ m	US\$ m	US\$ m
Oil related flows from the sector	1,771	5,032	5,567	3,224	5,461	9,434
Non oil related flows from the sector	217	268	261	267	369	284
Proceeds of equity crude sales & gas sales	6,031	10,462	10,025	8,296	11,163	16,827
TOTAL \$ cash flows	8,018	15,762	15,853	11,788	16,993	26,545

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
	Naira m	Naira m	Naira m	Naira m	Naira m	Naira m
Non oil related flow from the sector	4,693	4,492	5,555	8,709	9,994	10,418
TOTAL Naira cash flows	4,693	4,492	5,555	8,709	9,994	10,418

TOTAL CASH FLOWS expressed as US \$ millions	8,073	15,807	15,909	11,867	17,084	26,626
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Note that Naira flows are additional to the US\$ flows. The Naira flows have been expressed in US\$ only to facilitate comparison.

Non-oil related flows are those flows that originate from Covered Entities but which are generally applicable: Withholding taxes, VAT and PAYE.

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The financial flows from the Federation to Joint Ventures were:

US\$ m	1,608	1,565	1,484	2,437	2,474	1,904
Naira m	62,783	81,948	106,079	204,220	137,218	136,352
TOTAL CASH FLOWS expressed as US \$ millions	2,347	2,384	2,545	4,294	3,721	2,969

The net inflow from the sector to the Federation was therefore:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
	US\$ m	US\$ m	US\$ m	US\$ m	US\$ m	US\$ m
Inflows	8,018	15,762	15,853	11,788	16,993	26,545
Outflows	1,608	1,565	1,484	2,437	2,474	1,904
TOTAL NET FLOWS expressed as US \$ millions	5,727	13,422	13,364	7,574	13,362	23,657

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
	Naira m	Naira m	Naira m	Naira m	Naira m	Naira m
Inflows	4,693	4,492	5,555	8,709	9,994	10,418
Outflows	62,783	81,948	106,079	204,220	137,218	136,352

1.2 Unreconciled payment differences

The differences between cash flows reported by the Central Bank of Nigeria and the cash flows reported by companies and NNPC were as follows:

	US\$ m
Flows reported by CBN	95539
Flows reported by companies	95555
Net difference	-16
<i>percentage difference</i>	<i>-0.02%</i>

The companies to which the differences relate, together with the amounts involved were:

	<u>In company, not</u> <u>Central Bank</u> US\$ m	<u>At Central Bank,</u> <u>not company</u> US\$ m
Amni	-1.18	
Chevron	-0.57	
Continental	-2.00	
Express	-0.32	
Mobil		0.47
Moni Pulo	-3.03	
Panocean	-1.47	
SPDC	-8.66	1.36
Total	-17.22	1.83

1.3 Assessment of Petroleum Profits Tax

The review of a sample of PPT assessments concluded that:

- a) The hydrocarbon volumes used for PPT purposes were materially consistent with those reconciled in the course of the Physical audit.
- b) The PPT self-assessment computations submitted by companies were in most cases not readily reconcilable to the audited accounts of the company. Differences are expected, because of the differing treatments of items between the taxation rules and financial reporting standards. The high level comparisons we made between the audited accounts and the PPT returns indicated differences that require further discussion.
- c) There are several areas of difference between companies and FIRS in which the interpretation of legislation is unresolved. This has affected the amount of tax collected.

Companies have not signed off the reports on PPT and Royalty assessments because of the nature and extent of disagreements and the incomplete discussions and examination of the reasons for differences. The extent of reconciliation work required of companies is considerable and has not been completed in the timeframe of this review. We recommend that FIRS initiate a programme of detailed work to investigate the causes of the differences and if necessary adjust assessments.

1.4 Systems of Internal control

Recommendations have been made, aimed at improving controls, to reduce or eliminate differences identified in the course of this work, have been set out in Volume 2 of this report.

2 INTRODUCTION AND SCOPE OF THIS REPORT

2.1 Introduction

In this introductory section, we explain the scope of the report and draw attention to certain key issues. Recommendations designed to improve control over payments and help to make this reconciliation more routine in the future have been reported separately, in Volume 2 of this report.

2.2 Objectives

The purpose of the report is to summarise, analyse and confirm the financial flows between the Federal Government and the oil and gas industry in the years 1999 to 2004.

2.3 Scope

This report deals with the years 1999 to 2004 and details the cash flows between the oil and gas industry and the Federation. These are principally:

- Sales of crude oil
- Petroleum Profits Tax
- Royalty
- Gas Flare Penalty
- General non-oil specific flows (such as VAT, Withholding tax, PAYE)
- Payments to Niger Delta Development Corporation (NDDC)

This report also addresses FGN payments to Joint Venture companies. The Joint Venture companies in respect of which cash calls were made are:

<u>Operator</u>	<u>Government share</u>
Chevron	60%
Elf	60%
Mobil	60%
NAOC	60%
Panocean	60%
SPDC	55%
Topcon	60%

A mapping of financial flows between covered entities has been presented in a previous report¹.

¹ Financial Audit deliverable #1

2.4 *Company Covered entities*

The companies covered are:

- Addax Petroleum
- Agip Energy & Natural Resources Limited
- AMNI International
- Atlas Petroleum
- Cavendish
- Chevron Nigeria Ltd
- Chevron Oil Company of Nigeria
- Chevron Texaco
- Conoil Producing Ltd
- Continental Oil & Gas
- Dubri Oil Company
- Elf Petroleum
- Express Petroleum
- Mobil Producing Nigeria Unlimited
- Moni Pulo Petroleum Development Company
- Nigerian Agip Exploration
- Nigerian Agip Oil Company
- Nigerian LNG Ltd
- Ocean Energy
- Panocean
- Petrobras
- Phillips Oil Company
- Shell Exploration
- Shell Petroleum Development Company
- Statoil
- Texaco Overseas

Of these, Cavendish, Ocean Energy, Statoil and Petrobras had no relevant transactions to report. NNPC is a covered entity.

3 AUDIT METHODOLOGY

The prescribed methodology envisaged the following steps:

1. Prepare documentation of relevant systems
2. Submit data requests to Covered Entities
3. Covered Entities complete and return data collection templates
4. Verify template date
5. Reconcile transactions between Covered Entities
6. Report reconciled financial flows
7. Reconcile hydrocarbon volumes used for taxation and royalty computations to findings of the Physical audit.

The information available to test the data provided by covered entities was templates submitted by each entity. Our work did not extend to reviewing all payments received by nor all payments made by each entity. If payments were made but omitted from the submitted templates of both the payer and the payee, our work was insufficient to detect them.

3.1 *Basis of accounting*

The principal tables in this report have been prepared using the Cash Basis of accounting. Under this basis, a transaction is recorded at the date on which a financial transfer takes place, regardless of the period to which the financial transaction relates².

This is consistent with usual Nigerian practice in Government accounting.

Commercial entities are required by accounting standards to use the accruals basis for financial reporting (although this requirement does not apply to EITI reporting) and their records are maintained in such a way as to facilitate accruals basis reporting. Under the accruals basis, a transaction is usually recorded in the period to which it relates³. Some commercial entities completed the reporting templates on an accruals basis despite having been requested to use the cash basis. This necessitated significant additional reconciliation and restatement work; the reconciliation between the two bases is set out in the Appendices to this report.

Several companies presented incorrect data, including transactions in the wrong templates or omitting some transactions. These errors have, where possible, been addressed either by the respective company amending its template or by showing the item as a specific reconciling item in the Appendix to this report.

Review of the liabilities of commercial entities (e.g.: agreement of PPT liabilities with FIRS) has been undertaken on the accruals basis but the figures are expressed on a cash basis when reconciling to payment records held by DPR or FIRS and to CBN records. This is important to the interpretation of the financial impact on the Federal Government.

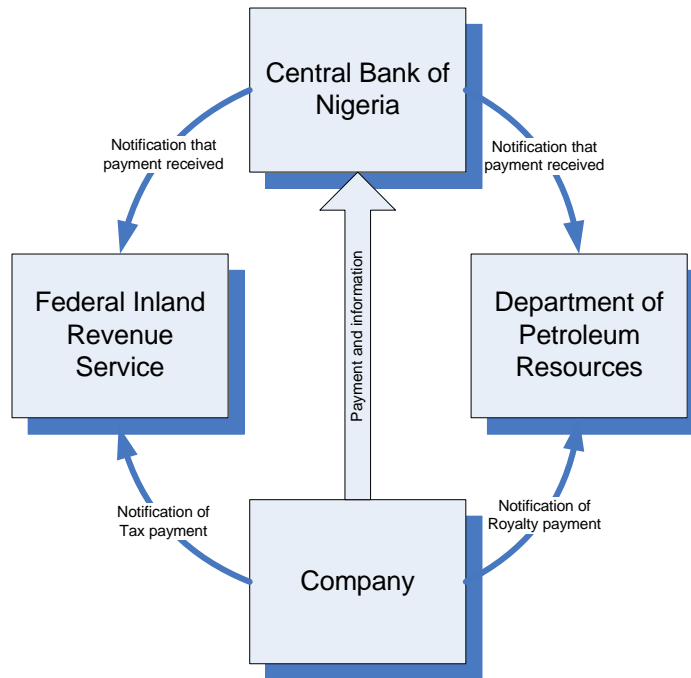
3.2 *The nature of the reconciliations*

As regards payments to the FGN, the particular relationships dealt with in this report are the following:

The CBN warehouses funds flowing from the Oil and Gas sector into the Federation Account. However, before funds reach the Federation Account they pass through some designated bank accounts both foreign and local depending on the currency in which they are paid (Dollars, Pound Sterling, Euro, Naira etc.). These designated accounts are operated as follows:

² For example, a PPT payment that relates to November 2003 is due to be paid in January 2004. If the payment is made at the correct date, it should be recorded by CBN as a receipt in 2004.

³ To continue the previous example, the PPT liability for November 2003 would have to be recorded in the financial statements for the year ended 31st December 2003.



- a) for Crude sales Equity and Domestic: by CBN and AGF via Bank for International Settlements in 1999-2002 and CBN & NNPC (JP Morgan, New York) for 2002-2004;
- b) for Oil and Gas Taxes by the Accountant General of the Federation Federal Reserve Bank (FRB), New York; and
- c) for Local Taxes: also by the Accountant General of the Federation, through the Banking Operations Department (BOD) of CBN.

CBN has records to monitor these accounts, foreign and local. CBN operates these accounts with mandates from both the NNPC and the Accountant General for transfers from these accounts into the Federation Account.

FIRS deals with Petroleum Profits Tax. DPR deals with Royalty and Gas Flare penalty.

Thus, for any transaction, three comparisons are made: between

- records of the company,
- records of the Central Bank and
- records of the respective regulatory agency.

This report sets out, and compares where appropriate, the position between entities and the Central Bank. Detailed comparisons of flows regulated by FIRS and DPR are presented in the Appendices.

Numerous differences have been reconciled in the course of the verification and reconciliation procedure. Many of these were timing differences, due to companies presenting templates on an accruals basis rather than the cash basis.

3.3 *Supplementary reconciliation work*

We reported in April 2006 on the reconciliation work completed up to that date. This indicated that, out of total flows to the Federation of some US\$ 94,290 million in the period 1999 – 2004, there remained unreconciled items between the companies and CBN of a net US\$ 232 million (representing 0.25% of total flows).

Subsequent to presenting that report, we were requested to continue to work with companies and the CBN to undertake further searches for missing transactions, and to report our findings.

The items that were unreconciled at that stage represented differences on PPT, Royalty and Gas Flare Penalty arising on:

- Payments reported by companies but not reflected in CBN templates and
- payments reflected in CBN templates not reported by companies.

CBN, upstream companies and Hart group personnel held reconciliation meetings to discuss and resolve items that were outstanding. Outstanding items were investigated and transactions verified from documents provided by upstream companies and CBN. Verification and reconciliation work done on each of the categories was as follows.

3.3.1 Items reported by companies but not by CBN

These were items classified as other factors and not traced in CBN template in the April 2006 report.

Upstream Companies provided evidence in the form of the following:

- Receipts of payments issued by FIRS/DPR;
- Notification of payment letters to CBN; and
- Copies of their bank statements

Outstanding items were investigated and confirmed from the documents provided by the companies. These items were checked by CBN officials against their reports bearing items swept into the Federation account. They were also checked to the swift messages and Federal Reserve Bank Statements.

They were finally validated, matched against outstanding items in our report and signed off by official of CBN, the upstream companies and Hart Group.

3.3.2 Items reported by CBN but not by companies

These are also items we could not trace in companies templates but were reported by CBN in their templates. We obtained the following documents from CBN as evidence for the receipts.

- CBN reports - evidence of what is swept into the Federation Account;
- Copy of swift message;
- Copy of CBN advice to the Accountant General and FIRS/DPR; and
- Copy of Federal Reserve Bank Statement

These items which the upstream companies claimed they paid were checked to FIRS/DPR receipts provided by the companies, the notification of payment letters to CBN or their bank statements. All the outstanding items were matched to the documents provided by the companies, summarized and signed off by CBN, the upstream companies and Hart Group Representatives.

Progress has been made in resolving most of the differences except a few open items where:-

1. CBN and companies will finalise their internal investigations
2. Companies have issued trace requests to their bankers.

The financial flows statements were updated with payments traced and open items remarked for further investigation by CBN and the upstream companies.

CBN and upstream companies signed off the reconciliation schedules. This report presents the result of the supplementary reconciliation work.

3.4 Matters arising from the ABZ reports

We were requested to review the reports prepared by ABZ consultants and consider those issues relevant to this audit.

There are basically two broad issues made by ABZ

- i) Alleged tax fraud of \$2.7 billion; and

- ii) Penalties of \$ 8.1 billion (it must be borne in mind that the penalties carry no weight if the substance of tax evasion and fraud alleged in I above cannot be proved).

