

**AFGHANISTAN EXTRACTIVE INDUSTRIES  
TRANSPARENCY  
INITIATIVE (AEITI)**

**AFGHANISTAN THIRD EITI RECONCILIATION REPORT  
1390**

**September 2014**



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## LIST OF ABBREVIATIONS

<i>EITI</i>	<i>Extractive Industries Transparency Initiative</i>
<i>GOIRA</i>	<i>Government of Islamic Republic of Afghanistan</i>
<i>GA</i>	<i>Government Agencies</i>
<i>SC</i>	<i>Social Contributions</i>
<i>LTO</i>	<i>Large Taxpayer Office</i>
<i>STO</i>	<i>Small Taxpayer Office</i>
<i>MoMP</i>	<i>Ministry of Mines and Petroleum</i>
<i>MoF</i>	<i>Ministry of Finance</i>
<i>ISSAI</i>	<i>International Standards of Supreme Audit Institutions</i>
<i>ISA</i>	<i>International Standards on Auditing</i>
<i>MSG</i>	<i>Multi Stakeholder Group</i>
<i>CSO</i>	<i>Civil Society Organisation</i>
<i>WG</i>	<i>Working Group</i>
<i>Extractive Industry Entities</i>	<i>Refers to mining, construction and other extractive entities involved in the Afghanistan EITI reconciliation process</i>
<i>Government Agencies</i>	<i>Refers to GOIRA agencies involved in the Afghanistan EITI reconciliation process</i>
<i>Independent Reconciler</i>	<i>A firm that is independent from Extractive Industry Entities and Government Agencies and is engaged to perform the independent reconciliation</i>
<i>Independent Reconciliation</i>	<i>Reconciliation between Extractive Industry Entities payments and Government Agencies receipts undertaken by an independent firm</i>
<i>Reporting Template</i>	<i>Templates provided to Extractive Industry Entities and Government Agencies to report payments/receipts</i>

## 1. INTRODUCTION

### 1.1. Background

On 16 March 2009 the Government of Islamic Republic of Afghanistan (GOIRA) announced its endorsement of the principles of EITI, after which all remaining EITI sign-up indicators were entirely implemented to become EITI candidate country that was officially endorsed by the International EITI Board at its meeting in Oslo in February 2010. GOIRA has requested that the donor community provides immediate technical and financial support to develop good governance and accountability mechanisms in Extractive Industries Sector via effective EITI implementation process in Afghanistan. For this purpose the AEITI (Afghanistan Extractive Industries Transparency Initiative) Secretariat was established within the Ministry of Finance in July 2010 to take the lead of EITI implementation in Afghanistan.

In Afghanistan, the extractive (mining, oil & gas) sector is expected to contribute a significant and growing proportion of Government revenues for country's development. In light of this, GOIRA has fully committed to EITI implementation to ensure that all payments and receipts in the extractive industry are made in an effective and transparent manner. To ensure that the long-term objective is achieved, GOIRA completed the first and second National reconciliation.

In early 2012 Moore Stephens Azerbaijan was engaged to issue two (1st and 2nd) reconciliation reports that covered the period from 21 March 2008 to 20 March 2011. The first AEITI report was signed in July 2012. The overall net aggregated discrepancy was AFS 6,810,593 for 1387 and AFS 281,087,567 for 1388.

The second AEITI Report was signed in October 2012 and the overall aggregated discrepancy was AFS 68,379,558 for year 1389. This assignment was conducted during the period from March 2012 to October 2012. GOIRA has requested that the donor community provides immediate technical and financial support to develop sound governance and accountability mechanisms in the extractive industries sector via effective EITI implementation process in Afghanistan. For this purpose the AEITI (Afghanistan Extractive Industries Transparency Initiative) Secretariat was established within the Ministry of Finance in July 2010 to take the lead of EITI implementation in Afghanistan.

### 1.2. Objective

The objective of the Reconciler was to collect data, review and reconcile the payments and revenues from the extractive industries in the fiscal afghan year 1390 in accordance with the agreed scope.

The overall objectives of the reconciliation exercise are to aid the Government of Islamic Republic of Afghanistan in identifying the positive contribution that minerals resources are making to economic and social development of the Country and to realise their potential through improved resource governance that encompasses and fully implements the principles and criteria of the Extractive Industries Transparency Initiative.

### 1.3. Scope of work

The scopes of works have consisted on several stages. We have performed the works in accordance with the TOR issued by the Ministry of Finance and the following steps have taken place:

- ✚ We have distributed and collected the completed forms and associated supporting documentation directly from the participating reporting entities;
- ✚ We have compiled a database with the data provided by the reporting entities;
- ✚ The data has been collected on the agreed reporting template;
- ✚ We have comprehensively reconciled the information disclosed by the reporting entities, identifying any discrepancies in accordance with the agreed scope;
- ✚ We have prepared an initial reconciliation report based on the reported (unadjusted) data for consideration by the MSG in accordance with the agreed scope;
- ✚ We have contacted the reporting entities in seeking to clarify any discrepancies in the reported data; and

We have prepared a draft EITI Report that comprehensively reconciles the information disclosed by the reporting entities, identifying any discrepancies.

We set out our findings in this report and associated appendices. The reconciliation procedures carried out were not designed to constitute an audit or review in accordance with International Standards on Auditing or International Standards on Review Engagements and as a result we do not express any assurance on the transactions beyond the explicit statements set out in this report.

The report provides a brief background, scope and objectives, our methodology and approach to the reconciliation process. It then provides details of our findings, recommendations for improvement and the way forward for the reconciliation process.

## 2. EXECUTIVE SUMMARY

### 2.1. Completeness and accuracy of data

We have collected initial reports during the period from May to September 2014. We have received all the reports from the companies within the extractive industry. After submission procedure, we have analysed and reviewed the information provided to identify unresolved discrepancies. We noted numerous discrepancies between the payment templates originally submitted by extractive companies and the records held by the Government Agencies.

### 2.2. Payment Reconciliation

The net difference between the payments declared by extractive companies and the Government at the beginning of the reconciliation amounted to **AFS 20,495, 515** which is detailed as follows:

	Extractive companies(AFS)	Government (AFS)	Difference (AFS)
<b>Total payments declared</b>	<b>4,843,035,725</b>	<b>4,822,540,210</b>	<b>20,495,515</b>

At the end of our reconciliation, the remaining net differences amounted to **AFS 3,059,082** which is detailed as follows:

	Extractive companies(AFS)	Government (AFS)	Difference (AFS)
<b>Total payments declared</b>	<b>4,844,550,944</b>	<b>4,847,610,026</b>	<b>(3,059,082)</b>

Details of adjustments made to the reporting entities' initial amounts and the unresolved residual differences are presented in Sections 6.3 of this report.

With regard to year 1390, heretofore, we were unable to follow up and resolve a substantial number of differences that arose. We make the following summary observations:

The tables include aggregated figures based on the reports submitted by every extractive company and government entity, the adjustments made by us following our reconciliation work, and the residual, unresolved differences. In order to keep the report size reasonable, detailed reconciliation reports for each company are included in a separate document for analysis purpose.

The net difference of AFS 3,059,082 represents the aggregate of the positive differences amounting to AFS 21,860,766 and the negative differences of AFS (24,895,766) which are detailed in Section 6.3 of this report.

No.	Company	Extractive Company (AFS)	Government (AFS)	Differences (AFS)
1	MJAM MMC - JCL Aynak Minerals Company Ltd.	2,653,207,440	2,653,919,634	(712,194)
2	Kushak Brothers Company	36,354,748	36,354,748	-
3	Hewadwal Road Construction Company	19,568,429	10,456,171	9,112,258
4	Northern Coal Company	1,944,961,546	1,944,961,546	-
5	West Land General Tranding Korea Road Construction Company	13,393,404	13,393,404	-
6	China National Petroleum Company CNPCI – W	17,672,421	4,886,654	12,785,767
7	Afghan Gas Enterprise	55,337,487	55,337,487	-
8	Kod-e-Barq	31,311,857	31,318,098	(6,241)
9	Meesaq Sharq Company	26,428,672	25,748,150	680,522
10	Technologist Company	17,190,152	17,190,152	-
11	Salim Karwan	3,598,380	27,981,625	(24,383,245)
12	Afghan Investment Company	3,478,959	3,518,959	(40,000)
13	Equity Capital Group	4,988,989	5,461,510	(472,521)
14		17,058,460	17,081,888	(23,428)
<b>Total</b>		<b>4,844,550,944</b>	<b>4,847,610,026</b>	<b>(3,059,082)</b>

\*The average exchange rate of US\$ to AFS for the fiscal afghan year was 47.63.<sup>1</sup>

<sup>1</sup> <http://www.centralbank.gov.af/>

We present in the table below a summary of the unresolved differences by revenue streams after the reconciliation work:

Revenue Stream	Extractive Company (AFS)	Government (AFS)	Differences (AFS)
<b>MINISTRY OF MINES AND PETROLEUM</b>	<b>2,668,418,577</b>	<b>2,668,458,577</b>	<b>(40,000)</b>
Royalties	68,939,983	68,979,983	(40,000)
Surface Fees	58,642,111	58,642,111	-
Lease of Government Land	683,460	683,460	-
Penalties by Ministry	83,903	83,903	-
Rent of Government Buildings	78,000	78,000	-
Premium and Bonuses	2,524,390,000	2,524,390,000	-
Over Production Fees	14,384,945	14,384,945	-
Other	1,216,175	1,216,175	-
<b>MINISTRY OF FINANCE - (LTO, MTO &amp; STO)</b>	<b>2,167,866,670</b>	<b>2,149,970,298</b>	<b>17,896,372</b>
Income Tax	391,405,279	391,951,881	(546,602)
2% BRT	103,862,906	80,304,482	23,558,424
5% BRT	1,017,292	1,017,292	-
Salary Withholding	69,827,722	70,552,263	(724,541)
Rent Withholding	1,267,151	1,695,551	(428,400)
Contract Withholding	29,175,626	32,753,394	(3,577,768)
Penalty	626,426	1,011,167	(384,741)
Other Payment	1,570,684,268	1,570,684,268	-
<b>MINISTRY OF FINANCE – CUSTOMS DPARTMENT</b>	<b>2,388,208</b>	<b>23,303,662</b>	<b>(20,915,454)</b>
Import Duties	525,436	11,176,243	(10,650,807)
Fixed Taxes	1,510,554	7,227,042	(5,716,488)
BRT	308,699	4,555,572	(4,246,873)
Other Fees	43,519	344,805	(301,286)
<b>OTHER GOVERNMENT AGENCIES</b>	<b>5,877,489</b>	<b>5,877,489</b>	<b>-</b>
1% Municipality	5,877,489	5,877,489	-
<b>GRAND TOTAL</b>	<b>4,844,550,944</b>	<b>4,847,610,026</b>	<b>(3,059,082)</b>

### 3. APPROACH AND METHODOLOGY

#### 3.1. Scoping study

In accordance with our terms of reference, we carried out a scoping study and reported to the AEITI MSG on matters which should be considered in determining the coverage of the 1390 reconciliation, including:

- ❖ Materiality threshold for receipts and payments;
- ❖ Taxes and revenues to be covered;
- ❖ Companies and Government Entities required to report; and
- ❖ Assurances to be provided by reporting entities to ensure credibility of the data made available to us.

Our work included gaining a general understanding of the extractive sector in Afghanistan. We have also carried out interviews with several entities involved in the EITI process in order to collect relevant information and documentation necessary to the achievement of the objectives of our study. A supplementary note to be annexed with the scoping study was also developed by the MSG.

The results of the scoping study submitted to the AEITI MSG for approval as described in Section 6 of this report.

#### 3.2. Definition of materiality

The EITI Rules define materiality as follows:

*“A revenue stream is material if its omission or misstatement could materially affect the final EITI report”.*

In order to ensure that companies and government entities disclose all material payments and revenues, the MSG needs to define which payments and revenues are materials.

We have collected information from the Ministry of Mines and Petroleum (MoMP) on the non-tax revenue figures for the Afghan fiscal year fiscal year 1390. Those figures will be clarified during the reconciliation process upon submission by the necessary government agencies.

##### Amounts in AFS

Company name	%	Non-tax revenue	%	Tax revenue	%	Total
Northern Coal Enterprise	-	-	90.49%	1,933,362,535	41.45%	1,933,362,535
Afghan Gas	-	-	1.45%	30,887,591	0.66%	30,887,591
MCC-JCL Aynak Minerals Company	95.04%	2,402,488,096	5.99%	127,945,154	54.25%	2,530,433,250
Afghan Investment Company	0.07%	1,881,310	0.15%	3,291,227	0.11%	5,172,537
Technologist Company	0.13%	3,244,960	-	22,364	0.07%	3,267,324
Korea Road Construction Company	0.04%	1,116,285	0.10%	2,102,039	0.07%	3,218,324
Kam Oil International	-	-	-	28,233	-	28,233
Hewadwal Road Construction Company	0.05%	1,356,278	0.21%	4,388,769	0.12%	5,745,047
Mekans Co	0.02%	589,717	0.02%	366,575	0.02%	956,292
Khushak Brothers Company	1.24%	31,349,150	0.25%	5,345,834	0.79%	36,694,984
Meesaq Sharq Company	0.66%	16,798,363	0.02%	409,800	0.37%	17,208,163
West Land General Trading	0.48%	12,258,800	0.58%	12,316,865	0.53%	24,575,665
Salim Karwan	0.01%	264,160	0.12%	2,649,497	0.06%	2,913,657
Kod Barq	-	-	0.63%	13,444,219	0.029%	13,444,219
Saiberia Water Company	-	-	-	41,916	-	41,916
China National Petroleum Company (CNPCI-W)	2.24%	56,618,141	-	-	1.21%	56,618,141

As a result of the research we concluded that the list of companies provided in the table above falls above the materiality threshold. The information contained in the table is not bound to the non-tax or tax revenues of the companies; the information also reveals the figures of each company's payments to the government during the year 1390 expressed in percentages.

The profile of payments to the Ministry of Mines and Petroleum and the Ministry of Finance in 1390 is based on receipts from mining companies. We propose a materiality threshold profile as follows:

#### Amounts in AFS

Payment Threshold	Non-tax revenue	Tax revenue	No. of comp.	Total
Amount > AFS 20 million	2,490,455,387	2,092,195,280	7	<b>4,626,016,385</b>
AFS 10 million < Amount < AFS 20 million	29,057,163	25,761,084	1	<b>17,208,163</b>
AFS 2 million < Amount < AFS 10 million	7,598,833	17,777,366	5	<b>20,316,889</b>
Amount < AFS 2 million	853,877	868,888	3	<b>1,026,441</b>

According to the table above; there are seven companies which exceed the amount of 20 Million and represent 99.17 % of total payments to the government. Moreover, there is one company which falls between 10 Million and 20 Million and five companies in the range of 2 Million and 10 Million.

**Set disaggregated payment thresholds** – this approach employs the same rational as above but sets different thresholds for each of the material benefit streams. Any company paying taxes greater than Afs 2 million and other non-tax payments greater than Afs 2 million and any government entity receiving payments in excess of Afs 2 million is material and therefore should report all payments.

The materiality threshold is calculated as 2 million. According to this threshold 13 companies out of 16 would be selected for the 1390 reconciliation exercise. We have included the additional one extractive company into the table, although we could not obtain the data in relation to the company. The total number of companies participated in the reconciliation process will be 14. We have included an additional table below being the list of the companies that would be selected for the reconciliation process.

#### Amount in AFS

Company name	Non-tax revenue	Tax revenue	Total
Northern Coal Enterprise	-	1,933,362,535	1,933,362,535
Afghan Gas	-	30,887,591	30,887,591
MCC-JCL Aynak Minerals Company	2,402,488,096	127,945,154	2,530,433,250
Afghan Investment Company	1,881,310	3,291,227	5,172,537
Technologist Company	3,244,960	22,364	3,267,324
Korea Road Construction Company	1,116,285	2,102,039	3,218,324
Kam Oil International	-	28,233	28,233
Hewadwal Road Construction Company	1,356,278	4,388,769	5,745,047
Mekans Co	589,717	366,575	956,292
Khushak Brothers Company	31,349,150	5,345,834	36,694,984
Meesaq Sharq Company	16,798,363	409,800	17,208,163
West Land General Trading	12,258,800	12,316,865	24,575,665
Salim Karwan	264,160	2,649,497	2,913,657
Kod Barq	-	13,444,219	13,444,219
Saiberia Water Company	-	41,916	41,916
China National Petroleum Company (CNPCI-W)	56,618,141	-	56,618,141

### 3.3. Workshops

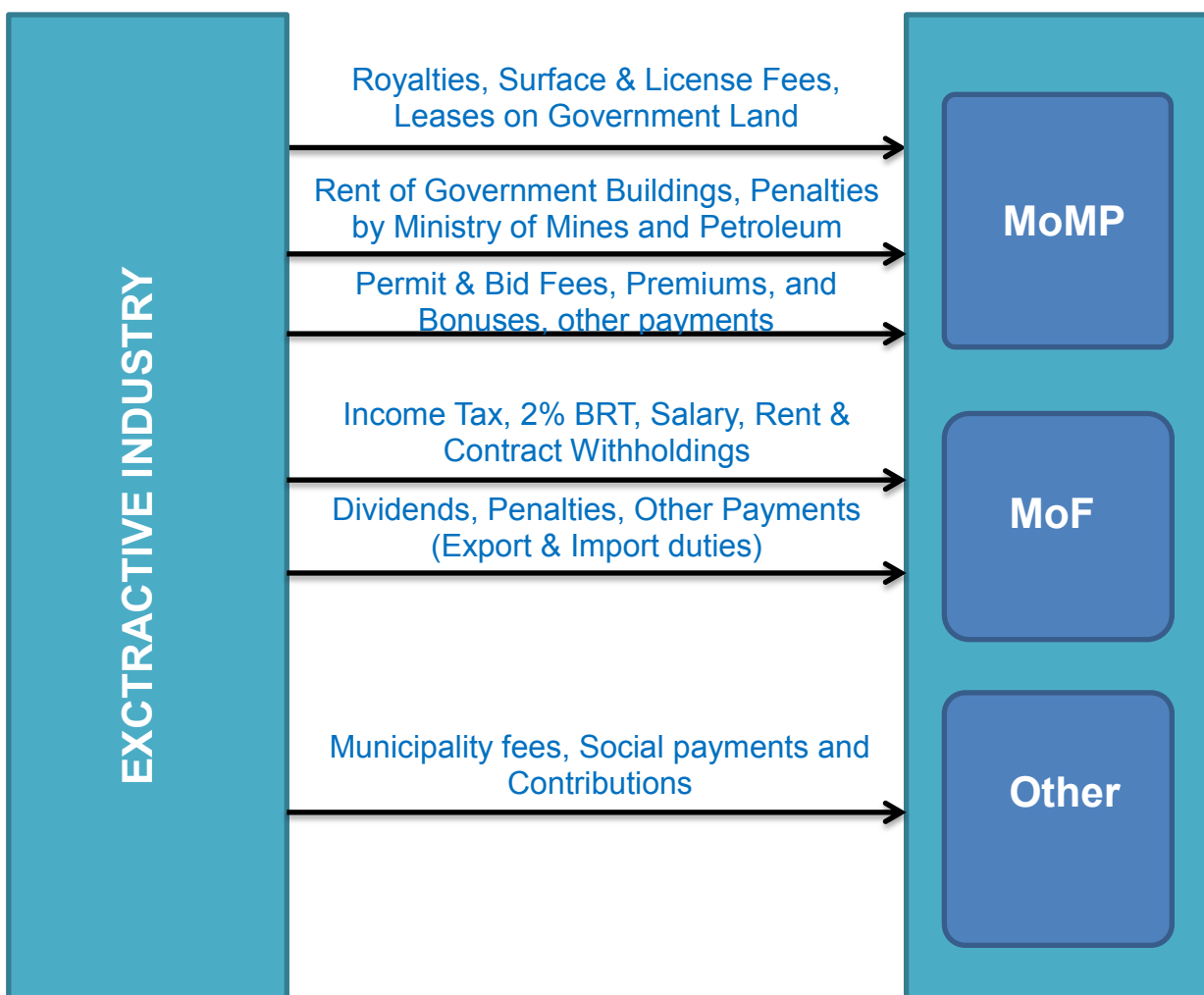
The main objectives of the training organised by the Afghanistan EITI Secretariat were to raise awareness about AEITI, its benefits and the Reconciliation Reports for Extractive Industries Sector, MoF and relevant MoMP departments.

