in association with

S.S. Afemikhe & Co, Chartered Accountants

Nigeria Extractive Industries Transparency Initiative (NEITI)

FINANCIAL AUDIT 2005

REPORT ON THE FINANCIAL AUDIT 2005

Issued

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Presented to the National Stakeholder Working Group

by
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in association with
S.S. Afemikhe & Co, Chartered Accountants

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

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PREFACE

This is the [draft] final report under The Nigeria Extractive Industries Transparency Initiative (NEITI) financial audit for the year 2005. This report presents the results of work done under the financial audit in relation to both (a) flows between Covered Entities 2005 and (b) validation of the amounts transacted.

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 Audit
Volume 2	Summary of recommended actions
Appendices	

This report is to be read in conjunction with the report on the Physical audit which is presented separately.

An Executive Summary, bringing together the key findings of the Financial and Physical reports has also been prepared.

The report reflects data and information received by Hart Group from covered entities up to 31st August 2008. Comments and adjustments received after that date have been taken into account where feasible but not all could be accommodated.

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

[draft]

The National Stakeholder Working Group of the Nigeria Extractive Industries Transparency Initiative
State House
Abuja

[date]

Independent Report Assessing and Reconciling Financial Flows within Nigeria's Oil Industry and Gas Industry (2005).

We have performed the procedures agreed with you, in accordance with our engagement terms dated 15th March 2005.

The work was commissioned for the purposes of the Nigeria Extractive Industries Transparency Initiative.

Our 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 report our findings in the accompanying 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. 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.

Yours faithfully,

Hart Nurse Ltd
Chartered Accountants

SS Afemikhe & Co (Chartered Accountants)

2 INTRODUCTION

2.1 Introduction

The general purposes of this report are:

1. to summarise and analyse the financial flows between the Federation and the Nigerian oil and gas industry in the year 2005,
2. to report the results of work done to confirm the validity of those flows.

In conducting the work, issues came to our attention that could potentially lead to loss of revenue to the Federation. We have prepared recommendations arising from the findings of the foregoing work on financial flows. These are presented separately.

The work was commissioned by the National Stakeholder Working Group of the Nigeria Extractive Industries Transparency Initiative.

2.2 Scope and coverage

This report deals with the year 2005. It addresses:

- Revenue flows in the oil and gas industries, reflecting payment streams made by Covered Entities to any Federation (Federal Government, State Government, or Local Government) entity.
- Calculations that underlie the calculation of payments, fees, taxes and royalties owing by private or public sector companies; and
- Investment flows involving Government payments by way of Joint Venture investment, loan (including loan repayment), and equity investment transactions in Covered Entities.

The entities that are Covered Entities for the purpose of this report are all companies which are or were:

- Involved in producing Nigerian oil and gas;
- Party to an agreement to produce Nigerian oil and gas, and in which production did in fact commence during calendar year 2005;
- Party to an agreement to explore for oil and gas within Nigeria for which any payment (such as acreage rental, signature bonus, etc.) was due for payment during calendar year 2005;
- Party to a grouping which was awarded a block in a licensing round in 2005, or to a grouping that was otherwise awarded a license**;** or
- Party to cross-border unitization agreements where there was production from Nigerian resources in calendar year 2005.

The listing of such company covered entities constitutes Annex R2 of this report.

To allow us to analyse the financial flows between international companies and local companies, we requested information from company covered entities as to their beneficial ownership. Whereas several companies responded to the effect that they were internationally owned, many companies refused to provide this information. Accordingly, where financial tables indicate an analysis between the international and local companies, we have analysed it to the best of our knowledge and belief but not necessarily on the basis of information provided by the covered entities.

The definition of Covered Entities additionally includes the following parts of Government:

- The Office of the Accountant General of the Federation;
- The Revenue Mobilization Commission;

- The Central Bank of Nigeria;
- The Department of Petroleum Resources;
- The Federal Inland Revenue Service;
- State Governments and FCT receiving payments of VAT and withholding tax from the oil and gas sector;
- Niger Delta Development Commission; and
- NNPC, including its relevant business units and associated entities.

2.3 Data Sources

The audit was conducted pursuant to defined terms of reference (TOR). These TOR set out a programme of work to be carried out by us, designed to provide information to the NSWG as to the transparency and accuracy of certain financial transactions in the oil and gas sector.

2.3.1 EITI Guidelines and International Auditing Standards

The TOR state that the Audit is to meet the standards of the international EITI guidelines (as of 1st March 2007).

The EITI criteria require that all data disclosed by companies is based on data drawn from accounts which have been audited to international standards. An assumption underlying this Financial Audit was that company financial statements had already been audited in accordance with international auditing standards. We accordingly sought confirmation that company financial statements had been audited in accordance with international auditing standards. We received an affirmative response from KPMG Professional Services in regard to the financial statements of Elf Petroleum Nigeria Limited. No response was received from any other auditor.

It was not within the scope of our work to check that the general ledgers of the companies were in agreement with the audited financial statements. This would be part of the work of company auditors. We did not have access to the working papers of company auditors. We therefore asked companies to request their own external auditors to confirm to us that the template data supplied to us by the companies was consistent with their audited financial statements. Some companies told us that such a request required more time and planning to accede to. We received an affirmative response only from KPMG Professional Services, in relation to Elf Petroleum Nigeria Limited.

Some companies have said that these confirmations are still being prepared.

The TOR work programme did not include a comprehensive audit of the covered entities nor was it primarily concerned with the view given by the financial statements of the covered entities.

2.3.2 Template data

The principal mechanism for collecting the data required for the audit was a set of templates designed by us and approved by the NEITI secretariat. The templates were issued to covered entities, both government and companies. Covered entities returned the templates to us and the templates constituted data sources for the purpose of the work. For some financial flows, we undertook additional validation steps, as detailed in this report and appendices.

Templates were designed to provide linkage between the data declared by covered entities for this audit and the audited financial statements of the entity. The extent to which this linkage was validated is set out in each section of the report and appendices.

3 SUMMARY OF FINANCIAL FLOWS

In this section, we summarise the audit findings in relation to financial flows between the Federation and the oil and gas sector for the year 2005 and set out the principal findings and recommendations of the audit. In each case, additional detail can be found in the body of the report.

3.1 Financial flows to the Federation

The financial flows to the Federation reported by companies and, to the extent described in this report, confirmed by the Central Bank of Nigeria were as follows:

	US$ 000	*NGN millions*
Sale of oil and gas (in US$) net of allocation to Joint Venture cash calls	12,313,852	-
Sale of crude to NNPC (Naira element)	-	706,299
Other income		6,685
Taxation and other sector-specific flows from companies (CBN figure)	15,169,845	-
Non sector-spefcific flows from companies	375,764	-
Dividend from Nigeria LNG, interest and loan repayments	207,282	-
Total flow to the Federation	28,066,743	712,984

The proceeds of sale of Government equity oil and gas have been confirmed. The sale of government equity oil and gas includes oil received in settlement of tax and royalty liabilities of Production Sharing Contracts, with an estimated value of US$ 483 million.

The proceeds of sale of gas and NLNG feedstock was reported by NNPC and confirmed swept to the Federation account but has not been confirmed by the gas purchasers which are mainly not covered entities for the purpose of this audit.

The amounts of Taxation and other flows from companies are confirmed subject to a net difference of US$ 155,702,000, as set forth in greater detail in this report; the amount reported by CBN is greater than the amount reported by companies. It is possible that some of this difference relates to Signature bonus, where there is an opposite difference of US$ 90,025,000 but this has not been confirmed. The nature of the differences and the work done to resolve them is set out in this report and in the respective appendices.

The amount of dividend and other flows from NLNG was reported by NLNG but has not been confirmed by NNPC or CBN.

3.2 Company payments to Niger-Delta Development Commission

Companies declared that they made certain payments to NDDC in 2005 and NDDC declared the amounts received from companies in 2005. These amounts were:

	Reported by companies	Reported by NDDC	Difference
	US$ 000	US$ 000	US$ 000
Payments in US$	119,992	134,931	14,939
	N'000	N'000	N'000
Payments in Naira	8,160,882	8,355,938	195,056

The differences have not been reconciled.

3.3 Federation financial investment in joint venture operations

The Federation invests in Joint Venture operations by means of cash contributions to the financing requirements of each Joint Venture.

The proceeds of oil and gas sales accruing to the Federation were reduced by $4,065 million that was allocated for cash calls and transferred to NNPC. The reconciliation of the account maintained by NNPC has been checked.

The amount paid in 2005 by NNPC totalled US$ 3,469 million. This amount was confirmed by the receiving companies.

3.4 Other financial flows from company covered entities

Companies in the oil and gas sector, like other businesses, make payments of Value Added Tax, Education Tax and Withholding Tax to the Federation. They also pay 'Pay as You Earn' tax deductions and certain Withholding Tax to States that host their operations.

The amounts declared by the companies as having been paid in 2005 were:

	Flows to states		Flows to the Federation	
	US$ 000	N'000	US$ 000	N'000
Withholding tax		8,994,822	177,090	
Pay as you Earn	23,620	22,844,797		
Value Added Tax		227,190	82,405	
Education Tax		3,572,042	116,269	
	23,620	35,638,851	375,764	-

These figures are not confirmed and appear to be incomplete, as several covered entities did not provide the requisite information (Appendix I). We were not requested to confirm these amounts.

4 PROCEEDS OF SALE OF CRUDE OIL AND GAS

4.1 Introduction

Crude oil and gas is allocated to the Federation in accordance with the Federation's equity share in joint venture operations. NNPC also receives crude under Production Sharing contracts in respect not only of profit but also of tax liabilities that it is obligated to settle in relation to the PSC. From this quantity of crude, a part is defined as domestic crude that is purchased by NNPC from the Federation and the remainder is exported for the account of the Federation. Part of the domestic crude might also be exported by NNPC if it is surplus to the requirements of the refineries.

All government crude is marketed on behalf of the Federation by NNPC Crude Oil Marketing Department (COMD).

The quantity of crude attributed to the Federation has been verified as part of the Physical audit. It was concluded that all exported crude had been accounted for, subject to a difference of ?? bbl that remains to be investigated by COMD. Subject to that difference, the audit conclusion is that the Federation received value for all crude to which it was entitled in 2005.

A complete listing of all export crude sales is set out in Appendix A.

4.2 Overview of funds flow

The tables on the following page summarise the transactions and accounts involved in the sale of oil and gas, the receipt of moneys and its subsequent transfer either to the Federation account (highlighted) or its disposition to pay cash calls to the joint venture companies.

All accounts have been reconciled.

Federation accounts receivable $		*US$ millions*
Sale of crude oil and gas		16,834
Less: adjustments (Appendix A, table 9)	-	4
		16,830
Payments received	-	16,026
Balance at 1 January 2005		1,064
Balance receivable at 31 December 2005		1,868

JP Morgan US$ Oil and Gas account		*US$ millions*
Received in $ from lifters etc		16,026
NNPC Domestic crude paid in $		500
Other income		155
Balance at 1 January 2005		1,126
To Cash Calls account	-	4,065
To Federation account	-	12,314
Balance at 31 December 2005		1,428

Federation receivables for Domestic crude		*NGN millions*
Sale of crude oil and gas		1,145,361
Payment to JP Morgan account in $	-	65,928
Payment to Federation Account in Naira	-	706,299
Balance at 1 January 2005		281,691
Balance receivable at 31 December 2005		654,825

NNPC Cash calls account		*US$ millions*
from JP Morgan ac		4,065
Paid to JV companies in $	-	2,196
Paid to JV companies in Naira	-	1,273
Other	-	103
Balance at 1 January 2005		598
Balance at 31 December 2005		1,091

Other oil and gas income	*NGN millions*
Sale of gas and others	6,685

4.3 *Federation accounts receivable (US$)*

4.3.1 Summary of liftings and payments

The account summary has been constructed because NNPC COMD does not maintain its records in such a way as to facilitate its reporting otherwise. Its main ledger, kept in Lagos, is not automatically connected to any debtor's ledger which should be available to support COMD's credit control efforts.

	US$ 000	US$ 000
Balance as at 1st January,2005		**1,064,406**
Sales for the year:		
Export crude oil	16,302,777	
Gas sales	303,166	
NLNG feedstock	227,842	
Crude Lifting, Gas Sales and Feed Stock		16,833,785
Less:		
Credit Notes net of reconciliations		(3,838)
Less:		
Payments received		(16,025,981)
Balance at 31st December, 2005		**1,868,372**

The lack of a strong management information system has led to certain issues being overlooked by NNPC COMD. We have summarised these issues, as follows:

- COMD made a series of unaccounted adjustments that affected previous years (Appendix A, Tables 8 and 9), including:
  - (a) Omitted sales invoices for gas and NLNG feedstock in December 2004 ($ 40.2 million)
  - (b) Omitted debtor invoice for Duke Oil in March 2004 ($ 4.6 million)
  - (c) Lifting for NAE for trial marketing in December 2004 ($ 25.3 million)
  - (d) Reconciliation difference between Duke Oil and Panocean ($ 16.6 million)
  - (e) Downward valuations of cargoes lifted by Cross Oil ($0.9 million), Vitol ($ 0.1 million), Duke Oil ($0.4 million)
  - (f) Overpayment by Jetstream Marketing Ltd / Kyokuto ($1.6 million)
  - (g) Offset of deposits previously paid

  The net amount of these adjustments affected the balance reported in the NEITI 2004 audit as due to the Federation at 31st December 2004 by US$ 1.9 million). The need for such adjustments underlines the accounting control weaknesses that are permitted by the current system.
- Five invoice numbers in the annual sequence were omitted from data provided to us for verification; on investigation, it emerged that these invoices had not been used. This is an unusual situation but our work did not indicate any impropriety.
- We await from COMD details of a cargo lifted on 3rd December 2005 by NPDC for which there was a possible confusion of documentation (Appendix A, Table 3).
- Late payment of certain cargoes

4.3.2 Amounts receivable at 31st December 2005

The amount in respect of sales that remained receivable as at 31st December 2005 was US$ 1,868,372,000. This represented sales not yet due for payment (broadly, those lifted in December 2005, plus sales to Tema (Ghana) for which 90 days credit is allowed):

		US$ 000
December shipments		1,741,641
Ghana liftings, not yet due		126,376
MGG Energy		1,293
Napoil	-	999
Duke Oil		58
Other		3
		1,868,372

Napoil and Duke Oil are NNPC group companies.

MGG Energy was a September 2005 lifting that was not paid until 2006. The explanation of the delay in payment is awaited from COMD.

4.4 Federation accounts receivable (Naira)

4.4.1 Summary of liftings and payments

NNPC pays the Federation market price for domestic crude that is nominally intended to be used in Nigeria's refineries. NNPC has 90 days credit on these purchases from the Federation.

We constructed a summary of the relevant transactions in order to confirm that NNPC had duly made payment for the amounts of crude oil it lifted as domestic crude. Our summary differed from the NNPC records, showing an additional 2 billion Naira payable. The summary is as follows:

	N'000
Balance at 1 January 2005	281,690,363
Add: Purchases of Crude	1,145,361,496
Less Payment to Federation Account	(772,227,305)
Balance at 31 December 2005	654,824,554

Detail of the transactions by month is set out in Appendix A, table 17.

4.4.2 Amounts receivable at 31st December 2005

The amount due to the Federation totalled 654.8 billion Naira, including 331.8 billion overdue amounts. The analysis of the balance is as follows:

	N'000	N'000
Liftings not yet due for payment		
October - December 2005		323,064,360
Unpaid Liftings		
January, 2005		66,386,676
September, 2005		107,330,754
Underpayment of Invoice values		
September, 2004	297,000	
October, 2004	190,000	
February, 2005	20,000,000	
March, 2005	26,000,000	
April, 2005	20,000,000	
May, 2005	30,000,000	
June, 2005	30,000,000	
July, 2005	30,000,000	
		156,487,000
1999-2004 NEITI Audit findings		
Net arreas arising from underpayments of invoice values by FAD from 1999 to 2004	866,012	
Amount in dispute with CBN:		
Shortfall in Jan. 2003 sweeping	80,000	
Shortfall in Nov. 2004 sweeping due to monetisation	285,000	
Shortfall in Nov. 2004 mandate swept in 2005	324,752	
		1,555,764
Amount owed to Federation Account		**654,824,554**

We were informed that some of these amounts were subsequently cleared.

Against this balance, NNPC informed us that they should receive a payment from the Federal Government in respect of the subsidy of refined product prices. NNPC calculated this subsidy claim to be 354 billion Naira, as at 31st December 2005 a figure they support with an independent accountant's report. Despite protracted correspondence, NNPC has not, to date, received any such subsidy. The delay in settling amounts due to the Federation is an alternative, non-transparent, method of providing a financing subsidy that should be avoided.

4.5 Use of Domestic Crude

The physical destination of crude that was designated for domestic use is set out in the report on the Physical audit.

The financial transactions associated with the domestic crude that was subsequently exported are an internal matter for NNPC and do not affect financial flows to / from the Federation.