The allegations fall under the following broad headings:

- i. Missed monthly PPT payments
- ii. Unpaid taxes either because of misstatement of amount paid or manipulation of liabilities, assessment or issued receipts resultant mainly from collusion between ChevronTexaco and FIRS officials.
- iii. bloated costs and double claims of Reserve Additional Bonus (RAB)

The above can only be detected by a comprehensive PPT audit and cost audit. However, the point must be made that not paying monthly instalment of PPT does not mean a loss of PPT revenue provided that the 13th month instalment is accurately calculated and paid. In this case any loss is a cash flow issue.

The audit of PPT is at two levels:

- i) What did CHEVRONTEXACO pay and what did FIRS receive.
We issued financial templates to capture payments and receipts. Our reconciliation thereof together with verification to the ledger and supporting documentation did not confirm the ABZ allegation. All the template items have been traced to the CBN with the exception of only three items (less than US\$ 1 million) for CNL TOPCON and COCNL for which the companies have issued trace requests.
- ii) Verification of assessment
We selected sample returns from each upstream company and confirmed the calculation of PPT and Royalties. The result of this work, which was carried out for all the Joint Venture Companies is set out in the PPT and Royalty review section of this report. There are several areas we consider FIRS should enquire into.
- iii) Cash call payments
CNL claimed it set off \$52.6m against Cash Call arrears in 1999/2000. Our review of Cash Calls showed that all Cash Call demands made by CNL on NNPC NAPIMS were paid. The allegation by ABZ against CNL in this area therefore appears to be correct and CNL should refund \$52.6million to FIRS.
- iv) Bloated costs
There are two facets of 'bloated coasts': (a) whether costs were claimed in PPT returns which were never incurred – we have reviewed this and the results are set out in section 6, which suggests that there are grounds for further investigation; and (b) whether the costs incurred were reasonable – this is an allegation that can only be verified by a Value for Money (VFM) review.

4 AGGREGATE FINANCIAL FLOWS TO THE FEDERATION

4.1 Summary of financial flows to the Federation

Flows to the Federation may be summarised as follows:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
	US\$ m	US\$ m	US\$ m	US\$ m	US\$ m	US\$ m
Oil related flows from the sector	1,771	5,043	5,566	3,232	5,468	9,404
Non oil related flows from the sector	217	268	261	267	369	284
Proceeds of equity crude sales & gas sales	6,031	10,462	10,025	8,296	11,163	16,827
TOTAL \$ cash flows	8,018	15,773	15,853	11,796	17,000	26,515

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
	Naira m	Naira m	Naira m	Naira m	Naira m	Naira m
Non oil related flow from the sector	4,693	4,492	5,555	8,709	9,994	10,418
TOTAL Naira cash flows	4,693	4,492	5,555	8,709	9,994	10,418

TOTAL CASH FLOWS						
expressed as US \$ millions	8,073	15,818	15,909	11,875	17,091	26,596

The Naira flows have been expressed in US\$ only to facilitate comparison.

The table does not include loan financing transactions concerning NLNG.

In case of differences between the company reported flows and the CBN reported flows, the above table presents the CBN flows.

4.2 Aggregated oil-related financial flows to the Federation

The amounts received in the years 1999 - 2004 by the Federation from the specified companies and in respect of the identified classes of financial flows were as follows:

	Recorded by CBN					
	1999 US\$ m	2000 US\$ m	2001 US\$ m	2002 US\$ m	2003 US\$ m	2004 US\$ m
Petroleum Profits Tax	760	3,227	3,619	1,809	3,281	6,230
Royalty	898	1,793	1,781	1,365	1,929	2,826
Gas Flaring Penalty	26	22	29	21	23	21
Reserves Additional Bonus repayments	62	0	0	0	0	274
Signature Bonuses on licence award	25	0	137	37	235	53
TOTAL	1,771	5,043	5,566	3,232	5,468	9,404

	Recorded by companies					
	1999 US\$ m	2000 US\$ m	2001 US\$ m	2002 US\$ m	2003 US\$ m	2004 US\$ m
Petroleum Profits Tax	762	3,227	3,619	1,809	3,282	6,229
Royalty	906	1,793	1,781	1,365	1,932	2,828
Gas Flaring Penalty	27	22	29	21	23	21
Reserves Additional Bonus repayments	62	0	0	0	0	274
Signature Bonuses on licence award	25	0	137	37	235	53
TOTAL	1,782	5,043	5,566	3,232	5,472	9,405

The Signature Bonus amounts in the first table are those reported by the Department of Petroleum Resources. A supplementary report on Signature Bonus transactions will be issued, as noted on page 67.

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4.3 Aggregated Non oil related flows

Non oil flows are the figures reported by companies. The audit process did not include the confirmation of these flows from the transaction counterparty.

	1999		2000		2001		2002		2003		2004	
	N millions	\$ millions	N millions	\$ millions	N millions	\$ millions	N millions	\$ millions	N millions	\$ millions	N millions	\$ millions
Payments to FGN												
Withholding tax, incorporated companies	3,252	109	3,355	95	4,272	106	6,542	147	6,622	172	7,535	151
VAT, non-resident compan	1,436	56	1,130	57	1,271	66	2,129	82	3,320	80	2,834	58
Education tax PAYE	5		7	116	12	89	38		52	117	49	75
Total	4,693	217	4,492	268	5,555	261	8,709	267	9,994	369	10,418	284
Payments to States & FCT												
Withholding tax, to states PAYE	299	0	425	0	710	0	694	0	684	0	1,192	1
	4,555		5,135		7,607		10,647		14,615		17,530	
Total	4,854	0	5,560	0	8,317	0	11,341	0	15,299	0	18,722	1

These items are unverified, due to the lack of any oil-specific audit trail through the collection system for these taxes. Such taxes paid by the companies are subsumed within taxes collected from non-oil sector organisations

4.4 Proceeds of sale of equity crude and gas

The proceeds of sale of equity crude and gas comprised:

US\$ millions	Sales					
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Sale of Crude oil	5,447	9,347	8,493	5,526	7,680	11,402
Domestic crude	482	824	1,291	2,503	3,224	4,999
Sale of gas	102	291	241	267	259	426
TOTAL	6,031	10,462	10,025	8,296	11,163	16,827

4.5 Summary of differences

The flows reported by CBN have been reconciled to the flows reported by the companies, with the following exceptions:

	<u>Reported</u>	<u>Reported by</u>	<u>Difference</u>	
	<u>by CBN</u>	<u>companies</u>	<u>US\$ m</u>	<u>%</u>
	<i>US\$ m</i>	<i>US\$ m</i>	<i>US\$ m</i>	
Petroleum profits Tax	18927	18928	-1	-0.01%
Royalty	10592	10606	-14	-0.13%
Gas Flaring Penalty	143	143	-1	-0.42%
Reserves Additional bonus	336	336	0	0.00%
Signature Bonus	487	487	0	0.00%
Non-oil related flows	2250	2250	0	0.00%
Sale of equity crude and gas	62804	62804	0	0.00%
Total	95539	95555	-16	-0.02%

5 DISAGGREGATED FINANCIAL FLOWS TO THE FEDERATION

The foregoing figures are disaggregated to company level, as follows:

5.1 Petroleum Profits Tax

The PPT payments recorded by CBN are shown in the table below.

US\$ millions	Recorded by CBN					
	1999	2000	2001	2002	2003	2004
Shell Petroleum Development Company	150	803	933	489	953	2,140
Mobil Producing Nigeria Unlimited	388	1,041	1,032	536	1,068	1,525
Chevron Nigeria Limited(CNL)	151	730	713	332	554	777
Chevron Oil Company of Nigeria(COCNL)		23	29	12	9	23
Texaco Overseas(TOPCON)		7	35	12	10	26
Elf Petroleum	17	312	388	137	203	969
Nigerian Agip Oil Company	32	193	326	205	237	519
Pan Ocean	0	1	2	2	6	9
Addax Petroleum				3	57	49
Amni					1	1
Atlas						
Dubri						
Consoldated Oil Producing Limited(Conoil)			0	0	5	3
Continental		0	0	1	6	0
Express Petroleum	0	1	1	7	2	3
Nigerian Petroleum Development Company					47	
Philips Oil Company	22	116	159	73	123	186
Cavendish						
Moni Pulo Petroleum Development Company						
TOTAL	760	3,227	3,619	1,809	3,281	6,230

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The PPT payments recorded by the companies are shown in the table below, together with the net difference with CBN records:

US\$ millions	Recorded by companies					
	1999	2000	2001	2002	2003	2004
Shell Petroleum Development Company	151	803	933	489	953	2,139
Mobil Producing Nigeria Unlimited	388	1,041	1,032	536	1,068	1,525
Chevron Nigeria Limited(CNL)	151	730	713	332	554	777
Chevron Oil Company of Nigeria(COCNL)		23	29	12	10	23
Texaco Overseas(TOPCON)		7	35	12	10	26
Elf Petroleum	17	312	388	137	203	969
Nigerian Agip Oil Company	32	193	326	205	237	519
Pan Ocean	0	1	2	2	6	9
Addax Petroleum				3	57	49
Amni	0				1	1
Atlas						
Dubri						
Consoldated Oil Producing Limited(Conoil)			0	0	5	3
Continental		0	0	1	6	0
Express Petroleum	0	1	1	7	2	3
Nigerian Petroleum Development Company					47	
Philips Oil Company	22	116	159	73	123	186
Cavendish						
Moni Pulo Petroleum Development Company						
TOTAL	762	3,227	3,619	1,809	3,282	6,229
Difference (CBN less Companies)	-1				-1	1

The value of payments recorded by CBN and the companies is materially the same.

There are few instances where CBN has recorded a payment which a company says it has no record of making,

There are some instances where a company says it has made a payment but where CBN can find no record of this payment. The companies have evidence that they made the payments but the payments, up to now, have not been confirmed by CBN.

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PPT payment differences between the companies' records and CBN are as follows:

US\$ millions	Payment differences - PPT					
	1999	2000	2001	2002	2003	2004
Shell Petroleum Development Company	-1					1
Mobil Producing Nigeria Unlimited						
Chevron Nigeria Limited(CNL)						
Chevron Oil Company of Nigeria(COCNL)					-1	
Texaco Overseas(TOPCON)						
Elf Petroleum						
Nigerian Agip Oil Company						
Pan Ocean						
Addax Petroleum						
Amni	0					
Atlas						
Dubri						
Consoldated Oil Producing Limited(Conoil)						
Continental						
Express Petroleum						
Nigerian Petroleum Development Company						
Philips Oil Company						
Cavendish						
Moni Pulo Petroleum DevelopmentCompany						
TOTAL	-1				-1	1

Negative figures represent payments recorded by the companies but not in CBN records.

5.2 Royalty

The royalty payments recorded by CBN are shown in the table below

US\$ millions	Recorded by CBN					
	1999	2000	2001	2002	2003	2004
Shell Petroleum Development Company	218	446	437	346	565	845
Mobil Producing Nigeria Unlimited	238	429	404	309	460	627
Chevron Nigeria Limited(CNL)	172	308	299	217	266	323
Chevron Oil Company of Nigeria(COCNL)	9	18	14	8	8	16
Texaco Overseas(TOPCON)	9	18	14	8	8	10
Elf Petroleum	125	252	255	201	280	561
Nigerian Agip Oil Company	61	124	141	117	155	241
Pan Ocean	2	7	8	8	10	18
Addax Petroleum	6	36	31		1	
Amni	5	6		3		3
Atlas	6	11	9	13	6	1
Dubri		0	0		0	0
Consoldated Oil Producing Limited(Conoil)	3	11	7	3	5	2
Continental	4	26	52	33	45	28
Express Petroleum		1	1	0	4	3
Nigerian Petroleum Development Company			10	14	12	24
Philips Oil Company	25	61	62	51	76	81
Cavendish						
Moni Pulo Petroleum Development Company	15	39	37	34	28	43
TOTAL	898	1,793	1,781	1,365	1,929	2,826

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The royalty payments recorded by the companies are shown in the table below, together with the net difference with CBN records

US\$ millions	Recorded by companies					
	1999	2000	2001	2002	2003	2004
Shell Petroleum Development Company	225	446	437	346	565	845
Mobil Producing Nigeria Unlimited	238	429	404	309	460	627
Chevron Nigeria Limited(CNL)	172	308	299	217	266	323
Chevron Oil Company of Nigeria(COCNL)	9	18	14	8	8	16
Texaco Overseas(TOPCON)	9	18	14	8	8	10
Elf Petroleum	125	252	255	201	280	561
Nigerian Agip Oil Company	61	124	141	117	155	241
Pan Ocean	2	7	8	8	10	18
Addax Petroleum	6	36	31		1	
Amni	5	6		3		3
Atlas	6	11	9	13	6	1
Dubri		0	0		0	0
Consoldated Oil Producing Limited(Conoil)	3	11	7	3	5	2
Continental	4	26	52	33	45	30
Express Petroleum	1	1	1	0	4	3
Nigerian Petroleum Development Company			10	14	12	24
Philips Oil Company	25	61	62	51	76	81
Cavendish						
Moni Pulo Petroleum Development Company	15	39	37	34	31	43
TOTAL	906	1,793	1,781	1,365	1,932	2,828
Difference (CBN less Companies)	-9	0			-3	-2

The value of payments recorded by CBN is materially the same.

There are few instances where CBN has recorded a payment which a company says it has no record of making,

There are some instances where a company says it has made a payment but where CBN can find no record of this payment. The companies have evidence that they made the payments but the payments, up to now, have not been confirmed by CBN.

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Royalty payment differences between the companies' records and CBN are as follows:

US\$ millions	Payment differences - royalty					
	1999	2000	2001	2002	2003	2004
Shell Petroleum Development Company	-7					
Mobil Producing Nigeria Unlimited						
Chevron Nigeria Limited(CNL)						
Chevron Oil Company of Nigeria(COCNL)						
Texaco Overseas(TOPCON)						
Elf Petroleum						
Nigerian Agip Oil Company						
Pan Ocean	0					
Addax Petroleum						
Amni	-1	0				
Atlas						
Dubri						
Consoldated Oil Producing Limited(Conoil)						
Continental						-2
Express Petroleum	-1					
Nigerian Petroleum Development Company						
Philips Oil Company						
Cavendish						
Moni Pulo Petroleum Development Company					-3	
TOTAL	-9	0			-3	-2

Negative figures represent payments recorded by the companies but not in CBN records.