- ✚ Explain the reporting template to the extractive industries (government owned and private) so that they can report accordingly;
- ✚ Brief them about MSGs so that they select their representatives for upcoming MSGs;
- ✚ Provide them with information about the materiality threshold; and
- ✚ Introduce incentives (training/accounting systems) to them to enhance their efficiency.

The workshop was well attended - whilst planned for 30 participants the workshop was attended by around 40 people. The participants were invited from both private and state-owned extractive enterprises and different government departments (MoMP and MoF).



**3.4. Chart of Payment Flows**



### 3.5. Reconciliation Process

The main roles of the Independent Reconciler have included the following key tasks:

#### **DISTRIBUTION OF REPORTING TEMPLATES**

This task has entailed ensuring all Extractive Industry Entities and Government Agencies who were required to complete the Reporting Templates were aware of their requirements and had the final Reporting Template on hand. It was agreed that a letter from the AEITI Secretary and the Ministry of Mines and Petroleum accompany the distribution of the Reporting Templates.

#### **FOLLOW UP TASKS WITH EXTRACTIVE INDUSTRY ENTITIES AND AGENCIES INVOLVED**

This task entailed communicating with the Extractive Industry Entities and Government Agencies involved ensuring any queries are clarified and the deadlines are adhered to.

- The reporting templates have been distributed and collected by the Independent Reconciler in accordance to the TOR.
- Our initial follow up exercise ensured that the Reporting Templates had been received. If not, we highlighted this to the MSG to ensure the Reporting Template is distributed to the Extractive Industry Entities and Government Agencies who had not received it.

#### **COLLECTION OF DATA**

This task involved collecting completed Reporting Templates and supporting documentation.

- Prior to the set deadline, we agreed the dates with the Extractive Industry Entities and Government Agencies to request the Reporting Template. In addition, we asked AEITI Secretariat to update them of the status, to assist us to remind the Extractive Industry Entities and Government Agencies of the importance of providing us with the Reporting Templates.
- In order to prevent the delay of the process and to ensure our Final Report will be published within the required timeline, we commenced the reconciliation process with the limited information in our possession whilst together with AEITI Secretariat we continued to follow up the non-respondents.

#### **FINDINGS AND DISCREPANCIES**

This task entailed compiling all the information provided by the Extractive Industry Entities and Government Agencies involved and identifying areas that did not reconcile.

- In order to facilitate our analysis of the completed Reporting Templates, we developed a database for each of the Extractive Industry Entities that set out all payment streams on the Reporting Template and the expected Government Agency recipient of the revenue.
- As soon as we received the information from the Extractive Industry Entities and Government Agencies, the payments and receipts have been added into the database for our further analysis.
- After obtaining all the information we compared the payments and receipts from the Extractive Industry Entities and Government Agencies to identify any discrepancies on relevant payment/revenue streams.

#### **DISCREPANCIES**

As soon as the discrepancies have been identified, we contacted the Extractive Industry Entities and Government Agencies involved for additional information/clarification to enable us to reconcile these discrepancies.

- Using the database, we highlighted what additional information we required in order to reconcile any identified discrepancies.
- We provided explanation to all Extractive Industry Entities and Government Agencies that provided us with the necessary supporting documentation and requested them to submit this additional information to us so that the discrepancies identified can be reconciled.
- In circumstances where the documentation was irrelevant to allow us to reconcile the discrepancies, we requested provision of further evidence.

If additional supporting documents were irrelevant or no initial/further supporting documentation could have been provided, we concluded that the reconciliation and the discrepancies be highlighted as "undetermined/unexplained discrepancies".

### 3.6. Reliability and credibility of EITI data

In order to comply with EITI Requirements 12 and 13 and to ensure the credibility of data submitted:

- ❖ Companies and Government Entities were requested to have their reporting templates signed by a Senior Official;
- ❖ All government agency template declarations must be signed by a senior official;
- ❖ The government and SOEs publish or make the annual audit report from the Auditor General available to the reconciler;
- ❖ Reporting entities could provide evidence of the payments/receipts that have been processed on a payment by payment basis.
- ❖ Agreement that if total unresolved discrepancies amount to more than a certain percentage agreed by the MSG, the MSG could undertake actions to further investigate these discrepancies.
- ❖ For any changes made to the original data reported on the templates, the agencies and companies were asked to provide supporting documents and/or confirmation before any adjustments were accepted.

### 3.7. Accounting policy

The cash basis of accounting was used for the Reconciliation of the actual amounts paid by extractive industry entities and received by the Government Agencies for year 1390.

For the payments made in foreign currency, the reporting entities were required to report in the currency of payment. The payments made in US Dollars have been converted to AFS at the average rate according to the national bank. The average exchange rate of US\$ to AFS for the fiscal afghan year was 47.63.<sup>2</sup>

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<sup>2</sup> <http://www.centralbank.gov.af/>

## 4. OVERVIEW OF THE EXTRACTIVE INDUSTRY IN AFGHANISTAN

### 4.1. Mining Industry and Hydrocarbon sector<sup>34</sup>

#### 4.1.1. BACKGROUND AND PROFILE OF THE MINING AND HYDROCARBON SECTOR IN AFGHANISTAN

Afghanistan is endowed with widespread natural resources including extensive deposits of petroleum, coal, copper, silver, gold, cobalt, chromium, talc, barites, sulphur, lead, zinc, iron ore, salt, rare earth elements and precious and semiprecious stones. Unfortunately, ongoing instability in certain areas of the country, remote and rugged terrain and an inadequate infrastructure and transportation network have hampered improving and developing the mining sector and there have been few serious attempts to further explore or exploit them.

The data in the field of economy in the year 1390 was more promising compared to the data of previous period. The value of GDP<sup>5</sup> reached \$ 18.9 billion and shows a \$ 2.6 billion increase over the value of total GDP of the year 1389. The growth rate of GDP was 9.5% and GDP per capita was \$ 715. The mining and quarrying industry contributes 1.15% to the country's GDP.

Afghanistan is host to vast hydrocarbon and mineral resources that include oil & gas, precious & base metals, non-metallic minerals, precious & semi-precious stones, rare earth elements and construction materials. While these resources have to some extent been developed, geo-science data indicates that considerably more development is economically viable and technically possible. Development of the Afghanistan mining sector has the potential to significantly contribute to the country's GDP and create direct and indirect employment while providing fuel for industry and power generation and materials for industry and construction for both domestic and export markets.

Mining in Afghanistan is controlled by the Ministry of Mines and Petroleum which is headquartered in Kabul with provincial offices in 32 provinces.

Afghanistan has moderate to potentially abundant coal resources. The majority deposit of resources was observed in the northeast and northwest parts of Afghanistan. Coal has been used for a long time in Afghanistan to power small industry. Nowadays we could count nine coal fields and more than 42 coal beds in the country. The coal-bearing area occupies around 35,000 km<sup>2</sup> extending as a discontinuous belt for more than 700 km from the north to west of the country.

The main and crucial factors limiting widespread use of coal are rugged terrain, lack of transportation networks and the absence of industrial infrastructure.

Coal deposits, as any other mineral, are considered the property of the State of Afghanistan. The main player in the Coal industry is the North Coal Enterprise and Afghanistan Investment Company which has been subdivided into two different division of production (cement and coal).

One of the main focuses of developing the mining sector was to determine the quality, quantity, and distribution of coal throughout Afghanistan, develop the area rich in coal deposits and quantify coal resources on a regional and national level.

<sup>3</sup> Website of the Ministry of Mines and Petroleum.

<sup>4</sup> <http://mom.gov.af/Content/files/AEITI%20-%201st%20Reconciliation%20Report%20%20Final%20English.pdf>

Much of the petroleum resource potential of Afghanistan and all of the known crude oil and natural gas reserves are in northern Afghanistan, located in parts of two prolific geological basins – the Amu Darya Basin to the west and Afghan-Tajik Basin to the east. The two basins encompass approximately 515,000 km<sup>2</sup> (200,000 square miles) in those portions that lie within Afghanistan. The exploration and production sharing agreement was signed between the Ministry of Mines and CNPCI Watan Oil and Gas Afghanistan Ltd on 26 December 2011.

### COAL<sup>6</sup>

Coal is an inflammable black or brownish-black sedimentary rock usually occurring in rock strata in layers or veins called coal beds or coal suture. Coal is composed primarily of carbon along with variable quantities of other elements such as hydrogen, sulphur, oxygen, and nitrogen. Afghanistan is a land of coal resources and the Afghan coal sector has been active for more than seventy years. Famous coal beds are located in the central, western and northern districts of Afghanistan. Coal plays a crucial role in fuelling both domestic industries as well as the export market.

Afghanistan uses coal primarily for domestic heating during the winter months and for electricity generation and industrial use. The coal bed is estimated to be nearly 70 million tons and is primarily located in the north of the country amongst Herat and Badakhshan. Development of local coal resources has the potential to rapidly cultivate Afghanistan's energy and power supply, cut down on energy and economic security risks that impact the country's political and social welfare and mitigate problems associated with unemployment.

The Government of Afghanistan is committed to working hand in hand with local and international companies to support exploration, mining, operation, production and the sale of coal inside and outside the country. With adequate government regulation and transparency, the restoration of existing coal mines including machinery replacement and an influx of private investment this value could easily increase several fold annually.

The operation of coal resources in Afghanistan will be governed by legally-licensed operators that are in accordance with the terms and conditions of their mining license, lease, permits and contract. The Relevant Laws of Afghanistan such as Mining Laws and Regulations and NEPA provide authorised permits for exploration activities. However, state-owned companies such as the Northern Coal Enterprise are not subject to licensing rules although the MoMP will include licensing of SOE mines in future.

This policy is intended to disable the illegitimate coal mining in Afghanistan. Where illicit exploitation activities are found, necessary legal actions are supposed to be undertaken to bring such works in accord with the mining law. All mining activities shall be carried out in compliance with geological maps and legally required permits and certifications issued by the relevant Government authorities. These may include, but are not limited to, technical, financial, health and safety, environmental, and social regulations.

All regulations should be further developed and improved by the relevant authorities of Afghanistan. For power and associated coal development regulations, those institutions entitled with regulatory drafting will work in cooperation with the corresponding Ministry of Mines and Petroleum's' divisions to establish a coordinated administration and oversight of the industry.

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<sup>6</sup>[http://mom.gov.af/Content/files/Policies/English/English\\_Coal\\_Policy.pdf](http://mom.gov.af/Content/files/Policies/English/English_Coal_Policy.pdf)

## NATURAL GAS<sup>7</sup>

Afghanistan's driving energy resource is natural gas. These deposits are mainly found in the Helمند, Kundar-Urgun, Saripul and Karakum and Afghan-Tajik basins. Historically, these reserves were exported to the former USSR and Soviet-controlled Central Asia. As of 1985, the largest discoveries were the Khoja-Gugerdag and Djarkuduk gas fields and the Kashkari oilfields. Afghanistan has substantial discovered natural gas reserves and has the potential for discovering yet more resources through planned exploration initiatives. In March 2006, scientists from the U.S. Geological Survey and the Ministry of Mines and Petroleum released new findings that indicate that the Afghan-Tajik and Amu Darya Basins contain eighteen times the oil and triple the natural gas reserves previously identified.

Compressed Natural Gas (CNG)<sup>8</sup> is the most efficient, economical, ecological and versatile energy source for reducing pollution and maintaining a clean and healthy environment. CNG can be preferred as an alternative to traditional petroleum products for providing multi-dimensional benefits. The government of Afghanistan visualises the use of CNG produced from domestic natural gas as an alternative fuel. CNG obtained from domestic sources shall benefit the Nation's balance of payments from a lower consumption of imported fuel. Employment of Afghan citizens will increase with the construction and operation of a CNG system, and the economic multiplier effect for both employment and the national income may be substantial.

The role of the state in CNG sector is to promote and control investment in the sector that will assist steady expansion of CNG employment through private sector implication. Through the relevant ministries such as Ministry of Mines and Petroleum, Commerce, and Finance, the state shall encourage and promote robust governance and transparency for the supply of Natural Gas to CNG production and use of CNG through effectively transforming CNG vehicles. The policy ensures that technical codes and standards are formulated and have been approved by the Afghan National Standards Authority (ANSA). Afghan Gas Enterprise (AGE) is responsible for supplying natural gas to CNG stations in the required volumes to meet market demand.

## CONSTRUCTION MATERIALS<sup>9</sup>

Afghanistan's material fields of mud, marble, sand, gravel, brick clay and limestone places it at a comparative advantage for providing local raw materials to the construction sector. Sand and gravel are presently the most commonly cultivated minerals. Demand for these essential aggregates will resume with planned infrastructure projects such as construction of major highways.

The demand for clay to produce fired bricks is enormous and Afghanistan's large coal reserves assist in the industrial manufacture of these goods. Limestone is another essential construction mineral in high demand and reserves in Badakhshan, Samangan, Baghlan, Herat, Jabal Serz and Kandahar are estimated to be several hundred million cubic meters in total. The construction sector has attracted foreign entrepreneurs from around the world and will likely continue to generate high growth and profits as the reconstruction process continues. Despite this positive trend substantial illegitimate actions have resulted in the waste of government profit, increased unemployment levels, and exacerbated environmental impairment.

Many deposits may not be accessible due to isolation, unsuitable locations in urban area and a lack of infrastructure. Sufficient amounts of sand, gravel and aggregate materials that feed the local industries are located adjacent to populated areas. The main functions of the state in quarrying is formalisation, facilitation and regulation of surveying and quarrying activities of investors and entrepreneurs, provision of infrastructure and tax collection.

<sup>7</sup>[http://mom.gov.af/Content/files/Policies/English/English\\_CNG\\_Policy.pdf](http://mom.gov.af/Content/files/Policies/English/English_CNG_Policy.pdf)

<sup>8</sup>[http://mom.gov.af/Content/files/Policies/English/English\\_CNG\\_Policy.pdf](http://mom.gov.af/Content/files/Policies/English/English_CNG_Policy.pdf)

<sup>9</sup>[http://mom.gov.af/Content/files/Policies/English/English\\_Construction\\_Materials\\_Policy.pdf](http://mom.gov.af/Content/files/Policies/English/English_Construction_Materials_Policy.pdf)

## DIMENSION STONES<sup>10</sup>

Afghanistan has some of the finest sources of dimension stones such as marble, granite, travertine and onyx. Due to uncompetitive royalty rates and export taxes, as well as using poor methods for extraction, cutting and polishing, almost all trade is being conducted outside a formal chain of custody. This has resulted in substantial losses in government revenue, employment opportunities and foreign exchange earnings. Formalisation of this sector has the potential to generate significant development benefits for Afghanistan.

The quality and quantity of Afghan Dimension Stones deposits provides a comparative advantage which the industry can leverage to build a competitive advantage. For example the marble deposits in Chesht and Khogiani are of top quality white marble very similar to Carrara marble from Italy. The Onyx deposits in Helmand and Maymana are two of the few deposits with the highest quality in the world. Granite deposits in Nooristan, Badakhshan, Panjsher, Jalalabad, Herat and Konar are of similar high quality.

The core functions of the state in quarrying will be the facilitation and regulation of exploration and quarrying activities of investors and entrepreneurs, provision of infrastructure and tax collection. Unless there are national security interests involved the state will facilitate exploration and exploitation of the quarry. The State reserves the right to treat quarries that might have strategic importance differently.

## METALS<sup>11</sup>

The metals industry is readily recognised as one of the most essential and valuable sectors of an industrialised economy. For diversification to take place it is vital to enhance and promote the development of the metal and mineral sector hand in hand with other fields of the economy.

The metals mining sector in Afghanistan is very new but it has to reach its full potential particularly in the development of key metallic products such as copper, iron, steel, chromium, tin, lead and zinc, and key precious metals such as gold, silver and the platinum group minerals. With the nation's capacity, potential and resource base, all these products can readily be developed and used to jumpstart the rapid industrialisation, creation of employment, poverty reduction and economic growth of the country. Afghanistan is richly endowed with extensive deposits of copper, iron, chromite, lead, zinc, tin, gold, silver and platinum group minerals and other metal ores some of which have been poorly extracted during the last three decades of instability and exported as low value ores.

For countries with such occurrences of base and precious metals, the development, exploitation, beneficiation, and exporting of those metals significantly increases and diversifies their income resource base. Where economically viable, the government of Afghanistan strongly supports the processing of metal ore endowments into primary metal or even final products, rather than trading the crude ores.

In view of this, the policy encourages the establishment of smelting plants to produce metals where possible to fabricate the metals into semi-finished products within the country. The Government of Afghanistan is seeking to develop its metals mining industry through exploration, opening up of mines, establishing metals concentration, smelting and refining plants, providing manpower training and the development of metallurgical processes and raw materials sourcing.

Geological surveys and reconnaissance activities in Afghanistan have identified economic deposits of certain metal ores, limestone, and dolomite suitable for metal smelting and refining processes.

<sup>10</sup>[http://mom.gov.af/Content/files/Policies/English/English\\_Dimension\\_Stone\\_Policy.pdf](http://mom.gov.af/Content/files/Policies/English/English_Dimension_Stone_Policy.pdf)

<sup>11</sup>[http://www.mom.gov.af/Content/files/Policies/English/English\\_Metals\\_Policy.pdf](http://www.mom.gov.af/Content/files/Policies/English/English_Metals_Policy.pdf)

The role of the state in metals ore mining will be the facilitation and regulation of investment in the sector that will support exploration, exploitation, concentration process, smelting and refining of Metals ore in the country. Through the relevant ministries such as the Ministry of Mines and Petroleum, Commerce and Finance the state shall promote good governance and transparency in how the metals ore mining and related industries are managed, revenue generated and social and environmental protections put in place.

