Nigeria Extractive Industries Transparency Initiative (NEITI)

2006 – 2008 FINANCIAL REPORT

An Independent Report Assessing and Reconciling Financial Flows within Nigeria's Oil Industry and Gas Industry

Issued
July 2011

Based on information received
to 31st May 2011

Presented to NEITI
by
Hart Nurse Limited
in association with
S.S. Afemikhe & Co, Chartered Accountants

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

Nigeria Extractive Industries Transparency Initiative (NEITI)
2006-2008 Report

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ACRONYMS USED

AFS	Audited Financial Statements		NEPA	Nigerian Electric Power Authority (now the Power Holding Company of Nigeria – PHCN)
AGO	Diesel oil		NGC	Nigerian Gas Company
API	American Petroleum Institute – but more commonly a measure of the 'heaviness' of crude oil		NGL	Natural Gas Liquids
BPD	Barrels per day		NLNG	Nigeria LNG Ltd
BSW	Base Sediments & Water – the amount of contaminants in a crude stream		NNPC	Nigerian National Petroleum Corporation
BTU	British thermal unit		NPDC	Nigerian Petroleum Development Company (a subsidiary of NNPC)
CBN	Central Bank of Nigeria		NSWG	National Stakeholders Working Group
CIT	Companies Income Tax		OAGF	Office of the Accountant General of the Federation
COMD	Crude Oil Marketing Division of NNPC		OML	Oil Mining Lease
DPK	Dual Purpose Kerosene (calculations include ATK – Aviation Kerosene)		OPL	Oil Prospecting Licence
DPR	Department of Petroleum Resources		OPTS	Oil Producers' Trade Group (of the Lagos Chamber of Commerce)
ECOWAS	Economic Community Of West African States		OSP	Official Selling Price
FAAC	Federation Accounts Allocation Committee		PAYE	Pay As You Earn
FCT	Federal Capital Territory		PHCN	Power Holding Company Nigeria
FGN	Federal Government of Nigeria		PHRC	Port Harcourt Refinering Compny
FIRS	Federal Inland Revenue Service		PIB	Petroleum Industry Bill
FMF	Federal Ministry of Finance		PMS	Petroleum motor spirit (petrol)
GED F&A	Group Executive Director Finance & Administration (of NNPC)		PPMC	Pipeline and Products Marketing Co Ltd
GGM	Group General Manager (of NNPC)		PPT	Petroleum Profits Tax
GMD	Group Managing Director (of NNPC)		PSC	Production Sharing Contract
GSA	Gas Sales Agreement		PTDF	Petroleum Training Development Fund
IOC	International Oil Company		RMAFC	Revenue, Mobilisation, Allocation and Fiscal Commission
IPP	Independent Power Producer			
KRPC	Kaduna Refinery and Petrochemical Company		SWIFT	Society for Worldwide Interbank Financial Transactions
LNG	Liquefied Natural Gas		TMP	Trial Marketing Period
LPFO	Low pour fuel oil		USD	US dollar
mmscfd	Millions of cubic feet per day		VAT	Value Added Tax
MMBTU	BTU millions		WAGP	West African Gas Pipeline
NAPIMS	National Petroleum Investment Management Services		WHT	Withholding Tax
NDDC	Niger Delta Development Commission		WRPC	Warri Refinery Petrochemicals Company

Table of exchange rates used

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

These are the average rates for the year, as quoted by Oanda
http://www.oanda.com/currency/historical-rates

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

See following page

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19th July 2011

Hart Nurse Limited in association with SS Afemikhe & Co, (Chartered Accountants) were appointed, pursuant to the NEITI Act, by the National Stakeholder Working Group of the Nigeria Extractive Industries Transparency Initiative to undertake the NEITI Reconciliation for Nigeria for the years 2006, 2007 and 2008 and to prepare a Report on this Reconciliation ("Engagement").
The Engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures performed were those set out in the Terms of Reference appended to this report, except where stated otherwise in this report including its appendices.