5.3 Gas Flare Penalty

The payments for gas flare penalties recorded by CBN are shown in the table below.

US\$ millions	Recorded by CBN					
	1999	2000	2001	2002	2003	2004
Shell Petroleum Development Company	5	6	8	5	5	5
Mobil Producing Nigeria Unlimited	3	0	2	1	2	3
Chevron Nigeria Limited(CNL)	6	6	5	3	4	3
Chevron Oil Company of Nigeria(COCNL)					0	0
Texaco Overseas(TOPCON)	1	2	1	1	0	0
Elf Petroleum	3	2	3	3	3	3
Nigerian Agip Oil Company	3	2	3	2	3	2
Pan Ocean	1	1	1	1	1	1
Addax Petroleum	2	2	2	3	2	2
Amni						
Atlas			1	0	0	0
Dubri						
Consoldated Oil Producing Limited(Conoil)			0			0
Continental			1	0		
Express Petroleum						
Nigerian Petroleum Development Company						
Philips Oil Company	2	1	2	2	2	1
Cavendish						
Moni Pulo Petroleum Development Company						
TOTAL	26	22	29	21	23	21

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The payments for gas flare penalties recorded by the companies are shown in the table below, together with the net difference with CBN records.

US\$ millions	Recorded by companies					
	1999	2000	2001	2002	2003	2004
Shell Petroleum Development Company	6	6	8	5	5	5
Mobil Producing Nigeria Unlimited	3		2	1	2	3
Chevron Nigeria Limited(CNL)	6	6	5	3	4	3
Chevron Oil Company of Nigeria(COCNL)					0	0
Texaco Overseas(TOPCON)	1	2	1	1	0	0
Elf Petroleum	3	2	3	3	3	3
Nigerian Agip Oil Company	3	2	3	2	3	2
Pan Ocean	1	1	1	1	1	1
Addax Petroleum	2	2	2	3	2	2
Amni						
Atlas			1	0	0	0
Dubri						
Consoldated Oil Producing Limited(Conoil)			0			0
Continental			1	0		
Express Petroleum						
Nigerian Petroleum Development Company						
Philips Oil Company	2	1	2	2	2	1
Cavendish						
Moni Pulo Petroleum Development Company						
TOTAL	27	22	29	21	23	21
Difference (CBN less Companies)	-1	0				

The value of payments recorded by CBN and the companies is materially the same.

There are few instances where CBN has recorded a payment which a company says it has no record of making,

There are some instances where a company says it has made a payment but where CBN can find no record of this payment. The companies have evidence that they made the payments but the payments, up to now, have not been confirmed by CBN.

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Payment differences between the companies' records and CBN for gas flare penalties are as follows:

US\$ millions	Payment differences - gas flare penalty					
	1999	2000	2001	2002	2003	2004
Shell Petroleum Development Company	-1					
Mobil Producing Nigeria Unlimited		0				
Chevron Nigeria Limited(CNL)						
Chevron Oil Company of Nigeria(COCNL)						
Texaco Overseas(TOPCON)						
Elf Petroleum						
Nigerian Agip Oil Company						
Pan Ocean						
Addax Petroleum						
Amni						
Atlas						
Dubri						
Consolidated Oil Producing Limited(Conoil)						
Continental						
Express Petroleum						
Nigerian Petroleum Development Company						
Philips Oil Company						
Cavendish						
Moni Pulo Petroleum Development Company						
TOTAL	-1	0				

Negative figures represent payments recorded by the companies but not in CBN records.

5.4 Cash Calls

Cash calls are agreed between NAPIMS and the respective companies. There are no unreconciled differences.

5.5 *Disaggregated differences*

The individual items giving rise to the differences are summarised in the following table.

Financial Flow	Payer	Payment period	Amount US\$ 000
<u>Transactions reported by companies, not located in CBN</u>			
Petroleum Profits Tax			
	Amni	1999	-318
	Chevron	Oct-03	-565
	SPDC	Feb-99	-1193
Royalty			
	Amni	Jul-99	-540
	Amni	Feb-00	-321
	Continental	Feb-04	-2000
	Express	1999	-321
	Moni Pulo	Nov-03	-3034
	Panocean	Jan-99	-1468
	SPDC	Feb-99	-6901
Gas Flare Penalty			
	Shell	Feb-99	-563
<u>Total</u>			-17224
<u>Transactions in CBN, not reported by companies</u>			
Petroleum Profits Tax			
	SPDC	2004	1364
Gas Flare Penalty			
	Mobil	Jan-00	470
<u>Total</u>			1834

6 OBSERVATIONS ON TAX-RELATED FINANCIAL FLOWS

This section deals with payment issues concerning both PPT and Education Tax, both of which are administered by FIRS.

6.1 General Observations

PPT collection is regulated by FIRS. A detailed report of our work at FIRS is included at Appendix 1.

The reasons for the differences between the company payment and FIRS records are:

- Timing differences between the month in which the company paid and the month in which the receipt of money is recorded by FIRS; this does not necessarily indicate a transmission delay (usually transmissions are completed within 2 days): a delay can occur between the time the payment is received by CBN and the time it is notified by CBN to FIRS.
- Classification differences: moneys paid by the companies may be incorrectly identified by CBN and FIRS may consequently follow the CBN classification
- Identification errors: company payments not identified to the company in the CBN records.

6.2 Timing uncertainty for template completion

We observed a two months time lag in the booking of PPT payment by FIRS when capturing payments made by some Upstream companies. Whilst FIRS records payments at the time they are made, irrespective of the period to which the payment relates, some upstream companies reported PPT payments in the period to which they related. Despite clear instructions, these differences originate in a misunderstanding of the application of the cash basis of accounting for NEITI reporting purposes.

6.3 Incomplete Record Keeping

We observed in the course of our review, cases where data and information flow from the operators and the Central Bank of Nigeria were not properly or fully captured in FIRS records. These payments by the companies were traced to CBN Foreign Operation Statement but were not captured by FIRS on their templates

6.4 DPR review of Royalty

We observed that the assessment of Royalty by DPR (even though on memorandum basis) differs significantly from the actual payments made by the Producing companies as indicated in the table below.

COMPANY	PERIOD	DPR ASSESSMENT	ACTUAL PMT BY UPSTREAM COMPANIES, PER DPR TEMPLATE	VARIANCE
		USD '000"	USD '000"	USD '000"
SPDC	Jan 99 - Dec 04	2,837,519	3,030,756	(193,237)
CHEVRON	Jan 99 - Dec 04	1,639,348	1,610,226	29,122
MOBIL	Jan 99 - Dec 04	2,294,779	2,555,749	(260,970)
ELF	Jan 99 - Dec 04	1,526,181	1,757,493	(231,312)
NAOC	Jan 99 - Dec 04	874,082	852,859	21,225
TEXACO	Jan 99 - Dec 04	129,539	138,447	(8,908)

Note that the foregoing figures, presented on an accruals basis, are not comparable with the financial flow payments which are presented on a cash basis.

From our discussions with DPR officials, the discrepancies appear to be attributable to the use of different variables and parameters by both the DPR and the upstream companies in the computation. The variables are set out below.

- **Monthly production data.** Whilst DPR used the upstream Company's share of the total production from each field using the percentage stake holding in the Joint Venture to determine the production figure for Royalty calculation, the upstream companies used Export figures to calculate Royalty.
- **API gravity.** DPR used the API gravity attributable to the production from each field to moderate the realizable price while the upstream companies used the average of all of the API gravity of the fields feeding the terminals.
- **Realizable Price (RP).** The Crude marketing department of NNPC supplies the RP on monthly basis to both the DPR and the Operating companies. Whilst DPR applied the RP from NNPC (COMD) for the computation of Royalty, the upstream companies in most cases unilaterally determine the RP they use for the calculation.

As a result of the above, DPR in 2004 set up a joint review team comprising DPR, FIRS and NNPC to verify the data input for Royalty calculation by the upstream producing companies. The joint review committee reviewed the royalty computations for the period 2000 to 2004 and consequently filed under-payments on the following upstream companies as set out in the table below:

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UPSTREAM COMPANIES	AMOUNT UNDER / OVER PAID, per DPR					Net DPR claim
	2000	2001	2002	2003	2004	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	
Chevron Nig Ltd	6,399	29,179	2,689	4,073	15,124	44,666
Amni International Pet. Dev.Co	6,505	7,443	3,834	5,279	1,602	24,663
Texaco Overseas Nig. Pet. Co. Ltd	1,494	556	4,593	643	436	4,734
Agip Energy & Natural Res.Nig. Ltd	21,933	26,222	19,392	18,953	11,802	98,302
Nigeria Pet. Dev.Co	6,132	7,001	8,111	2,828	25,315	35,385
PanOcean Oil Corporation	1,796	525	900	795	1,854	1,430
Moni Pulo Ltd.	5,212	5,937	1,768	14,584	15,964	33,041
Dubri Oil Co. Ltd	774	668	661	347	-	2,450
Addax Pet. Dev. Nig. Ltd	6,803	5,878	46,552	67,689	40,573	153,889
Continental Nig. Ltd	17,891	2,754	23,919	31,780	37,590	108,426
Cavendish Pet. Nig. Ltd	2,892	180				2,712
Total	38,015	65,423	110,619	145,381	150,260	509,698

We could not verify the above supposed under payments because of the parameters and input data used by the joint review team to carry out the reassessment were not made available to us.

The MOU and the Petroleum Act are not generally understood and are being interpreted differently by DPR and the companies, without any process for resolving the differences. Therefore, a forum should be created for discussion of this issue, involving DPR, FIRS, the companies and NNPC.

With the Physical reconciliation of volumes, the Royalty due from Joint Venture Companies only have been recalculated. The details of these calculations and the comments of JV companies thereon are set out in the PPT and Royalty Review section of this report.

7 VALIDATION OF PPT COMPUTATIONS

7.1 Introduction

We reviewed the Petroleum Profits Tax returns of selected companies, comprising the computations set out in the respective companies' PPT Returns and audited financial statements. We also obtained PPT data (volume, value etc.) from the companies in the form of templates. We have considered relevant provisions in the tax laws to enable us conclude on items that may have material impact on tax revenue accruing to the Government.

The objectives of the PPT and Royalty assessment review were:

- To validate the completeness and correctness of all underlying calculations of PPT and Royalty payments to Federal Government;
- To reconcile Government take (in terms of Royalty and PPT) with financial data as per the ledgers of the companies;
- To validate whether details of the assessment materially agree with the records of the entities; and
- To confirm the calculation on PPT and Royalty on a sample basis.

7.2 Summary of Findings

7.2.1 General

The validation of PPT self assessments has been undertaken on a review basis. This means that the reasonableness of key aspects of company PPT returns have been analysed analytically in the light of data provided by companies.

The rules governing the deductions available against income for the purpose of computation of PPT differ from the rules for financial reporting. The annual financial statements of companies should however provide a reliable basis for confirmation of costs incurred, as they are subject to external audit (either audit of joint venture accounts, or of company accounts or both) whereas the PPT returns were not systematically audited by FIRS in the period under review. Accordingly, the audit review of the reasonableness of costs has been based on the reconciliation of deductions claimed in PPT returns to the costs reported in financial statements. It is normal international practice that tax computations are derived from audited financial statements. Equally, it is normal that the tax deductions claimed differ significantly from financial statements. Companies should therefore, as a matter of internal control, be expected to maintain reconciliations between their tax reports and their financial statements. It is a finding of the audit that only a minority of the companies whose PPT computations were reviewed were able to provide such reconciliations.

As regards the determination of income for the purpose of PPT and Royalty, the respective physical volumes have been confirmed but differences have arisen in attributing values to those volumes. The audit approach has entailed the use of estimates in some cases.

Companies are concerned that the audit findings may be misconstrued. In several instances, set out below, the audit review indicates differences between values used for tax purposes and values suggested by the available data. The audit has not been sufficiently detailed to allow a firm conclusion to be drawn. It is however our recommendation that FIRS undertake a detailed audit of the aspects of PPT discussed below, as the amounts involved are potentially significant.

Companies have not signed off this aspect of the audit and have indicated their disagreement with some of the conclusions drawn. Some companies have requested further discussions in order to clarify issues but the timeframe for this review did not permit discussions to be continued.

7.2.2 Fiscal Value

In the determination of fiscal value for PPT, the key elements of Volume, Realizable Price (RP), API and the impact of the MOU applicable in the period under review were evaluated.

Volumes

The JV Companies use their export volumes in the determination of fiscal value for PPT.

The export volumes were fully reconciled between the companies, DPR and the PPT volumes set out in each company's templates.

There were no significant differences except that CNL's volumes reported for PPT on a year by year basis are higher than the volumes reconciled with DPR creating doubt regarding the reconciled volumes in the absence of a definitive reconciliation between these two volumes.

Realisable Price and MOU elements

For the purpose of PPT assessment review, we have used the Realisable Price (RP) as derived by NNPC Crude Oil Marketing (COMD) in accordance with MOU signed between JV companies and NNPC. We also derived the Tax Reference Price (TRP) in line with the 1990 and Year 2000 MOU.

The key issues that arose from these are: -

- the companies used a Realisable Price (RP) different from that advised by COMD
- the companies used API values for different crude streams different from those advised by DPR
- companies did not fully apply the Government Directive on margin cap (with effect from year 2000, MOU margins were capped at \$30/bbl for RPs' greater than \$30/bbl).
- some companies assumed that 0.01% of every lifting is lost through evaporation. This was not considered in our calculations as we believe all lifted crude are intact.