The metals mining policy has been developed in support of the national mining policy. All the legal and regulatory provisions provided in the National Mining Policy, environmental and social policies for the mining sector, mining Law, mining regulations and their amendments are applicable to the metals mining policy.

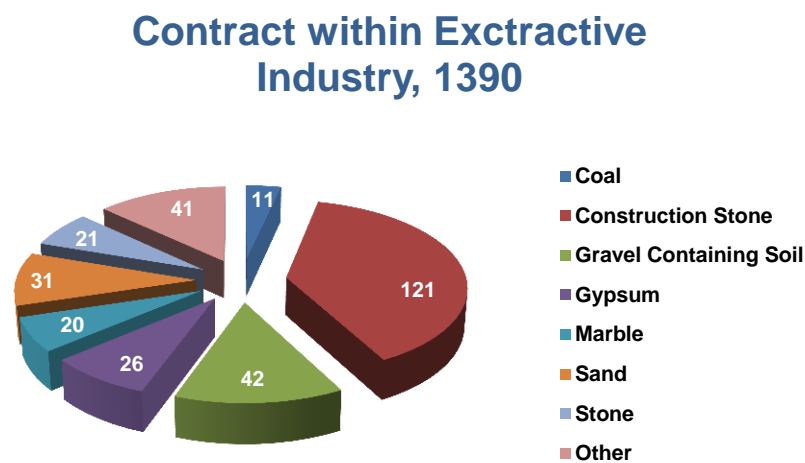
The following government organisations are responsible for the licensing, administration, oversight, safe transportation, security, regulation, fiscal management, environmental management and trade of the metal ore resources.

- ✚ Ministry of Mines and Petroleum (MoMP);
- ✚ Ministry of Finance (MoF);
- ✚ Ministry of Commerce and Industries (MoCI);
- ✚ National Environmental Protection Agency (NEPA);
- ✚ Inter-Ministerial Commission (IMC); and
- ✚ Ministry of Labour, Social Affairs, Martyrs and Disabled (MoLSAMD).

#### 4.1.2. CONTRACTS REGISTER

According to the Ministry of Mines and Petroleum (MoMP) official website, 313 contracts including 3 hydrocarbon and 310 mineral sector contracts have been awarded to the registered companies operating in the country.<sup>12</sup>

The following table shows the number of contracts within each sub-sector of minerals and hydrocarbons.



It is worth mentioning here that according to the New Mineral Law, which has been passed through the Parliament in May 2014, the mineral licences have been categorized into five types: Reconnaissance, Exploration, Exploitation, Small-scale Mining and Artisanal.

The third EITI Reconciliation Report covered all the sectors including oil, gas as well as those construction companies which revenues lay above the fixed threshold. The official letter No. 894 prepared by the Cadastre department of the Ministry of Mines and Petroleum and reveals that for the fiscal year 1390, 129 extractive companies have generated revenues from the mining activities, including 3 SOEs and 120 Small-scale Companies.

Taking into account the threshold of Afs 2 million fixed by the MSG, 14 companies out of 129 are material for the third reconciliation exercise; these 14 companies are comprised of 2 gas, 1 oil, 4 coal and 7 minerals extractive companies (3 SOEs and 11 Small and Large companies).

<sup>12</sup> <http://mom.gov.af/en/page/1384>



### 4.1.3. LEGAL FRAMEWORK

The Constitution of Afghanistan (Ch.1, Article 9) states:

*“Mines and underground resources are properties of the state. Protection, use, management and mode of utilization of the public properties shall be regulated by law.”*

The primary legislative basis for mining operations in Afghanistan is the Mineral Law<sup>13</sup> including its amendments and regulatory provisions.

According to the Mineral Law, all minerals within, upon or under the soil and sub-soil in Afghanistan are the properties of the state to be managed and administered on behalf of and for the benefit of the people of Afghanistan.

The Mineral Law has the following objectives:

- ❖ The conservation, management, development and proper use of the mineral resources of the nation;
- ❖ Promote the rational exploration, development, exploitation and mineral processing in a combined effort of the government and private sector; and
- ❖ Enhancement of national growth in a way that effectively safeguards the environment and to the benefit of society.<sup>14</sup>

The draft version of the Mineral Law was approved by the Council of Ministers in February 2013 and before the parliament. Following the primary law of 2005 amendments were made in 2010. Unlike the existing Law, the draft Minerals Law does not require the National Assembly endorsement of major contracts and no longer requires the Ministry of Mines and Petroleum to provide the National Assembly with annual reports. Moreover, it is no longer necessary to submit separate bids for exploration and exploitation licenses (the exploration license holder is given the priority right for an exploitation license) unless the holder of an exploration license is unwilling or unable to apply for an exploitation license. Furthermore, the draft Mineral Law contains important improvements related to oversight, anti-corruption and transparency.

However there are shortcomings of the draft of the Mineral Law because the law does not address how royalty rates are set nor state the basis for royalty calculations, The implementation of some of the new Mineral Law's provisions may prove to be problematic without community involvement.<sup>15</sup>

The state may convey certain minerals rights to owner entities by means of licenses as defined in law and the ownership of any mineral extracted from any license area shall vest with the license holder upon removal from the ground.

The Ministry of Mines and Petroleum is responsible for protecting the public interest so that the mineral resources of Afghanistan are investigated and exploited in the most efficient, effective and timely manner. The MoMP is also responsible for implementing relevant laws and for granting the mineral rights.

The Government will strictly enforce all existing laws and will, as necessary, amend legal provisions to conform to prevailing international practices so as to bring Afghanistan into a more competitive position in the global minerals industry.

There are five types of Mineral License as follows:

LICENCE	PURPOSE
<b>Reconnaissance</b>	Preliminary stage of mineral exploration involving regional geological mapping, geochemical surveys and airborne surveys, aimed at identifying anomalies for prospective terrain.
<b>Exploration</b>	Main phase of exploration from prospect identification up to and including feasibility studies, environmental/social impact and mine planning.
<b>Exploitation</b>	Mine development and mining.
<b>Small-scale Mining</b>	Mine development and mining for smaller, shallow and surface mineral deposits.
<b>Artisanal</b>	Mining of very small, surface deposits.

### 4.1.4. REGULATORY FRAMEWORK

The regulatory framework for the Afghan mining sector is being developed as part of the overall mining regulations. Various environmental, labour and other regulations are in place. Technical, financial, health and safety, environmental, and social regulations to support mining development are and will continue to be developed by the Ministry of Mines and Petroleum in coordination with relevant government authorities. Technical standards for mine operations are to be prepared by the appropriate technical bodies.

<sup>13</sup> Mineral Law of Islamic Republic of Afghanistan

<sup>14</sup> Mining Regulations 2010 [http://mom.gov.af/Content/files/Mining\\_Regulations.pdf](http://mom.gov.af/Content/files/Mining_Regulations.pdf)

<sup>15</sup> Minerals Law <http://mom.gov.af/> and <http://www.mec.af/>

#### 4.1.5. HYDROCARBON LAW<sup>16</sup>

This law has been enacted pursuant to Article 9 of the Constitution of Afghanistan to regulate the affairs related to determining the ownership and control of the state over oil and gas (hydrocarbons), preservation, utilization, granting concession rights, execution of contracts, exploration, activities and development and production of oil and gas.

An Inter-ministerial Commission shall be established for the regulation of affairs related to monitoring, supervision, endorsement and rejection of oil and gas contracts and other relevant issues, with the following composition:

- ✚ The Minister of Mines, as chairman
- ✚ The Minister of Finance, as vice chairman
- ✚ The Minister of Foreign Affairs, as member
- ✚ The Minister of Economy, as member
- ✚ The Minister of Commerce, as member
- ✚ The President of National Environmental Protection Agency, as member

The government may include other members in the composition of the Inter-ministerial Commission whenever deemed necessary.

A new mining law was adopted in 2005 and significantly amended in 2010. The regulations were developed to provide a framework for more formal exploration for and mining of minerals. All minerals located on or under the surface are the exclusive property of the government, except for hydrocarbons and water, which are regulated under separate laws. The principal role of the government with respect to minerals is to promote the efficient development of the mineral industry by the private sector.

The Ministry of Mines and Petroleum is responsible for the administration and implementation of the Mining Law. The law provides investment security to the holder of a mineral right. The government cannot expropriate mineral rights without adequate compensation in accordance with international norms.

The Law also gives the mineral royalty rates, which range from 5% of gross revenue for industrial minerals to up to 10% for gemstones<sup>17</sup>.

The hydrocarbon contracts are concluded as one of four segments:

- ❖ Exploration and Production Sharing Contracts;
- ❖ Service and Production Sharing Contracts;
- ❖ Contracts for Geological/Geophysical/Geochemical Services;
- ❖ Contracts for Pipeline Operations.

#### 4.1.6. ENVIRONMENT LAW<sup>18</sup>

This law has been promulgated to give effect to Article 15 of the Constitution of Afghanistan and provide for the management of issues relating to rehabilitation of the environment and the conservation and sustainable use of natural resources, living organisms and non-living organisms.

The purpose of the law is to:

- ✚ Improve livelihoods and protect the health of humans, fauna and flora;
- ✚ Maintain ecological functions and evolutionary processes;
- ✚ Secure the needs and interests of present and future generations;
- ✚ Conserve natural and cultural heritage; and
- ✚ Facilitate the reconstruction and sustainable development of the national economy.

The National Environmental Protection Agency, as an independent institutional entity, is responsible for coordinating and monitoring conservation and rehabilitation of the environment and for implementing the law.

For the purposes of the AEITI process the relevant laws and regulatory documents are as follows:

- ✚ Mineral Law;
- ✚ Oil and Gas (Hydrocarbons) Law;
- ✚ Income Tax Law;
- ✚ Customs Code;
- ✚ Tax Manual; and
- ✚ Investment Law

<sup>16</sup> <http://mom.gov.af/Content/files/Hydrocabon%20Law-%20Final-%205%20June%2013.pdf>

<sup>17</sup> <http://minerals.usgs.gov/minerals/pubs/country/2006/myb3-2006-af.pdf>

<sup>18</sup> *Environmental Law of the Islamic Republic of Afghanistan*

#### 4.1.7. TAXATION

The Income Tax Law is established under the authority of Article 42 of the Constitution of Afghanistan for the purpose of tax determination and tax payment.

According to the Income Tax Law, tax is a compulsory payment collected from natural and legal persons in accordance with the provisions of this law for the purposes of financing of government and social welfare without the taxpayer receiving any direct goods or services from the government.

Any tax deducted or collected by the government or non-government agencies in accordance with the provisions of this law shall be paid to a specific government (Ministry of Finance) bank account.

This law was passed by parliament and subsequently endorsed by the president of the Islamic Republic of Afghanistan. The law came into effect on the date of the presidential decree.<sup>19</sup>

We have outlined and given detailed descriptions and information on each of the taxes within the extractive industry which apply during the reconciliation exercise<sup>20</sup>.

#### 4.1.8. BARTER AND INFRASTRUCTURE

According to Ms. Ghazaal Habibyar, Director of Policy and Programmes and AEITI MSG focal point at MoMP, as of now there has not been any contract in Afghanistan involving the provision of goods and services in full or partial exchange for oil, gas or mining exploration or production (Barter agreement). However MCC has agreed to provide specific infrastructure arrangements for the local residents under Corporate Social Responsibility category and not as a Barter arrangement.

#### 4.1.9. SUB-NATIONAL PAYMENTS

The only sub-national payments carried out in the sector are direct payments to municipality made by SOEs. According to the Director General of State-owned Enterprises, MoF, Mr. Mohammad Yosuf Osman, SOEs on an annual basis pay another stream of tax, which amounts to 1% of their revenue to local municipalities as "Municipality Cleaning Payment". Similar to the country's previous EITI Reports, the 3<sup>rd</sup> report captures these payments, which are in cash only. The reporting templates requesting data on different revenue streams including "payments made to the Municipality" (See Annex 1) will be submitted to both SOEs and municipalities. Once the SOEs report the payment, its receipt will be confirmed by the local municipalities.

#### 4.1.10. STATE-OWNED ENTERPRISES (SOEs)

Among the material companies there are 3 SOEs operating in Afghanistan:

- ❖ Northern Coal Enterprise; extracting coal mines in the northern are of Afghanistan.
- ❖ Afghan Gas; which extracts gas from Shabarghan deposits.
- ❖ Kod-e-Barq which produces electricity and chemical fertilizers from gas.

Basically SOEs are only subject to tax payments and except payments to the municipality, other payments are made to MoF. In addition, SOEs report quarterly and at the end of each financial year to MoF on both expenditure and revenue accounts. The SOEs and their sub-contractors make their payments directly to MoF and the contractor doesn't collect payments on sub-contractors behalf.

The following revenue streams are applicable to SOEs in Afghanistan:

- a. Income Tax
- b. BRTs of 2% and 5%
- c. Salary withholding
- d. Contract withholding
- e. Profit
- f. Payments made to the Municipality

<sup>19</sup> Tax Manual 2010 <http://www.aisa.org.af/law/english/INCOME-TAX-MANUAL.pdf><http://mof.gov.af/Content/files/IncomeTaxLaw.pdf>

<sup>20</sup>Section 11. Financial flows for inclusion in 1390 EITI report.

## 5. RECONCILIATION SCOPE

Based on the scoping study, Afghanistan's agreed that the reconciliation should cover the following areas.

### 5.1. Taxes and revenues covered

According to the section above, the flows included in the 1392 reconciliation scope may be summarised as follow:

No	Type of payment in the reporting forms	Name of GA	Description of payment
1	Royalty	MoMP	Royalty, also known as private sector taxes, is a payment for the use of natural resources. Royalties are collected by the MOMP and paid to the State Treasury.
2	Surface fee	MoMP	Surface fees are collected by the Mining Cadastre Department and paid to the State Treasury. "Surface Rent" means the fees of the demarcated area of the Mining Contract, the payment conditions and duration of which shall be established in the mining regulations.
3	Lease Government Land	MoMP	The amount of lease which the entity should pay to the government if they use government land for any purposes.
4	Rent of Government Buildings	MoMP	According to the Legislation Article 59 concerning the Income Tax Law, it is stated that all the entities who have rental payments for the rent of houses or other buildings that are used for business purposes are required to withhold rental payments if the monthly amount is more than 10,000 Afghani.
5	License Fee	MoMP	The fees paid to the government for the commencement of exploration or for the retention of a license or concession, or for the leasing of license or concession area.
6	Permitting Fee	MoMP	The entities should pay a permitting fee if they perform exploitation activities. It should be conducted in accordance with existing geological maps and shall not proceed without legally required permits and certifications issued by the relevant government authorities that include but are not limited to environment, social protection and health and safety.
7	Bid Fee	MoMP	Mineral rights are obtained through a bidding process and, as of law, the bidding procedures, duration, the terms and conditions, and other related issues of bids shall be provided in the approval of the authorised body. The bidder, either personally or through its duly authorised representative, can request for an exploitation license application which shall be accepted only upon payment of the required bid fees and bid bonds to the Ministry of Mines and Petroleum. The bid fee for an exploitation license is equivalent to 5,000 USD in Afghani.
8	Premium and Bonuses	MoMP	Bonuses to be paid to the state by the company for delegation and transfer of extractive rights, discovery of additional mineral reserves..
9	Penalties	MoMP	Where the entities are in violation of mine safety requirements, a penalty may be levied in accordance with health and safety regulations.
10	Income tax	MoF	The tax imposed on the income from Afghan sources of all persons, corporations, limited liability companies, and other entities whether in Afghanistan or abroad, and on the foreign income of residents of Afghanistan in accordance with this law and its regulations. The percentage of Income tax to be paid is 20%.

### 5.1. Taxes and revenues covered (continued)

No	Type of payment from the Reporting forms	Name of GA	Description of Payments
11	2% BRT (business receipt tax)	MoF	(1) The business receipt tax is imposed on the business activities of limited liability companies, corporations, general partnerships and organisations. (2) Natural and legal persons deriving 100,000 Afghanis or more income per month from providing taxable services.
12	Salary Withholding	MoF	The amount of taxes payable if the number of employees is two or more. The organisations are required to withhold tax from their employees' salaries and wages.
13	Rent Withholding	MoF	The prepayment of landlords' income tax. The legal entities conducting business in the territory of Afghanistan at the rented property are required to withhold this tax. The landlord is responsible for reporting rental income in his annual income tax declaration and paying tax annually at appropriate rates depending on entity type. Payments of rent for buildings and houses which are rented to legal entities or individuals and are used for business purposes or offices where the monthly rent is more than 15,000 Afghanis are subject to a 20% income tax.
14	Contract Withholding	MoF	According to Article 72 of the income tax law 2009, entities and individuals providing supplies, materials and services and conducting construction under contract are subject to tax withholding from the gross amount payable to the contractor.
15	Dividends	MoF	The dividends paid to the host government by the entities in accordance with the participating interest owned by the state in the reporting company.
16	Penalties	MoF	Where a taxpayer has failed to pay their tax liability by the due date the person is subject to additional income tax of 0.10% of the tax due, per day.
17	5% BRT (business receipts tax)	MoF	5% BRT is imposed on gross receipts of all types of income of corporations and limited liability companies and individuals whose monthly income is more than AFS 750,000 (Article 66)
18	Profit	MoF	Profit is paid by state owned enterprises to relevant government agencies
19	Export Duties	MoF	Customs duties: Import and export businesses, as well as those businesses which have to import goods and materials for the purpose of use in their business.
20	Import Duties	MoF	Fixed tax on imports (Article 70)- Entities importing goods are subject to pay a fixed tax including customs duties on the imported goods.
21	Fixed Taxes	MoF	There are different kinds of fixed taxes in lieu of income tax imposed on certain business and transaction types. The following fixed taxes are addressed by chapter 11 of the legislation: <ul style="list-style-type: none"> <li>• Fixed tax on import</li> <li>• Fixed tax on the transport of goods or passengers for business purposes</li> <li>• Fixed taxes of contractors</li> <li>• Fixed taxes on exhibitions</li> <li>• Fixed taxes on small businesses</li> </ul>

## 5.2. Extractive companies

According to the materiality threshold 14 companies have been selected for the Afghan fiscal year 1390 for the reconciliation exercise as follows:

N°	Name of extractive company
1	Northern Coal Enterprise
2	Afghan Gas Enterprise
3	MCC-JCL Aynak Minerals Company
4	Afghan Investment Company
5	Technologist Company
6	Korea Road Construction Company
7	Hewadwal Road Construction Company
8	Khushak Brothers Company
9	Meesaq Sharq Company
10	West Land General Trading
11	Salim Karwan
12	Kod Barq
13	China National Petroleum Company CNPCI-W
14	Equity Capital Group

## 5.3. Government Agencies

Based on the list of extractive companies and payment streams recommended to be included in the scope, the government agencies which will be involved in the 1390 reconciliation process are detailed as follows:

N°	Government agencies/departments
1	Ministry of Mines and Petroleum
2	Ministry of Finance – Revenue Department – LTO (Large Taxpayer Office)
3	Ministry of Finance - Revenue Department – STO (Small Taxpayer Office)
4	Ministry of Finance – Customs Department (Khost, Qandahar, Herat and Turkham offices)
5	Other Government Departments – Municipality
6	Ministry of Finance – Revenue Department - MTO Medium Taxpayers Office

## 5.4. Companies below materiality threshold

List of extractive companies paying taxes to the government below the materiality threshold:

N°	Name of extractive company
1	Kam Oil International
2	Mekans Co
3	Saiberia Water Company

## 6. RECONCILIATION RESULTS

We present below detailed results of our reconciliation exercise, as well as differences noted between amounts paid by extractive companies and amounts received by Government entities. We have highlighted the amounts initially reported and the adjustments made following our reconciliation work, as well as the final amounts and unresolved differences.