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

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

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

Hart Nurse Limited
Chartered Accountants

SS Afemikhe & Co
(Chartered Accountants)

2 INTRODUCTION

2.1 Introduction

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

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

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

2.2 Structure of the report

The report comprises:

Reconciliation report
Appendices (bound separately)

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

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

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

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

2.3 Scope of work

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

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

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

2.4 Participants in the Reconciliation

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

2.4.1 Government

The government reporting entities are:

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

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

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

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

2.4.2 Companies

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

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

2.5 Financial Flows examined

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

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

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

2.6 Reconciliation of Financial Flows to Physical Flows

Volumes for crude oil, gas and downstream products are contained in a separate report and Appendix N to this report sets out further information on non financial flows. Reconciliation between revenues in this report and physical volumes has not been completed at the time of this report (19th July 2011). In particular, the reconciliation of physical flows relating to oil sales by NNPC in connection with settlement of PPT and royalty for PSCs with the associated financial flows has not been fully completed. The physical flows relating to such PPT and royalties total some 85m barrels over the period.

2.7 Data Sources

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

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

Government information for PPT, royalty, signature bonuses, withholding taxes[1] and Company Income Tax is taken from templates submitted by CBN.

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

PAYE, VAT, withholding tax[2] and education tax information has been provided to us by companies and does not require confirmation with receiving government departments as part of this exercise.

2.7.1 International Auditing Standards - companies

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

Copies of audited accounts covering the calendar years 2006 – 2008 were requested from all reporting companies. A listing of the accounts provided is included as Appendix 0. All financial statements submitted to us had been audited without qualification. Nigerian Chartered Accountants are required to audit in accordance with Nigerian auditing standards; we understand that these are similar to International Auditing Standards.

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

2.7.2 International Auditing Standards – government

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

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

[1] paid to the Federation
[2] paid to state governments

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

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

2.8 Acknowledgements

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

3 INDUSTRY STRUCTURE

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

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

3.1 Government agencies

The government agencies involved in the areas of

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

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

3.1.1 DPR

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

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

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

3.1.2 FIRS

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

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

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

3.1.3 OAGF

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

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

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

3.1.4 CBN

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

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

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

3.1.5 NDDC

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

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

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

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

3.2 NNPC

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

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

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

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

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

3.2.1 NAPIMS

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

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

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

3.2.2 Operations

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

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

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

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

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

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

3.3 Private Sector

3.3.1 Introduction

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

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

3.3.2 Joint Ventures

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

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

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

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

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

3.3.3 Production Sharing Contracts (PSCs)

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

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

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

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

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

3.3.4 Sole Risk Operations

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

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

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

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

3.3.5 Unitisation Agreements

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

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

3.3.6 Marginal fields

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

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

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

4 SUMMARY OF FINANCIAL FLOWS

4.1 Financial flows to Government

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

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

Volumes for crude oil, gas and downstream products are contained in a separate report. Appendix N to this report sets out further information on non financial flows. Reconciliation between revenues in this report and physical volumes has not been completed at the time of this report (19th July 2011). In particular, the reconciliation of physical flows relating to oil sales by NNPC in connection with settlement of PPT and royalty for PSCs with the associated financial flows has not been fully completed. The physical flows relating to such PPT and royalties total some 85m barrels over the period.

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

	2006	**2007**	**2008**
	US$ m	US$ m	US$ m
Proceeds of crude oil and gas sales	27,176.7	29,200.6	41,217.0
PPT	*10,626.7*	*8,084.7*	*10,961.4*
Royalty	*4,418.5*	*3,895.9*	*5,478.0*
Signature bonuses	*985.1*	*510.0*	*28.2*
Withholding taxes	*450.2*	*676.4*	*775.1*
VAT	*89.6*	*216.2*	*398.1*
PAYE	*0.4*	*0.9*	*1.8*
Education Tax	*430.1*	*522.7*	*698.4*
Company Income Tax	*137.3*	*193.9*	*215.3*
Dividends & loan interest from NLNG	*0.0*	*0.0*	*0.0*
Sub-Total - Federation	**44,314.6**	**43,301.3**	**59,773.3**
Withholding taxes	*5.2*	*32.3*	*62.4*
PAYE	*106.3*	*150.7*	*195.8*
Sub-Total - states	**111.5**	**183.0**	**258.2**
Contributions to NDDC	261.0	297.0	333.0
Total	**44,687.1**	**43,781.3**	**60,364.5**