On the above basis the fiscal values we obtained on the review compared to that declared for PPT in 1999 – 2004 are as set out below:

Company	Fiscal Value \$		Differences to be further investigated		% difference
	recalculated \$ 000	per Return \$ 000	under \$ 000	over \$ 000	
NAOC	4,474,191	4,442,395	31,796		0.7%
ELF	9,119,151	9,107,162	11,989		0.1%
SHELL	15,187,738	15,134,337	53,401		0.4%
MOBIL	13,031,293	13,084,449		(53,156)	-0.4%
CHEVRON	8,478,592	8,552,519		(73,927)	-0.9%
TOPCON	366,405	280,032	86,373		30.8%
COCNL	374,177	340,922	33,255		9.8%
	51,031,547	50,941,816	216,814	(127,083)	

With the exception of the TOPCON and COCNL figures, the differences may be considered within the estimating tolerance of the approach we adopted.

The Companies have contested the RP and API used for the above calculations. According to them RP issued by COMD from January 1, 2003 were under contest till March 1, 2006 when a resolution of the issue was made. The effect of that 2006 resolution has not been reflected in the 'recalculated' figures.

Furthermore, they argued that the applicable API is API per lifting and not per month as has been applied. These issues are contentious and materially affect Government interest. FIRS should review the situation.

We recommend that NSWG through FIRS should investigate these differences in detail in order to obtain a clearer understanding of what is responsible for them. We recommend that FIRS should discuss the differences with the companies' concerned and issue supplementary assessments as appropriate.

7.2.3 Royalty

After reconciling the respective physical hydrocarbon volumes, we used the RP and API advised by COMD and DPR on each crude stream and applied the relevant Royalty rates thereon for the period under review. The result obtained is as follows: -

Company	Royalty		Differences to be further investigated		% difference
	recalculated	per Return	under	over	
	\$ 000	\$ 000	\$ 000	\$ 000	
NAOC	895,027	879,902	15,125		1.7%
ELF	1,792,793	1,774,519	18,274		1.0%
SHELL	3,060,722	3,035,338	25,384		0.8%
MOBIL	2,481,641	2,568,363		(86,722)	-3.4%
CHEVRON	1,760,862	1,627,484	133,378		8.2%
TOPCON	70,916	68,852	2,064		3.0%
COCNL	70,916	65,004	5,912		9.1%
	10,132,877	10,019,462	200,137	(86,722)	

The larger of the differences relate to Chevron, COCNL and TOPCON. This may be due to application of averaged Royalty rates in the 'recalculated' values, which requires further review.

The cause of the negative difference on Mobil cannot be explained as it is out of pattern. We recommend that the NSWG / DPR should review this with Mobil in detail so as to obtain an understanding of the cause.

The Companies have challenged the RP and API used for the above calculations. According to the companies, the RP issued by COMD from January 1, 2003 were under contest till March 1, 2006 when a resolution of the issue was made. This resolution is not reflected in the above table.

Furthermore, they argued that the applicable API is the API per lifting and not per month as has been applied. Since Royalty is supposed to be on Production rather than lifting (though there is a difference of view as to how the legislation should be interpreted) this is a complex technical matter. These issues are contentious and DPR should review the situations for clarity and implementation.

We recommend that NSWG through DPR should investigate these differences in detail in order to obtain a clearer understanding of how they have arisen. We recommend that DPR should discuss the differences with the companies' concerned and issue supplementary assessments as appropriate.

We have confirmed that the Royalty claimed by companies as a deduction in their PPT computations corresponds with Royalty paid. The deduction is claimed on an accruals basis.

7.2.4 Operating Cost

The Operating cost reported by the JV Companies for PPT in the period under review was significantly different from that in the Audited Financial Statements. Whilst it is noted that the two should not be expected to be the same, the magnitude of differences is significant. A reconciliation between the two was requested from the companies.

Only ELF was able to provide us with a line by line reconciliation that met our requirements⁴. Others offered global reconciliations without adequate explanation of the reasons for differences.

The Operating cost differences between PPT returns and Audited Financial Statements that could not be reconciled are set out below.

Company	Cost per PPT returns > (<) cost per financial statements						
	1999	2000	2001	2002	2003	2004	Total
	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
NAOC	(16,000)	16,517	60,924	36,575	49,876	59,974	207,866
Shell	19,866	(7,780)	132,753	169,792	99,477	13,574	427,682
Mobil	(50,554)	28,130	56,355	112,149	171,464	150,383	467,927
Chevron	169,698	191,458	274,646	121,480	82,548	84,260	924,090
Texaco	9,222	34,256	24,246	(11,923)	11,032	(4,337)	62,496
COCNL	12,407	(534)	6,894	3,802	19,186	(10,811)	30,944

Differences in operating costs interact with differences in other areas of the review, as set out in the remainder of this section. For example, an item classified as Capital expenditure in the financial statements might properly be treated as an operating cost for tax purposes.

We recommend that the NSWG, through the FIRS, should insist on a transparent and verifiable reconciliation of these differences. Such reconciliation should be a line by line reconciliation that itemises the various cost elements in a manner that can be validated.

Costs for PPT purposes are not expected to the same as costs for financial reporting purposes as the basis of tax deductions is generally different from financial reporting standards. Nevertheless, it should be standard practice for companies to maintain records of the reasons for differences.

⁴ Some other companies have subsequently provided additional information.

7.2.5 Intangible Drilling and Development cost (IDDC)

The initial review highlighted differences between IDDC (written off and capitalized) in the PPT Returns and the Audited Financial Statements. These differences were thought to be due to how the IDDC is booked in the company's Accounts and set out in the Returns. The companies were therefore asked to reconcile the differences.

Except for ELF and Mobil, satisfactory reconciliation and explanations were not received from companies within the requisite time⁵.

The summary of IDDC, which can now be considered as excess claims in the absence of satisfactory explanations, is set out below

Company	IDDC Claim Differences		Differences to be further investigated	
	Financial Statements	PPT Returns	under	over
	\$ 000	\$ 000	\$ 000	\$ 000
NAOC	186,642	285,011	98,369	
SHELL	816,400	998,076	181,676	
CHEVRON	362,735	701,365	338,630	
TOPCON	60,739	34,991		(25,748)
COCNL	(6,248)	14,697	20,945	
	1,420,268	2,034,140	639,620	(25,748)

The companies raised issues with our observations and it is clear that this area needs further careful investigation and review.

Unless transparent and verifiable reconciliations of the above differences can be given, the differences appear to represent excess IDDC that lead to understatement of chargeable profit in the PPT returns.

We recommend that FIRS review the differences of \$639 million in the period under review and consider whether supplementary assessments should be issued.

⁵ Other companies have subsequently provided additional information which requires analysis.

7.2.6 Fixed Assets Additions

There were noticeable discrepancies between the Fixed Assets Additions set out in the Audited Financial Statement and the PPT Returns. These discrepancies could have significant impact (+or-) on the capital allowances claimed in the tax returns.

Companies other than ELF did not, within the time limit allowed for us to complete this work, provide a satisfactory quantified reconciliation⁶. Explanations were provided in general terms by some companies.

The summary of differences highlighted in the audit that have not been satisfactorily reconciled are:

Company	Additions to Fixed Assets		Differences to be further investigated	
	Financial Statements	PPT Returns	under	over
	\$ 000	\$ 000	\$ 000	\$ 000
NAOC	483,504	555,440	71,936	
SHELL	3,230,700	2,478,227		(752,473)
MOBIL	1,315,665	1,508,112	192,447	
CHEVRON	841,213	637,824		(203,389)
TOPCON	(5,478)	8,984	14,462	
COCNL	23,997	14,663		(9,334)
	5,889,601	5,203,250	278,845	(965,196)

Whilst the two figures are not expected to be the same (differences are expected because of the significant differences between tax accounting rules and financial reporting standards), we nevertheless expect that a reconciliation that is transparent and verifiable should be available as a matter of course.

We recommend that the NSWG through the FIRS should insist on a reconciliation of these differences and tax implication of such reconciliation effected.

⁶ Other companies have subsequently provided additional information.

7.2.7 Non Associated Gas Costs

Costs relating to Non-Associated Gas (NAG) were included in PPT returns and their related capital allowances applied as PPT: we consider however that such costs are relevant to CITA.

The costs are summarized as follows.

	\$'000
NAOC	111,170
ELF	440,000
SHELL	<u>357,030</u>
	<u>908,200</u>

The Companies responded that they did not agree with our classification of their gas investments as Non Associated Gas (NAG). To support their argument, they referred to Section 10 1(b) of PPT Act which provided that "capital investment on facilities, equipments to deliver associated gas in useable form at utilization or designated custody transfer point **shall be treated for tax purpose, as part of capital investment of oil development**. Also, Section 10B of the same Act, provides that **all incentives granted in respect of investment of associated gas shall be applicable to investment in non-associated gas**. Based on the above provisions the companies concluded that all gas costs qualify for deduction under PPT.

We agree with the companies on the treatment of Associated Gas (AG) but refer the Operators to PPT Act CAP 13 LFN 2004 Section 11(d) which stipulates that "expenses identified as incurred exclusively in the utilization of gas shall be regarded as gas expenses and allowable against the gas income and profit taxed under CITA". Specifically, Non-AG can be isolated as related to gas. In our opinion, the related capital cost should be treated under CITA.

We recommend that the FIRS should review the above, in line with what actually constitutes an expense (CAPEX + OPEX or OPEX only) and issue a supplementary assessment on the PPT tax implication.

7.2.8 Investment Tax Allowance (ITA)

There is a systematic difference of understanding as to the rate of ITA applicable to qualifying gas investment.

The PPTA provides for 5% allowance for onshore assets and 10% for offshore.

15% ITA is provided in the Company Income Tax Act (CITA). We consider that this rate of allowance is only available for gas downstream investments. Companies however consider that this rate is available for gas investment expenditure.

Consequently, companies have claimed an additional 5% to 10% ITA claim for each of the years under review, as follows: -

	Excess ITA claimed
	(\$,000)
NAOC	18,240
ELF	32,157
SHELL	60,903
MOBIL	3,461
CHEVRON	<u>70,750</u>
	<u>185,511</u>

The companies' response is that the Federal Government Budget pronouncement for the year 1998 expressly stated that as part of the incentive given for the development of the gas industry, the Investment Capital allowance was increased from 5% to 15%, Section 13 of the PPT Act provides that all capital investments on gas facilities and equipment shall be treated for tax purposes as part of allowances arising from capital investments for oil development. It therefore follows accordingly that any investment allowance granted on gas projects would be taken as an allowance in the PPT returns.

Whilst we agree that the 1998 budget provided for increase in Investment Capital Allowance of up to 15% it must be noted that all the other elements of the budget with reference to incentives of the utilization of Gas were comprehensively codified in PPT Act CAP P 13 LFN 2004 Section 11 but the 15% investment is conspicuously left uncodified.

The intention of government should therefore be inferred from this to support its unavailability for claim. We recommend the two views to the NSWG.

7.2.9 Gas Flare Penalty

We noted that the companies charge expenditures relating to this item in its PPT Returns despite the FIRS opposition to this treatment. We have reviewed the relevant laws (Associated gas Re-injection Act). We believe that the expenditure is a genuine business charge; nevertheless, there is considerable doubts as to whether it should be a deduction under PPT. The alternative is that it could be an allowable charge against gas income, since it can be distinctly separated from oil cost.

The table provides a summary of the gas flare penalty charged to PPT and illustrates the effect if it had been charged in CITA is as follows:

Company	Gas Flare \$ 000	Allowable amount if:		Difference \$ 000
		PPT at 85% \$ 000	CITA at 30% \$ 000	
NAOC	14,646	12,449	4,393	8,055
ELF	16,048	13,641	4,814	8,826
SHELL	34,801	29,581	10,440	19,140
MOBIL	13,226	11,242	3,967	7,274
CHEVRON	28,262	24,023	8,478	15,544
TOPCON	846	719	254	465
	107,829	91,655	32,346	59,304

The companies responded that the issue of gas flare is currently an issue between the industry and the Federal Inland Revenue Service (FIRS). The companies expressed the view that these charges represent a necessary aspect of their oil operating expenditure and are supported by appropriate tax legislation. Their argument was based on the provisions of the Associated Gas Re-injection Act of 1990.

According to the companies, Section 3(1) of the Act states that there shall be no flaring of gas after 1st of January 1984 **except where the Minister is satisfied that the utilization or re-injection of the gas produced is not appropriate or feasible.**

Section 3(2)(a)(b) further provides that the Minister may then issue a Certificate to the Company engaged in the production of oil or gas, **Permitting such Company to continue to flare gas in particular field on certain conditions these conditions include:**

- Issuance of a certificate stating conditions to be prescribed by the Minister
- Payment of sums as prescribed by the Minister.

Section 3(2)(b) further states that payment made under such terms **shall be subject to the same procedure as royalties paid to the Federal Government by Companies engaged in the production of crude oil.**

Section 4 of the Act prescribes penalties to be imposed for contravention of any of the conditions stated in Section 3.

The companies concluded that the payment of the prescribed fees/charges as permitted by the Minister is not a penalty, as the conditions in Section 3 of the Act have not been breached. Furthermore, the companies were unanimous that Section 10A (2b) of the PPT Act was clear on the PPT tax deductibility of these charges and not CITA.

We consider that since Section 11d CAP P13 LFN 2004 specifically provides for "expenses identified as incurred exclusively in the utilization of gas to be treated under CITA, gas flared charges should be an allowable deduction under CITA, rather than the PPTA. This would be consistent with the way and manner royalty on gas are currently being treated by each of the companies.

We recommend that FIRS determine an industry-wide approach on this issue, if necessary after taking legal advice.

7.2.10 Carry Agreements

Some companies have Carry Agreements with NNPC. These agreements have significant impact on PPT and government take particularly in the areas of volumes for PPT and Royalty, capital allowance claimed on the Carry costs (even though NNPC is deemed to be paying back during the period of the Carry) and Margin allowed under the MOU.