### 6.1. Reconciliation by extractive Company

The tables below summarise the differences between the payments reported by extractive companies and receipts reported by the various Government entities.

The tables include consolidated figures based on the reporting templates prepared by every extractive company and Government entity, the adjustments made by us following our reconciliation work and the residual, unresolved differences. In order to keep the report size reasonable, detailed reconciliation reports for each company are included in Annex 5 of this report.

The net difference of AFS 3,059,082 represents the aggregate of the positive differences amounting to AFS 21,860,766 and the negative differences of AFS (24,895,766) which are detailed in Section 6.3 of this report.

No.	Company	Templates originally lodged			Adjustments		Final Amounts		
		Extractive Company (AFS)	Government (AFS)	Difference	Extractive Company (AFS)	Government (AFS)	Extractive Company (AFS)	Government (AFS)	Difference
1	MJAM MMC - JCL Aynak Minerals Company Ltd.	2,653,838,850	2,653,919,634	(80,784)	(631,410)	-	2,653,207,440	2,653,919,634	(712,194)
2	Kushak Brothers Company	36,361,508	36,353,948	7,560	(6,760)	800	36,354,748	36,354,748	-
3	Hewadwal Road Construction Company	19,066,342	5,708,739	13,357,603	502,087	4,747,432	19,568,429	10,456,171	9,112,258
4	Northern Coal Company	1,945,118,034	1,939,362,535	5,755,499	(156,488)	5,599,011	1,944,961,546	1,944,961,546	-
5	West Land General Trading	13,299,049	13,279,249	19,800	94,355	114,155	13,393,404	13,393,404	-
6	Korea Road Construction Company	17,608,682	3,939,449	13,669,233	63,739	947,205	17,672,421	4,886,654	12,785,767
7	China National Petroleum Company CNPCI - W	55,337,487	55,337,487	-	-	-	55,337,487	55,337,487	-
8	Afghan Gas Enterprise	31,311,857	30,887,591	424,266	-	430,507	31,311,857	31,318,098	(6,241)
9	Kod-e-Barq	26,428,672	13,444,219	12,984,453	-	12,303,931	26,428,672	25,748,150	680,522
10	Meesaq Sharq Company	17,190,153	17,188,146	2,007	(1)	2,006	17,190,152	17,190,152	-
11	Technologist Company	3,598,380	27,082,055	(23,483,675)	-	899,570	3,598,380	27,981,625	(24,383,245)
12	Salim Karwan	1,715,062	3,518,159	(1,803,097)	1,763,897	800	3,478,959	3,518,959	(40,000)
13	Afghan Investment Company	5,103,189	5,437,111	(333,922)	(114,200)	24,399	4,988,989	5,461,510	(472,521)
14	Equity Capital Group	17,058,460	17,081,888	(23,428)	-	-	17,058,460	17,081,888	(23,428)
<b>Total</b>		<b>4,843,035,725</b>	<b>4,822,540,210</b>	<b>20,495,515</b>	<b>1,515,219</b>	<b>25,069,816</b>	<b>4,844,550,944</b>	<b>4,847,610,026</b>	<b>(3,059,082)</b>

## 6.2. Reconciliation by Revenue stream

The table below shows the total Basic Payments reported by extractive companies and Government entities, taking into account all adjustments

Revenue Stream	Templates originally lodged			Adjustments			Final Amounts		
	Extractive Company (AFS)	Government (AFS)	Difference	Extractive Company (AFS)	Government (AFS)	Extractive Company (AFS)	Government (AFS)	Difference	
<b>MINISTRY OF MINES AND PETROLEUM</b>	<b>2,669,199,633</b>	<b>2,665,628,746</b>	<b>3,570,887</b>	<b>(781,056)</b>	<b>2,829,831</b>	<b>2,668,418,577</b>	<b>2,668,458,577</b>	<b>(40,000)</b>	
Royalties	81,790,312	66,155,721	15,634,591	(12,850,329)	2,824,262	68,939,983	68,979,983	(40,000)	
Surface Fees	58,405,511	58,634,967	(229,456)	236,600	7,144	58,642,111	58,642,111	-	
Lease of Government Land	910,212	683,460	226,752	(226,752)	-	683,460	683,460	-	
Penalties by Ministry	79,448	83,103	(3,655)	4,455	800	83,903	83,903	-	
Rent of Government Buildings	78,000	78,000	-	-	-	78,000	78,000	-	
Premium and Bonuses	2,524,390,000	2,524,390,000	-	-	-	2,524,390,000	2,524,390,000	-	
Over Production Fees	-	14,384,945	(14,384,945)	14,384,945	-	14,384,945	14,384,945	-	
Other	3,546,150	1,218,550	2,327,600	(2,329,975)	(2,375)	1,216,175	1,216,175	-	
<b>MINISTRY OF FINANCE - (LTO, MTO &amp; STO)</b>	<b>2,164,932,225</b>	<b>2,133,608,602</b>	<b>31,323,623</b>	<b>2,934,445</b>	<b>16,361,696</b>	<b>2,167,866,670</b>	<b>2,149,970,298</b>	<b>17,896,372</b>	
Income Tax	393,640,238	2,471,881	391,168,357	(2,234,959)	389,480,000	391,405,279	391,951,881	(546,602)	
2% BRT	99,060,390	1,850,207,535	(1,751,147,145)	4,802,516	(1,769,903,053)	103,862,906	80,304,482	23,558,424	
5 % BRT	1,017,292	-	1,017,292	-	1,017,292	1,017,292	1,017,292	-	
Salary Withholding	69,792,225	200,716,105	(130,923,880)	35,497	(130,163,842)	69,827,722	70,552,263	(724,541)	
Rent Withholding	1,267,151	1,681,151	(414,000)	-	14,400	1,267,151	1,695,551	(428,400)	
Contract Withholding	29,205,626	32,055,818	(2,850,192)	(30,000)	697,576	29,175,626	32,753,394	(3,577,768)	
Penalty	114,445	910,412	(795,967)	511,981	100,755	626,426	1,011,167	(384,741)	
Other Payment	1,570,834,858	45,565,700	1,525,269,158	(150,590)	1,525,118,568	1,570,684,268	1,570,684,268	-	
<b>MINISTRY OF FINANCE – CUSTOMS DPARTMENT</b>	<b>3,026,378</b>	<b>23,302,862</b>	<b>(20,276,484)</b>	<b>(638,170)</b>	<b>800</b>	<b>2,388,208</b>	<b>23,303,662</b>	<b>(20,915,454)</b>	
Import Duties	1,312,272	11,176,243	(9,863,971)	(786,836)	-	525,436	11,176,243	(10,650,807)	
Fixed Taxes	1,678,914	7,227,042	(5,548,128)	(168,360)	-	1,510,554	7,227,042	(5,716,488)	
BRT	-	4,555,572	(4,555,572)	308,699	-	308,699	4,555,572	(4,246,873)	
Other Fees	35,192	344,005	(308,813)	8,327	800	43,519	344,805	(301,286)	
<b>OTHER GOVERNMENT AGENCIES</b>	<b>5,877,489</b>	<b>-</b>	<b>5,877,489</b>	<b>-</b>	<b>5,877,489</b>	<b>5,877,489</b>	<b>5,877,489</b>	<b>-</b>	
1% Municipality	5,877,489	-	5,877,489	-	5,877,489	5,877,489	5,877,489	-	
<b>GRAND TOTAL</b>	<b>4,843,035,725</b>	<b>4,822,540,210</b>	<b>20,495,515</b>	<b>1,515,219</b>	<b>25,069,816</b>	<b>4,844,550,944</b>	<b>4,847,610,026</b>	<b>(3,059,082)</b>	



## 6.3. Adjustments

### 6.3.1. Extractive company adjustments

The adjustments were carried out on the basis of confirmations from the extractive companies and were supported by proper evidence for justifications. We have reconciled and proposed the necessary adjustment upon obtaining evidence documentation from the extractive companies. The adjustments are detailed as follows:

MINISTRY OF MINES AND PETROLEUM	TOTAL AMOUNT (AFS)	Note
Royalties	(12,850,329)	1
Surface Fees	236,600	2
Lease of Government Land	(226,752)	3
Penalties by Ministry	4,455	4
Over Production Fees	14,384,945	5
Other payments	(2,329,975)	6

#### Note 1

The total negative difference of Royalties was AFS 12,850,329. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Kushak Brothers Company	30,232,700	(10,230,100)	20,002,600	20,000,000	2,600	20,002,600	-
Hewadwal Road Construction Company	2,389,993	(120,294)	2,269,699	1,290,062	979,637	2,269,699	-
Korea Afghanistan	944,055	1,661,410	2,605,465	1,661,410	944,055	2,605,465	-
Meesaq Sharq Company	16,567,595	(4,154,845)	12,412,750	12,412,750	-	12,412,750	-
Technologist Company	3,598,380	(6,500)	3,591,880	2,693,910	551,820	3,245,730	346,150

- ❖ The negative differences represent the payment of Over Production Fees paid by two extractive companies amounting of AFS 10,230,100 and AFS 4,154,845 respectively and mistakenly reported as a Royalty.
- ❖ The negative difference represents the overstatement made by extractive company amounting AFS 120,294.
- ❖ The positive difference represents the omission from the Initial Report as an amounting of AFS 1,661,410.
- ❖ The negative difference represents the payment of Surface Fees paid by extractive company amounting AFS 6,500 and mistakenly reported as Royalty.

#### Note 2

The total negative difference of Surface Fees was AFS 236,600. The table below demonstrate the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Hewadwal Road Construction Company	2,394	1,773	4,167	1,773	2,394	4,167	-
Korea Road Construction Company	6,380	1,575	7,955	4,805	3,150	7,955	-
Meesaq Sharq Company	-	226,752	226,752	226,752	-	226,752	-
Technologist Company	-	6,500	6,500	4,900	1,600	6,500	-

- ❖ The positive difference represents the omission from the Initial Report as an amounting of AFS 1,773 and AFS 1,575 respectively.
- ❖ The positive difference of AFS 226,752 represents the payment for surface fees paid by the extractive company and which have been mistakenly reported as Lease of Government Land.
- ❖ The positive difference represents the payment of Surface Fees paid by extractive company amounting AFS 6,500 and mistakenly reported as Royalty.

**Note 3**

The total negative difference of Lease of Government Land was AFS 226,752. The table below demonstrate the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Meesaq Sharq Company	226,752	(226,752)	-	-	-	-	-

- ❖ The negative difference of AFS 226,752 represents the payment for surface fees paid by the extractive company which have been mistakenly reported as Lease of Government Land.

**Note 4**

The total positive difference of Penalties by Ministry was AFS 4,455. The table below demonstrate the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Hewadwal Road Construction Company	-	2,935	2,935	2,935	-	2,935	-
Korea Road Construction Company	-	1,520	1,520	1,520	-	1,520	-

- ❖ The positive differences amounting of AFS 2,935 and AFS 1,520 represent the omission from the Initial Report.

**Note 5**

The total positive difference of Over Production Fees was AFS 14,384,945. The table below demonstrate the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Kushak Brothers Company	-	10,230,100	10,230,100	10,230,100	-	10,230,100	-
Meesaq Sharq Company	-	4,154,845	4,154,845	4,154,845	-	4,154,845	-

- ❖ The positive differences represent the payment of Over Production Fees paid by two extractive companies amounting of AFS 10,230,100 and AFS 4,154,845 respectively and mistakenly reported as a Royalty.

**Note 6**

The total negative difference of other payment was AFS 2,329,975. The table below demonstrate the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Hewadwal Road Construction Company	225	25,200	25,425	25,200	225	25,425	-
Korea Road Construction Company	2,355,175	(2,355,175)	-	-	-	-	-

- ❖ The positive difference amounting of AFS 25,200 represents the omission from the Initial Report.
- ❖ The negative differences represent the payment of other payments paid by the extractive company amounting of AFS 2,355,175 and mistakenly reported.

MINISTRY OF FINANCE - (LTO, MTO & STO)		TOTAL AMOUNT AFS	Note
Income Tax		(2,234,959)	1
2% BRT		4,802,516	2
Salary Withholding		35,497	3
Contract Withholding		(30,000)	4
Penalty		511,981	5
Other Payment		(150,590)	6

**Note 1**

The total negative difference of Income tax was AFS 2,234,959. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Meesaq Sharq Company	389,784	(327,655)	62,129	62,129	-	62,129	-
West Land General Tranding	-	6,000	6,000	6,000	-	6,000	-
Kushak Brothers Company	3,547,878	(2,754,129)	793,749	793,749	-	793,749	-
Korea Road Construction Company	222,576	470,197	692,773	1,234,836	-	1,234,836	(542,063)
Salim Karwan	-	370,628	370,628	370,628	-	370,628	-

- ❖ The negative difference of AFS 327,655 was overstated by the company in the initial report. The amount of AFS 316,608 is related to 2% BRT and AFS 11,046 is related to the penalty category of revenue streams.
- ❖ The positive differences of AFS 6,000 and AFS 370,628 were omitted from the initial report by the Extractive Company.
- ❖ The income tax for the amount of AFS 2,754,129 was incorrectly stated, although it should be stated as 2% BRT.
- ❖ The positive differences represent the payment of Income Tax paid by the extractive company amounting of AFS 470,197 which was understated in the Initial Report.

**Note 2**

The total positive difference of 2% BRT was AFS 4,802,516. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Kushak Brothers Company	-	2,904,719	2,904,719	2,904,719	-	2,904,719	-
Hewadwal Road Construction Company	16,673,730	152,333	16,826,063	2,859,583	3,765,176	6,624,759	10,201,304
Korea Road Construction Company	13,590,320	269,286	13,859,606	370,680	-	370,680	13,488,926
Salim Karwan	785,400	1,388,800	2,174,200	2,174,200	-	2,174,200	-
Meesaq Sharq Company	-	316,608	316,608	316,608	-	316,608	-
Northern Coal Company	47,221,885	(156,488)	47,065,397	1,797,077,650	(1,750,012,253)	47,065,397	-
Afghan Investment Company	2,225,792	(72,742)	2,153,050	2,272,889	-	2,272,889	(119,839)

- ❖ The amount of AFS 316,608 was incorrectly stated in the category of Income Tax instead of 2 % BRT.
- ❖ The amount of AFS 2,904,719 of 2% BRT was incorrectly stated in the category of payments such as Income tax and other payments with the amount consisting of AFS 2,754,129 and AFS 150,590.
- ❖ The amounts of AFS 72,742, ASF 156,488 and AFS 372,715 (negative difference) were overstated by three extractive companies.
- ❖ The positive difference of AFS 316,608 was omitted from the initial report by the Extractive Company.
- ❖ The positive differences of AFS 1,388,800, AFS 269,286 and AFS 152,333 were understated in the Initial Report.

**Note 3**

The total positive difference of Salary Withholding was AFS 35,497. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
West Land General Tranding	885,494	88,355	973,849	973,849	-	973,849	-
Korea Road Construction Company	130,794	(11,400)	119,394	125,742	-	125,742	(6,348)
Afghan Investment Company	788,693	(41,458)	747,235	814,497	-	814,497	(67,262)

- ❖ The positive difference of AFS 88,355 was omitted from the initial report by the Extractive Companies.
- ❖ The negative differences of AFS 11,400 and AFS 41,458 were overstated in the initial report by the extractive companies.

**Note 4**

The total negative difference of Contract Withholding was AFS 30,000. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Salim Karwan	60,000	(30,000)	30,000	30,000	-	30,000	-

- ❖ The negative difference of AFS 30,000 was overstated in the initial report by the extractive companies.

**Note 5**

The total positive difference of Penalty was AFS 511,981. The table below demonstrate the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Hewadwal Road Construction Company	-	440,140	440,140	449,855	-	449,855	(9,715)
Korea Road Construction Company	-	26,326	26,326	370,781	-	370,781	(344,455)
Salim Karwan	-	34,469	34,469	34,469	-	34,469	-
Meesaq Sharq Company	-	11,046	11,046	11,046	-	11,046	-

- ❖ The difference of AFS 11,046 was incorrectly stated in the category of Income Tax instead of Penalty.
- ❖ The positive difference of AFS 440,140, AFS 26,326 and AFS 34,469 were omitted from the initial report by the Extractive Companies.

**Note 6**

The total negative difference of Other Payments was AFS 150,590. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Kushak Brothers Company	150,590	(150,590)	-	-	-	-	-

- ❖ The amount of AFS 150,590 was incorrectly stated in the category of Other Payments instead of 2% BRT.

MINISTRY OF FINANCE – CUSTOMS DEPARTMENT		TOTAL AMOUNT AFS	Note
Import Duties		(786,836)	
Fixed Taxes		463,050	1
BRT		308,699	
Other Fees		8,327	

**Note 1**

The total negative difference of payment in relation to the Customs Department was AFS 6,760. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

**Kushak Brothers Company**

Description of Payment	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Import duties	1,163,300	(786,836)	376,464	376,464	-	376,464	-
Fixed taxes	-	463,050	463,050	463,050	-	463,050	-
BRT	-	308,699	308,699	308,699	-	308,699	-
Other fees	-	8,327	8,327	7,527	800	8,327	-

- ❖ The difference of AFS 786,836 has been wrongly stated in the category of import duties in the initial report, the difference should be separated between Fixed Taxes, BRT and other fees with the amounts stated above in the schedule.

**MJAM MMC - JCL Aynak Minerals Company Ltd.**

Description of Payment	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Import duties	1,468,504	(631,410)	837,094	1,152,582	-	1,152,582	(315,488)

- ❖ The negative difference of AFS 631,410 overstated in the initial report by the extractive company.