4.6 JP Morgan oil and gas account

The account used to collect US$ payments for export crude and other products is known as the Oil and Gas revenue account, maintained at JP Morgan, New York.

We summarised the transactions on the account in the year 2005 as follows:

	US$'000	US$'000
Balance as at 1st. January, 2005		**1,125,720**
Add Lodgments:		
Export Crude proceeds	16,025,981	
Domestic Crude proceeds	500,000	
Other Miscelaneous lodgments	154,977	
		16,680,958
		17,806,678
Less Payments		
Transfer to Federation Account	(12,313,852)	
Transfer to JVC JP Morgan Cash Call Acct.	(4,065,000)	
		(16,378,852)
Balance as at 31st. December, 2005		**1,427,826**

The account was fully reconciled. It should be noted that some of the statement entries, regarding lodgements into the account, were not fully self-explanatory and we were obliged to rely on NNPC COMD documentation to identify them.

Payments to the cash calls account are reported separately in section 10 of this report.

Further detail is set out in Appendix A.

5 AGGREGATED FINANCIAL FLOWS TO THE FEDERATION

5.1 Aggregated oil-related financial flows to the Federation

The amounts received in 2005 by the Federation from the specified companies and in respect of the identified classes of financial flows were as follows:

	Reported by companies	Reported by CBN	Difference
	US$ 000	US$ 000	US$ 000
Petroleum Profits Tax	10,638,047	10,396,176	241,871
Reserves Additional Bonus	-	65,292 -	65,292
Royalty	4,357,491	4,679,468	(321,977)
Gas Flare Penalty	18,605	28,909	(10,304)
sub-total	15,014,143	15,169,845 -	155,702
Signature Bonus	90,025	-	90,025
Company Income Tax	55,595	-	
Total	15,159,763	15,169,845 -	65,677
analysis:			
IOC-owned companies	14,526,960	14,519,150	7,810
Other companies	577,208	585,403	(8,195)

Note that the Copmany Income Tax receipt could not be confirmed by CBN, due to the way in which the system of tax collection operates, without distinguishing oil and gas payments from other business payments. Accordingly, we do not identify any 'difference' against CIT.

Each of these flows is discussed separately in this report.

5.2 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.

	Reported by companies	Reported by companies
	US$ 000	N'000
Withholding tax	177,090	8,994,822
Pay as you Earn	23,620	22,844,797
Value Added Tax	82,405	227,190
Education Tax	116,269	3,572,042
Total	399,384	35,638,851
analysis:		
IOC-owned companies	355,488	31,254,164
Other companies	43,896	4,384,687

6 DISAGGREGATED FINANCIAL FLOWS TO THE FEDERATION

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

6.1 Petroleum Profits Tax

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

Petroleum Profit Tax-IOC Owned Companies		Reported by companies	Reported by CBN	Difference
	Co Ref	US$ 000	US$ 000	US$ 000
Chevron Nigeria Limited	C15 - CNL	1,284,425	1,284,887	(462)
ConocoPhillips	C82 - Phil	302,800	263,341	39,459
Elf Petroleum Nigeria Limited	C25 - EPNL	2,136,121	1,903,050	233,071
Mobil Producing Nigeria Limited	C41 - MPNU	2,717,631	2,717,631	-
Nigeria Agip Oil Co. Limited	C49 - NAOC	947,823	988,634	(40,811)
Pan Ocean Oil Corporation	C58 - PAN	34,061	33,132	929
Shell Petroleum Development Co. Limited	C67 - SPDC	3,105,136	3,105,142	(6)
Addax Petroleum Development Co.	C01 - ADDX		7,350	(7,350)
	Total	10,527,997	10,303,167	224,830

Petroleum Profits Tax-Other Companies		Reported by companies	Reported by CBN	Difference
	Co Ref	US$ 000	US$ 000	US$ 000
Amni International Petroleum Ltd	C05-AMNI			-
Atlas Petroleum International	C07-ATLAS			-
Cavendish Petroleum Nigeria Ltd	C13-CAV			-
Conoil Producing Ltd	C18-CONOIL	29,836	31,670	(1,834)
Continental Oil & Gas	C19-CONT	61,885	43,160	18,725
Dubri Oil Co Ltd	C24-DUB			-
Express Petroleum & Gas Co. Ltd	C31-EXPR			-
Moni Pulo Ltd	C42-MONI	10,941	10,941	-
Nigeria Petroleum Development Company	C48-NPDC			-
Summit Oil & Gas Worldwide Ltd	C73-Summit	84	84	-
Brass Exploration Unlimited	Cxx-BRASS	7,304	7,154	150
	Total	110,050	93,009	17,041

analysis:			
IOC Owned Companies	10527997	10303167	224,830
Other Companies	110050	93009	17,041
Total	10638047	10396176	241,871

The flows as reported by companies and the flows reported by the Central Bank of Nigeria have been reconciled. There was a general problem that some companies reported their PPT on an accruals basis (i.e.: liabilities arising in / related to 2005) whereas the NEITI requirement is to use the cash basis (i.e.: payment transactions that took place in 2005). We adjusted the company templates onto the correct basis.

Chevron Nigeria Ltd in 2005 settled a PPT liability dating from 2000. This period elapsed because of a process of dispute resolution between FIRS and CNL. This payment is included in the foregoing table.

After making such adjustments, there remained differences. The reasons for the differences were:

Nature of difference	Amount (US$ 000)	Companies affected
Adjustment payment relating to 1999, omitted by company from its template	-7350	Addax
Chevron templates did not include payments made by TOPCON or COCNL whereas CBN recognised all payments.	-6517	Chevron
TOPCON items included by Chevron but omitted by CBN	5825	Chevron
CBN recorded a higher receipt than the company made	-98753	NAOC
Company included Reserves Additional Bonus, not reported by CBN	57942	NAOC
CBN recorded a receipt where the company made no payment	-2397	Panocean
CBN recorded a higher receipt (net) than the company made	-21741	Phillips
CBN recorded a higher receipt (net) than the company made	-2000	Continental
CBN on its templates attributed payments to the wrong company	-4255	Conoil
Company payment could not be located on CBN template	61200	Phillips
Company payment could not be located on CBN template	2421	Conoil
Company payment could not be located on CBN template	20725	Continental
Company payment could not be located on CBN template	3326	Panocean
Company payment could not be located on CBN template	150	Brass Exploration
CBN misclassified a PPT payment as Royalty	233071	Elf
CBN misclassified withholding tax as PPT	-6	SPDC
Company did not submit templates, nor did CBN report any receipt. Although there is no difference, this cannot be construed as reconciled.		Cavendish, Express
CBN commission accounting	229	Chevron
Rounding differences on templates	1	
Total net difference	241871	

It should be noted that the table summarises only financial transactions. PPT liabilities that were settled by transfer of oil to NNPC are included elsewhere as Non-financial flows.

Companies were requested to submit summaries of their PPT control accounts from their general ledgers. The purpose of the request was to enable us to confirm that reported flows were in agreement with their books and records and consistent with the liabilities they accounted for in respect of the year 2005. This information was not provided by the following companies:

- Phillips

- Summit
- SPDC
- Moni Pulo
- Continental Oil & Gas
- Conoil

6.2 *Reserves Additional Bonus*

We did not seek to obtain template information from companies concerning Reserve Additional Bonus transactions. However, based on the analysis of other flows and information provided by CBN, certain information was made available. We are aware of the following payments by companies in respect of RAB:

	Reported by companies	Reported by CBN	Difference
	US$ 000	US$ 000	US$ 000
			-
NAOC		57942	(57,942)
Addax		7350	(7,350)
Total		65292	-65292

CBN reported these items on its PPT templates. Companies did not report them.

Due to the nature of the way this information has become known, it should not be considered to be confirmed or necessarily complete.

6.3 *Royalty*

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

Royalty - IOC Owned Companies		Reported by companies	Reported by CBN	Difference
	Co Ref	US$ 000	US$ 000	US$ 000
Chevron Nigeria Limited	C15 - CNL	542,614	547,509	(4,895)
ConocoPhillips	C82 - Phil	129,897	132,330	(2,433)
ELF Petroleum Nigeria Limited	C25 - EPNL	735,900	997,455	(261,555)
ELF Petroleum Nigeria Limited (gas)	C25 - EPNL	2,807	2,773	34
Mobil Producing Nigeria Limited	C41 - MPNU	964,573	964,573	-
Nigeria Agip Oil Co. Limited	C49 - NAOC	327,598	334,801	(7,203)
Pan Ocean Oil Corporation	C58 - PAN	36,225	40,077	(3,852)
Shell Petroleum Development Co. Limited	C67 - SPDC	1,179,735	1,179,834	(99)
	Total	3,919,349	4,199,352	(280,003)

Royalty - Other Companies		Reported by companies	Reported by CBN	Difference
	Co Ref	US$ 000	US$ 000	US$ 000
Amni International Petroleum Ltd	C05-AMNI	3,654	3,779	(125)
Atlas Petroleum International	C07-ATLAS	608	608	-
Cavendish Petroleum Nigeria Ltd	C13-CAV			-
Conoil Producing Ltd	C18-CONOIL	9,611	201,826	(192,215)
Continental Oil & Gas	C19-CONT	170,600	96,482	74,118
Dubri Oil Co Ltd	C24-DUB	1,492	1,352	140
Express Petroleum & Gas Co. Ltd	C31-EXPR			-
Moni Pulo Ltd	C42-MONI	49,843	63,882	(14,039)
Nigeria Petroleum Development Company	C48-NPDC	202,334	112,187	90,147
Brass Exploration Unlimited	Cxx-BRASS			-
	Total	438,142	480,116	(41,974)
analysis:				
IOC Owned Companies		3,919,349	4199352	(280,003)
Other Companies		438,142	480116	(41,974)

Nature of difference	Amount (US$ 000)	Companies affected
Chevron templates did not include payments made by TOPCON or COCNL whereas CBN recognised all payments.	-4895	Chevron
CBN recorded a higher receipt than the company made	-125	Amni
CBN recorded a higher receipt than the company made	-28128	Elf
CBN recorded a higher receipt than the company made	-7201	NAOC
CBN recorded a higher receipt (net) than the company made	-125658	Conoil
CBN recorded a higher receipt (net) than the company made	-19446	Moni Pulo
CBN recorded a higher receipt (net) than the company made	-3851	Panocean
CBN recorded a higher receipt (net) than the company made	-99	SPDC
CBN recorded a higher receipt (net) than the company made	-2208	Phillips
CBN recorded a higher receipt (net) than the company made	-357	Elf
CBN on its templates attributed payments to the wrong company	-66557	Conoil
Company payments differed from those recorded by CBN	74118	Continental
Company payment could not be located on CBN template	140	Dubri
Company payment could not be located on CBN template	5407	Moni Pulo
Company payment could not be located on CBN template	90147	NPDC
CBN misclassified a PPT payment as Royalty	-233071	Elf
CBN receipts (net) lower than company payments	34	Elf (gas)
CBN misclassified gas royalty and gas flare penalty	-225	Phillips
Company did not submit templates, nor did CBN report any receipt. Although there is no difference, this cannot be construed as reconciled.		Cavendish Express
Rounding differences on templates	3	-
Total net difference	-321977	

Companies were requested to submit summaries of their Royalty control accounts from their general ledgers. The purpose of the request was to enable us to confirm that reported flows were in agreement with their books and records and consistent with the liabilities they accounted for in respect of the year 2005. This information was not provided by the following companies:

- Phillips
- Summit
- SPDC
- Moni Pulo
- Continental Oil & Gas
- Conoil

6.4 Gas Flare Penalty

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

Gas Flare - IOC Owned Companies	Co Ref	Reported by companies US$ 000	Reported by CBN US$ 000	Difference US$ 000
Chevron Nigeria Limited	C15 - CNL	3,908	3,908	-
ConocoPhillips	C82 - Phil	1,366	283	1,083
ELF Petroleum Nigeria Limited	C25 - EPNL	2,069	2,144	(75)
Mobil Producing Nigeria Limited	C41 - MPNU	2,733	2,760	(27)
Nigeria Agip Oil Co. Limited	C49 - NAOC	2,248	2,616	(368)
Pan Ocean Oil Corporation	C58 - PAN	783	849	(66)
Shell Petroleum Development Co. Limited	C67 - SPDC	3,907	4,071	(164)
	Total	17,014	16,631	383

Gas Flare - Other Companies	Co Ref	Reported by companies US$ 000	Reported by CBN US$ 000	Difference US$ 000
Amni International Petroleum Ltd	C05-AMNI			-
Atlas Petroleum International	C07-ATLAS	279	279	-
Cavendish Petroleum Nigeria Ltd	C13-CAV			-
Conoil Producing Ltd	C18-CONOIL	467	11,181	(10,714)
Continental Oil & Gas	C19-CONT	730	730	-
Dubri Oil Co Ltd	C24-DUB			-
Express Petroleum & Gas Co. Ltd	C31-EXPR			-
Moni Pulo Ltd	C42-MONI	115	88	27
Nigeria Petroleum Development Company	C48-NPDC			-
	Total	1,591	12,278	(10,687)
analysis:				
IOC Owned Companies		17,014	16,631	383
Other Companies		1,591	12,278	(10,687)

The differences between the companies and CBN tend to be of an isolated nature and similar in type to the differences reported under PPT and Royalty. It is noteworthy however that:

Conoco Philips reconciliation indicated a very low level of agreement on any transactions and a high proportion of transactions reported only by one party. Even on a tri-lateral basis (DPR / CBN / Company) there are few transactions that agree. Nevertheless, the company was able to support its template declaration with documentation provided by DPR.

The Conoil difference relates principally to a single payment of $ 10 million that was erroneously classified by CBN as a Gas flare Penalty payment whereas it was in fact a royalty payment.

Further detail is set out in Appendix D.

7 VALIDATION OF PPT COMPUTATIONS

7.1 Introduction

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.

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.

7.2 Summary of Findings

7.2.1 General

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. Apart from maintaining records for tax audit purposes, we would expect them to do so for the purpose of accounting for deferred taxation. 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.

The detailed work done on the validation of these liabilities is contained in Appendices S and T to this report. These have been submitted to the NSWG but are not recommended for publication. We recommend that the work be taken forward by FIRS and finalised before such material is put into the public domain.

7.3 Validation of PPT and Royalty Computation

This section pf the report is concerned with checking whether the PPT and Royalry amounts computed by the companies were correct. We carried out a detailed review of the tax returns of Covered Entities (CEs). Our review covered the tax computations as set out in the companies PPT Returns and the Audited Financial Statements (AFS). We obtained data that would give us details of PPT Royalty items and reconciled PPT returns to AFS from the CEs. In reviewing these documents and data 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. We obtained PPT data (volume, value etc.) from the companies on the templates we sent to them.

The objectives of the PPT and Royalty assessment review are to

- Validate completeness and correctness of all underlying calculations of PPT and Royalty payments to Federal Government;
- Reconcile Government take with financial data as per the ledgers of the operating companies;
- Validate whether details of the assessment materially agree with the records of the entities; and
- Confirm the calculation on PPT and Royalty on a sample basis

The exercise revealed important issues of principle between audit and the companies, which are set out below.

NEITI with FIRS and DPR should initiate a process for resolving these issues

Meanwhile, it is clear that the amounts at stake are highly significant, in terms of underpaid PPT and royalty over several years.

Interaction between PPTA and MOU 2000 in the calculation of PPT Fiscal Value and Royalty

We observed that Joint Venture (JV) operators were generating Royalty and PPT fiscal value in 2005 using Realisable Prices (RP) instead of Official Selling Price (OSP) stipulated in the 2000 MOU which is the subsisting relevant arrangement with the Federal Government. Before the current fiscal regime came into existence, the JV companies were paying PPT in line with the PPT Act, 1959 as amended.

The PPT Act requires:

- Royalty to be calculated using Posted Price
- While PPT fiscal value is established using the higher of:
    - actual sales proceed (section 9) or
    - posted price (section 21 (5) of PPTA)

The above were modified by the 2000 MOU.

According to clause 2.4 of the 2000 MOU, “Government Take (Royalty and PPT) relating to Joint Venture operations between NNPC and the company for any fiscal accounting year shall be the lower of Government Take (GT) according to the 31/12/1985 Royalty and PPT regulations, as amended, calculated by substitution of Posted Price with Official Selling Price (OSP) and the Revised Government Take (GT) according to the 31/12/1985 Royalty and PPT regulations, as amended, calculated by substitution of Posted Price with Tax Reference (TRP)”.