We suggest that the relevant Government Agencies (DPR, COMD, NNPC) should critically review all the Carry Agreements and their implementation to ensure that they operate in a transparent manner and that Government take is adequately protected.

Consideration should be given to requiring a standardised form of separate reporting for the income and costs of carry agreements in the submitted PPT returns of each company.

7.2.11 Other Issues: Addax PPT and Royalty

The PPT and Royalty outstanding for Addax for 1999 – 2003 has not been finalized as Addax and NNPC are still working to reconcile and establish what was due and what is outstanding. We recommend that the NSWG follow up the progress of these reconciliations with a view to ensuring balances are ultimately agreed and settled.

7.2.12 Summary of general recommendations

Interpretation of Tax Laws

The audit review has indicated some areas where there are differences of interpretation of legislation which should be examined by FIRS and resolved. It is unsatisfactory that such differences have been allowed to persist.

There are issues of interpretation of tax laws which it appears are currently being applied by companies in ways that reduce tax take. Some examples are incentives granted on the MOU and on Gas for PPT, Taxation of Gas under CITA, gas flare as a cost to be deducted under CITA and not PPTA etc. The FIRS should as a matter of urgency seek legal advice on these issues so that appropriate interpretation can be obtained.

FIRS should take the lead in issuing interpretations of relevant legislation, for the guidance of the industry. FIRS might consider it appropriate to engage with industry representative bodies to establish a forum within which matters of mutual concern may be discussed.

Transparency of PPT Returns

There is a general need to enhance transparency in PPT returns particularly in reconciling them with the audited Financial Statements. FIRS in recognition of this, have agreed a standardized format with the OPTS for the filing of both the estimated PPT and final PPT returns. This takes effect this year. Essentially, the companies are expected to provide full information about the constituent elements of their returns as well as reconcile all accounting data to tax data. FIRS believes that improvements will be witnessed with compliance from this year. This is in addition to ensuring that there is strict compliance with all the extant rules.

Whilst we agree with this view, it is necessary for the template which FIRS has agreed with the OPTS to be reviewed to ensure that it is robust and will inject the much needed transparency into the implementation of the PPT Act.

Value for Money aspects

We recommend that the implications of the Carry Agreements should be comprehensively evaluated in a Value For Money review of JV cost financing arrangements.

8 NON-OIL RELATED FLOWS

8.1 Summary

There are various non-oil related flows paid by the companies operating in the sector, namely:-

- Withholding taxes paid by incorporated companies to the Federal Government (paid in US \$)
- VAT paid by non resident companies to the Federal Government (paid in US \$)
- Education taxes paid to the Federal Government (paid in US \$)
- Withholding taxes paid to the states (paid in Naira)
- PAYE paid to the states (paid in Naira)

The non oil related flows reported by companies are set out on the following pages; these numbers are unaudited.

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	1999		2000		2001		2002		2003		2004	
	N millions	\$ millions	N millions	\$ millions	N millions	\$ millions	N millions	\$ millions	N millions	\$ millions	N millions	\$ millions
Payments to FGN												
Withholding tax, incorporated companies	3,252	109	3,355	95	4,272	106	6,542	147	6,622	172	7,535	151
VAT, non-resident compan	1,436	56	1,130	57	1,271	66	2,129	82	3,320	80	2,834	58
Education tax		52		116		89		38		117		75
PAYE	5		7		12		38		52		49	
Total	4,693	217	4,492	268	5,555	261	8,709	267	9,994	369	10,418	284
Payments to States & FCT												
Withholding tax, to states	299	0	425	0	710	0	694	0	684	0	1,192	1
PAYE	4,555		5,135		7,607		10,647		14,615		17,530	
Total	4,854	0	5,560	0	8,317	0	11,341	0	15,299	0	18,722	1

These items are unverified, due to the lack of any oil-specific audit trail through the collection system for these taxes. Such taxes paid by the companies are subsumed within taxes collected from non-oil sector organisations

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8.2 Withholding tax

Withholding Tax payments to FGN

ENTITY	1999		2000		2001		2002		2003		2004	
	N 000	US\$ 000	N 000	US\$ 000	N 000	US\$ 000	N 000	US\$ 000	N 000	US\$ 000	N 000	US\$ 000
SPDC	1,605,186	45,937	1,593,408	39,514	1,698,225	35,868	2,010,384	46,626	1,994,709	56,634	2,587,053	36,005
MOBIL	372,452	21,621	369,564	12,609	574,130	22,175	703,459	26,685	895,380	22,897	1,097,265	24,054
CNL	297,283	12,868	351,227	15,169	537,649	18,037	652,551	22,001	651,599	19,754	907,014	22,380
COCNL	C/O TOPCON	C/O TOPCON	C/O TOPCON	C/O TOPCON	C/O TOPCON	C/O TOPCON	C/O TOPCON	C/O TOPCON	C/O TOPCON	C/O TOPCON	C/O TOPCON	C/O TOPCON
TOPCON	92,402	3,035	45,453	3,396	52,016	2,794	56,381	2,714	39,621	1,378	26,741	858
ELF	66,165	11,203	54,139	5,330	227,358	6,356	346,595	9,785	552,074	18,434	736,708	15,948
NAOC	121,942	7,227	240,545	8,706	384,433	11,538	570,374	16,994	804,343	19,451	777,821	15,941
NAE	17,971	1,365	4,741	435	16,927	607	30,501	3,155	98,292	10,822	64,217	4,888
AENR	13,119		7,010		23,031		560,544		179,690	4,147	185,161	8,675
ADDAX	30,996	1,634	57,500	3,142	72,252	4,986	109,718	7,356	118,252	5,475	240,484	6,033
POOCNL	9,029		10,644	228	13,234		34,391	473	57,403	792	11,194	1,107
DUBRI	767		3,376		2,812	14	1,243	12	19	7	1,115	
CON OIL			11,232	1,289	22,330	978	49,269	1,604	20,000	204	82,754	2,284
OCEAN E.									1,655	802	5,143	212
POCL	133		155		931		1,787		3,243	215	15,678	2,419
AMNI	8,183	1,365	2,069	992	1,422	1,276	2,434	928	1,400		1,154	
MONI PULO	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP
STATOIL	35,615	2,061	40,540	2,538	9,639	397	73,580	1,898	7,083	170	8,785	193
CONTINENTAL								369				
ATLAS				918		365		1,135		302		53
PETROBRASS					3,273		10,434		6,972	706	6,633	326
NLNG	36,168	701	60,808	808	179,737	1,052	211,789	4,760	226,376	9,816	229,209	10,004
IDSL	14,481		4,794		11,353		5,317		21,219		39,185	
NETCO	3,094		5,403		6,982		10,138		9,182		6,328	
WRPC	43,762		36,555		21,047		28,754		38,019		33,857	
EPCL	109,026		69,041		199,250		97,252		123,833		77,967	
KRPC	25041	36	80,239	33	5,570	11	106,602	32	86,878	15	122,649	10
NPDC	14,610		36,002		40,761		59,942		73,129		124,100	
NGC	15,058		13,508		16,086		22,114		17,215		32,438	
NNPC HQ	319,719		256,837		151,928		785,949		594,656		114,073	
TOTAL	3,252,202	109,053	3,354,790	95,107	4,272,376	106,454	6,541,502	146,527	6,622,242	172,021	7,534,726	151,390

Note: These figures were populated from templates submitted by the various companies and have not been validated

NTP = No Template

N/A = Not Applicable

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ENTITY	1999		2000		2001		2002		2003		2004		TOTAL	
	N 000	US\$ 000	N 000	US\$ 000	N 000	US\$ 000	N 000	US\$ 000	N 000	US\$ 000	N 000	US\$ 000	N 000	US\$ 000
SPDC	163,165	97	208,952	56	377,944	210	352,260	246	294,457	216	587,594	1,007	1,984,372	1,832
MOBIL	30,126	0	15,728	0	75,152	0	54,528	0	89,053	0	79,480	0	344,067	0
CNL	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP
COCNL	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP
TOPCON	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP
ELF	25,484	0	35,182	0	48,812	0	92,259	0	84,885	0	249,772	0	536,394	0
NAOC	16,139	0	37,735	0	66,429	0	98,646	0	86,227	0	113,442	0	418,618	0
NAE	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
AENR	541	0	132	0	972	0	220	0	2,639	0	344	0	4,848	0
ADDAX	2,317	0	8,326	0	9,992	0	19,912	0	31,329	24	35,805	189	107,681	213
POOCNL	4,812	0	996	0	893	0	1,369	0	2,015	0	17,553	0	27,638	0
DUBRI	2,950	0	60,689	0	4,574	0	0	0	0	0	0	0	68,213	0
CON OIL	0	0	0	0	0	0	261	0	0	0	0	0	261	0
OCEAN E.	0	0	0	0	0	0	0	0	662	0	997	0	1,659	0
POOC	8,501		2,912		3,063		1,369		2,390		20,267		38,502	NTP
PETROBRASS	0		0		354		510		1,987		693		3,544	
POCL	174	0	295	0	991	0	905	0	2,240	0	5,488	0	10,093	0
AMNI	1,221	0	992	0	1,276	0	928	0	0	0	0	0	4,417	0
MONI PULO	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP
STATOIL	2,733	0	980	0	1,208	0	1,827	0	1,039	0	1,305	0	9,092	0
NLNG	2,065	0	6,443	0	54,833	0	23,655	16	29,592	25	28,020	8	144,608	49
NETCO	471		1,252		660		626		1,064		885		4,958	
IDSL	4,584		3,208		8,677		2,308		7,487		13,067		39,331	
WRPC	9,609		5,825		9,633		9,299		5,916		5,660		45,942	
KRPC	8,140		16,855		26,294		15,301		17,814		11,272		95,676	
EPCL	6,412		9,054		8,088		5,433		10,064		8,005		47,056	
NPDC	0	0	768	0	466	0	1,025	0	2,109	0	3,797	0	8,165	0
PETROLEO	0	0	0	0	354	0	510	0	1,987	0	693	1	3,544	1
NGC	9,084	0	8,259	0	9,725	0	11,057	0	8,752	0	7,478	0	54,355	0
TOTAL	298,528	97	424,583	56	710,390	210	694,208	262	683,708	265	1,191,617	1,205	4,003,034	2,095

These figures were populated from templates submitted by the various companies and have not been validated

NTP = No Template

N/A = Not Applicable

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8.3 Value Added Tax

VAT Payments (non-resident companies)

ENTITY	1999		2000		2001		2002		2003		2004	
	N 000	US\$ 000	N 000	US\$ 000	N 000	US\$ 000	N 000	US\$ 000	N 000	US\$ 000	N 000	US\$ 000
SPDC	0	21,573	0	24,752	3,005	18,069	183,575	20,279	18,285	23,186	52,124	7,433
MOBIL	0	10,747	0	6,384	0	17,568	0	21,197	0	19,501	0	13,643
CNL	0	11,066	0	12,418	0	13,709	0	14,126	0	9,778	0	10,489
COCNL	C/O TOPCON	C/O TOPCON	C/O TOPCON	C/O TOPCON	C/O TOPCON	C/O TOPCON	C/O TOPCON	C/O TOPCON	C/O TOPCON	C/O TOPCON	C/O TOPCON	C/O TOPCON
TOPCON	0	3,298	0	1,562	0	2,090	0	1,256	0	790	0	471
ELF	443,567	0	342,830	0	417,983	415	788,691	0	1,889,494	0	1,514,421	0
NAOC	0	4,314	0	6,093	0	7,218	0	10,214	0	10,759	0	8,178
NAE	0	1,453	0	404	0	600	0	2,313	0	7,876	0	7,584
AENR	0	138	0	52	0	704	0	3,007	0	2,645	0	6,296
ADDAX	0	1,011	0	2,585	0	4,653	0	6,424	0	4,980	0	4,257
POOCNL	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP
DUBRI	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
CON OIL	0	0	18,246	0	0	0	2,720	1,169	0	0	0	0
OCEAN E.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
POOC	807	0	1,549	0	0	23	0	35	640	12	0	0
AMNI	0	0	0	0	0	0	0	0	0	0	0	0
MONI PULO	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP
STATOIL	1,156	1,633	1,882	1,860	1,754	128	2,100	1,261	59	75	0	78
ATLAS	0	338	0	1,150	0	641	0	520	0	205	0	53
IDSL	714,253	0	21,364	0	29,070	0	15,959	0	65,344	0	12,902	0
WRPC	17,467	0	37,198	0	36,955	0	37,831	0	34,005	0	39,114	0
KRPC	36	0	33	0	11	0	32	0	15	0	10	0
EPCL	139,266	0	275,056	0	301,747	0	238,455	0	239,085	0	72,882	0
NPDC	22,948	0	25,367	0	27,174	0	50,017	0	142,147	0	139,547	0
NGC	19,129	0	43,154	0	31,825	0	76,863	0	132,200	0	64,133	0
NNPC HQ	77,503	0	363,503	0	421,826	0	732,794	0	798,467	0	938,966	0
TOTAL	1,436,132	55,571	1,130,182	57,260	1,271,350	65,818	2,129,037	81,801	3,319,741	79,807	2,834,099	58,482

These figures were populated from templates submitted by the various companies and have not been validated

NTP = No Template

N/A = Not Applicable

8.4 Education tax

Education Tax

ENTITY	1999	2000	2001	2002	2003	2004
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
SPDC	0	31,199	13,027	5,980	24,274	26,010
MOBIL	33,469	49,450	41,178	16,730	4,631	12,827
CNL	5,804	13,400	20,048	5,431	6,399	4,968
COCNL	0	0	0	613	346	543
TOPCON	0	0	0	429	396	533
ELF	6,713	14,022	4,582	2,440	4,143	15,958
NAOC	2,837	3,620	8,498	2,865	2,021	4,930
NAE	NIL	NIL	NIL	NIL	NIL	NIL
AENR	NTP	NTP	NTP	NTP	NTP	NTP
ADDAX	0	0	171	1,363	1,494	3,857
POOCNL	0	119	449	59	69	0
DUBRI	1	3	0	0	0	1
CON OIL	737	74	484	0	0	0
OCEAN E.	N/A	N/A	N/A	N/A	N/A	N/A
POCL	1,631	3,648	831	2,505	3,863	5,163
AMNI	NIL	NIL	NIL	NIL	223	NIL
MONI PULO	NTP	NTP	NTP	NTP	NTP	NTP
STATOIL	NIL	NIL	NIL	NIL	NIL	NIL
CONTINENTAL	557	35	NIL	NIL	NIL	NIL
NPDC	NIL	NIL	NIL	NIL	68,793	NIL
TOTAL	51,749	115,570	89,268	38,415	116,652	74,790
	N 000	N 000	N 000	N 000	N 000	N 000
WRPC	0	0	0	0	0	5

These figures were populated from templates submitted by the various companies and have not been validated

NTP = No Template

8.5 PAYE

**7.1.5 NON-OIL RELATED FLOWS - NNPC(HQ & SBUs)
 PAYE Computation 1999 - 2004**

ENTITY	1999	2000	2001	2002	2003	2004
	N 000	N 000	N 000	N 000	N 000	N 000
NNPC HQ	0	10,899	32,368	93,628	162,426	166,963
PPMC	NTP	NTP	NTP	NTP	NTP	NTP
NGC	6,743	11,836	18,696	28,923	50,943	62,337
NAPIMS	NTP	NTP	NTP	NTP	NTP	NTP
NPDC	9,665	9,272	24,549	38,845	36,826	33,074
NETCO	256	581	4,850	5,660	12,543	15,616
EPCNL	15,405	16,552	12,597	23,949	22,262	19,490
IDSL	5,269	7,612	19,246	27,661	34,719	32,269
WRPC	41,214	42,397	92,135	77,470	100,642	120,588
KRPC	37,375	56,400	72,854	103,293	181,920	215,892
PHRC	8,422	8,755	12,560	29,368	37,747	45,269
TOTAL	124,349	164,304	289,855	428,797	640,028	711,498

These figures were populated from templates submitted by the various companies and have not been validated.