Table 4.1

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

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

4.1.1 Proceeds of crude oil and gas sales

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

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

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

	2006	2007	2008
	US$ m	US$ m	US$ m
Income from oil designated by COMD as settlement of royalty and PPT	0.0	1,673.9	6,577.8
Other crude oil & gas income	27,176.7	27,526.7	34,639.2
Total proceeds	**27,176.7**	**29,200.6**	**41,217.0**

Table 4.2

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

4.1.2 Cash Calls

Cash calls paid, and cash call funding, during the period were:-

SUMMARY OF CASH CALL PAYMENTS AND FUNDING

	2006	2007	2008	TOTAL
Payments made				
	N bn	N bn	N bn	N bn
Cash Calls paid in Naira	219.4	292.8	302.8	814.9
	$ m	$ m	$ m	$ m
Naira cash calls - dollarised	1,734.7	2,347.4	2,659.9	6,742.0
Cash calls paid in US $	2,347.0	2,606.5	2,458.8	7,412.4
Total paid	**4,081.7**	**4,953.9**	**5,118.7**	**14,154.4**
Funded from				
Crude sales proceeds	4,175.0	4,451.0	4,955.0	13,581.0
Bank of International Settlements	213.2	1,300.0	26.0	1,539.2
Total	**4,388.2**	**5,751.0**	**4,981.0**	**15,120.2**

Table 4.2a

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

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

	Initial templates			Adjustments		Adjusted figures		
	Govt	Company	Difference	Govt	Company	Govt	Company	Unresolved Difference
	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m
2006								
PPT	10,395.2	9,428.2	967.0	231.5	1,198.5	10,626.7	10,626.7	0.0
Royalties	4,399.6	4,350.6	49.0	18.9	107.3	4,418.5	4,457.9	-39.4
Signature bonus	888.1	12.6	875.5	97.0	942.4	985.1	955.0	30.1
Total	**15,682.9**	**13,791.4**	**1,891.5**	**347.4**	**2,248.2**	**16,030.3**	**16,039.6**	**-9.3**
2007								
PPT	7,995.3	8,620.1	-624.7	89.4	-535.4	8,084.7	8,084.7	0.0
Royalties	3,944.9	5,060.5	-1,115.6	-49.0	-1,154.5	3,895.9	3,906.0	-10.1
Signature bonus	700.2	115.3	584.9	-190.2	372.4	510.0	487.7	22.3
Total	**12,640.4**	**13,795.8**	**-1,155.4**	**-149.8**	**-1,317.4**	**12,490.6**	**12,478.4**	**12.2**
2008								
PPT	9,463.9	9,844.2	-380.3	1,497.5	1,117.2	10,961.4	10,961.4	0.0
Royalties	5,207.9	5,217.8	-10.0	270.1	237.1	5,478.0	5,454.9	23.1
Signature bonus	45.3	0.0	45.3	-17.1	28.1	28.2	28.1	0.1
Total	**14,717.1**	**15,062.0**	**-345.0**	**1,750.5**	**1,382.4**	**16,467.6**	**16,444.4**	**23.2**

Table 4.3

4.1.4 Dividends & other income from NLNG

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

4.2 Company payments to the Niger Delta Development Commission

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

	Initial templates			Adjustments		Adjusted figures		
	NDDC US$ m	Company US$ m	Difference US$ m	NDDC US$ m	Company US$ m	NDDC US$ m	Company US$ m	Unresolved Difference US$ m
2006	164.9	161.4	3.5	2.7	0.6	167.6	162.0	5.6
2007	178.5	196.7	-18.2	8.4	-18.1	186.9	178.6	8.3
2008	187.5	159.6	27.9	0.0	27.9	187.5	187.5	0.0
	N m	N m	N m	N m	N m	N m	N m	N m
2006	11,524.2	12,887.1	-1,362.8	22.3	-1700.3	11,546.6	11,186.8	359.8
2007	14,546.7	14,838.6	-291.9	-887.9	-2226.0	13,658.8	12,612.6	1,046.2
2008	18,292.4	15,712.9	2,579.6	-248.7	434.8	18,043.7	16,147.7	1,896.0