### 6.3.2. Government agencies' adjustments

The adjustments were carried out on the basis of confirmations received from extractive companies supported by original payment receipts wherever deemed appropriate. We have reconciled and proposed the necessary adjustment upon obtaining evidence documentation from the extractive companies. The adjustments are detailed as follows:

MINISTRY OF MINES AND PETROLEUM	TOTAL AMOUNT (AFS)	Note
Royalties	2,824,262	1
Surface Fees	7,144	2
Penalties by Ministry	800	3
Other payments	(2,375)	4

#### Note 1

The total positive difference of Royalties was AFS 2,824,262. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Kushak Brothers Company	30,232,700	(10,230,100)	20,002,600	20,000,000	2,600	20,002,600	-
Hewadwal Road Construction Company	2,389,993	(120,294)	2,269,699	1,290,062	979,637	2,269,699	-
Korea Afghanistan Technologist Company	944,055	1,661,410	2,605,465	1,661,410	944,055	2,605,465	-
	3,598,380	(6,500)	3,591,880	2,693,910	897,970	3,591,880	-

- ❖ The total positive differences of AFS 2,824,262 represent the understatement made by the Government Agency and mistakenly reported in the initial Reporting template.

#### Note 2

The total positive difference of Surface Fees was AFS 7,144. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Hewadwal Road Construction Company	2,394	1,773	4,167	1,773	2,394	4,167	-
Korea Road Construction Company	6,380	1,575	7,955	4,805	3,150	7,955	-
Technologist Company	-	6,500	6,500	4,900	1,600	6,500	-

- ❖ The total positive differences of AFS 7,144 represent the understatement made by the extractive companies and mistakenly reported in the initial Reporting template.

#### Note 3

The total positive difference of Penalties by Ministry was AFS 800. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Salim Karwan	36,982	-	36,982	36,182	800	36,982	-

- ❖ The positive difference amounting of AFS 800 represents the omission from the Initial Report.

**Note 4**

The total negative difference of other payment was AFS 2,375. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Hewadwal Road Construction Company	225	25,200	25,425	25,200	225	25,425	-
Kushak Brothers Company	-	-	-	2,600	(2,600)	-	-

- ❖ The positive difference amounting of AFS 225 represents the omission from the Initial Report.
- ❖ The negative difference of AFS 2,600 was mistakenly reported by the extractive company in the Initial Reporting Template.

MINISTRY OF FINANCE - (LTO, MTO & STO)	TOTAL AMOUNT AFS	Note
Income Tax	389,480,000	1
2% BRT	(1,769,903,053)	2
5% BRT	1,017,292	3
Salary Withholding	(130,163,842)	4
Rent Withholding	14,400	5
Contract Withholding	697,576	6
Penalty	100,755	7
Other Payment	1,525,118,568	8

**Note 1**

The total positive difference of Income tax was AFS 389,480,000. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Kod-e-Barq	8,950,000	-	8,950,000	-	8,950,000	8,950,000	-
Afghan Gas Enterprise	6,000,000	-	6,000,000	-	6,000,000	6,000,000	-
Northern Coal Company	374,530,000	-	374,530,000	-	374,530,000	374,530,000	-

- ❖ The amount of AFS 374,530,000 was incorrectly stated in the category of 2% BRT instead of Income Tax.
- ❖ The positive differences amounting of AFS 8,950,000 and AFS 6,000,000 represent the omission from the Initial Report.

**Note 2**

The total negative difference of 2 % BRT was AFS 1,769,903,053. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Hewadwal Road Construction Company	16,673,730	-	16,673,730	2,859,583	3,765,176	6,624,759	10,048,971
West Land General Trading	-	-	-	1,000	(1,000)	-	-
Afghan Gas Enterprise	4,000,000	-	4,000,000	30,051,715	(26,051,715)	4,000,000	-
Northern Coal Company	47,221,885	(156,488)	47,065,397	1,797,077,650	(1,750,012,253)	47,065,397	-
Kod-e-Barq	14,563,263	-	14,536,263	12,166,524	2,396,739	14,563,263	-

- ❖ The amount of AFS 3,765,176 was understated in the initial report by the Government Agency.
- ❖ The amount of AFS 1,750,012,253 was incorrectly stated in the category of 2% BRT instead of other related revenue streams (page 55).
- ❖ The positive differences amounting of AFS 2,396,739 and AFS 3,765,176 represent the omission from the Initial Report.
- ❖ The amount of AFS 26,051,715 was incorrectly stated in the category of 2% BRT instead of other related revenue streams (page 59).
- ❖ The negative difference of AFS 1,000 was mistakenly reported by the extractive company in the Initial Reporting Template.

**Note 3**

The total negative difference of 5 % BRT was AFS 1,017,292. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Northern Coal Company	60,100		60,100		60,100	60,100	
Kod-e-Barq	957,192	-	957,192	-	957,192	957,192	-

- ❖ The amount of AFS 60,100 was included in the amount of 2% BRT instead of 5 % BRT (page 55).
- ❖ The amount of AFS 957,192 was omitted from the initial report by the Government Agency.

**Note 4**

The total negative difference of Salary Withholding was AFS 130,163,842. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Northern Coal Company	5,570,262	-	5,570,262	135,934,885	(130,364,623)	5,570,262	-
Afghan Gas Enterprise	675,381	-	675,381	476,606	198,775	675,381	-
Meesaq Sharq Company	2,006	-	2,006	-	2,006	2,006	-

- ❖ The amount of AFS 130,364,623 was incorrectly stated in the category of Salary Withholding (page 55).
- ❖ The amount of AFS 2,006 was omitted from the initial report by the Government Agency.
- ❖ The amount AFS 198,775 was understated in the initial report submitted by the Government Agency

**Note 5**

The total positive difference of Rent Withholding was AFS 14,400. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
West Land General Tranding	54,000	-	54,000	39,600	14,400	54,000	-

- ❖ The total positive differences of AFS 14,400 represent the understatement made by the extractive companies and mistakenly reported in the initial Reporting template.

**Note 6**

The total positive difference of Contract Withholding was AFS 697,576. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Northern Coal Company	592,633	-	592,633	350,000	242,633	592,633	-
Meesaq Sharq Company	26,528,600	-	26,528,600	26,381,503	147,097	26,528,600	-
Afghan Gas Enterprise	636,476	-	636,476	359,270	283,447	642,717	(6,241)
Afghan Investment Company	207,395	-	207,395	203,841	24,399	228,240	(20,845)

- ❖ The total positive differences of AFS 242,633, AFS 283,447 and AFS 24,399 represent the understatement made by the extractive companies and mistakenly reported in the initial Reporting template.
- ❖ The total positive difference of AFS 147,097 was indicated in the category of Other payments instead of Contract Withholding.



**Note 7**

The total positive difference of Penalty was AFS 100,755. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
West Land General Tranding	100,755	-	100,755	-	100,755	100,755	-

❖ The amount of AFS 100,755 was omitted from the initial report by the Government Agency.

**Note 8**

The total positive difference of Other Payments was AFS 1,525,118,568. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

**Northern Coal Company**

Revenue Stream	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Excess Profit	1,175,265,665	-	1,175,265,665	-	1,175,265,665	1,175,265,665	-
Pre-Paid	330,000,000	-	330,000,000	-	330,000,000	330,000,000	-

❖ The amounts of AFS 1,175,265,665 and AFS 330,000,000 were omitted from the initial report by the Government Agency and mistakenly reported in the other category of payments (page 55).

**Meesaq Sharq Company**

Revenue Stream	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Other Payment	45,418,603	-	45,418,603	45,565,700	(147,097)	45,418,603	-

❖ The total negative difference of AFS 147,097 was indicated in the category of other payments instead of Contract Withholding.

**Afghan Gas Enterprise**

Revenue Stream	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Other Payment	20,000,000	-	20,000,000	-	20,000,000	20,000,000	-

❖ The total positive difference of AFS 20,000,000 was omitted from the Initial Report.

MINISTRY OF FINANCE – CUSTOMS DEPARTMENT		TOTAL AMOUNT AFS	Note
Other Fees		800	1

**Note 1**

The total positive difference of other fees was AFS 800. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Contract Withholding	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Kushak Brothers Company	-	8,327	8,327	7,527	800	8,327	-
<b>GRAND TOTAL</b>	<b>-</b>	<b>8,327</b>	<b>8,327</b>	<b>7,527</b>	<b>800</b>	<b>8,327</b>	<b>-</b>

❖ The difference of AFS 800 was omitted from the initial report by the Government Agency.

OTHER GOVERNMENT AGENCIES		TOTAL AMOUNT AFS	Note
1% Municipality		5,877,489	1

The total positive difference of other fees was AFS 5,877,489. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

**Northern Coal Company**

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
1% Municipality (Bamyan)	2,503,380	-	2,503,380	-	2,503,380	2,503,380	-
1% Municipality (Samangan)	3,374,109	-	3,374,109	-	3,374,109	3,374,109	-

❖ The amounts of AFS 2,503,380 and AFS 3,374,109 were not reported by the Government Agency (page 55).

## 6.4. Unresolved differences

The summaries of differences which have not been solved are stated as follows:

Revenue Stream	Final Amounts			Note
	Extractive Company (AFS)	Government (AFS)	Difference	
<b>MINISTRY OF MINES AND PETROLEUM</b>	<b>2,668,418,577</b>	<b>2,668,458,577</b>	<b>(40,000)</b>	
Royalties	68,939,983	68,979,983	(40,000)	1
Surface Fees	58,642,111	58,642,111	-	
Lease of Government Land	683,460	683,460	-	
Penalties by Ministry	83,903	83,903	-	
Rent of Government Buildings	78,000	78,000	-	
Premium and Bonuses	2,524,390,000	2,524,390,000	-	
Over Production Fees	14,384,945	14,384,945	-	
Other	1,216,175	1,216,175	-	
<b>MINISTRY OF FINANCE - (LTO, MTO &amp; STO)</b>	<b>2,167,866,670</b>	<b>2,149,970,298</b>	<b>17,896,372</b>	
Income Tax	391,405,279	391,951,881	(546,602)	2
2% BRT	103,862,906	80,304,482	23,558,424	3
5 % BRT	1,017,292	1,017,292	-	
Salary Withholding	69,827,722	70,552,263	(724,541)	4
Rent Withholding	1,267,151	1,695,551	(428,400)	5
Contract Withholding	29,175,626	32,753,394	(3,577,768)	6
Penalty	626,426	1,011,167	(384,741)	7
Other Payment	1,570,684,268	1,570,684,268	-	
<b>MINISTRY OF FINANCE – CUSTOMS DEPARTMENT</b>	<b>2,388,208</b>	<b>23,303,662</b>	<b>(20,915,454)</b>	
Import Duties	525,436	11,176,243	(10,650,807)	8
Fixed Taxes	1,510,554	7,227,042	(5,716,488)	9
BRT	308,699	4,555,572	(4,246,873)	10
Other Fees	43,519	344,805	(301,286)	11
<b>OTHER GOVERNMENT AGENCIES</b>	<b>5,877,489</b>	<b>5,877,489</b>	<b>-</b>	
1% Municipality	5,877,489	5,877,489	-	
<b>GRAND TOTAL</b>	<b>4,844,550,944</b>	<b>4,847,610,026</b>	<b>(3,059,082)</b>	

### Note 1

The total unresolved positive difference of Royalty was AFS 40,000. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Salim Karwan	792,480	-	792,480	832,480	-	832,480	(40,000)

We were unable to resolve the difference due to lack of information provided by the extractive companies and government agencies. The amount of differences by company is below the materiality threshold which has been set as AFS 2 mln.

### Note 2

The total unresolved negative difference of Income Tax was AFS 546,602. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Korea Road Construction Company	222,576	470,197	692,773	1,234,836	-	1,234,836	(542,063)
Equity Capital Group	-	-	-	4,539	-	4,539	(4,539)

- ❖ We were unable to obtain appropriate evidence from the Ministry of Finance for Korea Road Construction Company in order to propose necessary adjustment.
- ❖ The companies provided the information in relation to the mining sector; however the Ministry of Finance provided the aggregate figures on construction and mining sectors.

The amount of difference is below the materiality threshold which has been set as AFS 2 mln.

**Note 3**

The total unresolved negative difference of 2% BRT was AFS 23,558,424. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Hewadwal Road Construction Company	16,673,730	152,333	16,826,063	2,859,583	3,765,176	6,624,759	10,201,304
Korea Road Construction Company	13,590,320	269,286	13,859,606	370,680	-	370,680	13,488,926
Equity Capital Group	-	-	-	11,967	-	11,967	(11,967)
Afghan Investment Company	2,225,792	(72,742)	2,153,050	2,272,889	-	2,272,889	(119,839)

- ❖ We were unable to resolve the difference due to inability to get necessary information and justification from the Ministry of Finance.
- ❖ The companies provided the information in relation to the mining sector; however the Ministry of Finance provided the aggregate figures on construction and mining sectors.

The amount of unresolved differences of Afghan Investment Company and Equity Capital Group were below the materiality threshold which has been set as AFS 2 mln. All other extractive companies' differences were above the threshold.

**Note 4**

The total unresolved negative difference of Salary Withholding was AFS 724,541. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Hewadwal Road Construction Company	-	-	-	650,931	-	650,931	(650,931)
Korea Road Construction Company	130,794	(11,400)	119,394	125,742	-	125,742	(6,348)
Afghan Investment Company	788,693	(41,458)	747,235	814,497	-	814,497	(67,262)

- ❖ We were unable to resolve the difference due to inability to get necessary information from the Ministry of Finance.
- ❖ The Salary Withholding has been omitted by Hewadwal Road Construction Company in the initial Reporting Template.
- ❖ The companies provided the information in relation to the mining sector; however the Ministry of Finance provided the aggregate figures on construction and mining sectors.

The amounts of unresolved differences were below the materiality threshold for all other companies which have been set as AFS 2 mln.

**Note 5**

The total unresolved negative difference of Rent Withholding was AFS 428,400. The table below demonstrates the company which has incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Hewadwal Road Construction Company	-	-	-	428,400	-	428,400	(428,400)

- ❖ The Rent Withholding has been omitted by Hewadwal Road Construction Company in the initial Reporting Template.
- ❖ The company provided the information in relation to the mining sector; however the Ministry of Finance provided the aggregate figures on construction and mining sectors.

The amount of unresolved difference was below the materiality threshold which has been set as AFS 2 mln.

**Note 6**

The total unresolved negative difference of Contract Withholding was AFS 3,577,768. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Afghan Gas Enterprise	636,476	-	636,476	359,270	283,447	642,717	(6,241)
Kod – e – Barg	680,522	-	680,522	-	-	-	680,522
Technologist Company	-	-	-	4,231,204	-	4,231,204	(4,231,204)
Afghan Investment Company	207,395	-	207,395	203,841	24,399	228,240	(20,845)

- ❖ We were unable to resolve the difference due to inability to get necessary information and justification from the Ministry of Finance and extractive companies.
- ❖ The Contract Withholding has been omitted by Technologist Company in the initial Reporting Template.
- ❖ The companies provided the information in relation to the mining sector; however the Ministry of Finance provided the aggregate figures on construction and mining sectors.

The amount of unresolved difference of Technologist Company was below the materiality threshold which has been set as AFS 2 mln. All other extractive companies' differences were above the threshold.

**Note 7**

The total unresolved negative difference of Penalty was AFS 384,741. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
Hewadwal Road Construction Company	-	440,140	440,140	449,855	-	449,855	(9,715)
Korea Road Construction Company	-	26,326	26,326	370,781	-	370,781	(344,455)
Afghan Investment Company	-	-	-	23,649	-	23,649	(23,649)
Equity Capital Group	-	-	-	6,922	-	6,922	(6,922)

- ❖ We were unable to resolve the difference due to inability to get necessary information and justification from the Ministry of Finance and extractive companies.
- ❖ The companies provided the information in relation to the mining sector; however the Ministry of Finance provided the aggregate figures on construction and mining sectors.

The amounts of unresolved differences were below the materiality threshold which has been set as AFS 2 mln.

**Note 8**

The total unresolved negative difference of Import Duties was AFS 10,650,807. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
MJAM MMC – JCL Aynak Minerals Company Ltd	-	-	-	253,776	-	253,776	(253,776)
Korea Road Construction Company	148,972	-	148,972	91,872	-	91,872	57,100
Technologist Company	-	-	-	10,300,674	-	10,300,674	(10,300,674)
Afghan Investment Company	-	-	-	153,457	-	153,457	(153,457)

- ❖ We were unable to resolve the difference due to inability to get necessary information from the extractive companies.

Except for the Technologist Company, the amounts of unresolved differences were below the materiality threshold for all other companies which have been set as AFS 2 mln.

**Note 9**

The total unresolved negative difference of Fixed Taxes was AFS 5,716,488. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
MJAM MMC – JCL Aynak Minerals Company Ltd	1,468,504	(631,410)	837,094	1,152,582	-	1,152,582	(315,488)
Korea Road Construction Company	210,410	-	210,410	40,360	-	40,360	170,050
Technologist Company	-	-	-	5,520,409	-	5,520,409	(5,520,409)
Afghan Investment Company	-	-	-	50,641	-	50,641	(50,641)

- ❖ We were unable to resolve the difference due to inability to get necessary information from the extractive companies.

Except for the Technologist Company, the amounts of unresolved differences were below the materiality threshold for all other companies which have been set as AFS 2 mln.

**Note 10**

The total unresolved negative difference of BRT was AFS 4,246,873. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
MJAM MMC – JCL Aynak Minerals Company Ltd	-	-	-	128,500	-	128,500	(128,500)
Korea Road Construction Company	-	-	-	35,605	-	35,605	(35,605)
Technologist Company	-	-	-	4,049,008	-	4,049,008	(4,049,008)
Afghan Investment Company	-	-	-	33,760	-	33,760	(33,760)

- ❖ We were unable to resolve the difference due to inability to get necessary information from the extractive companies.

Except for the Technologist Company, the amounts of unresolved differences were below the materiality threshold for all other companies which have been set as AFS 2 mln.

**Note 11**

The total unresolved negative difference of Other Fees was AFS 301,286. The table below demonstrates the companies which have incorrectly included the data into the Reporting Template:

Company	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
MJAM MMC – JCL Aynak Minerals Company Ltd	35,192	-	35,192	49,622	-	49,622	(14,430)
Korea Road Construction Company	-	-	-	1,838	-	1,838	(1,838)
Technologist Company	-	-	-	281,950	-	281,950	(281,950)
Afghan Investment Company	-	-	-	3,068	-	3,068	(3,068)

- ❖ We were unable to resolve the difference due to inability to get necessary information from the extractive companies.

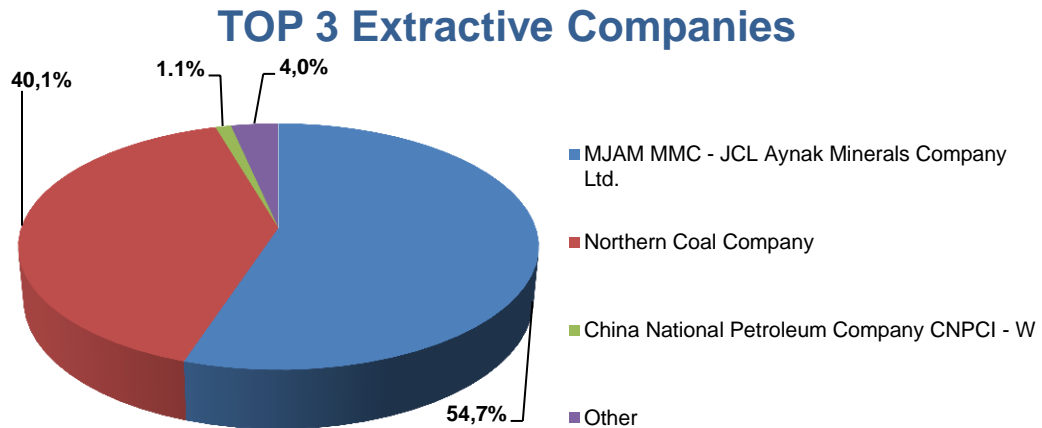
The amount of unresolved difference was below the materiality threshold which has been set as AFS 2 mln.