NTP = No Template

NLNG	1999	2000	2001	2002	2003	2004
	N 000	N 000	N 000	N 000	N 000	N 000
FGN	5,313	6,785	12,228	38,109	51,853	49,201
STATE	61,374	86,577	155,251	332,789	390,696	666,796
Total	66,687	93,362	167,479	370,898	442,549	715,997

PAYE (FCT) 1999 - 2004

ENTITY	1999	2000	2001	2002	2003	2004
	N 000	N 000	N 000	N 000	N 000	N 000
SPDC	0	0	0	0	0	0
MOBIL	984	1,314	1,836	1,998	19,775	12,975
CNL	0	0	0	0	0	0
TOPCON	0	0	0	0	0	0
ELF	0	0	1,959	3,432	6,677	8,837
NAOC	0	0	0	0	0	0
NAE	0	0	0	0	0	0
AENR	0	0	0	0	0	0
ADDAX	0	0	0	0	0	0
POOCNL	0	0	0	0	0	0
DUBRI	0	0	0	0	0	0
CON OIL	0	0	0	0	0	0
OCEAN E.	0	0	0	0	0	0
POCL	0	0	0	0	0	0
AMNI	0	0	0	0	0	0
MONI PULO	0	0	0	0	0	0
STATOIL	0	0	0	0	0	0
TOTAL	984	1,314	3,795	5,430	26,452	21,812

Note: All figures are in thousands

These figures were populated from templates submitted by the various companies and have not been validated.

PAYE (States) 1999 - 2004

ENTITY	1999 N 000	2000 N 000	2001 N 000	2002 N 000	2003 N 000	2004 N 000
SPDC	2,394,144	2,656,957	3,773,503	5,502,233	7,890,011	9,762,278
MOBIL	610,852	729,745	944,032	1,241,148	1,769,143	2,176,270
CNL	658,927	714,714	1,372,851	1,885,965	2,264,036	2,267,061
TOPCON	225,283	223,299	263,762	121,273	1,151	607
ELF	266,077	302,583	412,698	528,870	759,553	844,967
NAOC	149,958	177,223	258,354	398,128	602,935	642,334
NAE	0	0	1,194	7,175	12,185	13,636
AENR	17,755	18,355	33,303	52,882	66,266	73,548
ADDAX	22,186	30,728	44,765	51,577	78,869	106,523
POOCNL	0	0	18,945	28,604	44,960	49,615
DUBRI	601	258	308	325	357	560
CON OIL	7,133	11,033	13,971	20,339	28,208	35,146
OCEAN E.	0	0	0	0	29	74
POCL	3,056	4,775	6,666	9,662	9,888	120,895
AMNI	2,464	2,608	3,076	5,374	5,076	4,812
MONI PULO	NTP	NTP	NTP	NTP	NTP	NTP
STATOIL	9,106	10,580	9,901	16,912	11,587	16,839
PETROLEO	0	0	77	9,238	13,702	14,089
ATLAS	323	0	0	0	0	530
TOTAL	4,367,865	4,882,858	7,157,406	9,879,705	13,557,956	16,129,784

These figures were populated from templates submitted by the various companies and have not been validated

NTP = No Template

9 PROCEEDS OF SALE OF CRUDE OIL

9.1 Introduction

Crude oil is allocated to the Federation in accordance with the Federation's equity share in joint venture operations. That crude is marketed on behalf of the Federation by NNPC Crude Oil Marketing Department (COMD).

All documentation we required for the audit of crude sales and cash inflows from crude sales was produced to us and we concluded that, with the exception of the accounted debtor balance at 31st December 2004, all crude invoiced by COMD was paid for.

Complementary verification work on the physical volumes of crude produced and shipped has confirmed that the Federation crude lifting has been materially accounted for.

9.2 Definitions

Government equity crude is that crude attributable to the Government stake in joint ventures. That crude is divided into two parts:

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

Domestic crude is sold by the Government to NNPC.

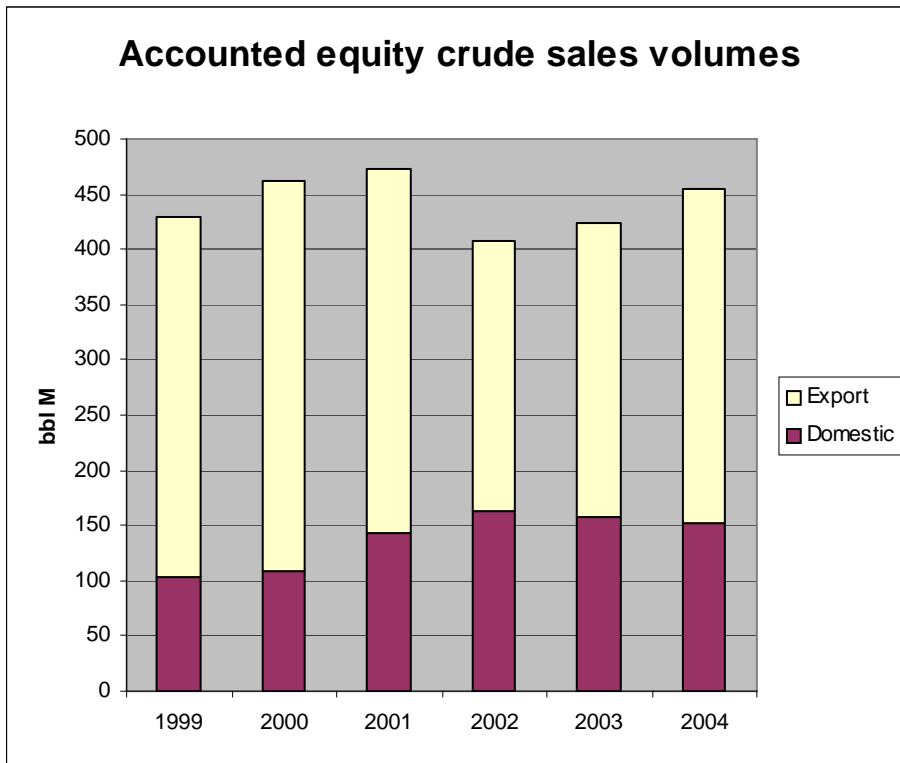
These flows are reported on separately in this report, as the two flows are in practice tracked separately.

9.3 Aggregate volume and value of equity crude sales

The following tables summarise quarterly crude sales volumes, amounts invoiced and money received and the information is also presented graphically.

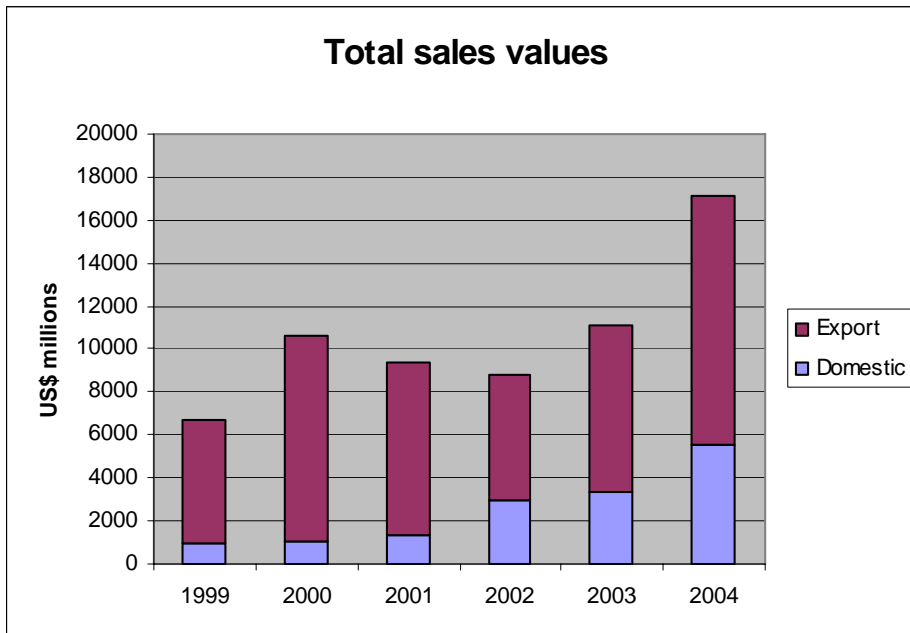
Sales volumes accounted for by COMD were:

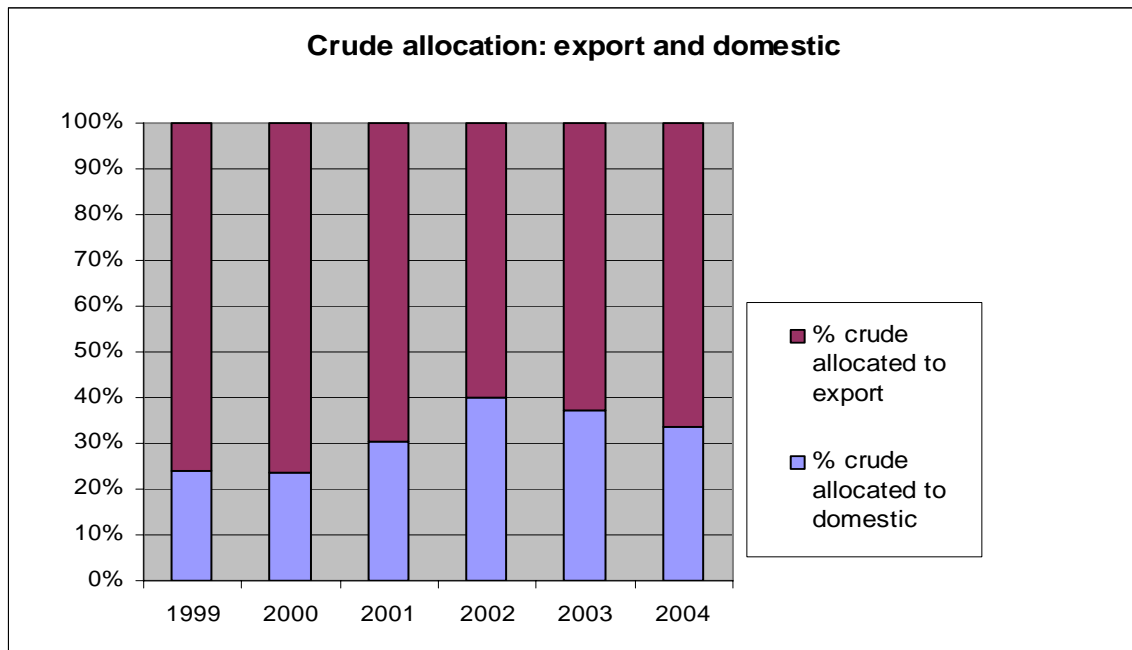
bbl Million	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Domestic	103	109	143	163	157	152
Export	327	353	330	244	267	303
Total	430	462	473	407	424	455



Sales values were:

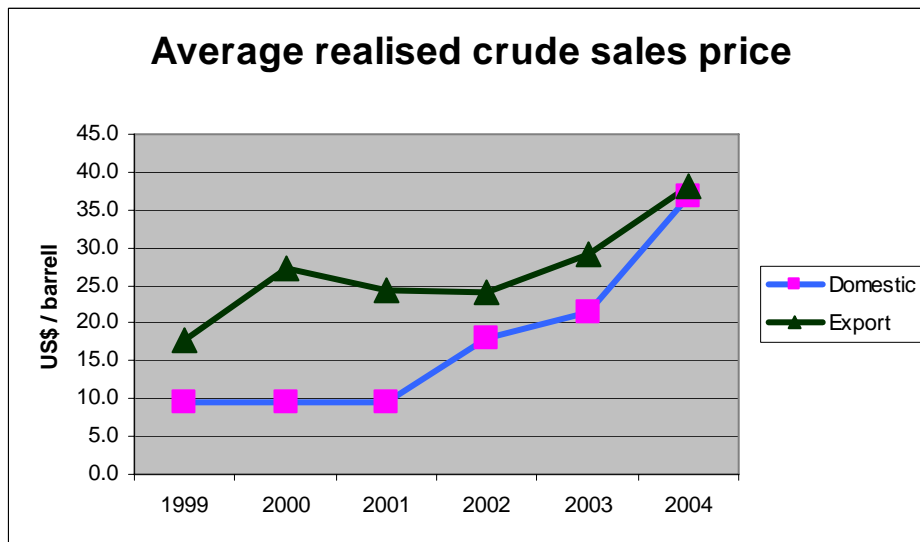
US\$ m	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Domestic	975	1033	1363	2942	3351	5586
Export	5768	9615	8030	5891	7758	11569





Achieved average prices were:

US\$ /bl	1999	2000	2001	2002	2003	2004
Domestic	9.5	9.5	9.5	18.0	21.3	36.8
Export	17.6	27.2	24.3	24.1	29.1	38.2



Note that domestic crude prices changed in step-fashion.