The implications of the 2000 MOU are:

- it modifies PPT Act, Cap 35 4 L.F..N 1990 (PPTA) as amended
- it grants the JV companies the right to pay PPT at the lower of Government Take (GT) and the Revised Government Take (RGT)

- GT is generated according to the 31/12/1985 Royalty and PPT regulation, as amended, and calculated by substituting Posted Price with Official Selling Price (OSP)

Thus, GT = $ROY_{osp} + PPT_{osp}$

- RGT is generated according to the 31/12/1985 Royalty and PPT regulations, as amended, and calculated by substituting Posted Price with Tax Reference Price(TRP)

Thus, RGT = $ROy_{TRP} + PPT_{TRP}$

- The MOU clauses 2.4.1,2.4.2 establish the method of determining the tax Reference Price (TRP) and; the Realisable Price (RP), which is to be advised by NNPC as a factor for calculating TRP

- MOU clause 2.4.4 further defined Revised Govt Take (RGT) to include Tax Inversion Penalty.

- It provides for minimum Guaranteed Notional Margin (GNM) which has the effect to cap Government Take at different levels of the Realisable Prices (RPs) as follows:

  - Under clause 2.5.1, the minimum GNM is establish when RP is less than $13.48 / bbl
  - Under clause 2.5.2, the minimum GNM is established when RP is between $13.48 and $15 / bbl
  - Under clause 2.6, the minimum GNM is established when RP is greater than $19 / bbl
  - When the RP is above $30 /bb, the Honourable Minister for Petroleum Resources should advice on applicable margin and he so advised in 2004 that JV operators should cap margin at $30 / bbl ($4.15 / bb)

However, in the application of election to pay the lower of Government Take (GT) or Revised Government Take (RGT) our review of FIRS files and the MOU document showed that:

- The oil price has been above $30 / bbl since 2005

- Oil companies have automatically elected the MOU Revised Government Take calculation option for PPTA calculations contrary to the spirit and letter of the 2000 MOU

- A comparison of RP and Tax Reference Price (TRP) value for RP range of $0/bbl to $30/bbl ($4.15), the TRP giving rise to Revised Government Take becomes higher than the actual RP on which Government Take is calculated.

- RP is not the same as OSP

- The MOU did not provide for who should advise the JV operators with prevailing OSP to be used and how it should be determined or calculated. It was eventually clarified by NNPC COMD that since they have always issued Posted Price they also issue OSP.

- Non JV companies were also using RP for Royalty and PPT calculations instead of OSP

- The JV companies did not voluntarily declare their actual sales proceeds to facilitate sections 2.4 election.

- The 2000 MOU is still the subsisting document of the existing fiscal regime. Though it has expired, it was not terminated and the Government has not come up with a new fiscal regime as required under clause 7.3

On the basis of the above we obtained OSP from NNPC COMD to enable us calculate RGT in order to give effect to the MOU 2000 section 2.4 election for the purpose of calculating PPT Fiscal Value and Royalty.

7.4 Areas covered by the review and findings

7.4.1 Fiscal Value for PPT

In the determination of fiscal value for PPT, the key elements of volume, the 2000 MOU and the PPTA as they impact on PPT and Royalty in 2005 were evaluated.

a) Volume

We obtained the following data from the templates:

- Gross, water, Gas and net liquids for each OML as was passed to terminal on a monthly basis

- Terminal balances showing gross receipts, dewater/shrinkage, crude swaps, lifting and month stock changes on a monthly basis.

- CE crude oil lifting for each Terminal / FPSO per crude blend.

We reconciled the liftings volumes given by the CEs to liftings set out in the above Terminal balances.

b) Fiscal Value

We obtained the following:

- OSP for 2004 and 2005 from NNPC COMD. On this we were given dated Brent and the related spread that we used in calculating the OSP value of exports by the CEs.

  The OSP details are set out in Appendix….

- Standard API, from NNPC – COMD in order to be able to escalate or deescalate US$ 0.03 for every API degree difference between the standard API and actual API. The standard API we obtained from NNPC COMD is set out in Appendix….

- Actual Sales Proceeds from the CEs in order to complete the variables in the 2.4 MOU election

In compliance with 2000 MOU section 2.4, we calculated the actual Sales Proceed and OSP Value for each cargo and used the higher of the two for our fiscal value. The fiscal value per cargo was compared to the RP value declared by the CE in the PPT returns to highlight under/ over declared fiscal value.

The details of these calculations are set out in the different sections of the report and are summarized below:

2005 NEITI AUDIT - SUMMARY
PPT FISCAL VALUE CALCULATION

OPCO	YEAR	TAX`BASIS	REVENUE PER OSP $	ACTUAL SALES PROCEED $	ELLECTION $	REVENUE PER PPT RETURN $	DIFFERENCE $
ADDAX PET	2005	**"OSP"**	271,821,353.00	-	273,719,412.00	273,176,303.00	543,109.00
ADDAX DEV	2005	**"OSP"**	943,266,640.00	-	959,606,514.00	952,298,858.00	7,307,656.00
AENR	2005	**"OSP"**	597,827,945.62		597,827,945.62	581,987,183.00	15,840,762.61
CONOIL	2005	**"OSP"**	528,726,000.00	-	530,980,000.00	514,326,000.00	16,654,000.00
CONTINENTAL	2005	**"OSP"**	324,599,000.00	-	324,599,000.00	314,749,000.00	9,850,000.00
NAE	2005	**"OSP"**	641,003,000.00	-	651,040,000.00	636,680,000.00	14,360,000.00
MOBIL	2005	**"OSP"**	5,663,950,700.00	5,638,906,559.08	5,680,829,230.00	5,637,782,000.00	43,047,230.00
MONIPULO	2005	**"OSP"**	304,741,000.00	308,005,949.26	311,854,847.00	308,005,949.00	3,848,898.00
NAOC	2005	**"OSP"**	1,809,748,000.00	1,793,260,000.00	1,812,407,000.00	1,793,397,000.00	19,010,000.00
NPDC	2005	**"OSP"**	1,223,855,170.00	1,228,263,389.00	1,240,316,149.00	1,263,820,180.00	(23,504,031.00)
PHILIPS	2005	**"OSP"**	695,416,447.46	693,802,198.31	697,375,822.27	694,040,942.00	3,334,880.27
SPDC	2005	**"OSP"**	6,103,424,000.00	6,065,054,562.00	6,260,704,000.00	6,111,362,068.00	149,341,932.00 *
EPNL	2005	**"OSP"**	4,357,798,252.81	4,317,928,989.88	4,357,798,252.81	4,320,254,350.00	37,543,902.81
CNL	2005	**OSP**	2,973,602,353.29	2,984,561,722.26	3,018,979,486.64	2,984,561,548.00	34,417,938.64
PAN OCEAN	2005	**OSP**	182,858,000.00	180,941,000.00	186,707,000.00	185,291,000.00	1,416,000.00
DUBRIL OIL	2005	**OSP**	8,876,000.00	8,523,000.00	8,976,000.00	8,385,000.00	591,000.00
TOTAL			**26,631,513,862.18**	**23,219,247,369.79**	**26,913,720,659.34**	**26,580,117,381.00**	**333,603,278.34**

Note: We calculated Revenue on Crude Oil Lifted by SPDC from Brass Terminal, though the issue raised by us on SPDC Crude liftings from Brass Terminal is yet to be cleared by SPDC

7.5 Royalty

7.5.1 Introduction

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

Calculation of chargeable oil is set out in the 1996 regulation Act as: -

(a) ascertaining the quantity of crude oil produced on a field by field basis in the relevant OML; and

(b) reducing that quantity by the deduction of:

  (i) Quantities used for production operations

  (ii) Quantities used for re-injection.

  (iii) Quantities lost through evaporation.

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

(a) have been obtained from natural gas by natural separation or by any chemical or physical process; and

(b) have not been refined or otherwise treated;

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

However, the Directorate of Petroleum Resources (DPR) interprets this to mean that royalty is assessed on net crude oil production (after removal of water and other impurities). However, there is no agreement on the point in the production line where that definition is most appropriate. Whilst some companies who inject fluids into third party production lines net of water define this as the volume at point of custody transfer with fiscalised meters, others use net terminal volumes for this purpose. Again, a few of the companies use export volumes with the argument that export volumes are more correct to use because they are fiscalised and are monetized for the benefit of stakeholders.

The objective of our royalty validation work therefore was

i) to determine the point at which each covered entity establish the volumes that they used to calculate royalty.

ii) confirm the volumes applied for royalty

iii) validate the completeness and correctness of the rates, underlying calculations etc and the royalty liability.

7.5.2 Review of volumes, rate and calculation

a) Volumes

We obtained the volumes set out in the Hydrocarbon flow template – Terminal points and reconciled these to the volumes set out by CEs in their PPT Returns for the purpose of determining the correct volumes to be used to calculate royalty.

b) Royalty values

We used OSP and API provided by NNPC COMD as set out above and applied the appropriate royalty rate. Under/over declaration of royalty as computed are set out in the respective section but are summarized below:-

2005 NEITI AUDIT - SUMMARY
ROYALTY CALCULATION

OPCO	YEAR	TAX`BASIS	ROYALTY PER OSP $	ROYALTY PER PPT RETURNS	DIFFERENCE $	
ADDAX DEVELOPMENT	2005	"OSP"	317,376,265.59	71,731,962.00	245,644,303.59	
ADDAX EXPLORATION	2005	"OSP"	62,375,716.24	11,243,887.00	51,131,829.24	
AENR	2005	"OSP"	266,893,933.81	247,306,164.00	19,587,769.81	
CONOIL	2005	"OSP"	88,907,013.68	87,749,000.00	1,158,013.68	
CONTINENTAL	2005	"OSP"	54,394,755.88	53,544,000.00	850,755.88	
NAE	2005	"OSP"	51,176,374.49	50,934,405.00	241,969.49	
MOBIL	2005	"OSP"	1,048,701,267.44	1,048,337,418.00	363,849.44	
MONIPULO	2005	"OSP"	55,167,989.02	55,411,321.17	(243,332.15)	
NAOC	2005	"OSP"	359,435,132.93	354,689,786.69	4,745,346.24	
NPDC	2005	"OSP"	222,838,948.09	219,090,414.00	3,748,534.09	
PHILIPS	2005	"OSP"	139,083,496.29	137,079,000.00	2,004,496.29	
SPDC	2005	"OSP"	1,220,875,520.81	1,202,241,792.00	18,633,728.81	
SNEPCO	2005	"OSP"	-	800,090.00	(800,090.00)	*
EPNL	2005	"OSP"	791,450,907.58	782,441,835.00	9,009,072.58	
CNL	2005	"OSP"	550,859,806.07	581,871,000.00	(31,011,193.93)	
PAN OCEAN	2005	"OSP"	38,442,539.18	36,089,054.00	2,353,485.18	
DUBRIL OIL	2005	"OSP"	1,750,868.64	1,648,000.00	102,868.64	
TOTAL			**5,269,730,535.74**	**4,942,209,128.86**	**327,521,406.88**	

Note: We calculated Revenue on Crude Oil Lifted by SPDC from Brass Terminal, though the issue raised by us on SPDC Crude liftings from Brass Terminal is yet to be cleared by SPDC

7.6 Operating Expenses- (Opex)

We sent out Template F2.10 – Details of Costs claimed for PPT which was meant to amongst others reconcile operating cost in PPT to that set out in the audited financial statements of each company. The differences noted were put to the company for reconciliation. The differences that remain outstanding are set out in this report.

7.6.1 INTANGIBLE DRILLING AND DEVELOPMENT COSTS- (IDDC)

Audit reconciled IDDC (written off and capitalized) in the PPT Returns to that set out in the Audited Financial Statements. The unreconciled the differences have been listed in this report.

7.6.2 FIXED ASSETS ADDITIONS

The amount of capital additions is a key driver of tax allowances concerning capital expenditure.

We reconciled Capital expenditure additions from all commercial arrangements for each tax payer using NNPC chart of accounts including capex additions as they were included in the computations of capital allowances claimed in the PPT returns. There were significant differences.

An issue on which legal opinion is required in this area is capital allowances claimed on capital/construction work in progress. Some companies argue that Para 15 of the Second Schedule to the PPT Act allows for the claiming of capital allowances from the moment the expenditure is incurred, as opposed to when the asset is first put to use. Although the section under reference discusses capital expenditure as qualifying expenditure, we do not agree that it expressly or by implication permits capital allowances to be claimed on capital/construction in progress, rather that is limited to assets in use. This issue requires urgent clarification by FIRS and if necessary a legal interpretation.

7.6.3 INVESTMENT TAX ALLOWANCE

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.

5% 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, some companies have claimed an additional 5% to 10% ITA claim for the year under review.

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.

We have interpreted the exclusion as government's intention to make it unavailable for claim.

7.6.4 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:

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.

7.6.5 EDUCATION TAX PAYMENTS

We reviewed 2% education tax on assessable profit on gas and have highlighted the differences.

7.6.6 CAPITAL ALLOWANCE ON NON-ASSOCIATED GAS

We note companies reliance on the above sections 11.1 and 12 of PPT Act which provide 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, 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 companies conclude that all gas capital costs qualify for deduction under PPT.

We agree with them on the treatment of Associated Gas (AG) but refer them 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.

7.6.7 REVIEW OF GAS FLARE PENALTY

We are of the opinion that this cost should be treated as Gas cost under CITA which would have reduced the PPT chargeable cost by same amount. Whilst we agree with the view that these charges represent a necessary aspect of their oil operating expenditure and are supported by appropriate tax legislation based on the provisions of the Associated Gas Re-injection Act of 1990.

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.

All upstream companies infers 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 has not been breached. Furthermore, they insists that Section 10A (2b) of the PPT Act is 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.

7.6.8 CARRY AGREEMENTS

NNPC enters into Carry Agreements with some of its Joint Venture Partners where the JV Partner funds the full cost of executing the development of a field or a Production Improvement Project (PIP) with the implication also that they also fund NNPC portion of the cost subject to:

i) The JV Partner (Carry Party) right to recover such cost together with a cost of carry (interest on capital), in respective of NNPC (Carried Party) Participating Interest share of the Project through Capital allowances and Investment Tax Allowances as well as receipt of the proceeds of sale of NNPC’s production entitlements; and.

ii) NNPC’s right to receive the transfer of its share of the Project assets at a Zero transfer price, once the JV Partner has fully recovered all the Carry Tax Relief and Residual carry Expenditure as defined in the respective Carry Agreement.

We reviewed the following elements of the Carry agreements whose fields were in production:-

i) Carry Cost Recovery

-Through Tax Reliefs

* Write off of intangible cost
* Capital allowances on carry Capital cost
* Petroleum Tax Allowance and investment tax credits

ii) Residual carry Expenditure Recovery

-this dollarise the volume of Carry oil using the crude margin set out in the Carry agreement

iii) Margin Analysis gives details of the margin that has to be applied to dollarise the carry oil in comparison to PPTA/MOU gross National Margin

iv) Production Allocation (Appropriation)

-between Carrying Party and NNPC

* Participating Equity of Carrying Party
* Recovery of Carry Cost (interest on capital) Expenditure
* Appropriation of balance production oil between NNPC and Carrying party

The issues arising from this review are largely unresolved. We recommend that NEITI, FIRS and NNPC should reconcile these differences.

PPT and Royalty issues at company level

In this section, we summarise the main issues that arose from our work at individual companies.

7.6.9 C15 - CNL Chevron Nigeria Limited

Our observations on CNL PPT computation are:

7.6.9.1 Volume

We reconciled CNL and DPR volumes and observed a small (1,000 barrel) difference in Escravos. Whereas this is insignificant in terms of measurement, it is unclear why there should be any difference at all.

7.6.9.2 PPT Fiscal Value

The difference between Chevron and our PPT Fiscal Value resultant from our application of Official Selling Price (OSP), election of higher of sale proceeds and OSP basis using data supplied by NNPC-COMD amounted to $34,417,939 .The election was carried out on cargo by cargo basis.

7.6.9.3 Royalty Validation

Observations

We observed that CNL used Realizable Price (RP) instead of OSP to derive their Royalty on Crude Oil but, section 2.4 of MOU 2000 specifically requires companies to calculate royalty at Official Selling Price (OSP) in place of Posted Price in the PPTA.

We observed 13,590 barrels difference between 133,121,491barrels, total Oil Production, in template P1.02 and 133,107,901barrels, total production volumes as reported by CNL in their royalty returns.

The difference between CNL and audit calculated Royalty on Crude Oil amounted to ($31,011,193.93) based on the application of OSP data from NNPC-COMD.

Conclusion

Based on figures, facts and documents available to us as at the time of this report, CNL has applied RP instead of OSP and therefore, the basis for computation of royalty is wrong and the royalty paid thereon is not correct.

7.6.9.4 PPT Costs

General

a) Our audit work revealed that Chevron, do not have JV Audited Financial Statements (AFS) in Dollars but in Naira whereas the PPT return is filed in Dollars.

   Discussions with the Chevron confirmed to us that
   i) their OPEX and CAPEX templates are based on data obtained from their PPT returns, AFS and their general ledger
   ii) the Naira based JV AFS bears no relationship to their AFS, the PPT returns and the NEITI templates.

b) The relationship between JV AFS and a Covered Entity's share of JV costs should be extend to costs filed in PPT returns particularly as a significant portion of PPT costs are derived from share of JV costs.