## 7. REPORTED DATA

### 7.1. Analysis of Government revenues

#### 7.1.1. Analyses of payments by companies' contribution

The analysis of Government revenues by companies' contribution indicates that 2 companies contributed approximately 96% of the total Government revenues during the afghan fiscal year 1390.



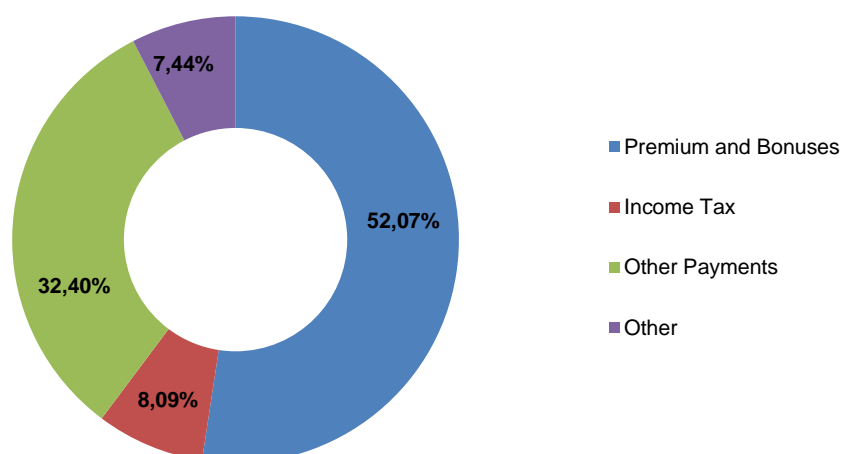
The list of payments by company's contribution is shown in the table below:

Company	Government receipts	% of total payment
MJAM MMC - JCL Aynak Minerals Company Ltd.	2,653,919,634	54,7%
Kushak Brothers Company	36,354,748	0,7%
Hewadwal Road Construction Company	10,456,171	0,2%
Northern Coal Company	1,944,961,546	40,1%
West Land General Tranding	13,393,404	0,3%
Korea Road Construction Company	4,886,654	0,1%
China National Petroleum Company CNPCI - W	55,337,487	1,1%
Afghan Gas Enterprise	31,318,098	0,6%
Kod-e-Barq	25,748,150	0,5%
Meesaq Sharq Company	17,190,152	0,4%
Technologist Company	27,981,625	0,6%
Salim Karwan	3,518,959	0,1%
Afghan Investment Company	5,461,510	0,1%
Equity Capital Group	17,081,888	0,4%
<b>Total extractive sector</b>	<b>4,847,610,026</b>	<b>100%</b>

#### 7.1.2. Analyses of payments by flows contribution

The analysis of the payments by flow contribution shows that the TOP 3 Payment contributed towards 92% of the total Government extractive revenues and is collected jointly by Ministry of Mines and Petroleum and by Ministry of Finance.

### TOP 3 Revenue Stream



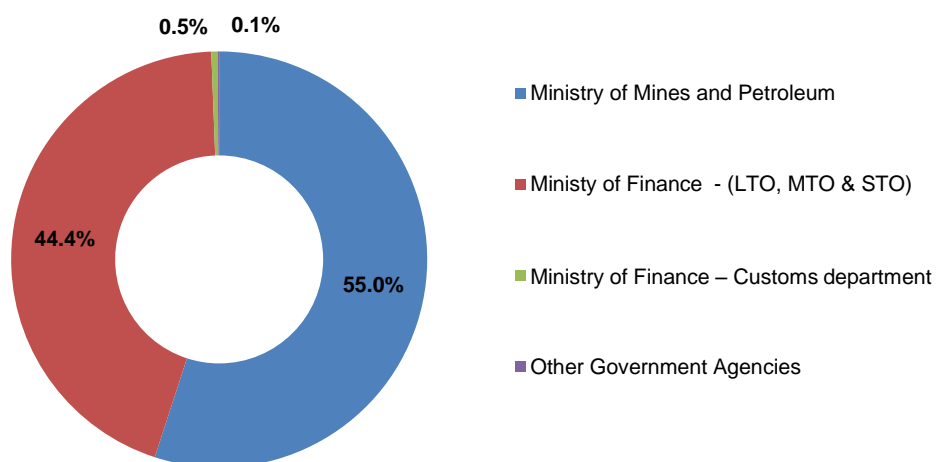
The list of payments by flows contribution is shown in the table below:

Revenue Stream	Government receipts	% of total payment
Royalties	68,979,983	1,4%
Surface Fees	58,642,111	1,2%
Lease of Government Land	683,460	0,0%
Penalties by Ministry	83,903	0,0%
Rent of Government Buildings	78,000	0,0%
Premium and Bonuses	2,524,390,000	52,1%
Over Production Fees	14,384,945	0,3%
Other	1,216,175	0,0%
Income Tax	391,951,881	8,1%
2% BRT	80,304,482	1,7%
5% BRT	1,017,292	0,0%
Salary Withholding	70,552,263	1,5%
Rent Withholding	1,695,551	0,0%
Contract Withholding	32,753,394	0,7%
Penalty	1,011,167	0,0%
Other Payments	1,570,684,268	32,4%
Import Duties	11,176,243	0,2%
Fixed Taxes	7,227,042	0,1%
BRT	4,555,572	0,1%
Other Fees (Form Price + Red Cross Charges)	344,805	0,0%
1% Municipality	5,877,489	0,1%
<b>Grand Total</b>	<b>4,847,610,026</b>	<b>100,0%</b>

### 7.1.3. Analyses of revenues by Government Entities

During the Afghan fiscal year 1390, the Ministry of Mines and Petroleum collected the largest value of receipts included in the reconciliation followed by the Ministry of Finance as shown in the table below:

Government Entities	Government Revenue	% of total payment
Ministry of Mines and Petroleum	2,668,458,577	55,0%
Ministry of Finance - (LTO, MTO & STO)	2,149,970,298	44,4%
Ministry of Finance – Customs department	23,303,662	0,5%
Other Government Agencies	5,877,489	0,1%
<b>Grand Total</b>	<b>4,847,610,026</b>	<b>100,0%</b>



## 8. RECOMMENDATIONS

### 8.1. Lessons learned from the 1390 reconciliation

#### 8.1.1. TIMING OF THE SCOPING STUDY AND RECONCILIATION WORK:

The assignment has commenced from 16 February 2014. We have faced with problems such as inability to collect the Initial Reporting Templates from some extractive companies on timely basis.

The adoption of EITI reconciliation procedures was relatively new for the country; thus there were inevitable problems with filling the reports.

This situation led to a considerable waste of time trying to contact accountants and management in order to obtain further details of declared amounts.

*We recommend for the future that the timing of the reconciliation exercise is better planned during the year. This is likely to promote better cooperation from reporting entities as they will be available to provide better support to the reconcilers.*

*We recommend replacing the paper-based accounting by more effective and efficient computerised accounting information systems (AIS) in places which has not been implemented, which will trigger the development of the appropriate transparent reporting system.*

*We recommend organising even more seminars and training for the participants of the reconciliation process. It would increase the level of productivity and decrease the number of recurrent errors repeated each year.*

#### 8.1.2. IMPROVEMENT DATABASE

EITI Requirement 11 stipulates for the Government to ensure that all relevant extractive companies report. EITI reporting applies to all extractive companies operating in Afghanistan.

*For effective reconciliation going forward, it is strongly recommended that all Government Entities participating in the reconciliation exercise provide maximum cooperation and assistance.*

*We strongly recommend that the same accounting system operated should be utilized at the Ministry of Mines and Petroleum to enhance information completeness and accuracy as well as getting and reconciling information quickly.*

*We also recommend that, following the reconciliation exercises, the AEITI Secretariat creates a database of participants. The Secretariat should then liaise with the Governmental bodies to ensure it obtains adequate information regularly and updates its database accordingly. To this end, we believe it is vital that any new entrants to the extractive sector are registered with the AEITI Secretariat as part of the process before or at the same time as they obtain their operating licence. A quarterly review with the Governmental bodies of the list of extractive companies licensed to operate in the sector is recommended.*

#### 8.1.3. CERTIFIED REPORTING TEMPLATES

In accordance with recommendations 12 and 13 of the EITI rules for 2011, all extractive companies and Government Agencies are required to ensure that reports are based on accounts which have been audited to international standards.

MSG-WG and the secretariat undertake activity in order to oblige the reporting companies to report based on accounts audited to international standards and/or where an external audit company has audited their accounts prior to reporting (page 11 – Reliability and credibility of EITI data).

Similarly, the Government SOEs must publish or make the annual audit report from the Auditor General available to the reconciler but we note that this was not done for the main Government Entities.

*We recommend for the forthcoming exercises that the extractive companies comply with alternative procedures mentioned above in this report and scoping study report. With regard to the Governmental Agencies, it is recommended that reliable and auditable data is presented to the Office of Auditor General before the Reconcilers start the 4th reconciliation exercise*

#### 8.1.4. OTHER RECOMMENDATIONS

*We recommend updating the Technical Guidelines for the Reporting Templates. It would be useful to include examples of common mistakes stated year to year in order to mitigate them.*

*We recommend notifying and informing the companies that produce erroneous reports on a regular basis. It would be useful to include additional comments on their previous experience.*



## 8.2. Follow up of the recommendations of the First and Second EITI Reports

Recommendation	Implemented (Yes/No/On-going)	Description of action undertaken
<b>TIMING OF THE RECONCILIATION EXERCISE AND PERIOD OF APPOINTMENT OF RECONCILER</b>		
<b>Recommendation</b>		
We believe that in the future it would be more effective to carry out the reporting and reconciliation process and publish the annual report within maximum 9 months of the year end. This would ensure a better participation of both extractive companies and Government Agencies and provide more up-to-date information to stakeholders. Also tax regimes can change over time and can confuse the reporting.	On-going	The recommendation has been taken into consideration and the process is on progress.
We have recommended appointing person responsible for dealing with the responsible persons of extractive companies to reconcile the amounts paid and received. It is advisable to complete the reconciliation process prior to the external reconciliation. It will reduce the number of unresolved discrepancies at the initial stage.	Yes	The numbers of staff in the National Secretariat have been increased and the responsibilities have been segregated between the staff. The National Secretariat has appointed the responsible person for dealing with the government agencies as well as extractive companies.
We recommended replacing the paper-based accounting by more effective and efficient computerised accounting information systems (AIS), which will trigger the development of the appropriate transparent reporting system.	On-going	AEITI Secretariat was fully appointed for such support and the whole team including some members of the WG was also supporting (massive working group meetings were conducted) three; to replace the paper based accounting to a software, actions has been taken everybody including the EITI International are aware, result will be shown the soonest, four; large number of trainings were delivered and are underway for different institutions including the Private Sector.
We recommended organising even more seminars and training for the participants of the reconciliation process. The purpose of training should be related to the modern accounting and reporting systems based on the international standards.	On-going	The large numbers of trainings were delivered and are underway for different institutions including the Private Sector.
<b>ENSURING ALL RELEVANT EXTRACTIVE COMPANIES REPORT / COMMON DATABASE OF PARTICIPANTS</b>		
<b>Recommendation</b>		
We have recommended that the Government utilises its regulatory powers to make it compulsory that all the extractive companies report according to the EITI Criteria and utilise the agreed reporting templates. In the future, where legally and technically feasible, automated on-line disclosure of extractive revenues and payments by the Government and extractive companies on a continuous basis can be considered. Such continuous reporting could be an integral part of the EITI process.	On-going	The National Secretariat are utilised and created the database in accordance to the data provided by the Ministry of Mines and Petroleum. The Secretariat are regularly update the information with the required government agencies in order to update the existed Database.
We have recommended that, following the first and second reconciliation exercises, the AEITI Secretariat create a database of participants. The Secretariat should then liaise with the Governmental bodies to ensure it obtains adequate information regularly and updates its database accordingly. To this end, we believe it is vital that any new entrants to the extractive sector are registered with the AEITI Secretariat as part of the process before or at the same time as they obtain their operating licence. A quarterly review with the Governmental bodies of the list of extractive companies licensed to operate in the sector is recommended.	On-going	
<b>SUPPORTING DATA</b>		
<b>Recommendation</b>		
We have recommended a review of the procedures for communicating in particular with those who do not comply with the EITI rules. A regular compulsory briefing or training seminar for the new-comers might be an option.	On-going	The National Secretariat has appointed the responsible person for dealing with the government agencies as well as extractive companies. There are some number of training were delivered to the participant in relation to the extractive sector.
<b>WORKSHOPS</b>		
<b>Recommendation</b>		
We have recommended documenting the Workshop discussions and resending the Memorandum of Discussion to all the Parties that attended the Workshops.	Yes	All the workshops and seminars are documenting and publishing via the website of national secretariat.

Recommendation	Implemented (Yes/no/ongoing)	Description of action undertaken
<b>REPORTING BASED ON AUDITED FIGURES AND/OR CERTIFICATION OF REPORTING TEMPLATES BY EXTERNAL (INDEPENDENT) AUDITORS</b>		
<b>Recommendation</b>		
<p>It was highly recommended that the audits of the extractive companies are carried out according to the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). The audits should be conducted by the reputable internationally recognised firms of auditors. We understand that for the purposes of this Reconciliation, the extractive companies have not subjected their reports to a specific audit, neither have their accounts been subjected to the general audit procedures in accordance with ISA. Therefore, we recommend that the GOIRA agrees a plan with the extractive companies to achieve this task against a fixed deadline. We recommend providing only audited amounts in the reports submitted by both, the Government Agencies and the extractive companies. The extractive companies can either have their general accounts audited and extract the EITI related numbers therefrom, or subject their EITI reporting templates to a special examination and certification by the independent auditors. We understand that the financial statements prepared in conformance with the International Financial Reporting Standards (IFRS) are prepared under the accrual basis of accounting, whereas the EITI reporting is carried out under the cash basis. Therefore, in practice this process might be implemented by the extractive companies obtaining from their external auditors a separate opinion stating that the information they report under EITI is derived from and/or consistent with their general purpose audited financial statements. This could be a special procedure request added to the terms of reference addressed to the external auditors. The external auditors could easily relate the cash basis information to the audited accrual basis records. With regard to the Government Agencies, it is recommended that the reliable and auditable data is presented to Afghanistan's Supreme Audit Institution, the Control and Audit Office (CAO), and subjected to an audit/examination in accordance with the internationally recognised government auditing standards (such as the International Standards of Supreme Audit Institutions (ISSAI) promulgated by the International Organization of Supreme Audit Institutions (INTOSAI)). It will be efficient to attach auditor confirmation letters and/or audited accounts to the reports mentioned above.</p>	<p>On-going</p>	<p>With support of GIZ project, an accounting and auditing company is to be assigned to conduct an assessment of the existing capacity and standards of the accounting system of the companies under the AEITI reporting, and would generate a report with strong recommendations to the MSG on the next steps for the development of a standardized and globally acceptable accounting and auditing system, through which the companies would become able to develop timely and quality reports to the AEITI process. The software would be linked with the MoMP and MoF software for cross checking of the accuracy of information. The firm would also generate a TOR for a second company to develop the software, install it into the companies and MoMP account offices computers, launch the software and train staff and the MoMP as TOR for the purpose of training to the new companies to join the AEITI reporting process. This task is expected to be contracted by October 2014, and would continue for the two quarters of the 2015.</p> <p>MSG has recently decided to accept the letter of the head of the company stating that this letter would be equal to the audit of their accounts, and the letter would be verified by the MoMP.</p>

## ANNEXES

**ANNEX 1. THE REPORTING TEMPLATE (GOVERNMENT SCHEDULE)**

<b>Company Name</b>	
<b>License Number</b>	
<b>License Provider</b>	
<b>Reporting Period</b>	
<b>Location</b>	
<b>Mine product</b>	
<b>TIN</b>	

<b>Total Revenues</b>	<b>US\$</b>	<b>Afs</b>

Exchange Rate: 1US\$ = \_\_\_\_\_ Afs

Type of Payment	Object Code	In Kind Payment		In Cash Payment		
		Volume	Value		US\$	Afs
			US\$	Afs		
<b>Payments received by Ministry of Mines and Petroleum</b>						
Royalty						
Surface Fee						
Lease Government Property						
Rent of Government Buildings						
License Fee						
Permitting Fee						
Bid Fee						
Premium and Bonuses						
Penalties (to Ministry of Mines and Petroleum)						
<b>Other Payments if not specified above</b>						
<b>Total</b>						

<b>Payments Received by Large Tax Payers Office (LTO)</b>			
Income Tax			
2% BRT			
Salary Withholding			
Rent Withholding			
Contract Withholding			
Dividends			
Penalties			
<b>Other Payments if not specified above</b>			
<b>Total</b>			
<b>Payments Received by Customs Department</b>			
Export Duties			
Import Duties			
<b>Other Payments if not specified above</b>			
<b>Total</b>			
<b>Payments Received by Municipality</b>			
Export Duties			
Import Duties			
<b>Other Payments if not specified above</b>			
<b>Total</b>			

**Management sign-off**

I acknowledge for and on behalf of the above entities responsibility for the truthful and fair presentation of the attached reporting template in accordance with the reporting guidelines. Specifically, I confirm the following:

- ❖ The information provided in respect of amounts paid/received is complete and has been accurately extracted from the entity accounting records;
- ❖ All the amounts paid/received are supported by genuine receipts and substantiated by documentary evidence;
- ❖ The classification of amounts paid/received on each line is accurate and does not include amounts due to be reported on other lines;
- ❖ The amounts paid/received do not include amounts paid/received on behalf of other entities;
- ❖ The amount paid/received only includes amounts paid/received by the entity; and
- ❖ The accounts of the entity on which the figures are based have been audited and an unqualified audit opinion issued thereon in accordance with International Standards on Auditing.

\_\_\_\_\_ **Name**

\_\_\_\_\_ **Position**

\_\_\_\_\_ **Signature and Stamp**

**Auditors Certification**

I, (name of audit company), registered external auditor, have examined the AEITI reporting template of (name of entity/government agency) dated XXXX presented above and can confirm that I have tested the completeness and accuracy of the payments data included on the reporting template from the audited accounting records/financial statements of the entity for the period(s) (state dates) under International Standards on Auditing.