Table 4.4

4.3 Non sector specific flows from company covered entities

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

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

	Flows to Federation			Flows to states	
	In US $	Other currencies	In Naira	In US $	In Naira
	US $ 000	US $ 000	N 000	US $ 000	N 000
2006					
Withholding taxes	402,574	3,623	5,469,445	2,191	370,526
VAT	87,551	88	243,027	0	0
PAYE	0	0	52,282	0	13,202,973
Education Tax	430,092	0	0	0	0
Company Income Tax	137,326	0	0	0	0
	1,057,543	3,711	5,764,754	2,191	13,573,499
2007					
Withholding taxes	620,520	2,667	6,509,747	28,692	439,353
VAT	188,260	91	3,414,143	0	0
PAYE	0	0	106,087	0	18,441,433
Education Tax	522,687	0	0	0	0
Company Income Tax	193,879	0	0	0	0
	1,525,346	2,758	10,029,977	28,692	18,880,786
2008					
Withholding taxes	697,327	1,436	8,943,953	58,312	480,425
VAT	283,329	62	13,434,409	0	0
PAYE	0	0	215,032	0	22,932,198
Education Tax	698,376	0	0	0	0
Company Income Tax	215,263	0	0	0	0
	1,894,295	1,498	22,593,394	58,312	23,412,623

Table 4.5

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

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

5 PROCEEDS OF SALE OF CRUDE OIL AND GAS

5.1 Introduction

5.1.1 Crude Oil

5.1.1.1 Entitlement

The Federation is entitled to oil:-

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

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

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

5.1.1.2 Marketing

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

5.1.1.3 Pricing

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

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

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

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

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

5.1.1.4 Credit period allowed

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

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

5.1.1.5 Proceeds of sale

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

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

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

5.1.1.6 Determination of entitlement

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

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

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

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

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

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

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

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

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

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

We comment further on this area in our recommendations.

5.1.1.7 Data and reconciliation issues

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

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

5.1.2 Gas

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

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

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

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

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

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

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

5.2 Federation Income

5.2.1 Value of oil lifted and gas sold

The proceeds received by the Federation in respect of sales of oil and gas and other miscellaneous lodgements during the period were:-

	2006	2007	2008
	$ m	$ m	$ m
Crude sales proceeds	25,671.5	28,144.9	39,853.1
Gas / feedstock proceeds	780.7	816.8	1,270.6
Other miscellaneous lodgements	724.5	238.9	93.2
Total	**27,176.7**	**29,200.6**	**41,216.9**

Table 5.5

Other miscellaneous lodgements include proceeds for the Federation from oil sold by PSCs during their trial marketing period.

6 DISAGGREGATED FINANCIAL FLOWS TO THE FEDERATION

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

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

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

6.1 Petroleum Profits Tax

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

	Initial templates			Adjustments		Adjusted figures		
PPT Summary	Govt US$ 000	Company US$ 000	Difference US$ 000	Govt US$ 000	Company US$ 000	Govt US$ 000	Company US$ 000	Unresolved Difference US$ 000
2006								
Total	10,395,167	9,428,208	966,959	231,564	1,198,524	10,626,731	10,626,732	-1
2007								
Total	7,995,316	8,620,055	-624,739	89,388	-535,351	8,084,704	8,084,704	0
2008								
Total	9,463,900	9,844,206	-380,306	1,497,536	1,117,230	10,961,436	10,961,436	0

Table 6.1

All initial differences were satisfactorily resolved and verified.

6.2 Royalty

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

	Initial templates			Adjustments		Adjusted figures		
Royalty Summary	Govt US$ 000	Company US$ 000	Difference US$ 000	Govt US$ 000	Company US$ 000	Govt US$ 000	Company US$ 000	Unresolved Difference US$ 000
2006								
Total	4,399,610	4,350,570	49,040	18,919	107,359	4,418,529	4,457,929	-39,400
2007								
Total	3,944,914	5,060,475	-1,115,561	-49,013	-1,154,507	3,895,901	3,905,968	-10,067
2008								
Total	5,207,856	5,217,831	-9,975	270,175	237,023	5,478,031	5,454,854	23,177