Inability to establish this relationship in costs defeats transparency in the completeness and correctness of Chevron's share of JV cost included in PPT returns.

In the light of the audit trail challenge posed on the audit on this issue, we recommend that the NSWG carry out a detailed investigation into this issue with a view of establishing how Chevron have compiled their PPT returns cost in the past and what steps should be taken to improve the situation in future.

Operating Expenses- (OPEX)

We observed a difference of $95,685,162 between the OPEX claimed by CNL in AFS and PPT Returns.

Fixed Assets Additions

CNL should explain:

1. The sum of $2,711,337 Drilling Project costs over claimed in the PPT returns.
2. The sum of $140,096,185 being difference between sum claimed as CAPEX in AFS and PPT Returns.
3. The sum of $152, 823,965 written off as adjustment from CAPEX in the AFS.
4. DPR approval for Asset worth $182,104,000 disposed by CNL, CGT paid (if any) and 5% VAT on the assets disposed.

Gas Flare Penalty

CNL should explain the difference of $283,000 between Gas flare Claimable and Claimed for 2005.

The $3,734,000 Gas flare claimed as PPT allowable costs should be treated as Gas cost under CITA which would have reduced the PPT chargeable cost by same amount.

The tax impact of this is $2,053,700 i.e. ($3,734,000 X (85%-30%)

Carry

a. Delta South Carry

- Chevron's Carry Cost recovery data template refers to $29,222,695 in year 1 and $2,498,338 in year 2 and it is difficult to relate either of this to 2005. Chevron should resolve this by having their template properly dated to the actual years the expenditure relates.

- There is no linkage in the template submitted by CNL between the Residual Carry Expenditure of $9,201,469 in year 1 and $-629,408 in year 2 and how it was recovered from NNPC's share of 60% production in Delta South Carry. CNL needs to clarify this.
- CNL took Carry oil in excess of what is due under the Carry by 818,815 barrels.
- Total Carry Capital Costs was shown in the CNL template as $31,721,032 for the two years while NNPC reported $21,000,000. CNL should reconcile this difference.
- Total tangible Carry cost for oil per CNL's template shows $8,723,523 while, NNPC's template has $7,877,613. CNL should reconcile this difference.
- Total intangible Carry cost for oil per CNL's template shows $22,997,509 NNPC's record shows $13,522,387. Chevron should reconcile this difference.
- CNL should reconcile the difference of 118,145 barrels between their production allocation of 1,301,121 barrels with NNPC figure of 1,419,266 barrels.
- CNL declared 1,051,000 barrels as Carry oil in its PPT Returns whilst NNPC reported 1,208.000 barrels. CNL should reconcile this with NNPC.

b. Meji Carry

- CNL's Carry cost recovery data template refers to $31,216,129 in year 1 and $34,552,325 in year 2 and it is difficult to relate either of this to 2005. CNL should resolve this by having their template properly dated to the actual years the expenditure relates.
- There is no linkage in the template submitted by CNL between the Residual Carry Expenditure of $14,165,242 in year 1 and $11,383,064 in year 2 and how it was recovered from NNPC's share of 60% production in Meji. CNL needs to clarify this.
- CNL took Carry oil in excess of what is due under the carry by 1,451,406 barrels.
- Total Carry Capital Costs was shown in the CNL template as $65, 768,454 while NNPC reported $52,600,000. CNL to reconcile this difference.
- Total tangible Carry cost for oil per CNL template shows $30,911,622 while, NNPC's template has $28,371,734. CNL should reconcile this difference.
- Total intangible Carry cost for oil per CNL template shows $34,856,831 while, NNPC's template has $24,228,266. CNL to reconcile this difference.
- CNL should reconcile the difference of 186,195 barrels between their production allocation of 1,730,020 barrels with NNPC figure of 1,916,215 barrels.
- CNL declared 1,619,000 barrels as Carry oil in its PPT Returns whilst NNPC reported 2,129.000 barrels. CNL should reconcile this with NNPC.

c. Meren Carry

- CNL's Carry Cost recovery data template refers to $24,252,244 in year 1 and $-13,320 in year 2 and it is difficult to relate either of this to 2005. CNL should resolve this by having their template properly dated to the actual years the expenditure relates.
- There is no linkage in the template submitted by CNL between the Residual Carry Expenditure of $8,266,468 in year 1 and $-1,114,421 in year 2 and how it was recovered from NNPC's share of 60% production in Meren. CNL needs to clarify this.
- CNL took Carry oil in excess of what is due under the carry by 873,816 barrels.
- Total Carry Capital Costs was shown in the CNL template as $24,238,924 while NNPC reported $23,339,628. CNL to reconcile this difference.
- Total tangible Carry cost for oil per CNL template show $8,132,227 while, NNPC's template has $7,217,791. CNL should reconcile this difference.
- Total intangible Carry cost for oil per CNL template show $16,106,697 while, NNPC's template has $16,121,838. CNL to reconcile this difference.
- CNL should reconcile the difference of 210,067 barrels between their production allocation of 1,354,037 barrels with NNPC figure of 1,143,970 barrels.
- CNL declared 965,000 barrels as carry oil in its PPT returns whilst NNPC reported 1,268,000 barrels. CNL should reconcile this with NNPC.

7.6.10 C82 - Phil Phillips Oil Company Nigeria Ltd

Our observations on the POCNL PPT may be summarised as follows:

7.6.10.1 PT Fiscal Value/Revenue

The difference between Phillips Oil Company Nigeria Ltd and NEITI PPT Fiscal Value resultant from the above amounted to $3,334,880 based on application of Official Selling Price (OSP), election of higher of sale proceeds and OSP basis using data supplied by NNPC-COMD. The election was carried out on cargo by cargo basis.

7.6.10.2 Royalty Validation

a. Observations

We observed that Phillips Oil Company Nigeria Ltd used RP instead of OSP to derive their Royalty on Crude Oil.

We observed difference between Phillips Oil Company Nigeria Ltd and NEITI Royalty on Crude Oil amounted to $2,004,496 based on the application of OSP data from NNPC-COMD.

POCL did not provide audit with Hydrocarbon Flows (template F1.02) to enable us reconcile total production volumes used for Royalty calculation with the template figures in barrels.

POCNL should explain why they did not populate the template F1.02.

b. Conclusion

Based on figures, facts and documents available to us as at the time of this report, POCNL has applied RP instead of OSP and therefore, the basis for computation of royalty is wrong and the royalty paid thereon is not correct.

7.6.10.3 PPT Costs

General

a) Our audit work revealed that Phillips Oil Company Nigeria Ltd, do not have JV AFS in Dollars but in Naira whereas the PPT return is filed in Dollars.

   Discussions with the POCNL confirmed to us that
   i) their OPEX and CAPEX templates are based on data obtained from their PPT returns, AFS and their general ledger
   ii) the Naira JV AFS bears no relationship to their AFS, the PPT returns and the audit templates.

b) The relationship between JV AFS and a Covered Entity's share of JV costs should also extend to costs filed in PPT returns particularly as a significant portion of PPT costs are derived from share of JV costs.

   Inability to establish this relationship in costs defeats transparency in the completeness and correctness of POCNL's share of JV cost included in PPT returns.

   In the light of the audit trail challenge posed on the audit on this issue, we recommend that the NSWG carry out a detailed investigation into this issue with a view of establishing how POCNL have compiled their PPT returns cost in the past and what steps should be taken to improve the situation in future.

Operating Expenses- (OPEX)

There is a difference of $1,022,000 between the AFS and PPT returns for POCNL to reconcile.

Intangible Drilling Costs- (IDC)

POCNL should explain the difference of $4,895,000 between the IDC claimed by them in the AFS and PPT Returns.

Fixed Assets Additions

There is a difference of $32,911,000 between the Gross JV Costs reported by POCNL and NAOC in the template F2.08. This difference should be explained by POCNL.

Education Tax

If POCNL has no Education arrears B/F to 2005 assessment year, FIRS should grant them a credit of $8,269 in year 2006 year of assessment being excess education Tax paid in 2005.

Gas Flare Penalty

The sum of $1,329,000 Gas Flare claimed as PPT allowable costs should be treated as Gas cost under CITA which would have reduced the PPT chargeable cost by same amount.

The tax impact of this is $730,950 i.e. ($1,329,000 X (85%-30%)

7.6.11 C25 - EPNL ELF Petroleum Nigeria Limited

Our Observations on EPNL PPT may be summarised as follows:

7.6.11.1 PPT Fiscal Value/Revenue

There is a difference of 1,801,000 barrels (Ekanga – 1,801,000) between export volume used for PPT and Physical audit reconciled export volume.

EPNL used RP in the computation of fiscal value while the Auditor used OSP in the computation of the fiscal value. The difference between EPNL and auditor's PPT Fiscal Value resultant from the above amounted to $45,388,748 based on application of Official Selling Price (OSP). Election of higher of sale proceeds and OSP basis using data supplied by7 NNPC-COMD. The election was carried out on cargo by cargo basis.

7.6.11.2 Other Income

EPNL excluded other income of $8,527,000 from the PPT returns. EPNL to explain why this is so.

7.6.11.3 PPT Costs

Operating Expenses (OPEX)

There is a significant difference of $344,321,000 between total OPEX claimed in PPT returns and template F2.07. EPNL to reconcile.

Intangible Drilling Costs (IDC)

There is an over claim of Intangible drilling Cost by EPNL in the sum of $119,798,000. EPNL to explain this difference..

Investment Tax Allowance

EPNL over claimed Investment Tax Allowance by $1,234,000.

Non Associated Gas (NAG)

The sum of $42,021,000 Capital Allowance (CA) was charged in the PPT returns for Non Associated Gas (NAG) instead of CITA. The company has over claimed CA of $23,112,000 (i.e. 55% of $42,021,000)

Gas Flare Penalty

The sum of $1,782,000 Gas Flare Penalty as PPT allowable costs should be treated as Gas cost under CITA which would have reduce the PPT chargeable cost by the same amount. The tax impact of this is $980,100 {$1,782,000 x (85%-30%)}.

7.6.11.4 Review of Carry Arrangement (Amenam Kpono 1)

EPNL took Carry oil in excess of what is due under the AK 1 Carry by 11,467,394 barrels.

Total Intangible Carry cost for oil per NEITI template shows $211,776,970, NNPC's record shows $210,684,690. Elf should reconcile this difference.

Elf used 15% on its computation of ITC on gas, which is at variance with the provision of the tax laws (5% - onshore and 10% - offshore). The implication of this practice is an increase in Investment Tax Credit (ITC) for gas, resulting in higher Residual Capital Expenditure. This implies that ELF collected more oil (as Residual Carry) than they would have been entitled to. Elf should prove its tax treatment on gas or refund the excess oil lifted as residual carry.

7.6.11.5 Review of Carry Arrangement (Amenam Kpono 2)

EPNL took Carry oil in excess of what is due under the AK 2 Carry by 15,020,605 barrels.

There is no linkage in the template submitted by EPNL between the Residual Carry Expenditure of ($22,476,181.50) in Phase 2 for 2005 and how they were recovered from NNPC's share of 60% production in template submitted for Carry. Elf should provide this information.

We observed some computational errors in the EPNL template. We noted that the total Residual Carry Expenditure of ($29,820,323.76) was not computed as the difference between the total Carry Tax Expenditure of $508,039,468.70 and Carry Tax Relief of $431,833,548.40. This is inconsistent with EPNL calculation in AK1. This computation requires explanation.

The Residual Carry Expenditure should be the difference between The total Carry Capital cost of $454,000,000 and the Carry tax relief of $431,833,548.40, giving a net total residual Carry Tax Expenditure of $22,166,451.60 as against ($29,820,323.76) shown in the template. Elf should explain these discrepancies.

7.6.12 C41 - MPNU Mobil Producing Nigeria Limited

Our observations on the MPNU PPT may be summarised as follows:

7.6.12.1 PPT Fiscal Value/Revenue

The difference between Mobil Producing Nig. Unlimited and NEITI PPT Fiscal Value resultant from the above amounted to $43,047,230 based on application of Official Selling Price (OSP), election of higher of sale proceeds and OSP basis using data supplied by NNPC-COMD. The election was carried out on cargo by cargo basis.

7.6.12.2 Royalty Validation

a. Observations

1. We observed that Mobil Producing Nig. Unlimited used RP instead of OSP to derive their Royalty on Crude Oil but, section 2.4 of MOU 2000 specifically requires companies to calculate royalty at Official Selling Price (OSP) in place of Posted Price in the PPTA.

2. We observed 4,158,736 barrels difference between 246,281,056barrels total Oil Production, in template P1.02 and 250,439,792barrels total production volumes as reported by MPNU in their royalty returns.

3. The difference between Mobil Producing Nig. Unlimited and audit Royalty on Crude Oil amounted to $363,849.44 based on the application of OSP data from NNPC-COMD.

4. Comparing the Oil Production template (P1.02) figure populated by MPNU which we used during the audit, to the revised production table now provided by MPNU in their response as their new submission, we observe a difference of 36,661,782 barrels.

b. Conclusion

Based on figures, facts and documents available to us as at the time of this report, MPNU has applied RP instead of OSP and therefore, the basis for computing royalty is wrong and the royalty paid thereon is not correct.

7.13 PPT Costs

7.13.1 General

a) Our audit work revealed that Mobil Producing Nig. Unlimited, do not have JV AFS in Dollars but in Naira whereas the PPT return is filed in Dollars.

Discussions with the Mobil Producing Nig. Unlimited confirmed to us that

i. their OPEX and CAPEX templates are based on data obtained from their PPT returns, AFS and their general ledger
ii. the Naira JV AFS bears no relationship to their AFS, the PPT returns and the NEITI templates.

b) The relationship between JV AFS and a Covered Entity's share of JV costs should also extend to costs filed in PPT returns particularly as a significant portion of PPT costs are derived from share of JV costs.

Inability to establish this relationship in costs defeats transparency in the completeness and correctness of Mobil Producing Nig. Unlimited's share of JV cost included in PPT returns.

In the light of the audit trail challenge posed on the audit on this issue, we recommend that the NSWG carry out a detailed investigation into this issue with a view of establishing how Mobil Producing Nig. Unlimited have compiled their PPT returns cost in the past and what steps should be taken to improve the situation in future.

7.6.12.3 Operating Expenses- (OPEX)

There is a difference of $39,365,552 between the AFS and PPT returns for MPNU to reconcile.

Intangible Drilling Costs- (IDC)

MPNU should explain the difference of $160,388,680 between the IDC claimed by MPNU in the AFS and PPT Returns.

Fixed Assets Additions

There is a difference of $72,765,049 on CAPEX addition, on which capital allowances have been claimed by MPNU, between the AFS and the PPT returns that requires explanations.

Fixed Assets Disposal

MPNU should provide proof of Capital Gains Tax (if any) and 5% VAT charged on the disposal.

Education Tax

MPNU paid education tax in excess by $130,297 in 2005 year of assessment. We recommend that FIRS grant them a credit to that effect in year 2006 year of assessment.

Gas Flare Penalty

MPNU should explain the difference of $2,000 between Gas Flare Claimable and Claimed for year 2005.

The sum of $ 2,000 Gas Flare claimed as PPT allowable costs should be treated as Gas cost under CITA which would have reduced the PPT chargeable cost by same amount.

The tax impact of this is $1,100 i.e. ($2,000 X (85%-30%)

7.6.12.4 Carry

a. Yoho Carry
- There is no linkage in the template submitted by MPNU between the Residual Carry Expenditure of $17,426,526 in 2005 and how they were recovered from NNPC's share of 60% production in template submitted Carry. MPNU should provide this information.
- Mobil took Carry oil in excess of what is due under the Yoho Carry by 19,003,770 barrels.
- Total Carry Capital cost for oil per MPNU template shows $713,374,931, NNPC's record shows $778,118,752. MPNU should reconcile this difference with NNPC.

- Total tangible Carry cost for oil per MPNU template shows $554,483,528 whilst NNPC's record shows $604,230,985. MPNU should reconcile this difference with NNPC.
- Total intangible Carry cost for oil per MPNU template shows $158,891,403 whilst NNPC's template shows $173,887,767. MPNU should reconcile this difference with NNPC.
- MPNU should reconcile the difference of 34,271 barrels between their production allocation of 16,083,007 barrels with NNPC figure of 16,048,736 barrels.
- MPNU declares 19,623,000 barrels as Carry oil in its PPT Returns whilst NNPC reported 32,664,000 barrels. MPNU should reconcile this with NNPC.

b. PIP Carry

- There is no linkage in the template submitted by MPNU between the Residual Carry Expenditure of $36,781,664 in 2005 and how this was recovered from NNPC's share of 60% production in the template submitted on the Carry. MPNU should provide this information
- MPNU lifted 10,923,879 barrels in excess of their carry oil entitlement.
- Total Carry Capital cost for oil per MPNU template shows $269,067,637, NNPC's record shows $352,000,000. MPNU should reconcile this with NNPC.
- Total Intangible Carry cost for oil per MPNU template shows $234,986,862, whilst NNPC template shows $299,431,481. MPNU should reconcile this difference with NNPC.
- Total tangible Carry cost for oil per MPNU shows $34,080,775 whilst NNPC template shows $41,010,557. MPNU should reconcile this difference with NNPC.
- MPNU should reconcile the difference of 4,211,736 barrels between their production allocation of 9,504,816 barrels with NNPC figure of 5,293,080 barrels.
- MPNU declared 9,784,000 barrels as Carry oil in its PPT returns whilst NNPC reported 3,529,000 barrels. MPNU should reconcile this with NNPC.