9.4 Domestic crude

The full report on audit work on domestic crude transactions is included in the Appendices to this report.

A comparison of Domestic Crude export and refinery supply Volume as per Domestic Crude Sales analysis to the Physical Volume reconciliation showed the difference set out below:

Year	Sales analysis	Physical volume reconciliation	Difference	Explanation
	Bbls	bbls	Bbls	
1999	98,447,205	98,447,241	36	
2000	108,777,558	108,777,554	4	
2001	143,432,249	143,432,249	0	
2002	163,610,046	163,610,491	(445)	COMD data entry error
2003	157,454,054	157,465,064	(11,010)	COMD data entry error
2004	151,892,709	151,892,709	0	

Differences between the Domestic Crude Analysis of sales and the physical volume reconciliation are accounted for by typographical errors in COMD data entry which are not material. We have audited and confirmed that the volume used in the Debtors Control reconciliation were the volumes invoiced, paid for and swept to the Federation Account.

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5.5.5B RECONCILIATION OF DOMESTIC CRUDE OIL PURCHASES FROM AND PAYMENTS TO THE FEDERATION ACCOUNT AND DETERMINATION OF OUTSTANDING BALANCE FOR JANUARY 1999 TO DECEMBER 2004 (AFTER AUDIT VALIDATION REVIEW)

DOMESTIC CRUDE CONTROL IN NAIRA

	1999 N'000	2000 N'000	2001 N'000	2002 N'000	2003 N'000	2004 N'000
Opening Balance	-	37,267,647	51,129,528	58,170,130	106,815,982	161,905,300
Add: Purchases of Crude	78,265,527	96,272,282	136,150,193	323,947,891	409,753,329	759,693,335
	78,265,527	133,539,929	187,279,721	382,118,021	516,569,311	921,598,635
Less: Payments	(40,997,880)	(82,410,401)	(129,109,591)	(275,302,039)	(354,664,011)	(639,908,172)
Closing Balance	37,267,647	51,129,528	58,170,130	106,815,982	161,905,300	281,690,463
Bal. per revised NNPC Debtors list						(280,134,599)
Balance						1,555,864

NOTES:-

(i) US \$ VALUE

	=N=:\$	85	100	100	110	110	128
(i) Crude Sales		920,771	962,723	1,361,501	2,944,,981	3,725,030	5,935,104
(ii) Crude proceeds funds flow		482,328	824,104	1,291,095	2,502,746	3,224,219	4,999,283

(ii) Difference still under reconciliation.

Included in the above difference of N1.556 Billion is a difference of N901.368 Million representing 949,380 bbls which was duly invoiced in October 2001 and fully paid for in December 2001. In spite of the payment for this crude in December 2001, this value still remains as an outstanding difference at 31 December, 2004, suggesting the need for further reconciliation work to resolve the difference it represents.

9.4.1 Federation debtor for domestic crude

The amount owed by NNPC to the Federation Account as at 31st December 2004 is set out below:

5.5.5D STATEMENT OF OUTSTANDING PAYMENTS AS AT DECEMBER 31, 2004

	N'000	N'000
Outstanding liftings		
September 2004	72,083,223	
October 2004	79,704,702	
November 2004	56,034,632	
December 2004	<u>72,312,042</u>	
		280,134,599
Net arrears arising from misstatements of invoice values by FAD	866,012	
Shortfall in Jan. 2003 sweeping	80,000	
Shortfall in Nov. 2004 due to arbitrary use of exchange rate by CBN	285,000	
Shortfall in Nov 2004 due to under sweeping of NNPC mandate by CBN	<u>324,752</u>	<u>1,555,764</u>
		<u><u>281,690,363</u></u>

NOTE:

1. The November, 2004 shortfall of N285 million outstanding is in dispute with CBN as a result of discriminatory exchange rate applied in monetization.
2. The shortfall of N324.752 million was swept to CBN in year, 2005.
3. The shortfall of N80 million is yet to be swept to the Federation Account.
4. The net arrears arising from misstatements of invoice values by FAD:

	N'000
- December 1999 overstated invoice value	35,168
- October 2001 understated invoice value	901,368
- December 2001 overstated invoice value	<u>(188)</u>
	<u>866,012</u>

9.5 Crude Export sales

Government equity crude shipped internationally and the invoice value of those shipments are set out in the following tables. Sales terms are mainly on 30 days confirmed irrevocable letter of credit. Some customers receive 90 days credit. The amounts received, compared to the amounts invoiced were:

Control account summary - export crude

<i>US\$ Millions</i>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Balance B/f	320	646	915	452	817	895
Sales	5768	9615	8030	5891	7758	11569
Receipts for sales difference	-5447	-9347	-8493	-5526	-7680	-11402
	5	1				
Balance C/f	646	915	452	817	895	1062

9.6 Other NNPC crude oil sales

In the course of our physical audit work, we identified other crude liftings by NNPC which were not for Government equity crude. These were for such items as:

- Payment of PPT in kind, from PSC contractors; NNPC sells the crude and remits the proceeds to FIRS.
- Oil to repay loans (the so-called 'Itochu liftings'); NNPC sells the crude and applies the proceeds to repay the loans.

Such items are not included in the foregoing sales. Lodgement of the proceeds of crude lifted for these purposes is not to the Federation Account.

10 CASH CALLS

10.1 Aggregated cash call payments by NNPC NAPIMS

Cash call payments to Joint Ventures were as follows:

US\$ m	1,608	1,565	1,484	2,437	2,474	1,904
Naira m	62,783	81,948	106,079	204,220	137,218	136,352
TOTAL CASH FLOWS expressed as US \$ millions	2,347	2,384	2,545	4,294	3,721	2,969

10.2 Disaggregated cash call payments

Cash call payments by NNPC NAPIMS to operators for Joint Ventures in which it is a partner may be summarised as follows:

JV OPERATOR	1999 US\$ millions	2000 US\$ millions	2001 US\$ millions	2002 US\$ millions	2003 US\$ millions	2004 US\$ millions
CNL	251	336	402	382	423	257
EPNL	139	134	81	132	314	281
MPNU	304	274	243	572	581	437
NAOC	138	135	170	324	289	287
SPDC	704	648	544	981	750	623
TOPCON	56	32	44	34	95	-
PANOCEAN	16	6	-	12	22	19
TOTAL	1,608	1,565	1,484	2,437	2,474	1,904

JV OPERATOR	1999 NGN millions	2000 NGN millions	2001 NGN millions	2002 NGN millions	2003 NGN millions	2004 NGN millions
CNL	8,432	17,217	17,681	34,882	18,123	14,807
EPNL	3,294	5,290	7,553	16,256	11,157	15,550
MPNU	11,076	18,760	20,397	34,508	21,487	23,908
NAOC	4,479	6,892	11,745	16,100	18,592	20,300
SPDC	32,916	31,429	45,005	100,575	65,045	52,299
TOPCON	2,003	2,019	3,698	1,899	1,058	5,629
PANOCEAN	583	341	-	-	1,756	3,859
TOTAL	62,783	81,948	106,079	204,220	137,218	136,352

10.3 Reconciliation Of NNPC Figures To CBN Records

The JP Morgan Chase CBN/NNPC CRUDE OIL AND GAS REVENUE ACCOUNT (into which the proceeds of crude sales are deposited) is the main source of funding for the cash calls. Until July, 2002 the Bank for International Settlements was the main source of funding.

Our reconciliation of JP Morgan Chase Account in CBN shows that a total sum of \$17.8 billion was transferred out to finance cash calls as summarized below:

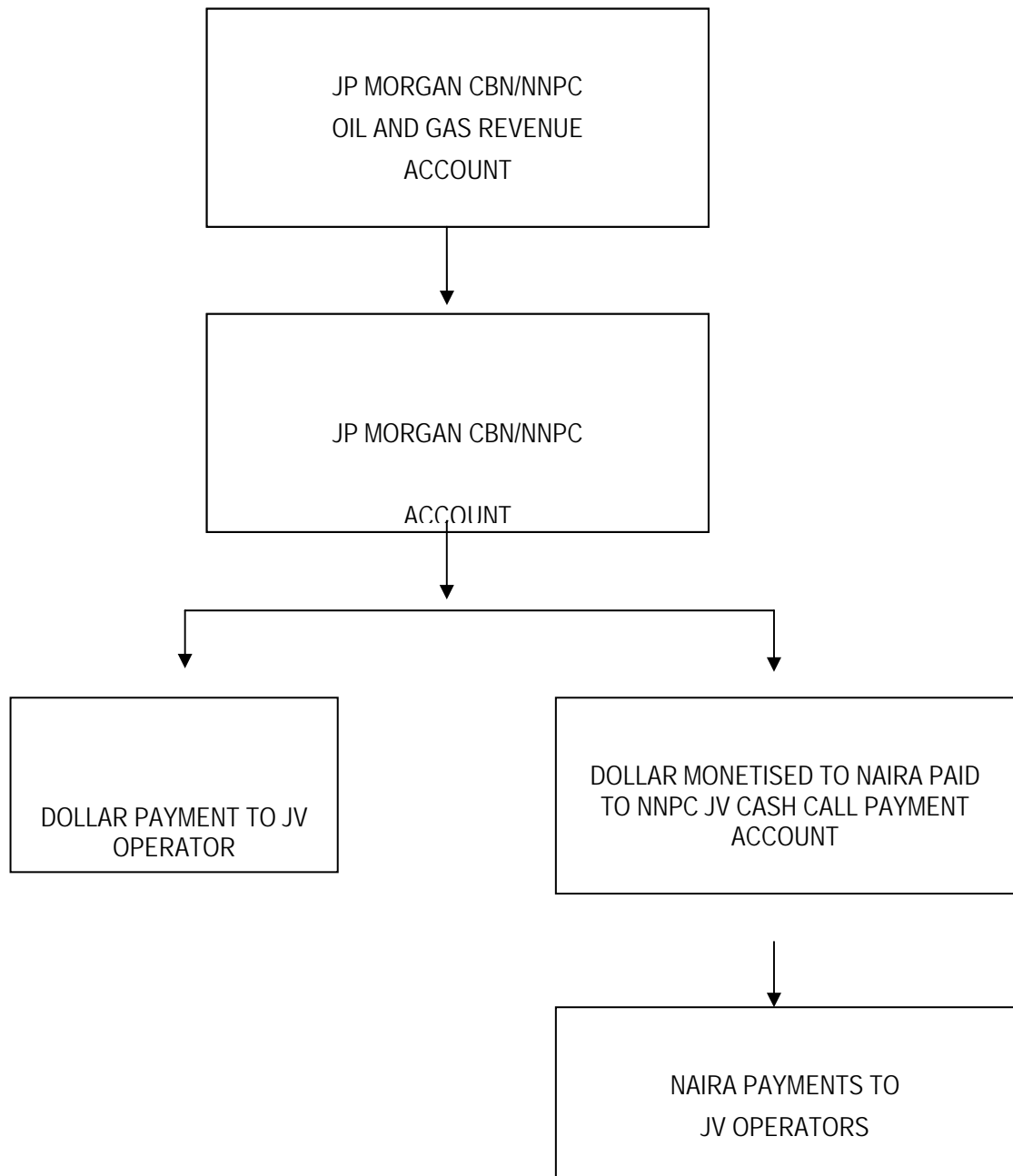
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YEAR	Dollar Payment US\$ Million	Monetised Naira Payment US\$ Million	Total US\$ Million
1999	1,608	665	2,273
			-
2000	1,565	895	2,460
			-
2001	1,484	952	2,436
			-
2002	2,437	1,721	4,158
			-
2003	2,474	1,004	3,478
			-
2004	1,904	1,062	2,966
	<u>11,472</u>	<u>6,299</u>	<u>17,771</u>

The amounts drawn from JP Morgan CBN/NNPC Crude Oil and Gas Revenue Account are paid into JP Morgan CBN/NNPC Joint Venture Cash Call Payment Account.

Dollar Cash Calls are paid to Joint Venture Operators while monetized Naira Cash Calls are paid into NNPC Joint Venture Cash Call Payment Account in Lagos. It is from this account that Joint Venture Operators are paid their Naira Cash Calls. The flow of the current Cash Call payments is presented below

Overview of Cash Call Funds Flow



Note:

Until July 2002 Bank for International Settlement (BIS) played the role of JP Morgan CBN/NNPC Oil and Gas Revenue Account.