\_\_\_\_\_ **Name**

\_\_\_\_\_ **Position within the audit firm**

\_\_\_\_\_ **Name of the audit firm**

\_\_\_\_\_ **Address of the audit firm**

\_\_\_\_\_ **Signature and stamp**

**ANNEX 2. THE REPORTING TEMPLATE (COMPANY SCHEDULE)**

<b>Company Name</b>	
<b>License Number</b>	
<b>License Provider</b>	
<b>Reporting Period</b>	
<b>Location</b>	
<b>Mine product</b>	
<b>TIN</b>	

<b>Total Revenues</b>	<b>US\$</b>	<b>Afs</b>

Exchange Rate: 1US\$ = \_\_\_\_\_ Afs

Type of Payment	Object Code	In Kind Payment		In Cash Payment	
		Volume	Value	US\$	Afs
			US\$	Afs	US\$
<b>Payments made to the Ministry of Mines and Petroleum</b>					
Royalty					
Surface Fee					
Lease Government property					
Rent of Government Buildings					
License Fee					
Permitting Fee					
Bid Fee					
Premium and Bonuses					
Penalties (to Ministry of Mines and Petroleum)					
<b>Other Payments if not specified above</b>					
<b>Total</b>					

Payments made to the Large Tax Payers Office (LTO)			
Income Tax			
2% BRT			
Salary Withholding			
Rent Withholding			
Contract Withholding			
Dividends			
Penalties			
Other Payments if not specified above			
<b>Total</b>			
Payments made to the Customs Department			
Export Duties			
Import Duties			
Other Payments if not specified above			
<b>Total</b>			
Payments made to the Municipality			
Export Duties			
Import Duties			
Other Payments if not specified above			
<b>Total</b>			

**Management sign-off**

I acknowledge for and on behalf of the above entities responsibility for the truthful and fair presentation of the attached reporting template in accordance with the reporting guidelines. Specifically, I confirm the following:

- ❖ The information provided in respect of amounts paid/received is complete and has been faithfully extracted from the entities accounting records;
- ❖ All the amounts paid/received are supported by genuine receipts and substantiated by documentary evidence;
- ❖ The classification of amounts paid/received on each line is accurate and does not include amounts due to be reported on other lines;
- ❖ The amounts paid/received do not include amounts paid/received on behalf of other entities;
- ❖ The amount paid/received only include amounts paid/received by the entity; and
- ❖ The accounts of the entity on which the figures are based have been audited and an unqualified audit opinion issued thereon in accordance with International Standards on Auditing.

\_\_\_\_\_ **Name**

\_\_\_\_\_ **Position**

\_\_\_\_\_ **Signature and stamp**

**Auditors Certification**

I, (name of audit company), registered external auditor, have examined the foregoing AEITI reporting template of (name of entity/government agency) and can confirm that I have tested the completeness and accuracy of the payments data included on the reporting template from the audited accounting records/financial statements of the entity for the period(s) (state dates) under International Standards on Auditing.

\_\_\_\_\_ **Name**

\_\_\_\_\_ **Position within the audit firm**

\_\_\_\_\_ **Name of the audit firm**

\_\_\_\_\_ **Address of the audit firm**

\_\_\_\_\_ **Signature and stamp**



**ANNEX 3. EXTRACTIVE COMPANIES AND GOVERNMENT AGENCIES PROFILE**

No.	Company Name	Responsible	TIN	Reporting Date	Stamped & Signed	Comments
1	Afghanistan Investment Company and Cement (AIC)	Abdul Wakil Qayumi / Finance Manager	1029671011	06.01.2014	Yes	N/A
			1029973011			
			1029975016			
2	MCC-JCL Aynak Minerals Company (مس عینک)	Liw Zhen Gwo/ General Manager	1052271010	07.04.2014	Yes	N/A
3	Khoshak Brothers	Ali Aqa / Acting CEO	1034744019	26/6/2014	Yes	N/A
4	Tasadi Zughal wo Sang Shamaal (Northern Coal Enterprises)	Shamsuddin / Acting Finance Manager	N/A	06.03.2014	Yes	The State owned company does not have TIN
5	Meesaq e Sharq	Eng. Sardar Hussain, Director	1050765013	31/5/2014	Yes	N/A
6	Afghan Gas Enterprises	Eng. Salih Moh. CEO	N/A	07.05.2014	Yes	The State owned company does not have TIN
7	China National Petroleum Company CNPCI-W	N/A	9000525965	They did not provided reporting template back		
8	West Land (Gold Mine)	Fakhurdin, Company Representative	1030413015	06.07.2014	Yes	N/A
9	Hewadwal Constructions	Bakhtyar, Head of Account	1012156012	06.05.2014	Yes	N/A
10	Salim Karwan Construction Company	Zabiullah Safi / Chief Accountant	1045992011	20.8.2014	Yes	N/A
11	Korea Afghanistan Construction Company	Mohammad Ayoub ,Head of Admin/Finance	100117310	06.11.2014	Yes	N/A
12	Kod e Barq	Moh.Ali Sarmarst ,General Director	N/A	06.10.2014	Yes	The State owned company does not have TIN
13	Technologist Company	Ghulam Farooq Ekram, Acting CEO	1043879012	17/6/2014	Yes	N/A
14	Equity Capital Group	We are not able to found any contact detail yet				

No.	Name of Government Agency	Responsible	Date	Stamped & Signed	Comments
1	Ministry of Finance / LTO (Large Taxpayer Office)	Farid Ahamd / LTO Reporting General Manager	23/6/2014	Yes	N/A
2	Ministry of Finance / MTO (Medium Taxpayer Office )	Subhanullah Faimhi / Director Medium Taxpayer Office	23/6/2014	Yes	N/A
3	Ministry of Finance / STO (Small Taxpayer Office )	Abdul Wahid / STO Companies Coordinator	06.10.2014	Yes	N/A
4	Ministry of Finance / Custom Department	Abdul Hafiz Omari / Acting TRSU Manager	20/7/2014	Yes	N/A
5	Ministry of Mines and Petroleum	Eng Sediq / Head of Revenue Department Cadester	22/7/2014	Yes	N/A
6		Sharifa / Engineer	06.10.2014	Yes	N/A
7	MOM & Petroleum Directorate	Eng Najeebullah Noori / Head of Directorate	07.12.2014	Yes	N/A
8	General Directorate of Petroleum MoMP	Wahidullah Alkozay / Accountant	07.01.2014	Yes	N/A
9	MCC Administration MoMP	Eng Ramazan Ali ,Incharge MCC project MOM	07.01.2014	Yes	N/A

**ANNEX 4. RECONCILIATION SHEETS BY EXTRACTIVE COMPANIES**

**MJAM MCC-JCL AYNAK MINERALS  
COMPANY LTD**

in AFS

Description of Payment	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
<b>MINISTRY OF MINES AND PETROLEUM</b>	<b>2,524,390,000</b>	<b>-</b>	<b>2,524,390,000</b>	<b>2,524,390,000</b>	<b>-</b>	<b>2,524,390,000</b>	<b>-</b>
Premium and Bonuses	2,524,390,000	-	2,524,390,000	2,524,390,000	-	2,524,390,000	-
<b>MINISTRY OF FINANCE - LARGE TAXPAYER OFFICE (LTO)</b>	<b>127,945,154</b>	<b>-</b>	<b>127,945,154</b>	<b>127,945,154</b>	<b>-</b>	<b>127,945,154</b>	<b>-</b>
Salary Withholding	54,784,800	-	54,784,800	54,784,800	-	54,784,800	-
Rent Withholding	1,213,151	-	1,213,151	1,213,151	-	1,213,151	-
Contract Withholding	26,528,600	-	26,528,600	26,381,503	147,097	26,528,600	-
Other Payment	45,418,603	-	45,418,603	45,565,700	(147,097)	45,418,603	-
<b>MINISTRY OF FINANCE – CUSTOMS DEPARTMENT</b>	<b>1,503,696</b>	<b>(631,410)</b>	<b>872,286</b>	<b>1,584,480</b>	<b>-</b>	<b>1,584,480</b>	<b>(712,194)</b>
Import Duties	-	-	-	253,776	-	253,776	(253,776)
Fixed Taxes	1,468,504	(631,410)	837,094	1,152,582	-	1,152,582	(315,488)
BRT	-	-	-	128,500	-	128,500	(128,500)
Other Fees	35,192	-	35,192	49,622	-	49,622	(14,430)
<b>GRAND TOTAL</b>	<b>2,653,838,850</b>	<b>(631,410)</b>	<b>2,653,207,440</b>	<b>2,653,919,634</b>	<b>-</b>	<b>2,653,919,634</b>	<b>(712,194)</b>

## KHUSHAK BROTHERS COMPANY

in AFS

Description of Payment	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
<b>MINISTRY OF MINES AND PETROLEUM</b>	<b>31,349,150</b>	<b>-</b>	<b>31,349,150</b>	<b>31,349,150</b>	<b>-</b>	<b>31,349,150</b>	<b>-</b>
Royalties	30,232,700	(10,230,100)	20,002,600	20,000,000	2,600	20,002,600	-
Surface fees	1,000,000	-	1,000,000	1,000,000	-	1,000,000	-
Penalties by Ministry	38,450	-	38,450	38,450	-	38,450	-
Rent of Government Building	78,000	-	78,000	78,000	-	78,000	-
Over Production fees	-	10,230,100	10,230,100	10,230,100	-	10,230,100	-
Other payments	-	-	-	2,600	(2,600)	-	-
<b>MINISTRY OF FINANCE - LARGE TAXPAYER OFFICE (LTO)</b>	<b>3,849,058</b>	<b>-</b>	<b>3,849,058</b>	<b>3,849,058</b>	<b>-</b>	<b>3,849,058</b>	<b>-</b>
Income tax	3,547,878	(2,754,129)	793,749	793,749	-	793,749	-
2% BRT	-	2,904,719	2,904,719	2,904,719	-	2,904,719	-
Salary Withholding	136,900	-	136,900	136,900	-	136,900	-
Penalties	13,690	-	13,690	13,690	-	13,690	-
Other payments	150,590	(150,590)	-	-	-	-	-
<b>MINISTRY OF FINANCE – CUSTOMS DEPARTMENT</b>	<b>1,163,300</b>	<b>(6,760)</b>	<b>1,156,540</b>	<b>1,155,740</b>	<b>800</b>	<b>1,156,540</b>	<b>-</b>
Import duties	1,163,300	(786,836)	376,464	376,464	-	376,464	-
Fixed taxes	-	463,050	463,050	463,050	-	463,050	-
BRT	-	308,699	308,699	308,699	-	308,699	-
Other fees	-	8,327	8,327	7,527	800	8,327	-
<b>GRAND TOTAL</b>	<b>36,361,508</b>	<b>(6,760)</b>	<b>36,354,748</b>	<b>36,353,948</b>	<b>800</b>	<b>36,354,748</b>	<b>-</b>

## HEWADWAL ROAD CONSTRUCTION COMPANY

in AFS

Description of Payment	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
<b>MINISTRY OF MINES AND PETROLEUM</b>	<b>2,392,612</b>	<b>(90,386)</b>	<b>2,302,226</b>	<b>1,319,970</b>	<b>982,256</b>	<b>2,302,226</b>	<b>-</b>
Royalties	2,389,993	(120,294)	2,269,699	1,290,062	979,637	2,269,699	-
Surface fees	2,394	1,773	4,167	1,773	2,394	4,167	-
Penalties by Ministry	-	2,935	2,935	2,935	-	2,935	-
Other payments	225	25,200	25,425	25,200	225	25,425	-
<b>MINISTRY OF FINANCE - LARGE TAXPAYER OFFICE (LTO)</b>	<b>16,673,730</b>	<b>592,473</b>	<b>17,266,203</b>	<b>4,388,769</b>	<b>3,765,176</b>	<b>8,153,945</b>	<b>9,112,258</b>
2% BRT	16,673,730	152,333	16,826,063	2,859,583	3,765,176	6,624,759	10,201,304
Rent Withholding	-	-	-	428,400	-	428,400	(428,400)
Salary Withholding	-	-	-	650,931	-	650,931	(650,931)
Penalties	-	440,140	440,140	449,855	-	449,855	(9,715)
<b>GRAND TOTAL</b>	<b>19,066,342</b>	<b>502,087</b>	<b>19,568,429</b>	<b>5,708,739</b>	<b>4,747,432</b>	<b>10,456,171</b>	<b>9,112,258</b>

## NORTHERN COAL ENTERPRISE

in AFS

Description of Payment	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
<b>MINISTRY OF FINANCE - LARGE TAXPAYER OFFICE (LTO)</b>	<b>1,939,240,545</b>	<b>(156,488)</b>	<b>1,939,084,057</b>	<b>1,939,362,535</b>	<b>(278,478)</b>	<b>1,939,084,057</b>	-
Income Tax	374,530,000	-	374,530,000	-	374,530,000	374,530,000	-
2% BRT	47,221,885	(156,488)	47,065,397	1,797,077,650	(1,750,012,253)	47,065,397	-
5% BRT	60,100		60,100		60,100	60,100	-
Salary Withholding	5,570,262	-	5,570,262	135,934,885	(130,364,623)	5,570,262	-
Salary Withholding (Mostoufyat)	5,500,000	-	5,500,000	5,500,000	-	5,500,000	-
Contract Withholding	592,633	-	592,633	350,000	242,633	592,633	-
Contract Withholding (Mostoufyat)	500,000	-	500,000	500,000	-	500,000	-
Excess Profit	1,175,265,665	-	1,175,265,665	-	1,175,265,665	1,175,265,665	-
Pre-Paid	330,000,000	-	330,000,000	-	330,000,000	330,000,000	-
<b>OTHER GOVERNMENT AGENCIES</b>	<b>5,877,489</b>	<b>-</b>	<b>5,877,489</b>	<b>-</b>	<b>5,877,489</b>	<b>5,877,489</b>	<b>-</b>
1% Municipality (Bamyan)	2,503,380	-	2,503,380	-	2,503,380	2,503,380	-
1% Municipality (Samangan)	3,374,109	-	3,374,109	-	3,374,109	3,374,109	-
<b>GRAND TOTAL</b>	<b>1,945,118,034</b>	<b>(156,488)</b>	<b>1,944,961,546</b>	<b>1,939,362,535</b>	<b>5,599,011</b>	<b>1,944,961,546</b>	<b>-</b>

## WEST LAND GENERAL TRADING

in AFS

Description of Payment	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
<b>MINISTRY OF MINES AND PETROLEUM</b>	<b>12,258,800</b>	<b>-</b>	<b>12,258,800</b>	<b>12,258,800</b>	<b>-</b>	<b>12,258,800</b>	<b>-</b>
Royalties	9,633,800	-	9,633,800	9,633,800	-	9,633,800	-
Surface fees	2,625,000	-	2,625,000	2,625,000	-	2,625,000	-
<b>MINISTRY OF FINANCE - LARGE TAXPAYER OFFICE (LTO)</b>	<b>1,040,249</b>	<b>94,355</b>	<b>1,134,604</b>	<b>1,020,449</b>	<b>114,155</b>	<b>1,134,604</b>	<b>-</b>
Income tax	-	6,000	6,000	6,000	-	6,000	-
2% BRT	-	-	-	1,000	(1,000)	-	-
Salary Withholding	885,494	88,355	973,849	973,849	-	973,849	-
Rent Withholding	54,000	-	54,000	39,600	14,400	54,000	-
Penalties	100,755	-	100,755	-	100,755	100,755	-
<b>GRAND TOTAL</b>	<b>13,299,049</b>	<b>94,355</b>	<b>13,393,404</b>	<b>13,279,249</b>	<b>114,155</b>	<b>13,393,404</b>	<b>-</b>



## KOREA ROAD CONSTRUCTION COMPANY

in AFS

Description of Payment	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
<b>MINISTRY OF MINES AND PETROLEUM</b>	<b>3,305,610</b>	<b>(690,670)</b>	<b>2,614,940</b>	<b>1,667,735</b>	<b>947,205</b>	<b>2,614,940</b>	<b>-</b>
Royalties	944,055	1,661,410	2,605,465	1,661,410	944,055	2,605,465	-
Surface fees	6,380	1,575	7,955	4,805	3,150	7,955	-
Penalties by Ministry	-	1,520	1,520	1,520	-	1,520	-
Other payments	2,355,175	(2,355,175)	-	-	-	-	-
<b>MINISTRY OF FINANCE - LARGE TAXPAYER OFFICE (LTO)</b>	<b>13,943,690</b>	<b>754,409</b>	<b>14,698,099</b>	<b>2,102,039</b>	<b>-</b>	<b>2,102,039</b>	<b>12,596,060</b>
Income tax	222,576	470,197	692,773	1,234,836	-	1,234,836	(542,063)
2% BRT	13,590,320	269,286	13,859,606	370,680	-	370,680	13,488,926
Salary Withholding	130,794	(11,400)	119,394	125,742	-	125,742	(6,348)
Penalties	-	26,326	26,326	370,781	-	370,781	(344,455)
<b>MINISTRY OF FINANCE – CUSTOMS DEPARTMENT</b>	<b>359,382</b>	<b>-</b>	<b>359,382</b>	<b>169,675</b>	<b>-</b>	<b>169,675</b>	<b>189,707</b>
Import duties	148,972	-	148,972	91,872	-	91,872	57,100
Fixed taxes	210,410	-	210,410	40,360	-	40,360	170,050
BRT	-	-	-	35,605	-	35,605	(35,605)
Other fees	-	-	-	1,838	-	1,838	(1,838)
<b>GRAND TOTAL</b>	<b>17,608,682</b>	<b>63,739</b>	<b>17,672,421</b>	<b>3,939,449</b>	<b>947,205</b>	<b>4,886,654</b>	<b>12,785,767</b>

## CHINA NATIONAL PETROLEUM COMPANY CNPCI-W

in AFS

Description of Payment	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
<b>MINISTRY OF MINES AND PETROLEUM</b>	<b>55,337,487</b>	<b>-</b>	<b>55,337,487</b>	<b>55,337,487</b>	<b>-</b>	<b>55,337,487</b>	<b>-</b>
Surface fees	54,146,737	-	54,146,737	54,146,737	-	54,146,737	-
Others (Bidding Security)	1,190,750	-	1,190,750	1,190,750	-	1,190,750	-
<b>GRAND TOTAL</b>	<b>55,337,487</b>	<b>-</b>	<b>55,337,487</b>	<b>55,337,487</b>	<b>-</b>	<b>55,337,487</b>	<b>-</b>

**AFGHAN GAS ENTERPRISE**

in AFS

Description of Payment	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
<b>MINISTRY OF FINANCE – LARGE TAXPAYER OFFICE (LTO)</b>	<b>31,311,857</b>	<b>-</b>	<b>31,311,857</b>	<b>30,887,591</b>	<b>430,507</b>	<b>31,318,098</b>	<b>(6,241)</b>
Income tax	6,000,000	-	6,000,000	-	6,000,000	6,000,000	-
2% BRT	4,000,000	-	4,000,000	30,051,715	(26,051,715)	4,000,000	-
Salary Withholding	675,381	-	675,381	476,606	198,775	675,381	-
Contract Withholding	636,476	-	636,476	359,270	283,447	642,717	(6,241)
Excess Profit	20,000,000	-	20,000,000	-	20,000,000	20,000,000	-
<b>GRAND TOTAL</b>	<b>31,311,857</b>	<b>-</b>	<b>31,311,857</b>	<b>30,887,591</b>	<b>430,507</b>	<b>31,318,098</b>	<b>(6,241)</b>