7.6.13 C49 - NAOC Nigeria Agip Oil Co. Limited

Our observations on the NAOC PPT may be summarised as follows:

7.6.13.1 PPT Fiscal Value/Revenue

NAOC used RP in the computation of fiscal value while the Auditor used OSP in the computation of the fiscal value. The difference between NAOC and auditor's PPT Fiscal Value resultant from the above amounted to $19,009,000 based on application of Official Selling Price (OSP). Amount due to Government is $16,158,000 (i.e. 85% of $19,009,000).

7.6.13.2 PPT Costs

Operating Expenses (OPEX)

We reconciled template F2 07 to the PPT returns, AFS and F2. 09.1.

From our analysis, NAOC has not been able to clearly show the relationship between the AFS and PPT returns as shown in template F 2. 09.1 (Reconciliation of Audited Financial Statement with PPT returns) NAOC is to explain the difference of $21,078,000 between AFS and PPT returns.

Intangible Drilling Cost (IDC)

NAOC should explain the difference of $3,335,000 between the IDC claimed by the company in the AFS and PPT returns.

Fixed Assets Additions

We observed a difference of $45,344,000 on CAPEX additions on which Capital Allowances have been claimed by NAOC in the AFS and the PPT returns that requires further reconciliation.

Investment Tax Allowance

NAOC over claimed Investment Tax Allowance in the sum of $10,462,000.

Non Associated Gas Investment

The sum of $32,625,000 ought to have been charged against CITA instead of PPT. The company has therefore, over claimed CA of $17,944,000 (i.e. 55% of $32,625,000)

Education Tax

There is an outstanding Education Tax of $11,139,000.

Gas Flare Penalty

The sum of $2,248,000 Gas Flare Penalty as PPT allowable costs should be treated as Gas cost under CITA which would have reduce the PPT chargeable cost by the same amount. The tax impact of this is $1,236,400 {$2,248,000 x (85%-30%)}.

7.6.14 C58 - PAN Pan Ocean Oil Corporation

Our observations on the POOC PPT may be summarised as follows:

7.6.14.1 PPT Fiscal Value/Revenue

POOC used RP in the computation of fiscal value while the Auditor used OSP in the computation of the fiscal value. The difference between POOC and auditor's PPT Fiscal Value resultant from the above amounted to $1,416,000 based on application of Official Selling Price (OSP). Amount due to Government is $1,204,000 (i.e. 85% of $1,416,000).

7.6.14.2 PPT Costs

Operating Expenses (OPEX)

We reconciled template F2 07 to the PPT returns, AFS and F2. 09.1.

From our analysis, POOC has not been able to clearly show the relationship between the AFS and PPT returns as shown in template F 2. 09.1 (Reconciliation of Audited Financial Statement with PPT returns) POOC is to explain the difference of $22,783,000 between AFS and PPT returns.

Assets Additions

We observed that capital allowance of $2,002,000 was claimed on signature bonus wrongly capitalised as Geological Geographical equipment.

Investment Tax Allowance

NAOC over claimed Investment Tax Allowance in the sum of $501,000.

Treatment Given To Gas Flared Penalty Cost

The amount involved is $783,000. We believe that even though the expenditure appear genuine business charge. Therefore, the PPT for the year under review has been understated by about $665,550 (i.e. 85% of $783,000).

7.6.15 C67 - SPDC Shell Petroleum Development Co. Limited

7.6.15.1 PPT Fiscal Value/Revenue

(a) The company used Realizable Prices (RP) for Fiscal Value determination.

(b) SPDC did not elect PPT Fiscal Value on basis of higher of Actual Sales Proceeds and OSP as per section 2.4 of the 2000 MOU.

(c) The difference between SPDC and Audit calculated PPT Fiscal Value resultant from the above amounted to $149,342,000 based on application of OSP, election of higher of Actual Sales Proceeds and OSP basis using data supplied by NNPC-COMD. The election was carried out on cargo by cargo basis.

7.6.15.2 PPT Costs

Capital Expenditure

SPDC reconciled fixed asset additions in Audited Financial Statement with PPT Returns, as contained in Template F2.08, using Work-In-Progress in the AFS instead of completed projects.

Gas Flare Penalty

The $3,837,244 Gas Flare Penalty claimed as PPT allowable cost should be treated as Gas cost under CITA.

7.6.15.3 Carry Agreement

(a) SPDC has taken Carry oil in excess of what is due under the EA Carry by 697,099 barrels.

(b) Total tangible Carry cost for oil per SPDC template is $450, 679,315, NNPC's template shows $449, 268,227. SPDC should reconcile this difference with NNPC.

(c) Total intangible Carry cost for oil per SPDC template shows $145,213,666 while NNPC's template shows $146,624,756. SPDC should reconcile this difference with NNPC.

(d) There is a discrepancy between SPDC intangible write off of $146,624,756 and the reported intangible cost of $145,213,666.SPDC should reconcile this.

(e) NNPC volume is 448,495 barrels higher than SPDC volumes

7.6.16 C01 - ADDX Addax Petroleum Development Co.

Our observations on the APDC PPT are as follows:

7.6.16.1 PPT Fiscal Value/Revenue

Addax Petroleum Development Co. (APDC) used RP in the computation of fiscal value while the Auditor used OSP in the computation of the fiscal value. The difference between APDC and auditor's PPT Fiscal Value resultant from the above amounted to $7,307656 based on application of Official Selling Price (OSP).

7.6.16.2 PPT Costs

Intangible Drilling Cost

APDC to provide details of IDC of $95,879,000.

Treatment Given To Gas Flared Penalty Cost

We noticed that the company charged expenditures relating to gas flared to its PPT Returns. The amount involved is $2,470,395 We believe that even though the expenditure appear genuine business charge, we are of the view that it should not be a PPT deduction, rather it should be an allowable charge against Gas income, since it can be distinctly separated from Oil costs. Therefore, the PPT for the year under review has been understated by about $2,099,836 (i.e. 85% of $2,470,395).

FIRS should review the treatment and raise a supplementary assessment thereon.

7.6.17 C01a - APENL Addax Petroleum Exploration Nigeria Ltd.

Our observatiosn on APENL PPT are as follows:

7.6.17.1 PPT Fiscal Value/Revenue

Addax Petroleum Exploration Nigeria Ltd. (APENL) used RP in the computation of fiscal value while the Auditor used OSP in the computation of the fiscal value. The difference between APE and auditor's PPT Fiscal Value resultant from the above amounted to $543,110 based on application of Official Selling Price (OSP).

7.6.17.2 PPT Costs

Intangible Drilling Cost

APENL to provide details of IDC of $63,411,000.

Investment Tax Allowance

APENL over claimed ITA in the sum of $75,616,000

Treatment Given To Gas Flared Penalty Cost

We noticed that the company charged expenditures relating to gas flared to its PPT Returns. The amount involved is $189,556 We believe that even though the expenditure appear genuine business charge, we are of the view that it should not be a PPT deduction, rather it should be an allowable charge against Gas income, since it can be distinctly separated from Oil costs.

Therefore, the PPT for the year under review has been understated by about $161,123 (i.e. 85% of $189,556).

FIRS should review the treatment and raise a supplementary assessment thereon.

7.6.18 C02 - AENR Agip Energy & Natural Resources Ltd

7.6.18.1 Summary of Royalty Validation observations

We observed that AENR used Realizable Price (RP) instead of OSP to derive their Royalty on Crude Oil. The difference between AENR and Auditor's Royalty on Crude Oil amounted to $19,587,770 based on the application of OSP data from NNPC-COMD.

7.6.19 C47 - NAE Nigeria Agip Exploration

Summary of NAE PPT Validation observations

7.6.19.1 PPT Fiscal Value/Revenue

NAE used RP in the computation of fiscal value while the Auditor used OSP in the computation of the fiscal value. The difference between Continental and auditor's PPT Fiscal Value resultant from the above amounted to $14,360,000 based on application of Official Selling Price (OSP). Amount due to Government is $12,206,000 (i.e. 85% of $14,360,000).

7.6.20 C66 - SNEPCO Shell Nigeria Exploration & Petroleum Co. Ltd.

There were no computations available to review.

The computation of PPT in start-up years is adjusted in arrears, once the trial marketing has been completed.

7.6.21 C05 - AMNI Amni International Petroleum Ltd.

7.6.21.1 PPT Fiscal Value / Revenue

The difference between AMNI and Audit PPT Fiscal Value resultant from the above amounted to $1,070,000 based on application of OSP, election of higher of Actual Sales Proceeds and OSP basis using data supplied by NNPC-COMD. The election was carried out on cargo by cargo basis.

7.6.21.2 Gas Flare Penalty

AMNI International Petroleum flares Gas at its Oil field in 2005 but did not pay penalty for Gas flared. The company claimed that they are exempted from Gas flare penalty payments by DPR in 2005.

We reviewed the exemption certificate presented to us by the company and noted that the period of exemption expired on 30 June 2005.

DPR should assess the company and collect all Gas flare penalty due for period July to December 2005.

7.6.22 C18 - CONOIL Conoil Producing

7.6.22.1 PPT Fiscal Value/Revenue

Conoil used RP in the computation of fiscal value while the Auditor used OSP in the computation of the fiscal value. The difference between Conoil and auditor's PPT Fiscal Value resultant from the above amounted to $16,654,000 based on application of Official Selling Price (OSP). Amount due to Government is $14,156,000 (i.e. 85% of $16,654,000).

7.6.23 C19 - CONT Continental Oil & Gas Co. Ltd

7.6.23.1 PPT Fiscal Value/Revenue

Continental used RP in the computation of fiscal value while the Auditor used OSP in the computation of the fiscal value. The difference between Continental and auditor's PPT Fiscal Value resultant from the above amounted to $9,849,000 based on application of Official Selling Price (OSP). Amount due to Government is $8,373,000 (i.e. 85% of $9,849,000).

7.6.23.2 PPT Costs

Intangible Drilling Cost

Continental to provide details of IDC of $58,107,000.

Gas Flare penalty

The company claimed deduction for gas flare penaly.

7.6.24 C24 - DUB Dubril Oil Co. Nigeria Ltd.

7.6.24.1 PPT Fiscal Value/Revenue

(a) The company used Realizable Prices (RP) for Fiscal Value determination.

(b) Dubri Oil did not elect PPT Fiscal Value on basis of higher of Actual Sales Proceeds and OSP as per section 2.4 of the 2000 MOU.

(c) The difference between Dubri and Audit PPT Fiscal Value resultant from the above amounted to $591,000 based on application of OSP, election of higher of Actual Sales Proceeds and OSP basis using data supplied by NNPC-COMD. The election was carried out on cargo by cargo basis.

7.6.24.2 PPT Costs

Opex

Provision for Doubtful Debt of $51,000 was added to Opex when it is not an allowable expense.

Gas Flare PEnalty

Dubri Oil flares Gas at its Oil field but is yet to pay penalty for Gas flared. The company claimed that they are yet to agree with DPR on the payment of penalty on Gas flared.

In 2005, the standard Cubic feet of Gas flared by the company is 26,791,761.

7.6.25 C42 - MONI Moni Pulo Ltd

7.6.25.1 PPT Fiscal Value/Revenue

(a) The company used Realizable Prices (RP) for Fiscal Value determination.

(b) Moni Pulo did not elect PPT Fiscal Value on basis of higher of Actual Sales Proceeds and OSP as per section 2.4 of the 2000 MOU.

(c) The difference between Moni Pulo and Audit PPT Fiscal Value resultant from the above amounted to $3,848,898 based on application of OSP, election of higher of Actual Sales Proceeds and OSP basis using data supplied by NNPC-COMD. The election was carried out on cargo by cargo basis.

7.6.26 C48 - NPDC Nigeria Petr. Development Co.

PPT Fiscal Value/Revenue

(a) The company used Realizable Prices (RP) for Fiscal Value determination.

(b) NPDC did not elect PPT Fiscal Value on basis of higher of Actual Sales Proceeds and OSP as per section 2.4 of the 2000 MOU.

(c) PPT Returns and Audited Financial Statement were computed in Naira and not in Dollars

7.7 *Summary of the Review of PPT and Royalty*

The summary of the findings of the PPT and Royalty review are set out below while the detailed work is set out in the Appendices. The validation of PPT and Royalty involves interpretation of the PPTA as consolidated together with other related Acts and the 2000 Memorandum of Understanding (MOU).In accordance with our sign off principles, we have offered interpretation in the course of the validation as we see them. In this case, the CEs may agree or disagree with our interpretation. Where the disagreement in interpretation remains, we have included the CE's interpretation along with ours in the work set out in the Appendix. Furthermore, the CE's comments on our expressed opinion on the issues together with our formulated recommendations are all included in the report and the related appendices.

7.7.1 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.

7.7.2 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.

7.7.3 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 COMPANY INCOME TAX

This section deals with Company Income tax. In the oil and gas sector, this tax is applicable to gas profits of companies.

Company Income Tax - IOC Owned Companies	Co Ref	Reported by companies US$ 000	Reported by CBN US$ 000	Difference US$ 000
Chevron Nigeria Limited	C15 - CNL	5,716		5,716
ConocoPhillips	C82 - Phil			-
ELF Petroleum Nigeria Limited	C25 - EPNL			-
Mobil Producing Nigeria Limited	C41 - MPNU	31,813		31,813
Nigeria Agip Oil Co. Limited	C49 - NAOC			-
Pan Ocean Oil Corporation	C58 - PAN			-
Shell Petroleum Development Co. Limited	C67 - SPDC	18,066		18,066
	Total	55,595	-	55,595

Company Income Tax - Other Companies	Co Ref	Reported by companies US$ 000	Reported by CBN US$ 000	Difference US$ 000
Amni International Petroleum Ltd	C05-AMNI			-
Atlas Petroleum International	C07-ATLAS			-
Cavendish Petroleum Nigeria Ltd	C13-CAV			-
Conoil Producing Ltd	C18-CONOIL			-
Continental Oil & Gas	C19-CONT			-
Shebah Exploration & Production Co.Ltd	C83-SEP			-
Brass Exploration Unlimited	Cxx-BRASS			-
	Total			-

analysis:				
IOC Owned Companies		55,595		55,595
Other Companies				-

Company Income Tax could not be confirmed by CBN as it is a generic tax.

Further detail is set out in Appendix E.

9 SIGNATURE BONUS

9.1 *Introduction*

The confirmation of signature bonus data is complex because the responsibilities of the various agencies involved has not been clearly delineated. The confirmation and validation of signature bonus as part of the 2005 financial audit had to be abandoned because no government entity would accept responsibility for managing the receipt of signature bonus payments.

This report presents the data we have been able to obtain. It cannot be regarded as validated.

The sums being bid in the 2005 round for blocks ranged up to US$ 485 million. With such sums at stake, it is essential that the government systems are in place to handle the transactions in a reliable and transparent manner. Remediation in this respect is required.

9.2 *Regime for managing signature bonuses*

The legal position for 2005 appears to be that:

- The licensing process, including the determination of signature bonus is administered by the Department of Petroleum Resources.
- Companies pay their contractual signature bonus at various milestones in field development.
- Companies make payments to the account to which DPR directs them.
- The benefit of signature bonus should accrue to the Petroleum Training Development Fund.

The gaps in the process, based on our audit findings are:

Lack of communication between NNPC and DPR means that DPR does not know when milestones have been reached and therefore does not know when signature bonuses fall due

For the 2005 bid round, the signature bonus payments arising from the exercise were paid into the following accounts:-

- FGN – PTDF Reserve Account with CBN
- AGF/CBN/FGN Account with JP Morgan Chase
- CBN/FGN Independent Revenue Account with JP Morgan Chase
- Consolidated revenue account. With CBN

The Office of the Accountant General of the Federation owns the above accounts while the CBN operates the accounts on behalf of the government.

Signature bonus payments are made in USD. However a company could apply to government to be allowed to pay the bid offer in Naira instead of USD. Under such situation, the draft is paid into the Consolidated Revenue Account with CBN. DPR does not get bank statements of this account. The Office of the Accountant General of the Federation is said to be responsible for this account.

We observe that:

1) The path of the payment is determined partly by the payment method set out in the guideline that regulated the bid round.
2) There was no agreement between the Accountant General of the Federation, the Petroleum training Development Fund, the Department of Petroleum Resources and the Central Bank of Nigeria, as to who was responsible to manage the bank accounts of the PTDF.
3) The responsibility for ensuring the completeness of government collection of signature bonus is not sufficiently defined; and/or (if responsibility rests with DPR) systems and procedures require considerable strengthening to enable DPR to fulfil its role reliably.