The payment of Cash Call is initiated by NNPC by giving mandates to CBN to effect payment of Dollars and to monetize and transfer the equivalent of Dollar to meet up Cash Call Naira demands. These payments made for Cash Calls and their primary source of funding are as set out below:

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Year	Drawn from BIS and JP Morgan Account US\$ Million	Received into NAPIMS JV Cash Call Account US\$ Million	Variance US\$ Million
1999	2,625	2,625	-
2000	2,267	2,267	-
2001	3,950	3,950	-
2002	2,655	2,407	248 (see below)
2003	3,500	3,426	74 (see below)
2004	3,430	3,417	13 (see below)
TOTAL	18,427	18,092	335

Differences between the amounts paid and received in the years 2002 to 2004 are accounted for by payments in transit across the year ends. These transit items from JP Morgan Account were all received in January the following year as follows:

Year	US\$ Million
2002	
In transit at 31/12/2002 received by NAPIMS JV Cash Call Dollar Account on 15/01/03	<u>248</u>
2003	
In transit at 31/12/2003 received by NAPIMS JV Cash Call Dollar Account on 14/01/04	322
In transit at 31/12/02	<u>(248)</u>
	<u>74</u>
2004	
In transit at 31/12/2004 received by NAPIMS JV Cash Call Dollar Account on --/1/05	335
In transit at 31/12/03	<u>(322)</u>
	<u>13</u>

10.4 Monetisation

NNPC maintains a Naira cash call pool account at CBN Lagos. When Naira cash calls are approved by NNPC Corporate Headquarter, each month, they request JP Morgan to transfer the equivalent amount of US\$ to fund the Naira account. The Naira available in that account is used to pay Naira Cash Calls.

The Naira amounts monetized from the US\$ compare to the amounts recorded as received by JV operators are as follows:

YEAR	MONETISED	Acknowledged by companies & reconciled to NNPC NAPIMS
	N Billion	N Billion
1999	63	63
2000	82	82
2001	106	106
2002	204	204
2003	137	137
2004	136	136

The reconciliation of Cash Calls all through the system has been extensive and tedious spanning more than three months of audit work. It is clear that the level of reconciliation called for by this audit is way beyond what the routine accounting procedures would ordinary require. Yet, the reconciliation carried out are essential for transparency and completeness of reporting and accountability and should therefore be incorporated into routine monthly reconciliation processes. We therefore recommend as follows:

1. Cash Calls paid to Operators should be reconciled each month to:
 - CBN/NNPC Cash Call JV Cash Call Payment Account
 - JP Morgan CBN/NNPC Joint Venture Cash Call Account
2. Control Account should be prepared on each bank account to ensure that total Cash Call are adequately reconciled
3. NNPC funding records should regularly be reconciled with CBN

The amounts held in the NNPC cash calls account at 31st December 2004 was:

	US\$ M
Recorded balance per Account Statement	598
Add: cash in transit	<u>335</u>
Total	<u>933</u>

This represents about 3 – 4 months average cash call payments. Having regard to routine fluctuations in the amount of cash calls made by operators, including the close of the year and the need to pay for OPCOM-approved performance, this amount is not unreasonable for NAPIMS to hold at that time of the year.

10.5 Reconciliation between NAPIMS and companies

Cash call payments reported by companies and by NNPC/NAPIMS contained numerous differences which required attention. The nature of the differences was mainly:

- Transaction being recorded in the wrong period
- Payments relating to previous years being omitted

The differences noted in the course of the reconciliation are attributable to different bases of preparation of templates between the companies and NAPIMS. NAPIMS prepared a separate set of summaries of cash call arrears that were paid in subsequent years whilst the operators prepared their templates on accrual basis mainly leaving out Cash Call arrears subsequently settled. All relevant items have now been satisfactorily resolved. All differences have been resolved following detailed enquiry. In addition, some payments of cash calls related to previous years were omitted from JV operators' templates. We have reviewed these differences to determine the total funding to the JV operators.

In order to reconcile the NNPC/CBN Cash Call (monetized) Account

- we validated Cash Call funding from JP Morgan NNPC Crude Oil and Gas Revenue Account into JP Morgan CBN/NNPC JV Cash Call Payment Account. We investigated the differences and cleared them with NAPIMS
- we validated payments to JV Operator from the JP Morgan JV Cash Call Payment Account for dollars payments to JV Operator and monetization payments into CBN JV Cash Call payments Account. Discrepancies found were cleared with NAPIMS.

A control Account was prepared for each Bank Account and reconciled to total payment each year

11 GAS SALES PROCEEDS

Proceeds of sales of gas were as follows:

	1999	2000	2001	2002	2003	2004
	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
Sales to NLNG (note 1)	5367	75561	104239	96960	155602	196113
	N 000	N 000	N 000	N 000	N 000	N 000
Sales to NGC (note 2)	16445	35013	3845	214374	169321	364124

Notes:

- 1 Sales of gas by Joint Ventures to NLNG is paid in US\$ to BIS /JP Morgan CBN account. The amounts were directly to the Federation account.
- 2 Sales of gas to NGC are paid in Naira to the CBN NNPC oil and gas Naira account. These amounts are already included in the proceeds of sales of domestic crude.

12 PAYMENTS TO NDDC

The declared payments to Niger Delta Development Corporation were the following:

ENTITY	YEARS									
	2001		2002		2003		2004		TOTAL	
	N 000	US\$ 000	N 000	US\$ 000	N 000	US\$ 000	N 000	US\$ 000	N 000	US\$ 000
SPDC	2,316,252	43,121	2,665,210	38,669	2,970,867	38,265	3,487,207	43,304	11,439,536	163,359
MOBIL	316,030	7,471	383,651	10,640	404,551	13,304	494,656	9,465	1,598,888	40,880
CNL	373,515	7,825	390,120	6,540	384,687	7,941	411,211	6,457	1,559,533	28,763
COCNL	25,284	413	10,070	492	39,081	737	6,167	84	80,602	1,726
TOPCON	19,634	362	10,070	492	39,081	737	6,167	84	74,952	1,675
ELF	553,233	8,181	588,869	8,245	714,797	13,185	1,272,813	32,968	3,129,712	62,579
NAOC	148,742	2,217	209,247	2,827	232,715	2,830	362,322	5,113	953,026	12,987
NAE	0	0	0	0	0	0	65,007	6,814	65,007	6,814
AENR	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP	NTP
EXPRESS		535		572		703		519		2,329
ADDAX	NIL	320	NIL	200	NIL	675	NIL	26,124	27,319	27,319
POOCNL	21,800	61	33,504	76	18,195	420	127,378	1,701	200,877	2,258
DUBRI	2,933	0	0	0	0	0	0	0	2,933	0
CON OIL	0	320	0	59	0	600	0	600	0	1,579
OCEAN E.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
POCL	83,335	1,983	135,343	2,673	165,111	2,807	173,438	2,505	557,227	9,968
AMNI	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
MONI PULO	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
STATOIL	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NPDC	160,511	0	71,201	0	58,724	0	0	0	290,436	0
TOTAL	4,021,269	72,809	4,497,285	71,485	5,027,809	82,204	6,406,366	135,738	19,980,048	362,236

These figures were populated from templates submitted by the various companies and have not been validated.

NTP = No Template

N/A = Not Applicable

We have not sought to confirm these amounts with NDDC.

13 SIGNATURE BONUS ON LICENSING

The signature bonus data was obtained from DPR.

				INVENTORY OF NIGERIAN LICENSING ACTIVITY 1999-2004						
Bonus in USD \$				Total	1999	2000	2001	2002	2003	2004
				USD*000	USD*000	USD*000	USD*000	USD*000	USD*000	USD*000
Name of Payer	Type of lease	Lease Area	Expiration Date							
Chevron Ultra Deep Nig Ltd	OPL 250	2441.237	2011	75,000			75,000			
Elf Petroleum Nig Ltd	OPL 221	2451	2013	5,000					5,000	
Emerald Energy Resources Ltd	OPL 229	1356.663	2006	20,000			20,000			
Esso E & P Ltd	OPL 214	2585.878	2011	22,000			22,000			
Heritage	OPL 247	1224	2014	20,000						20,000
Oil and Gas Nig Ltd	OPL 249	2440.21	2013	20,000					20,000	
Oranto Petroleum Ltd	OPL 320	1789.443	2012	7,000				7,000		
Ocean Energy Nig Ltd	OPL 242	2283	2014	12,800						
Petroleo Brasileiro Nig Ltd	OPL 324	1905.983	2011	20,000			20,000			12,800
Philips Exploration Nig Ltd	OPL 318	2530	2012	30,000				30,000		
Shell Nig Ultra Deep Ltd	OPL 245	1958.31	2013	210,000					210,000	
Zebra Energy Ltd	OPL 248	2447.61	2014	20,000						20,000
South Atlantic Pet. Ltd	OPL 246	2250	2009	25,000	25,000					
				486,800	25,000	0	137,000	37,000	235,000	52,800

The Department of Petroleum Resources has recently provided additional information on Signature Bonus transactions. The audit review of Signature bonus payments continues. A supplementary report will be issued.

14 RESERVES ADDITIONAL BONUS

The RAB information has been obtained from the reconciliation of company and CBN templates for PPT.

Reserves additional bonus payments to CBN identified in our audit were the following:

	1999	2000	2001	2002	2003	2004
Shell	52					170
Chevron	10	*				
COCNL						
Mobil						104
Total	62					274

* Chevron stated that an RAB repayment of US\$ 52.6 million was offset against cash call transactions in the year 2000. Reconciliation work on cash calls indicates that this did not occur.

15 CAPITAL FINANCING - NLNG

NLNG operates two types of facilities viz.

- Shareholder Loan
- Third Party Loan

For the purpose of this audit, shareholders loan is considered.

Shareholder's loan represents partners contributions towards the funding of train 1-3. The contribution was made in accordance with each shareholders participatory interest in NLNG as set out below.

- NNPC 49%
- SPDC 25.6%
- Total 15%
- Agip 10.4%

Details of the shareholders loan are set out in the tables below

Description	1999				
	TOTAL	SHARE HOLDERS SHARE			
		NNPC	SPDC	TOTAL	NAOC
USD'000	USD'000	USD'000	USD'000	USD'000	
Balance Brought Forward	1,923,313	942,423	492,368	288,497	200,025
New Loan	471,968	231,264	120,824	70,795	49,085
Accrued Interest	578,960	283,690	148,214	86,844	60,212
Repayment	0	0	0	0	0
Balance Carried Forward	2,974,241	1,457,378	761,406	446,136	309,321

Description	2000				
	TOTAL	SHARE HOLDERS SHARE			
		NNPC	SPDC	TOTAL	NAOC
USD'000	USD'000	USD'000	USD'000	USD'000	
Balance Brought Forward	2,974,241	1,457,378	761,406	446,136	309,321
New Loan	399,916	195,959	102,378	59,987	41,591
Accrued Interest	303,928	148,925	77,806	45,589	31,609
Repayment	(431,308)	(211,341)	(110,415)	(64,696)	(44,856)
Balance Carried Forward	3,246,777	1,590,921	831,175	487,017	337,665

Description	2001				
	TOTAL	SHARE HOLDERS SHARE			
		NNPC	SPDC	TOTAL	NAOC
USD'000	USD'000	USD'000	USD'000	USD'000	
Balance Brought Forward	3,246,777	1,590,921	831,175	487,017	337,665
New Loan	290,950	142,566	74,483	43,643	30,259
Accrued Interest	254,547	124,728	65,164	38,182	26,473
Repayment	(657,300)	(322,077)	(168,269)	(98,595)	(68,359)
Balance Carried Forward	3,134,974	1,536,137	802,553	470,246	326,037

Description	2002				
	TOTAL	SHARE HOLDERS SHARE			
		NNPC	SPDC	TOTAL	NAOC
USD'000	USD'000	USD'000	USD'000	USD'000	
Balance Brought Forward	3,134,974	1,536,137	802,553	470,246	326,037
New Loan	740,044	362,622	189,451	111,007	76,965
Accrued Interest	165,402	81,047	42,343	24,810	17,202
Repayment	(462,372)	(226,562)	(118,367)	(69,356)	(48,087)
Balance Carried Forward	3,578,048	1,753,244	915,980	536,707	372,117

Description	2003				
	TOTAL	SHARE HOLDERS SHARE			
		NNPC	SPDC	TOTAL	NAOC
USD'000	USD'000	USD'000	USD'000	USD'000	
Balance Brought Forward	3,578,048	1,753,244	915,980	536,707	372,117
New Loan	113,617	55,672	29,086	17,043	11,816
Accrued Interest	155,585	76,237	39,830	23,338	16,181
Repayment	(890,350)	(436,272)	(227,930)	(133,553)	(92,596)
Balance Carried Forward	2,956,900	1,448,881	756,966	443,535	307,518

Description	2004				
	TOTAL	SHARE HOLDERS SHARE			
		NNPC	SPDC	TOTAL	NAOC
USD'000	USD'000	USD'000	USD'000	USD'000	
Balance Brought Forward	2,956,900	1,448,881	756,966	443,535	307,518
New Loan	0	0	0	0	0
Accrued Interest	143,344	70,239	36,696	21,502	14,908
Repayment	(571,623)	(280,095)	(146,335)	(85,743)	(59,449)
Balance Carried Forward	2,528,621	1,239,024	647,327	379,293	262,977

16 COMPANY REPRESENTATIONS

Companies were requested to confirm, in the form of a letter, certain issues in relation to the financial audit. Copies of letters received are set out in an Appendix. The response to the request is summarised as follows:

Name of company	Representation letter received?	Date of letter
Addax Petroleum	No	
Agip Energy & Natural Resources Limited	*	
AMNI International	No	
Atlas Petroleum	No	
Chevron Nigeria Ltd	Yes	3 rd April 2006
Chevron Oil Company of Nigeria	*	
Chevron Texaco	*	
Conoil Producing Ltd	No	
Continental Oil & Gas	No	
Dubri Oil Company	No	
Elf Petroleum	Yes	6 th April 2006
Express Petroleum	No	
Mobil Producing Nigeria Limited	Yes	12 th April 2006
Moni Pulo Petroleum Development Company	No	
Nigerian Agip Exploration	*	
Nigerian Agip Oil Company	Yes	12 th April 2006
Nigerian LNG Ltd	No	
Panocean	Yes	27 th March 2006
Phillips Oil Company	Yes	18 th April 2006
Shell Petroleum Development Company	No	
Texaco Overseas	*	

* No letter specifically received in respect of this company, but a letter was provided by another group company.

The content of the letter refers to information provided by the company up to the date thereof.

[end sheet]