Table 6.3

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

Royalty	Confirmed only to Coy's Records	Confirmed only to CBN's Bank Statement	Comments
2006 - Royalty			
Company	**Amount** USD'000	**Amount** USD'000	
Atlas Summit	(1,408)	(404)	Payment reported by coy but not confirmed to CBN statement. However, the company provided treasury receipt issued by DPR
Express	(5,957)		Payment confirmed only to copy of swift advise issued by Coy's bankers but not yet traced to CBN bank statement
Conoco Phillips	(7,775)		Payments reported by coy but not confirmed to CBN statement. The company provided treasury receipt issued by DPR as well as the coy's bank statements;
Conoil	(7,000)		Payment confirmed only to company's bank statement and not in CBN bank statement
Moni Pulo		(2,583)	Differences between amounts reported by company and by CBN
NDPR	(212)		This payment was confirmed only to company's bank statement. CBN claimed that the payment did not hit CBN Bank account
NPDC	(19,852)		Payments reported by NPDC but not found in CBN
TEPNG	(183)		Payment reported by CBN not confirmed by TEPNG. However, during the reconciliation meeting, it was agreed that the payment should be taken off CBN as it may have been introduced in CBN template in error
2007 - Royalty			
Atlas Summit	(12,457)	(5,793)	Payments reported by company not confirmed to CBN statement. The company provided treasury receipt issued by DPR to substantiate the payment. Also, payments reported by CBN not reported by the company
Conoco Phillips	(8,544)	(7,952)	Unreconciled differences
Express	(2,615)		Payment confirmed to the SWIFT advice from Coy's bankers but not in CBN bank statement
NDPR	(196)		Payment confirmed to company's bank statement. CBN claimed that the payment did not reach CBN Bank account
2008 - Royalty			
AMNI	(3,500)		Payment reported by coy not confirmed by CBN. The company provided swift advise from their bankers to substantiate the payment
Atlas Summit	(9,242)		Payment reported by company not confirmed by CBN. The company provided treasury receipt issued by DPR to substantiate the payment
NPDC		(36,377)	Payments reported by CBN but not by company and not found in CBN bank statement
Platform	(458)		Payment reported by company not confirmed by CBN. The company provided trace document from its bankers to substantiate the payment

Table 6.4

6.3 Signature Bonus

6.3.1 Introduction

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

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

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

Further details on signature bonuses are contained in Appendix E.

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

2005 Signature Bonus Payments Confirmed by Companies, OAGF & DPR

Name of Companies	2005		
	Company	OAGF/DPR	Unresolved
	USD'000	USD'000	USD'000
AMNI	1,030	1,030	
Elf	37,600	37,600	
Monipulo	26,500	26,500	
New Nigeria Development Company	1,020	1,020	
OANDO	25,500	25,500	
Orient Petroleum	1,000	1,000	
SNEPCO	10,000	10,000	
Gas Trans and Power Limited	370	370	
Domon Oil Services	1,750	1,750	
NPDC	22,925	22,925	
Sub Total	**127,695**	**127,695**	**-**

2005 Signature Bonus Payment Confirmed Only by OAGF & DPR

Name of Companies	2005		
	Company	OAGF/DPR	Unresolved
	USD'000	USD'000	USD'000
Charlton Oil & Gas		125	125
Energia Ltd.		150	150
Midwestern Oil&Gas		150	150
Technical Sys Engr.Ltd		21,000	21,000
Ascon Oil Exp. Co Ltd.		18	18
Boston Energy Res. Ltd.		1,000	1,000
Sub Total		**22,443**	22,443
2005 Total	**127,695**	**150,138**	**22,443**

2006 Signature Bonus Payments Confirmed by Companies, OAGF & DPR

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

2006 Signature Bonus Payment Confirmed Only by OAGF & DPR

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

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

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

2007 Signature Bonus Payments Confirmed by Companies, OAGF & DPR

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

2007 Signature Bonus Payment Confirmed Only by OAGF & DPR

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

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

2008 Signature Bonus Payments Confirmed by Companies, OAGF & DPR

Name of Companies	2008		
	Company	OAGF/DPR	Unresolved
	USD'000	USD'000	USD'000
Express	10,000	10,000	
Optimum Petroleum	10,000	10,000	
Oil World	10,051	10,051	
Sub total	**30,051**	**30,051**	-