9.3 Data comparison between DPR and the Central Bank of Nigeria

Neither the Accountant General of the Federation nor the Central Bank of Nigeria provided any template data on signature bonus.

We sought to meet the Petroleum Training Development Fund but they refused to hold meaningful discussions.

The following signature bonus data was obtained from DPR.

Signature Bonus - IOC Owned Companies	Co Ref		Reported by companies US$ 000	Reported by CBN US$ 000	Difference US$ 000
Chevron Nigeria Limited	C15 - CNL				-
ConocoPhillips	C82 - Phil				-
ELF Petroleum Nigeria Limited	C25 - EPNL		62,600		62,600
Mobil Producing Nigeria Limited	C41 - MPNU				-
Nigeria Agip Oil Co. Limited	C49 - NAOC				-
Pan Ocean Oil Corporation	C58 - PAN				-
Shell Petroleum Development Co. Limited	C67 - SPDC				-
Shell Exploatrion and Production Company Ltd					
Texaco Nigeria Outer Shelf Ltd	C74-TEX				-
Total Upstream Nigeria Ltd	C76-TUPNI				-
		Total	62,600	-	62,600

Signature Bonus - Other Companies	Co Ref		Reported by companies US$ 000	Reported by CBN US$ 000	Difference US$ 000
Amni International Petroleum Ltd	C05-AMNI				-
Atlas Petroleum International	C07-ATLAS				-
Cavendish Petroleum Nigeria Ltd	C13-CAV				-
Conoil Producing Ltd	C18-CONOIL		4,500		4,500
Continental Oil & Gas	C19-CONT				-
Del Sigma	C23-DSIG				-
Dubri Oil Co Ltd	C24-DUB				-
Nigeria Petroleum Development Company	C48-NPDC		22,925		22,925
Walter Smith Petroman Oil Ltd	C78-WALT				-
Yinka Folawiyo Petroleum Company Ltd	C79-YINK				-
Shebah Exploration & Production Co.Ltd	C83-SEP				-
Brass Exploration Unlimited	Cxx-BRASS				-
		Total	27,425		27,425

analysis:			
IOC Owned Companies	62,600		62,600
Other Companies	27,425		27,425

Additional information was obtained from companies:

NAME OF COMPANY	NUMBER		DPR (USD'000)	COY (USD'000)	NOTES
	OPL	OML			
ELF PETROLEUM NIG. LIMITED	215		30,000	30,000	
ELF PETROLEUM NIG. LIMITED	223		3,000	3,000	
ELF PETROLEUM NIG. LIMITED	223		4,600	4,600	
ELF PETROLEUM NIG. LIMITED	247		NTP	16,000	NO TEMPLATE DATA FROM DPR
ELF PETROLEUM NIG. LIMITED		112/117	NTP	9,000	NO TEMPLATE DATA FROM DPR
ORIENT PET RESOURCES	915 & 916		1,000	NTP	NO TEMPLATE DATA FROM COY
SHELL EXPL & PRODUCTION COY LTD	238		10,000	NTP	NO TEMPLATE DATA FROM COY
ENERGIA LTD	56		150	NTP	NO TEMPLATE DATA FROM COY
MIDWESTERN OIL & GAS COY	56		150	150	
NEW NIG. DEVELOPMENT COY	722		510	NTP	NO TEMPLATE DATA FROM COY
NEW NIG. DEVELOPMENT COY	723		510	NTP	NO TEMPLATE DATA FROM COY
MONIPULO	231		26,499	NTP	NO TEMPLATE DATA FROM COY
NPDC/REFINEE PETROPLUS	251		7,725	7,725	
NPDC ASHBERT	325		10,050	10,050	
NPDC	332		5,150	5,150	
AMNI INT DEV COY LTD	251		1,030	NTP	NO TEMPLATE DATA FROM COY
DOMON OIL SERVICES	277, 722, 723 & 233		1,750	NTP	NO TEMPLATE DATA FROM COY
ASCON OIL EXP COY LTD	732		18	NTP	NO TEMPLATE DATA FROM COY
BOSTON ENERGY RES LTD	917		1,000	NTP	NO TEMPLATE DATA FROM COY
GAS TRANS & POWER LTD	905		245	NTP	NO TEMPLATE DATA FROM COY
GAS TRANS & POWER LTD	905		124	NTP	NO TEMPLATE DATA FROM COY
OANDO	278		25,500	25,000	DIFF OF USD500 B/W DPR & COY
OANDO	282		NTP	400	NO TEMPLATE DATA FROM DPR
OANDO	OBODETI/OBODUGWA FIELD		NTP	67,500	NO TEMPLATE DATA FROM DPR
STAR DEEP WATER PET LTD	JDZ BLK 1		NTP	62,730	DPR IS NOT EXPECTED TO HAVE DATA ON THIS
CONOIL PRODUCING LTD			NTP	4,500	NO TEMPLATE DATA FROM DPR
TOTAL			129,011	245,805	

Note: Star deep Water Petroleum Ltd declared a signature bonus of US$ 67.5 million in relation to a field in the Joint Development Zone. This is not administered by DPR. The bonus is paid to the Joint Development Authority, not to the Central Bank of Nigeria.

These tables display important differences between company declared payments and DPR declared receipts. The principal differences are:

Nature of difference	Amount (US$ 000)	Companies affected
Company reported payments that DPR did not acknowledge	-25,000	Elf
Company reported payments that DPR did not acknowledge	-4,500	Conoil
Company reported payments that DPR did not acknowledge	-67,900	OandO
Company payments differed from those recorded by DPR	500	OandO
Company failed to submit a template	1,000	Orient
Company failed to submit a template	10,000	Shell Exploration and Production Co Ltd
Company failed to submit a template	150	Energia
Company failed to submit a template	1,020	New Nigeria Dev Co
Company failed to submit a template	26,499	Moni Pulo
Company failed to submit a template	1,030	Amni
Company failed to submit a template	369	Gas Trans and Power
Company failed to submit a template	1,000	Boston Energy Res
Company failed to submit a template	18	Ascon Oil Exploration
Company failed to submit a template	1,750	Domon Oil services
Total net difference	54,064	

Summary:

Missing items on DPR side	-97,400	
DPR recorded items not declared by companies	43,336	

Thus, the proportion of items that are confirmed by both DPR and the companies is small in relation to the transactions reported by either DPR or companies that are not confirmed. In the absence of additional data from DPR, we are not in a position to know whether the items received by DPR reflect mistakes by DPR or declaration omissions by companies. The difficulty is compounded by the lack of any data from CBN.

Signature Bonus is a transaction type that requires particularly careful management by both companies and government. By its nature, it is not a recurring transaction type (such as monthly royalty payments) and therefore companies do not generally have well-established and controlled systems for managing and reporting on their liability. Government, on the other hand, anticipates high revenues from signature bonuses and requires much better systems than are presently evident to manage and control those receipts.

Further detail is set out in Appendix F.

10 CASH CALLS

Cash calls represent the Federation's investment in joint venture (JV) oil and gas operations. The Federation share of each JV is:

	Federation share
Shell JV	55%
Mobil JV	60%
Chevron JV	60%
Agip JV	60%
Elf JV	60%
Panocean JV	60%

10.1 Cash call account maintained by NNPC

The summary of the NNPC-NAPIMS Cash Call Account for the year is as follows:

	US$ millions	US$ millions
Balance at 1 January 2005		598
Received from JP Morgan ac		4065
Cash calls paid		
in US dollars	-2196	
in Naira	-1273	
		-3469
Interest credited	18	
Security	-61	
NAPIMS management fee	-60	
		-103
Balance at 31 December 2005		1091

All amounts have been reconciled between NNPC and CBN.

The amount paid for "security" was paid to the Nigerian navy.

The balance held by NNPC as at 31st December 2005 totalled US$ 1,091 million on account of future payments of cash calls. This includes $1,000 million on a fixed deposit.

10.2 Summary of cash call payments

Payments made to each joint venture in 2005 are summarised as follows:

JV OPERATOR	US$ Milllion	NGN Million
SPDC	795	69,117
MPNU	358	26,426
CNL	360	27,689
NAOC	341	26,359
EPNL	325	14,121
PANOCEAN	17	2,718
	2,196	**166,430**

10.3 Disaggregated cash call payments in Naira

The Naira were obtained by monetisation of US$ amounts. The monetisation took place at the following rates of exchange:

DATE	PARTICULARS	USD	RATE	NAIRA
05-Jan	January 2005 Cash Calls	94,305,567	131.8500	12,434,189,000
05-Jan	December 2004 Cash Calls	45,710,080	131.8500	6,026,874,000
09-Feb	February 2005 Cash Calls	85,427,774	131.8500	11,263,652,000
15-Mar	March 2005 Cash Call	79,484,687	131.8500	10,480,055,999
23-Mar	March 2005 Cash Call	17,110,739	131.8500	2,256,222,000
06-Apr	April 2005 Cash Call	46,568,108	131.8500	6,140,004,999
20-Apr	April 2005 Cash Call Chevron & shell	45,777,999	131.8500	6,036,287,000
26-May	May 2005 Cash Call	96,215,819	131.8500	12,681,245,000
08-Jun	June 2005 Cash Call	49,331,339	131.8500	6,504,337,000
09-Jun	2003 Peformance balance (SPDC)	29,094,751	131.8500	3,835,560,999
09-Jun	2001 ADD performance balance (SPDC)	1,947,243	131.8500	256,705,000
09-Jun	2001 performance balance (SPDC)	1,013,699	131.8500	133,636,000
21-Jun	Shell & Chevron Cash Call for June	61,942,508	131.8500	8,168,978,000
12-Jul	Taxaco 1998-2001 peformance balance	5,246,121	131.8500	691,805,999
12-Jul	July 2005 Cash Call	50,139,948	131.8500	6,611,954,999
12-Jul	SPDC Cash Call for July	28,386,123	131.8500	3,743,277,999
11-Aug	August 2005 Cash Call	104,553,465	131.8500	13,788,511,000
25-Aug	Pan Ocean 2004 Peformance balance	20,609,912	131.8500	2,717,622,999
07-Sep	September 2005 Cash Call	107,493,404	128.5700	13,820,427,000
20-Oct	October 2005 Cash Call	93,098,110	128.5700	11,967,761,999
17-Nov	November 2005 Cash Call	132,486,844	128.5700	17,028,533,999
16-Dec	NAOC 2004 Performance balance	32,475,469	128.5700	4,156,860,000
20-Dec	EPNL 2004 Peformance balance	17,961,625	128.5700	2,299,088,000
20-Dec	December 2005 Cash Calls	26,459,758	128.5700	3,386,849,000
Total		**1,272,841,091**		**166,430,439,989**

The total amount of ₦166,430.439,989.18 was paid to JV Operators as follows:

SUMMARY OF NAIRA CASH CALL PAYMENT

OPERATOR	CURENT YEAR N'000	PRIOR YEAR N'000	TOTAL N'000
SPDC	58,864,220	10,252,776	69,116,996
MPNU	26,426,424	-	26,426,424
CNL/TEXACO	26,997,665	691,806	27,689,471
NAOC	22,202,041	4,156,860	26,358,701
ELF	11,821,937	2,299,088	14,121,025
PAN OCEAN	-	2,717,623	2,717,623
	146,312,287	20,118,153	166,430,440

10.4 Disaggregated cash call payments in US$

Cash call payments to Joint Ventures during 2005 were as follows, Including amounts referring to 2004 and prior years:

US$ 000	Total	Current	Prior Years	2004	2003	2002	2001
Shell JV	794,538	658,916	135,622		109,712	21,682	4,228
Mobil JV	357,914	357,914					
CNL JV	360,272	334,601	25,671				25,671
NAOC JV	340,899	307,117	33,782	33,782			
EPNL JV	325,376	212,605	112,771	112,771			
Pan Ocean JV	17,486	17,486					
Total	**2,196,485**	**1,888,639**	**307,846**	**146,553**	**109,712**	**21,682**	**29,899**

10.5 Arrears of cash calls

The foregoing tables show payments in 2005 that relate to earlier years.

There are inevitably arrears of payment of cash calls, arising from the normal process of agreeing the approved performance for each year. These arrears represent amounts not yet agreed, and are therefore subject to amendment. However, they are indicative of amounts that NNPC might agree to pay into the joint ventures in subsequent years.

10.6 Reconciliation between NNPC NAPIMS and companies

We reconciled the payments made by NNPC to the amounts accounted for by companies as having been received. There were minor differences between Cash Call receipts reported by the JV companies and Cash Call payments recorded NNPC/NAPIMS. The nature of the differences was mainly timing differences, as follows:

- Transactions that were recorded in the wrong period; and
- Payments relating to previous years that were omitted.

All such items have now been cleared.

Further detail is set out in Appendix G.

11 GAS SALES PROCEEDS

11.1 Process for accounting for gas income

There are several systems for dealing with gas incomes:

11.1.1 Nigeria LNG

Sales of gas to Nigeria LNG are invoiced separately by each of the JV partners and NNPC receives its attributable gas proceeds directly into the CBN/NNPC Crude Oil and Gas Revenue (Naira) Account not via the Joint Ventures.

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. These are included in Gas proceeds (Appendix A).

11.2 Use of gas for power generation (NAOC)

A Memorandum of Understanding (MOU) was executed in 2001 between FGN, NEPA , NNPC and NAOC setting out the terms for execution of the Power Purchase Agreement (PPA) wherein NAOC as Operator provides the power, NEPA purchases the power and NNPC guarantees NEPA's payment obligation.

The IPP JV Securitisation Agreement between NNPC, NEPA, NAOC and POC(N)L makes provisions via which the Guarantor (NNPC) guarantees all of NEPA's payment obligations to the JV Private Partners under the PPA.

In order to execute such a guarantee it was essential to set up :

- An IPP Joint Account - an interest bearing bank account established by the parties and operated by the Operator into which all the proceeds due to the Joint Venture from NEPA are paid
- A Security Account - an interest bearing account established by the Guarantor wherein the Bank after disbursing the share of the JV Private Partners shall credit the remaining balance that is due to NNPC.

The payment procedure is that monthly invoices are issued for power delivered to NEPA. Payment due to the IPP Developer is paid into the IPP Joint Account. Where NEPA has fully discharged its payment obligations then the IPP Joint Account Bank disburses to the Private Partners their share (less any associated costs plus accrued interest) and finally pays any balance due to NNPC into the Security Account. The Bank makes payments to NNPC from the Security Account only if NEPA has fully discharged its payment obligations for six consecutive months and the payment shall be a sum equal to 60% of the oldest invoice. Gas income sharing is on a cash basis i.e. only funds received in the IPP Joint Account is available for sharing amongst the Partners.

The IPP Joint Account is essentially an escrow account into which payment of IPP invoices is made by PHCN .The bank has been given the mandate to share monies received into the account to all partners in participating ratios (NNPC's share is paid into the Security Account) as soon as such monies are received, The account therefore has a zero balance at all times. Though jointly opened by all partners, it does not feature in the books of any of them.

The Federation share of income from this source is, in effect, paid directly from NEPA / PHCN to NNPC. Since the power sector is not a covered entity, this income has not been corroborated. NNPC reports this kind of income as gas sales proceeds, included in section 4 of this report.

11.2.1 Other gas sales

Gas is supplied by the Shell and Chevron joint ventures to NGC. Sales of gas to NGC are managed by the respective Joint Venture Operator. Proceeds of gas sales to NGC by Shell and Chevron are shared out between the partners.

- Shell collects the proceeds and pays NNPC's share into the CBN/NNPC Crude Oil and Gas Revenue (Naira) Account the proceeds of which are regularly swept into the Federation account:
- NNPC's 60% share of the Chevron gas is paid direct by NGC into the CBN/NNPC Crude Oil and Gas Revenue (Naira) Account

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.

We are not fully aware of the commercial arrangements as regards sharing of any income arising from:

- the provision of gas by the NAOC and Shell Joint Ventures to the independent power producers (IPP's)
- the provision of gas by the Mobil JV to the Mobil liquefaction plant
- the provision of gas by each JV to "other" which includes industrial consumers.

11.3 Use of gas in Mobil Liquefaction plant

The process for producing non gas liquids is that liquid is extracted from Oso gas at the extraction platform and the dry gas sent back for reinjection into the reservoir formation for pressure maintenance. There are no financial proceeds from this gas.

Regarding the liquefaction, both NNPC and MPN lift their respective shares of 49% and 51% of the produced volumes. There is no sharing of proceeds as each party has its own bank account.

NNPC income from this source is included in the income reported in section 4 of this report.

11.4 Audit issues

We requested NNPC NAPIMS to provide data on income from gas sales. Despite repeated requests, however, NAPIMS did not provide any data concerning gas revenues.The non-response to our template data request from NNPC NAPIMS is concerning. It appears that NAPIMS is the only organisation in a position to supervise / control whether the Federation is receiving its due share of income from gas sales. If NAPIMS has no relevant data it appears that the interest of the Federation is not being effectively protected.