**KOD-E-BARQ**

in AFS

Description of Payment	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
<b>MINISTRY OF FINANCE – LARGE TAXPAYER OFFICE (LTO)</b>	<b>26,428,672</b>	<b>-</b>	<b>26,428,672</b>	<b>13,444,219</b>	<b>12,303,931</b>	<b>25,748,150</b>	<b>680,522</b>
Income tax	8,950,000	-	8,950,000	-	8,950,000	8,950,000	-
2% BRT	14,563,263	-	14,563,263	12,166,524	2,396,739	14,563,263	-
5% BRT	957,192	-	957,192	-	957,192	957,192	-
Salary Withholding	1,277,695	-	1,277,695	1,277,695	-	1,277,695	-
Contract Withholding	680,522	-	680,522	-	-	-	680,522
<b>GRAND TOTAL</b>	<b>26,428,672</b>	<b>-</b>	<b>26,428,672</b>	<b>13,444,219</b>	<b>12,303,931</b>	<b>25,748,150</b>	<b>680,522</b>

## MEESAQ SHARQ COMPANY

in AFS

Description of Payment	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
<b>MINISTRY OF MINES AND PETROLEUM</b>	<b>16,798,363</b>	<b>-</b>	<b>16,798,363</b>	<b>16,798,363</b>	<b>-</b>	<b>16,798,363</b>	<b>-</b>
Royalties	16,567,595	(4,154,845)	12,412,750	12,412,750	-	12,412,750	-
Surface fees	-	226,752	226,752	226,752	-	226,752	-
Lease of Government land	226,752	(226,752)	-	-	-	-	-
Penalties by Ministry	4,016	-	4,016	4,016	-	4,016	-
Over Production fees	-	4,154,845	4,154,845	4,154,845	-	4,154,845	-
<b>MINISTRY OF FINANCE - LARGE TAXPAYER OFFICE (LTO)</b>	<b>391,790</b>	<b>(1)</b>	<b>391,789</b>	<b>389,783</b>	<b>2,006</b>	<b>391,789</b>	<b>-</b>
Income tax	389,784	(327,655)	62,129	62,129	-	62,129	-
2% BRT	-	316,608	316,608	316,608	-	316,608	-
Salary Withholding	2,006	-	2,006	-	2,006	2,006	-
Penalties	-	11,046	11,046	11,046	-	11,046	-
<b>GRAND TOTAL</b>	<b>17,190,153</b>	<b>(1)</b>	<b>17,190,152</b>	<b>17,188,146</b>	<b>2,006</b>	<b>17,190,152</b>	<b>-</b>

## TECHNOLOGIST COMPANY

in AFS

Description of Payment	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
<b>MINISTRY OF MINES AND PETROLEUM</b>	<b>3,598,380</b>	<b>-</b>	<b>3,598,380</b>	<b>2,698,810</b>	<b>899,570</b>	<b>3,598,380</b>	<b>-</b>
Royalties	3,598,380	(6,500)	3,591,880	2,693,910	897,970	3,591,880	-
Surface fees	-	6,500	6,500	4,900	1,600	6,500	-
<b>MINISTRY OF FINANCE - LARGE TAXPAYER OFFICE (LTO)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,231,204</b>	<b>-</b>	<b>4,231,204</b>	<b>(4,231,204)</b>
Contract Withholding	-	-	-	4,231,204	-	4,231,204	(4,231,204)
<b>MINISTRY OF FINANCE – CUSTOMS DEPARTMENT</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,152,041</b>	<b>-</b>	<b>20,152,041</b>	<b>(20,152,041)</b>
Import duties	-	-	-	10,300,674	-	10,300,674	(10,300,674)
Fixed taxes	-	-	-	5,520,409	-	5,520,409	(5,520,409)
BRT	-	-	-	4,049,008	-	4,049,008	(4,049,008)
Other fees	-	-	-	281,950	-	281,950	(281,950)
<b>GRAND TOTAL</b>	<b>3,598,380</b>	<b>-</b>	<b>3,598,380</b>	<b>27,082,055</b>	<b>899,570</b>	<b>27,981,625</b>	<b>(24,383,245)</b>

## SALIM KARWAN

in AFS

Description of Payment	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
<b>MINISTRY OF MINES AND PETROLEUM</b>	<b>829,462</b>	<b>-</b>	<b>829,462</b>	<b>868,662</b>	<b>800</b>	<b>869,462</b>	<b>(40,000)</b>
Royalties	792,480	-	792,480	832,480	-	832,480	(40,000)
Penalties by Ministry	36,982	-	36,982	36,182	800	36,982	-
<b>MINISTRY OF FINANCE – LARGE TAXPAYER OFFICE (LTO)</b>	<b>885,600</b>	<b>1,763,897</b>	<b>2,649,497</b>	<b>2,649,497</b>	<b>-</b>	<b>2,649,497</b>	<b>-</b>
Income tax	-	370,628	370,628	370,628	-	370,628	-
2% BRT	785,400	1,388,800	2,174,200	2,174,200	-	2,174,200	-
Salary Withholding	40,200	-	40,200	40,200	-	40,200	-
Contract Withholding	60,000	(30,000)	30,000	30,000	-	30,000	-
Penalties	-	34,469	34,469	34,469	-	34,469	-
<b>GRAND TOTAL</b>	<b>1,715,062</b>	<b>1,763,897</b>	<b>3,478,959</b>	<b>3,518,159</b>	<b>800</b>	<b>3,518,959</b>	<b>(40,000)</b>

## AFGHAN INVESTMENT COMPANY

in AFS

Description of Payment	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
<b>MINISTRY OF MINES AND PETROLEUM</b>	<b>1,881,309</b>	<b>-</b>	<b>1,881,309</b>	<b>1,881,309</b>	<b>-</b>	<b>1,881,309</b>	<b>-</b>
Royalties	1,881,309	-	1,881,309	1,881,309	-	1,881,309	-
<b>MINISTRY OF FINANCE - LARGE TAXPAYER OFFICE (LTO)</b>	<b>3,221,880</b>	<b>(114,200)</b>	<b>3,107,680</b>	<b>3,314,876</b>	<b>24,399</b>	<b>3,339,275</b>	<b>(231,595)</b>
Salary Withholding	788,693	(41,458)	747,235	814,497	-	814,497	(67,262)
2% BRT	2,225,792	(72,742)	2,153,050	2,272,889	-	2,272,889	(119,839)
Contract Withholding	207,395	-	207,395	203,841	24,399	228,240	(20,845)
Penalties	-	-	-	23,649	-	23,649	(23,649)
<b>MINISTRY OF FINANCE – CUSTOMS DEPARTMENT</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>240,926</b>	<b>-</b>	<b>240,926</b>	<b>(240,926)</b>
Import duties	-	-	-	153,457	-	153,457	(153,457)
Fixed taxes	-	-	-	50,641	-	50,641	(50,641)
BRT	-	-	-	33,760	-	33,760	(33,760)
Other fees	-	-	-	3,068	-	3,068	(3,068)
<b>GRAND TOTAL</b>	<b>5,103,189</b>	<b>(114,200)</b>	<b>4,988,989</b>	<b>5,437,111</b>	<b>24,399</b>	<b>5,461,510</b>	<b>(472,521)</b>



## Equity Capital Group

in AFS

Description of Payment	Per Company			Per Government			Final Difference
	Original	Adjustment	Final	Original	Adjustment	Final	
<b>MINISTRY OF MINES</b>	<b>17,058,460</b>	-	<b>17,058,460</b>	<b>17,058,460</b>	-	<b>17,058,460</b>	-
Royalties	15,750,000	-	15,750,000	15,750,000	-	15,750,000	-
Surface Fees	625,000		625,000	625,000	-	625,000	-
Lease of Government	683,460		683,460	683,460	-	683,460	-
<b>MINISTRY OF FINANCE - LARGE TAXPAYER OFFICE (LTO)</b>	-	-	-	<b>23,428</b>	-	<b>23,428</b>	<b>(23,428)</b>
Income Tax	-	-	-	4,539	-	4,539	(4,539)
2% BRT	-	-	-	11,967	-	11,967	(11,967)
Penalties	-	-	-	6,922	-	6,922	(6,922)
<b>MINISTRY OF FINANCE – CUSTOMS DEPARTMENT</b>	<b>17,058,460</b>	-	<b>17,058,460</b>	<b>17,081,888</b>	-	<b>17,081,888</b>	<b>(23,428)</b>

**ANNEX 5. EXTRACTIVE COMPANIES' PROFILE**

The table showing the main activities of the Entities participating in the Reconciliation process

№	Company Name	Company Establishment Date	Location		Mine Product
			Province	District	
1	Northern Coal Enterprise	Re-established 2007	North Region of Afghanistan		Coal
2	Afghan Gas Enterprise	Promoted 19-Oct-1985	Jawzjan	Sheberghan	Gas
3	MCC-JCL Aynak Minerals Company		Logar	Mohammad Agha	Copper
4	Afghan Investment Company (AIC)	18-Feb-2006	Baghlan	Pule Khomri	Coal & Cement
5	Technologist Company	20-Jun-2007	Kabul	Pule Charkhi	Construction Stone
6	Korea Road Construction Company	20-Mar-2004	Kabul	Tangy Trakahel, Deh Sabz	Construction Stone
7	Hewadwal Road Construction Company	27-Nov-2004	Kabul	Tangy Trakahel, Deh Sabz	Construction Stone & Gravel
			Kapisa	Kapisa	
			Parwan	Jabl Seran	
8	Khushak Brothers Company	17-Jul-2008	Herat	Sabzak (Masjid Chubi)	Coal
9	Meesaq Sharq Company	29-Jun-2008	Samangan	Roy Do Aab	Coal
10	West Land General Trading	11-Mar-2006	Takhar	Cha-e Aab	Gold
11	Salim Karwan		Kabul		Construction Stone
12	Kod Barq	1969	Balkh	Dehdadi	Urea & Electricity
13	China National Petroleum Company CNPCI-W	20-Dec-2012	Sare Pul	Sare Pul	Crude Oil
14	Equity Capital Group		Herat	Sabza	Marble

## ANNEX 6. SUPPLEMENTARY NOTES FOR SCOPING STUDY

### Objective:

This note aims at enhancing the quality of the AEITI Scoping Study report for the year 1390 prepared by the Reconciler, Moore Stephens Azerbaijan. By producing this note, the AEITI MSG attempts to provide additional information required by the standard EITI Reports and backs up the study. The information relevant to the following five sections are collected through either interviewing pertinent stakeholders or Government entities and their official websites.

### Data quality

According to the regulations of the Supreme Audit Office (SAO), the topmost inspecting body in Afghanistan, all Ministries and Government entities including State Owned Enterprises (SOE) accounts (revenue and expenditure) are audited on annual basis<sup>21</sup>. The SAO auditors inspect evidences of payments and receipts of the entities' accounts, approve their accuracy and submit an audit report to SAO as well as the entities.<sup>22</sup> Accordingly, to ensure the reliability and quality of the reports submitted by the extractive companies and the government entities, the AEITI MSG, has set the following requirements;

- ❖ As stated above also, all the government entities (MoF and MoMP Departments) and SOEs are annually audited by the SAO based on the national standards of the auditing the SOEs will be asked to provide a copy of the audit reports to the Reconciler.
- ❖ As the previous Reconciliations prove, a large-scale international companies i.e. MCC has its accounts audited according to the international standards on annual basis. Thus such companies will be asked to annex a copy of the audited financial statements along with the reporting template.
- ❖ For the small private companies, that are not subject to the annual audit, reporting templates are needed to be signed off and stamped by the senior company officials. The MSG members during an MSG meeting held on 8<sup>th</sup> July 2014, agreed and decided to accept the letters attested by the senior officials of the companies and indorsed by the Government, taking into account that the signature and stamps could bind the signatory legally.<sup>23</sup>
- ❖ For the discrepancies discovered during the reconciliation exercise (if any), the Reconciler will check the evidences of the payments and receipts in order to provide full explanation in the report and will identify the steps of payments and receipt process, which are more vulnerable to it. Besides, the Reconciler had to determine whether the company or government entity has learnt from the previous Reconciliations' lessons and has not repeated similar discrepancies, will examine the nature of the discrepancies.

Furthermore, the MSG agreed to undertake actions to further investigate, if total unresolved discrepancies amount to more than a certain percentage agreed by the MSG.<sup>24</sup> In such cases, a credible and independent auditor will be hired by the AEITI MSG to investigate evidences of the payments and receipts that have been effectuated on a payment by payment basis and undertake a spot check audit of a certain number of transactions. Thus the auditor will be able to resolve the difference.

According to the MSG meeting minutes<sup>25</sup> and Working Group members interviewed<sup>26</sup>, the MSG is of the belief that the above mentioned requirements provide adequate assurance of the reliability of data for the 3rd Reconciliation Report. However to improve this for future reports, the MSG, with the help of the Government intends to push the government entities and companies, to audit and prepare their accounts based on the international accounting standards within next few years. The government may need to facilitate the process by including a separate article in the contracts issued to the companies which will require them to report in line with the international standards.

In addition, to simplify the auditing exercises of the accounts for future EITI Reports, the AEITI MSG in collaboration with the GIZ project "Mineral Governance Promotion" have agreed to hire a firm for the assessment of the accounting and auditing capacity of the extractive companies participating in the 3rd EITI Report. Based on the findings of the stated assessment; a second firm will be assigned to develop an auditing and financial manual and a database (software system) for the companies and government entities. The system will be linked to centralized software at MoMP and MoF enabling the authorized users/auditors to make electronic and hard-copy reports of the companies' accounts. To achieve the desired results, relevant capacity enhancement trainings will follow.

- ❖ Number of companies operating in the extractive sector
- ❖ According to the Ministry of Mines and Petroleum (MoMP) official website, 313 contracts including 3 hydrocarbon and 310 mineral sector contracts have been awarded to the registered companies operating in the country.<sup>27</sup>

<sup>21</sup> <http://sao.gov.af/fa/page/1560/1563>

<sup>22</sup> Ashraf Popal, SAO Construction Audit Department senior official

<sup>23</sup> <http://aeiti.af/msg-meeting-2014.html>

<sup>24</sup> Ibid

<sup>25</sup> Ibid

<sup>26</sup> Ms. Ghazal Habibyar, Mr. Hasibullah Kabiri, Mr. Javed Noorani, Eng. Sediq, Ms. Mariam Koosha

<sup>27</sup> <http://mom.gov.af/en/page/1384>

The following table shows the number of contracts within each sub-sector of minerals and hydrocarbons.

Sector	Commodity	Number of contract
<b>Mineral</b>	Cement	2
	Chromium	2
	Coal	11
	Construction Stone	121
	Copper	1
	Chromite	1
	Florid	1
	Gold	3
	Granite	1
	Gravel and Sand	2
	Gravel Containing Soil	42
	Gypsum	26
	Limestone	1
	Marble	20
	Mountain Gravel	1
	River and Mountain Gravel	1
	Rukham Stone	3
	Salt	9
	Sand	31
	Sea Gravel	8
Soil Gravel	2	
Stone	21	
<b>Hydrocarbon</b>	Oil & Gas	3
<b>Total</b>		313

It is worth mentioning here that according to the New Mineral Law, which has been passed through the Parliament in May 2014, the mineral licences have been categorized into five types: Reconnaissance, Exploration, Exploitation, Small-scale Mining and Artisanal.

Like its predecessors (1<sup>st</sup> and 2<sup>nd</sup> Reconciliation Reports), the 3<sup>rd</sup> EITI report covers all the sectors including oil, gas as well as those construction companies which revenues lay above the fixed threshold. The official letter No. 894 prepared by the Cadastre Dept. of MoMP and countersigned by the ex-Minister of mines and petroleum, Mr. Shahrani reveals that for the fiscal year 1390, 129 extractive companies have generated revenues from the mining activities, including 3 SOEs and 120 Small-scale Companies.

Taking into account the threshold of Afs 2 million fixed by the MSG, 14 companies out of 129 are material for the 3<sup>rd</sup> reconciliation exercise; these 14 companies are comprised of 2 gas, 1 oil, 4 coal and 7 minerals extractive companies (3 SOEs and 11 Small and Large companies).

Based on the data collected during the Scoping Study, non-tax revenues of the material companies in year 1390 were equal to Afs. 2,792,407,306 while the total non-tax revenue from all 129 companies amounted to Afs. 2,824,307,924. Hence about 98.9% of reported non-tax payments are captured by the current reconciliation exercise (3<sup>rd</sup> EITI report). This means that the remaining 115 companies, which are mainly small, generated very limited revenue.

### Barter and infrastructure

According to Ms. Ghazaal Habibyar, Director of Policy and Programmes and AEITI MSG focal point at MoMP, as of now there has not been any contract in Afghanistan involving the provision of goods and services in full or partial exchange for oil, gas or mining exploration or production (Barter agreement). However MCC has agreed to provide specific infrastructure arrangements for the local residents under Corporate Social Responsibility category and not as a Barter arrangement

### Sub-national payments

The only sub-national payments carried out in the sector are direct payments to municipality made by SOEs. According to the Director General of State-owned Enterprises, MoF, Mr. Mohammad Yusuf Osman, SOEs on an annual basis pay another stream of tax, which amounts to 1% of their revenue to local municipalities as "Municipality Cleaning Payment". Similar to the country's previous EITI Reports, the 3<sup>rd</sup> report captures these payments, which are in cash only. The reporting templates requesting data on different revenue streams including "payments made to the Municipality" (See Annex 2 of the Scoping Study) will be submitted to both SOEs and municipalities. Once the SOEs report the payment, its receipt will be confirmed by the local municipalities.

## State-Owned Enterprises (SOEs)

Among the material companies there are 3 SOEs operating in Afghanistan:

- ❖ Northern Coal Enterprise; extracting coal mines in the northern are of Afghanistan;
- ❖ Afghan Gas; which extracts gas from Shabarghan deposits; and
- ❖ C) and Kod-e-Barq which produces electricity and chemical fertilizers from gas.

It is worth mentioning that AIC was SOE and was sold to a private company.

Basically SOEs are only subject to tax payments and except payments to the municipality, other payments are made to MoF. In addition, SOEs report quarterly and at the end of each financial year to MoF on both expenditure and revenue accounts. The SOEs and their sub-contractors make their payments directly to MoF and the contractor doesn't collect payments on sub-contractors behalf. The following revenue streams are applicable to SOEs in Afghanistan:

- ❖ Income Tax
- ❖ BRTs of 2% and 5%
- ❖ Salary withholding
- ❖ Contract withholding
- ❖ Profit
- ❖ Payments made to the Municipality