2008 Signature Bonus Payment Confirmed Only by OAGF & DPR

Name of Companies	2008		
	Company	OAGF/DPR	Unresolved
	USD'000	USD'000	USD'000
AFREN ENERGY SERV./ORIENTAL		150,000	150,000
2008 Total	30,051	180,051	150,000

6.3.2 Regime for managing signature bonuses

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

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

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

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

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

For the 2006 round, the terms of payment are:

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

For the 2007 round, the terms of payment are:

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

6.4 NDDC contributions

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

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

	Initial templates			Adjustments		Adjusted figures		
	Govt	Company	Difference	Govt	Company	Govt	Company	Unresolved Difference
	US $ 000	US $ 000	US $ 000	US $ 000	US $ 000	US $ 000	US $ 000	US $ 000
2006	164,897	161,393	3,503	2,725	603	167,622	161,996	5,626
2007	178,454	196,694	-18,240	8,412	-18,098	186,866	178,596	8,270
2008	187,510	159,612	27,898	1	27,899	187,511	187,511	0

	Initial templates			Adjustments		Adjusted figures		
	Govt	Company	Difference	Govt	Company	Govt	Company	Unresolved Difference
	N 000	N 000	N 000	N 000	N 000	N 000	N 000	N 000
2006	11,524,222	12,887,051	-1,362,828	22,332	-1,700,260	11,546,554	11,186,791	359,763
2007	14,546,746	14,838,634	-291,888	-887,898	-2,226,021	13,658,848	12,612,613	1,046,235
2008	18,292,447	15,712,895	2,579,552	-248,746	434,802	18,043,701	16,147,697	1,896,004

Table 6.7

Unresolved differences remain for the following companies:-

NDDC $

Company	Unresolved differences US$ 000
2006	
Chevron	4,883
NAE	756
Mobil	-13
Total	**5,626**
2007	
NAE	-2,241
TEPNG	10,511
Total	**8,270**
2008	0
Total	**0**

Table 6.8

NDDC Naira

Company	Unresolved differences N 000
2006	
Panocean	286,435
AENR	73,328
Total	**359,763**
2007	
NPDC	48,473
SPDC	997,762
Total	**1,046,235**
2008	
Panocean	52,079
NPDC	1,206,987
SPDC	636,938
Total	**1,896,004**

Table 6.9

7 CASH CALLS

7.1 Introduction

According to the Joint Operating Agreement (JOA), Cash Calls are defined as "the amount in all currencies which the Operator estimates a Party must pay into the Joint Account in any given month to meet such Party's Participating Interest Share of the cost and expenditures to be paid for the Joint Account in such month, after adjusting for balances or deficits in such bank account as well as any credit receipts anticipated during such month…"

Cash calls to all Joint Ventures (JV) were included. The JVs are:

- NNPC/SPDC/EPNL/NAOC JV
- NNPC/MPNU JV
- NNPC/CNL JV
- NNPC/NAOC POCNL JV
- NNPC/EPNL JV
- NNPC/PANOCEAN JV

7.2 Details of Work Done

The reconciliation work carried out includes the following.

- Visiting the operators' companies including NAPIMS to reconcile cash call received by these companies against cash call paid by NNPC NAPIMS.
- Obtaining NNPC NAPIMS details of Cash Call payments and agreed it to operators templates
- Confirming that
  - monthly US$ and Naira Cash Calls due were duly communicated to CBN and JP Morgan Chase
  - CBN/NNPC JP Morgan Cash Call Payment Account was credited with the US$ and dollar equivalent of Naira Cash Call.
  - Naira Cash Call monetized through JP Morgan Cash Call Payment Account has been duly received into CBN/NNPC Cash Call (Naira) Account.
- Reconciling JP Morgan CBN/NNPC Cash Call Payment (Dollar) Account and CBN/NNPC Cash Call (Naira) Account.
- Agreeing sums applied for cash call in JP Morgan NNPC/CBN Cash Call Payment Account to JP Morgan CBN/NNPC Crude Oil and Gas Account.