Further detail is set out in Appendix H to this report.

11.5 Recommendation

The multiplicity of methods of paying the Federation Account share of gas proceeds needs to be reviewed and perhaps rationalised. A single method that is transparent and verifiable should be adopted.

12 LICENSE AREA RENTALS AND FEES

12.1 Overview

The aim of the work was to:

- Confirm transactions that occurred in 2005; and
- Provide assurance that DPR operates a system that has been designed to give reasonable assurance that fees falling due are appropriately identified and duly collected.

The results of the audit were unsatisfactory in both respects.

12.2 Data on Rental and Fees

The data provide by DPR is set out below

Name of Company	Transaction Date	OPL number	OML number	Date renewed	Amount due from company	Amount paid by company	Date paid	Details of payment cheq./ T. T	Name of Paying Bank
PHILLIPS OIL COY	JAN '05					20,026.91	05-Jan		
PAN OCEAN	JAN '05					5,716.83	05-Jan		
SHELL	FEB ' 05					465,336.66	05-Feb		
EXXONMOBIL	FEB ' 05					13,642.00	05-Feb		
CHEVRON NIG LTD	MARCH '05					4,224.99	05-Mar		
CONOIL	APRIL ' 05					3,109.64	05-Apr		
CONTINENTAL OIL	APRIL ' 05					9,074.70	05-Apr		
ELF PET	MAY '05					57,977.08	05-May		
DUBRIL OIL	JUNE '05					13,293.89	05-Jun		
EMERALD ENERGY	JUNE '05					25,345.94	05-Jun		
ATLAS/SUMMIT	JULY '05					15,756.04	05-Jul		
AGIP ENERGY	JULY '05					71,852.04	05-Jul		
AGIP ENERGY	JULY '05					7,980.05	05-Jul		
CONOIL	AUG '05					3,109.64	05-Aug		
CONOIL	AUG '05					9,074.70	05-Aug		
NAOC	SEPT '05					20,022.37	05-Sep		
EMERALD ENERGY	SEPT '05					12,774.33	05-Sep		
NPDC	OCT '05					48,677.00	05-Oct		
CHEVRON NIG LTD	NOV '05					16,753.56	05-Nov		
SHELL	DEC '05					646,430.00	05-Dec		
EXXONMOBIL	DEC '05					13,642.00	05-Dec		
CHEVRON NIG LTD	DEC '05					8,936.04	05-Dec		
						1,492,756.41			

Despite several attempts to obtain data from DPR, no information was forthcoming on:

- OPL/OML number.
- Date of Renewal
- Receivables from companies (Amount due)
- Details of payments
- Name of paying bank

The degree of correlation between the DPR data and the data provided by the companies was low. Additional detail from DPR would be needed to reconcile the differences.

We were unable co conclude on the completeness of the payments reported by DPR.

Despite the lack of information, we did confirm the flows [reported by companies] using the monthly receipts schedule from CBN to DPR. We also confirmed that the flows were paid in USD into the Federation account.

12.3 System of control

The apparent inability of DPR to provide the requested data in the desired format suggests that DPR is not maintaining a system that is likely to meet the objectives set out above, namely to ensure that all rentals and fees falling due are collected. Consequently, no conclusion may be drawn as to whether all fees due for 2005 were collected.

Given that licensing is a core function of DPR, it is clear that remediation is required to put in place a management system to enable DPR to ensure that rentals are collected when due.

Further detail is set out in Appendix M.

13 NON FINANCIAL FLOWS

13.1 Introduction

Non Financial Flows represent "in kind" transactions under a Production Sharing Contract (PSC) and carry arrangements. They involves settlement of Tax and Royalty liabilities by means of crude oil allocations instead of financial transfers. Under a PSC arrangement, government take (PPT, Royalty and Profit) is settled by crude oil transfer to NNPC on behalf of government. The principles of in-kind settlement apply equally to carry agreements.

13.2 Oil allocation and financial values

The amount and value of allocations to NNPC in 2005 in respect of tax and royalty oil were the following:

	Financial liabilities		Oil allocation		Profit share to NNPC	
	Royalty	Petroleum Profits Tax	Royalty	Petroleum Profits Tax		
	US$ 000	*US$ 000*	*bbl*	*bbl*	*bbl*	*US$ 000*
Nigeria Agip Energy	50934		941866		1408520	76170
Addax Petroleum Development Nigeria Ltd	68159	345917	1400554	6713798	1633543	81832
Addax Petroleum Exploration Nigeria Ltd	9512	8489	189877	169465	154202	7725
Shell NEPCO						
Total	**128605**	**354406**				**165726**

NAE stated that they have no PPT liability because of a beneficial tax regime to which they are entitled. We were not able to confirm this.

APDNL did not make available to us the PSC under which they are operating, which should set out the royalty rate APDNL allocation in respect of royalty appears exceptionally low. The allocation is equivalent to 8% of production whereas we had understood that the rate for the onshore fields operated by the company should be 20%.

APENL did not make available the financial data from which the oil allocations were derived. The company was undertaking trial marketing so none of the figures could be finally determined.

In the table, the financial profit share expressed in barrels has been valued in dollars using average effective rates applicable to royalty and tax. These are therefore estimates. In the absence of any financial data for APENL, the financial values have been estimated using the average price applicable to APDNL.

SNEPCO first produced from Bonga at the end of 2005 and the cargo lifted on 29th December went for trial marketing. No royalty or tax has been paid or determined.

13.3 Comments on the management of in-kind transfers

The operators are required by the Production Sharing Contract to maintain records of the allocation of total production between:

- Royalty oil
- Cost oil
- Tax oil
- Profit oil

The allocation of production is made monthly. The royalty and tax liabilities in financial terms are converted into oil using Realisable Price which is notified by NNPC.

NNPC, which is the license holder for the areas, is responsible for settling the royalty and tax liabilities of the PSC. It does this, theoretically, by lifting the crude allocated for this purpose, paying the proceeds into the Federation account. NNPC notifies FIRS and DPR in order that receipts can be issued for the amounts settled in this way.

NNPC in 2005 treated the liftings from PSCs no differently from other oil lifted from JVs: in accordance with the established procedure, the proceeds from such sales were paid into the Federation account by the purchaser of the crude, or by NNPC itself if the crude were classified as domestic.

There is usually a delay in lifting the crude allocation from PSCs. This is because the amounts are generally insufficient to justify lifting. The amounts of oil allocated to NNPC are accumulated until there is a reasonable amount to constitute a cargo. Also, there will usually be a delay because of the need, especially at this stage in the development of the fields, to plan lifting. That amount is then dealt with (as described in the Physical audit). For all these reasons, the price applied when determining the amount of oil required to settle a liability will not longer be applicable when the oil is lifted or sold. The question arises how that difference is accounted for. If the market is rising, NNPC will realise a holding gain on the crude. This however is not explicitly accounted for: although the respective regulatory agency will issue a receipt for the amount of the financial liability that was to be settled, there is no accounting for the gain made by NNPC, which will be merged with any other profits on equity crude and will credit the Federation. In a falling market, NNPC might suffer a loss on the crude: this will be reflected in lower net proceeds reaching the Federation account. We recommend that consideration be given to accounting separately for this profit or loss. This will become an increasingly significant issue as a greater proportion of production arises from PSCs.

13.4 Validation of transfers

The amount actually lifted by NNPC were validated as part of the work on the proceeds of sale of equity crude (section 4 of this report and Appendix A). No distinction was drawn between crude in settlement of tax and royalty liabilities and crude that represented equity profits.

As explained above, however, there is a timing issue in that the royalty and PPT liabilities were settled only after NNPC had sold the crude, not at the time the crude was allocated for the purpose. In effect, NNPC held crude oil stocks, located at the respective terminals, for which it realised money only later. Consequently, the figures tabulated above must be regarded as accruals based allocations whereas the amounts benefiting the Federation arise only on a cash basis at a later date. This means that a PSC reports that a liability has been settled at the point of allocation (which is the extent of the operator's liability) but the regulatory agency will not know this until, perhaps, several months later.

Until a suitable method of accounting for these timing differences and valuation differences is developed, the timing and quantification of the benefits cannot be definitively determined. When reporting proceeds of equity crude in this report, the amounts include royalty and PPT paid by PSCs and correspondingly the financial flows from PPT and royalty represent only the amounts settled through the banking system. This is a matter of analysis, timing and financial management.

Further detail is set out in Appendix N.

14 NON-OIL RELATED FLOWS

14.1 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 destination of the various flows may be summarised as follows:

	Flows to states		Flows to the Federation	
	US$ 000	N'000	US$ 000	N'000
Withholding tax		8,994,822	177,090	
Pay as you Earn	23,620	22,844,797		
Value Added Tax		227,190	82,405	
Education Tax		3,572,042	116,269	
	23,620	35,638,851	375,764	-

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

Note that there are some discrepancies between this report and the Appendices , due to different times at which each were prepared. These will be corrected in the final report.

		Reported by companies US$ 000	Reported by companies N'000
Withholding tax		177,090	8,994,822
Pay as you Earn		23,620	22,844,797
Value Added Tax		82,405	227,190
Education Tax		116,269	3,572,042
	Total	399,384	35,638,851
analysis:			
IOC-owned companies		355,488	31,254,164
Other companies		43,896	4,384,687

Disaggregated data on these financial flows is set out in the next page.

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REF	COMPANY	PAY AS YOU EARN (PAYE)		WITHHOLDING TAX				VALUE ADDED TAX			EDUCATION TAX		TOTAL			
		NGN'000	USD'000	NGN'000	USD'000	GBP'000	EUR'000	NGN'000	USD'000	EUR'000	NGN'000	USD'000	NGN'000	USD'000	GBP'000	EUR'000
C01-ADDX	Addax Petroleum Development Nigeria Ltd.			310,990	7,193				1,782				310,990	8,975	0	0
CO2-AENR	Agip Energy & Natural Resources Ltd	106,958		86,831	3,361				2,020			11,282	193,789	16,663	0	0
C07-ATLAS	Atlas Petroleum International	699		4,294									4,993	0	0	0
C15-CNL	Chevron Nigeria Ltd	4,468,709		1,067,896	21,150				6,280		1,932,246	14,585	7,468,851	42,015	0	0
C18-CONOIL	Conoil Producing Ltd											2,677	0	2,677	0	0
C19-CONT	Continental Oil & Gas			27	2							2,515	27	2,517	0	0
C24-DUB	Dubri Oil Co Ltd	1									1,356	11	1,357	11	0	0
C25-EPNL	Elf Petroleum Nigeria Ltd	1,203,004		988,869	19,774				10,133				2,191,873	29,907	0	0
C28-ESSO	Esso E&P Gas Co. Ltd	226,223	1,746	797,031	15,542								1,023,254	17,288	0	0
C29-EEL	Eurafric Energy Limited							23,621	13,816				23,621	13,816	0	0
C30-XL	Excel	680		40,876									41,556	0	0	0
C41-MPNU	Mobil Producing Nigeria Unlimited	2,832,804	21,874	1,187,367	39,177			56,433	17,160			28,913	4,076,604	107,124	0	0
C42-MONI	Moni Pulo Ltd	24,343		71,488	3,608	-1			3,294			4,934	95,831	11,836	-1	0
C46-NIGD	Niger Delta Petroleum Resources Ltd	871											871	0	0	0
C47-NAE	Nigerian Agip Exploration	23,599			3,631				3,320			5,010	23,599	11,961	0	0
C48-NPDC	Nigeria Petroleum Development Company										1,630,230	12,736	1,630,230	12,736	0	0
C49-NAOC	Nigerian Agip Oil Company Ltd.	1,640,411		896,120	19,434	5	405		8,865	260		6,059	2,536,531	34,358	5	665
C54-OCE	Ocean Energy	102		48	1								150	1	0	0
C57-OPR	Orient Petroleum Resources Ltd								291				0	291	0	0
C58-PAN	Pan-Ocean Oil Corporation	80,482		52,513	53							1,007	132,995	1,060	0	0
C60-PETB	Petrobras	17,908		8,974	1,084								26,882	1,084	0	0
C62-PLAT	Platform Petroleum LTD	1											1	0	0	0
C65-SNUD	Shell Nig. Ultra Deep Ltd.			36,132	851								36,132	851	0	0
C66-SNEPCO	Shell Nig. E&P Co. Ltd			172,381	896			105	9				172,486	905	0	0
C67-SPDC	Shell Petroleum Development Company	10,619,458		2,333,242	35,386	88	133		12,926			26,009	12,952,700	74,321	88	133
C69-SAP	South Atlantic Petroleum Ltd	6,469		1,842	11								8,311	11	0	0
C70-STAR	Star Deep Water Petroleum			7,938	5,835				754				7,938	6,589	0	0
C71-STAT	Statoil Nigeria Ltd	42,818		9,186	64								52,004	64	0	0
C74-TEX	Texaco Nigeria Outer Shelf Ltd			3,433	11								3,433	11	0	0
C76-TUPNI	Total Upstream Nigeria Ltd			43,376	625				1,685				43,376	2,310	0	0
C79-YINK	Yinka Folawiyo Petroleum Company Ltd			542									542	0	0	0
C82-PHIL	Phillips Oil Company (Nigeria) Ltd	38		11,823	1,128			2	70			531	11,863	1,729	0	0
N02-NAPIMS	NAPIMS	112,486		84,455				74,604					271,545	0	0	0
N05-PPMC	PPMC	149,509		160,407				72,425					382,341	0	0	0
N06-NGC	NGC	51,266		35,496									86,762	0	0	0
Total		21,608,839	23,620	8,413,577	178,817	92	538	227,190	82,405	260	3,563,832	116,269	33,813,438	401,111	92	798

14.2 Withholding tax

Withholding tax-IOC owned companies

		Reported by companies US$ 000	Reported by companies N'000
Chevron Nigeria Ltd	C15-CNL	21,150	1,067,896
Phillips Oil Company (Nigeria) Ltd	C82-PHIL	1,128	11,823
Elf Petroleum Nigeria Ltd	C25-EPNL	19,774	988,869
Esso E&P Nigeria. Ltd	C28-ESSO	15,542	797,031
Mobil Producing Nigeria Unlimited	C41-MPNU	39,177	1,187,367
Nigerian Agip Oil Company Ltd.	C49-NAOC	19,434	896,120
Pan-Ocean Oil Corporation	C58-PAN	53	52,513
Petrobras	C60-PETB	1,084	8,974
Shell Petroleum Development Company	C67-SPDC	35,386	2,333,242
Shell Nig. Ultra Deep Ltd.	C65-SNUD	1	36,132
Addax Petroleum Development Nigeria Ltd.	C01-ADDX	7,193	310,990
Agip Energy & Natural Resources Ltd	CO2-AENR	3,361	86,831
Nigerian Agip Exploration	C47-NAE	3,631	-
Shell Nig. E&P Co. Ltd	C66-SNEPCO	19	172,381
Star Deep Water Petroleum	C70-STAR	5,835	103,760
Statoil Nigeria Ltd	C71-STAT	64	9,186
Texaco Nigeria Outer Shelf Ltd	C74-TEX	11	3,433
Total Upstream Nigeria Ltd	C76-TUPNI	625	43,376
	Total	173,468	8,109,924

Witholding tax-Other companies

		Reported by companies US$ 000	Reported by companies N'000
Atlas Petroleum International	C07-ATLAS	-	4,294
Continental Oil & Gas	C19-CONT	2	27
Del Sigma	C23-DSIG	-	483,891
Emerald Energy Resources Ltd	C26-EER	-	563
Excel	C30-XL	-	40,876
Moni Pulo Ltd	C42-MONI	3,608	71,488
Ocean Energy	C54-OCE	1	48
Orient Petroleum Resources Ltd	C57-OPR		
South Atlantic Petroleum Ltd	C69-SAP	11	1,842
Yinka Folawiyo Petroleum Company Ltd	C79-YINK	-	542
Shebah Exploration & Production Co.Ltd	C83-SEP	-	969
NAPIMS	N02-NAPIMS	-	84,455
PPMC	N05-PPMC	-	160,407
NGC	N06-NGC	-	35,496
	Total	3,622	884,898

analysis:		
IOC-owned companies	173,468	8,109,924
Other companies	3,622	884,898
Total	177,090	8,994,822

14.3 Value Added Tax

Value Added Tax-IOC owned companies

		Reported by companies US$ 000	Reported by companies N'000
Chevron Nigeria Ltd	C15-CNL	6,280	-
Phillips Oil Company (Nigeria) Ltd	C82-PHIL	70	2
Elf Petroleum Nigeria Ltd	C25-EPNL	10,133	-
Mobil Producing Nigeria Unlimited	C41-MPNU	17,160	56,433
Nigerian Agip Oil Company Ltd.	C49-NAOC	8,865	-
Shell Petroleum Development Company	C67-SPDC	12,926	-
Addax Petroleum Development Nigeria Ltd.	C01-ADDX	1,782	-
Agip Energy & Natural Resources Ltd	CO2-AENR	2,020	
Nigerian Agip Exploration	C47-NAE	3,320	
Shell Nig. E&P Co. Ltd	C66-SNEPCO	9	105
Star Deep Water Petroleum	C70-STAR	754	
Total Upstream Nigeria Ltd	C76-TUPNI	1,685	
	Total	65,004	56,540

Value Added Tax-Other companies

		Reported by companies US$ 000	Reported by companies N'000
Eurafric Energy Limited	C29-EEL	13,816	23,621
Moni Pulo Ltd	C42-MONI	3,294	
Orient Petroleum Resources Ltd	C57-OPR	291	
NAPIMS	N02-NAPIMS		74,604
PPMC	N05-PPMC		72,425
	Total	17,401	170,650

analysis:		
IOC-owned companies	65,004	56,540
Other companies	17,401	170,650
Total	82,405	227,190

14.4 Education tax

Education Tax-IOC owned companies

		Reported by companies US$ 000	Reported by companies N'000
Chevron Nigeria Ltd	C15-CNL	14,585	1,932,246
Phillips Oil Company (Nigeria) Ltd	C82-PHIL	531	-
Mobil Producing Nigeria Unlimited	C41-MPNU	28,913	
Nigerian Agip Oil Company Ltd.	C49-NAOC	6,059	
Pan-Ocean Oil Corporation	C58-PAN	1,007	
Shell Petroleum Development Company	C67-SPDC	26,009	
Agip Energy & Natural Resources Ltd	CO2-AENR	11,282	
Nigerian Agip Exploration	C47-NAE	5,010	
	Total	93,396	1,932,246

Education Tax-Other companies

		Reported by companies US$ 000	Reported by companies N'000
Conoil Producing Ltd	C18-CONOIL	2,677	
Continental Oil & Gas	C19-CONT	2,515	
Dubri Oil Co Ltd	C24-DUB	11	1,356
Moni Pulo Ltd	C42-MONI	4,934	
Nigeria Petroleum Development Company	C48-NPDC	12,736	1,630,230
Shebah Exploration & Production Co.Ltd	C83-SEP		8,210
	Total	22,873	1,639,796

analysis:			
IOC-owned companies		93,396	1,932,246
Other companies		22,873	1,639,796
Total		116,269	3,572,042

14.5 PAYE

Pay As You Earn-IOC owned companies

		Reported by companies US$ 000	Reported by companies N'000
Agip Energy & Natural Resources Ltd	CO2-AENR	-	106,958
Chevron Nigeria Ltd	C15-CNL	-	4,468,709
Phillips Oil Company (Nigeria) Ltd	C82-PHIL	-	38
Elf Petroleum Nigeria Ltd	C25-EPNL	-	1,203,004
Esso E&P Nigeria. Ltd	C28-ESSO	1,746	226,223
Mobil Producing Nigeria Unlimited	C41-MPNU	21,874	2,832,804
Nigerian Agip Oil Company Ltd.	C49-NAOC	-	1,640,411
Pan-Ocean Oil Corporation	C58-PAN	-	80,482
Petrobras	C60-PETB	-	17,908
Shell Petroleum Development Company	C67-SPDC	-	10,619,458
Star Deep Water Petroleum	C70-STAR	-	42,818
Nigerian Agip Exploration	C47-NAE	-	23,599
	Total	23,620	21,155,454

Pay As You Earn-Other companies

		Reported by companies US$ 000	Reported by companies N'000
Atlas Petroleum International	C07-ATLAS	-	699
Dubri Oil Co Ltd	C24-DUB	-	1
Emerald Energy Resources Ltd	C26-EER	-	4,385
Excel	C30-XL	-	680
Express Petroleum & Gas Co. Ltd	C31-EXPR	-	1,336,600
Moni Pulo Ltd	C42-MONI	-	24,343
Niger Delta Petroleum Resources Ltd	C46-NIGD	-	871
Ocean Energy	C54-OCE	-	102
Platform Petroleum LTD	C62-PLAT	-	1
South Atlantic Petroleum Ltd	C69-SAP	-	6,469
Shebah Exploration & Production Co.Ltd	C83-SEP	-	1,931
NAPIMS	N02-NAPIMS	-	112,486
PPMC	N05-PPMC	-	149,509
NGC	N06-NGC	-	51,266
	Total	-	1,689,343

analysis:		
IOC-owned companies	23,620	21,155,454
Other companies	-	1,689,343
Total	23,620	22,844,797

Further detail is set out in Appendix I.

15 CAPITAL FINANCING - NLNG

The development of Nigeria LNG was financed mainly by loan from shareholders, including NNPC. Shareholder's loans represent the partners contributions towards the funding of construction. 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%

During 2005, NNPC received debt servicing and dividend payments from NLNG. The amounts reported by NLNG were the following:

	US$ 000
Total paid to NNPC:	
Loan repayment	34,854
Loan interest	55,233
Dividend	117,195
	207,282

NNPC has not confirmed receipt of these moneys. These amounts should be traced in the NNPC records. It is unclear whether the payments are forwarded to the Federation account.

Further detail is set out in Appendix K to this report.

16 PAYMENTS TO NIGER-DELTA DEVELOPMENT COMMISSION

16.1 Payments by companies to Niger-Delta Development Commission

Payments to Niger-Delta Development Corporation, as reported by the companies and as reported by NDDC were the following:

REF	Name of Company	Company payments	NDDC receipts	Difference
		US$ 000	US$ 000	US$ 000
C01-ADDX	Addax Petroleum Development Nigeria Ltd.			
C15-CNL	Chevron Nigeria Ltd	19,673	19,673	
C18-CONOIL	Conoil Producing Ltd			
C19-CONT	Continental Oil & Gas			
C25-EPNL	Elf Petroleum Nigeria Ltd	19,927	17,768	-2,159
C41-MPNU	Mobil Producing Nigeria Unlimited	22,792	22,792	
C42-MONI	Moni Pulo Ltd	1,446	2,819	1,373
C49-NAOC	Nigerian Agip Oil Company Ltd.	8,314	29,161	20,847
C58-PAN	Pan-Ocean Oil Corporation	471	979	508
C67-SPDC	Shell Petroleum Development Company	41,739	41,739	
C73-SUMMIT	Summit Oil Int			
C82-PHIL	Phillips Oil Company (Nigeria) Ltd	5,560		-5,560
Cxx-BRASS	Brass Exploration Unlimited			
TOTAL		119,922	134,931	15,009

REF	Name of Company	Company payments	NDDC receipts	Difference
		NGN 000	NGN 000	NGN 000
C01-ADDX	Addax Petroleum Development Nigeria Ltd.			
C15-CNL	Chevron Nigeria Ltd	1,256,325	1,259,266	2,941
C18-CONOIL	Conoil Producing Ltd			
C19-CONT	Continental Oil & Gas			
C25-EPNL	Elf Petroleum Nigeria Ltd	1,268,623	705,900	-562,723
C41-MPNU	Mobil Producing Nigeria Unlimited	1,682,903	1,569,039	-113,864
C42-MONI	Moni Pulo Ltd			
C49-NAOC	Nigerian Agip Oil Company Ltd.	502,628	1,655,966	1,153,338
C58-PAN	Pan-Ocean Oil Corporation			
C67-SPDC	Shell Petroleum Development Company	3,165,767	3,165,767	
C73-SUMMIT	Summit Oil Int			
C82-PHIL	Phillips Oil Company (Nigeria) Ltd	284,636		-284,636
Cxx-BRASS	Brass Exploration Unlimited			
TOTAL		8,160,882	8,355,938	195,056

It is particularly noteworthy that none of the Phillips Oil Company (Nigeria) Ltd payments, in either dollars or Naira, appear to have been received by NDDC.

The differences should be followed up.

16.2 Calculation of amount payable to NDDC

There is a difference of opinion between the companies and ourselves regarding the interpretation of "total annual budget" as set out in section 14.2(b) of the NDDC Act 2000.

Companies supported their position by stating that they had already reconciled their 2005 data with NDDC and obtained a satisfactory sign off from the Commission.

We interpret the law differently from the companies and NDDC. The Act sets out that contribution should be based on "total budget". In the upstream petroleum industry, total budget is conventionally interpreted to mean Actual Total Performance, not estimated of forecast budget. Total performance or budget is the expenditure signed off by the joint venture partners in the Closing Budget for the foregoing year. The actual can of course be either higher or lower than the planned amounts.

For this reason, we interpret the Act as requiring the contribution to NDDC to be based on total expenditure, as set out in Approved Budget Performance as agreed between operators and NNPC-NAPIMS.

The impact of this change would be that the total payable to NDDC would, for 2005 be increased as follows:

	US$ 000	*NGN 000*
Payable, on estimate budget	144,725	8,866,502
Payable, on actual expenditure	195,340	10,089,162
Additional amount payable	**50,615**	**1,222,660**

The application of the Actual basis rather than estimated would not necessarily result in increased payments, in years in which actual performance was lower than budget.

The basis of calculation should be reviewed by the NSWG and clarified with companies and NDDC.

Further detail is set out in Appendix J to this report.

17 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 tabulated as follows:

Party to producing licences	EntityCode	Name	Date Received	Financial Audit	Physical Audit
P	C01-ADDX	Addax Petroleum Development Nigeria Ltd			
P	C01a-APENL	Addax Petroleum Exploration Nigeria Ltd			
P	C02-AENR	Agip Energy & Natural Resources Ltd	16-Oct-08	ok	ok
	C03-ALF	Alfred James Nig Ltd.			
	C04-ALLIED	Allied Energy Resources (Nigeria) Ltd			
P	C05-AMNI	Amni International			
	C06-AOG	Associated Oil and Gas Services Ltd			
P	C07-ATLAS	Atlas Petroleum Int.	27-Feb-08	ok	ok
	C08-BAY	Bayelsa Oil Company Ltd.			
	C10-BIC	Bicta Energy			
	C12-BRIT	Brittania U-Nigeria Ltd			
P	C13-CAV	Cavendish Petroleum			
	C14-CEN	Centrica Resources (Nigeria) Ltd			
P	C15-CNL	Chevron Nigeria Ltd	14-Oct-08	ok	ok
	C16-CHOR	Chorus Energy			
P	C18-CONOIL	Conoil Producing Ltd			
P	C19-CONT	Continental Oil & Gas			
	C21-DAJO	Dajo Oil Limited			
	C22-DANS	Dansaki Petroleum Ulimited			
	C23-DSIG	Del Sigma			
P	C24-DUB	Dubri Oil Co.Ltd			
P	C25-EPNL	Elf Petroleum Nigeria Ltd	18-Oct-08	ok	ok
	C26-EER	Emerald Energy Res. Ltd			
	C27-ENERG	Energia			
	C29-EEL	Eurafric Energy Limited			
	C30-XL	Excel			
P	C31-EXPR	Express Petroleum & Gas Co Ltd			
	C33-FRON	Frontier Oil Ltd.			
	C34-GOL	Goland Petroleum Dev. Co. Limited			
	C35-GUAR	Guarantee Petroleum			
	C36-HOG	Heritage Oil & Gas Ltd			
	C37-IND	Independent Energy Ltd			
	C38-KNOC	Korean National Oil Corporation			
	C39-MIDW	Midwestern Oil and Gas Company plc			
	C40-MILL	Millenium Oil and Gas			
P	C41-MPNU	Mobil Producing Nigeria Unlimited	17-Oct-08		ok
P	C42-MONI	Moni Pulo Ltd			
	C43-MOV	Movido E&P			
	C44-NET	Network E & P			
	C45-NND	New Nigeria Development Co.			
	C46-NIGD	Niger Delta Petroleum Resources Ltd			
P	C47-NAE	Nigerian Agip Exploration	16-Oct-08	ok	ok
P	C48-NPDC	Nigeria Petroleum Development Company			
P	C49-NAOC	Nigerian Agip Oil Company Ltd	16-Oct-08	ok	ok
	C51-NOREST	Noreast Pet. Nig. Ltd			
	C52-OEPL	Oando Exploration & Production Ltd			
	C54-OCE	Ocean Energy			
	C55-OGN	Oil and Gas Nig Ltd			
	C57-OPR	Orient Petroleum Resources Ltd.			
P	C58-PAN	Pan-Ocean Oil Corporation	14-Oct-08	ok	ok
	C59-PEAK	Peak Petroleum Ind.			
	C60-PETB	Petrobras			
	C61-PILL	Pillar Oil Limited			
	C62-PLAT	Platform Petroleum Ltd.			
	C63-PRIM	Prime Exploration & Production			
	C64-SAH	Sahara Energy Resource (Nig) Ltd			
	C65-SNUD	Shell Nig. Ultra Deep Ltd.	16-Oct-08	ok	ok
P	C66-SNEPCO	Shell Nigeria E&P Co Ltd	16-Oct-08	ok	ok
	C66a-SNEPA	Shell Nigeria Exploration Properties Alpha Limited	19-Oct-08	ok	ok
P	C67-SPDC	Shell Petroleum Development Company			
	C68-SOG	Sogenal Ltd			
	C69-SAP	South Atlantic Petroleum Ltd			
	C70-STAR	Star Deep Water Petroleum Ltd			
	C71-STAT	Statoil Nigeria Ltd			
	C72-STERG	Sterling Global			

Party to producing licences	EntityCode	Name	Date Received	Financial Audit	Physical Audit
	C73-SUMMIT	Summit Oil Int.			
	C81-AFREN	Afren Global Energy Resources			
	C76-TUPNI	Total Upstream Nigeria Ltd	18-Oct-08	ok	ok
	C77-UNI	Universal Energy Resources Ltd			
	C78-WALT	Walter Smith Petroman Oil Ltd			
	C79-YINK	Yinka Folawiyo Petroleum Company Ltd			
P	C82-PHIL	Phillips Oil Company (Nigeria) Ltd	13-Oct-08	ok	ok
	C80-ZEB	Zebbra Energy Ltd.			
P	C84-SEPCOL	Shebah Exploration & Production CO Ltd	17-Feb-08	ok	ok
P	C83-CAMAC	Camac International Nigeria Ltd			
P	Cxx-BRASS	Brass Exploration Unlimited			

ACRONYMS

AENR	Agip Energy and Natural Resources Nigeria Limited
AFG	Accountant General of the Federation
AFS	Audited Financial Statements
AGO	Diesel oil
ALSCON	Aluminium Smelting Company of Nigeria
ASCL	Ajaokuta Steel Company Limited
BPSD	Barrels per stream day
BS&W	Base Sediments & Water
CBN	Central Bank of Nigeria
CIT	Company Income Tax
CNL	Chevron Nigeria Limited
COMD	Crude Oil Marketing Division of NNPC
CPDD	Corporate Planning & Development Division
CTT	Custody Transferred Terminal
DPK	Kerosene
DPR	Department of Petroleum Resources
DSCL	Delta Steel Company Limited
ECOWAS	Economic Community Of West African States
EPNL	Elf Petroleum Nigeria Limited
FAAC	Federation Accounts Allocation Committee
FCCU	Fluid Catalytic Cracking Unit
FCDA	Federal Capital Development Authority
FCT	Federal Capital Territory
FIRS	Federal Inland Revenue Service
FPSO	Floating Production, Storage and Offloading (Vessel)
FSO	Floating Storage and Offloading System
GGCP	Gas Gathering and Compression Platform
GMD	Group Managing Director (of NNPC)
GED F&A	Group executive Director Finance & Administration (of NNPC)
GGM	Group General Manager (of NNPC)
KRPC	Kaduna Refininy and Petrochemical Company
LNG	Liquefied Natural Gas
LPFO	Low pour fuel oil
NAE	Nigeria Agip Exploration Ltd
NAFCON	National Fertiliser Company of Nigeria
NAG	Non-Associated Gas
NAOC	Nigerian Agip Oil Corporation
NAPIMS	National Petroleum Investment Management Services
NEPA	Nigerian Electric Power Authority
NGC	Nigerian Gas Company
NGL	Non Gas Liquids
NLNG	Nigeria LNG Ltd
NNPC	Nigerian National Petroleum Corporation
NPDC	Nigerian Petroleum Development Company
OAGF	Office of the Accountant General of the Federation
OML	Oil Mining Lease
OPL	Oil Prospecting License

OPTS	Oil Producers' Trade Group (of the Lagos Chamber of Commerce)
PAYE	Pay as you earn
PHRC	Port Harcourt Refinery
PMS	Petroleum motor spirit (petrol)
PPMC	Pipeline and Products Marketing Co Ltd
PPQC	Production Programming and Quality Control
PPT	Petroleum Profits Tax
RVSG	Rivers State Government
SPDC	Shell Petroleum Development Corporation
SWIFT	Society for Worldwide Interbank Financial Transactions
VAT	Value Added Tax
WHT	Withholding Tax
WRPC	Warri Refinery Petrochemicals Company