7.3 Summary of Cash Calls Paid

Cash Calls paid during the period were:-

SUMMARY OF CASH CALLS PAID BY NNPC TO THE JVs IN DOLLARS				
	2006	**2007**	**2008**	**TOTAL**
	$ 000	**$ 000**	**$ 000**	**$ 000**
NNPC/SPDC/TEPNG/NAOC	888,182	896,207	907,904	2,692,293
NNPC/EXXONMOBIL	634,376	470,254	420,666	1,525,296
NNPC/CHEVRON	344,832	397,818	457,470	1,200,120
NNPC/TEPNG	145,042	475,563	262,940	883,545
NNPC/NAOC/PHILLIPS	287,301	334,529	311,463	933,293
NNPC/POOC	45,491	31,673	87,272	164,436
NNPC-NPDC/SPDC		349	1,203	1,552
NPDC/CHEVRON	1,807	148	9,898	11,853
	2,347,031	**2,606,541**	**2,458,816**	**7,412,388**

Table 7.1

SUMMARY OF CASH CALLS PAID BY NNPC TO THE JVs IN NAIRA				
	2006	**2007**	**2008**	**TOTAL**
	N 000	**N 000**	**N 000**	**N 000**
NNPC/SPDC/TEPNG/NAOC	93,433,685	113,081,969	139,753,048	346,268,702
NNPC/EXXONMOBIL	35,161,022	52,300,188	62,823,169	150,284,379
NNPC/CHEVRON	39,765,715	41,889,207	35,442,586	117,097,508
NNPC/TEPNG	16,734,149	37,742,244	21,657,309	76,133,702
NNPC/NAOC/PHILLIPS	30,807,587	42,191,650	33,541,362	106,540,599
NNPC/POOC	3,301,230	4,986,913	8,522,682	16,810,825
NNPC-NPDC/SPDC		273,306	569,584	842,890
NPDC/CHEVRON	207,670	304,655	457,277	969,602
	219,411,058	**292,770,132**	**302,767,017**	**814,948,207**

Table 7.2

8 DIVIDENDS & OTHER INCOME FROM NLNG

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

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

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

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

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

Table 7.1

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

9 RECOMMENDATIONS

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

9.1.1 Timeliness of NEITI reconciliation

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

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

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

9.1.2 Engagement of companies with NEITI

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

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

9.1.3 NEITI Engagement with DPR

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

9.1.4 Signature Bonus

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

9.1.5 Infrastructure benefit flows

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

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

a) NEITI should consider whether / how to capture these benefit flows in routine EITI reporting;
b) It is difficult to see how the provision of infrastructure to particular states – a sort of payment in kind of the signature bonus – benefits all elements of the Federation. For example is there an arrangement for calculating an offset?
c) It is unclear who is responsible for enforcing the promise to construct infrastructure.

9.1.6 NNPC conflict of interest

NNPC should not both (a) buy Federation crude oil and (b) sell the same crude on behalf of the Federation. NNPC obtains a financial benefit by delaying sales documentation until it can choose an advantageous pricing option and make additional profit with the benefit of hindsight. This is contrary to the spirit of the decision taken in 2002 that NNPC should pay the market price for domestic crude. In some instances, the valuation prices are not translated to the lifting profiles from where the receivable by the Federation for crude sold to NNPC is updated, leading to prices paid by NNPC being lower than those charged to other off-takers.

Restructuring of NNPC should ensure arm's length dealing between the Federation and NNPC in relation to the sale of crude.

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

9.1.7 PSC management issues

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

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

9.1.8 Federation crude oil sales ledger

Export crude is marketed on behalf of the Federation by NNPC Crude Oil Marketing Division (COMD) and Domestic Crude is sold by the Federation to NNPC. The accounting system used by NNPC for equity crude is still largely not automated with consequent reconciliation and fund sweeping interface difficulties. As recommended in previous years, COMD should maintain a timely sales ledger account for the sale of Federation crude oil.
This is especially important in regard to domestic crude where NNPC fails to make timely payment and the Federation lacks the records to understand how much is payable by NNPC at any time. NNPC COMD lacks a system to manage and follow up unpaid debts for crude sold, particularly to NNPC itself.

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

9.1.9 Sale of tax and royalty oil

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

NNPC, the Contractors, FIRS and DPR hold monthly reconciliation meetings. There is a need to support the results generated by these meetings by strengthening the interface accounting in the entire system from PPT and Royalty liability through volume lifted, the proceeds obtained from such liftings and how they tie in and extinguish the individual monthly liabilities.

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

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

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

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