NEITI Nigeria Extractive Industries Transparency Initiative

THE PRESIDENCY

2016 Oil & Gas Industry Audit Report

FULL REPORT

...promoting transparency, enabling prosperity.

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3rd December, 2018

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FINANCIAL, PHYSICAL AND PROCESS AUDIT OF THE NIGERIAN OIL AND GAS INDUSTRY: AN INDEPENDENT REPORT ASSESSING AND RECONCILING PHYSICAL AND FINANCIAL FLOWS WITHIN NIGERIA'S OIL AND GAS INDUSTRY - 2016

The Firm of Messer HARUNA YAHAYA & CO. (Chartered Accountants) was appointed by National Stakeholders Working Group (NSWG) of the Nigeria Extractive Industries Transparency Initiative (NEITI) as the Fifth Independent Administrator (IA) to undertake the review and reconciliation of Financial, Physical and Process Audit of Nigeria's Oil and Gas Industry for the year ended 31st December 2016 in line with the requirements of NEITI Act 2007.

The engagement was carried out in accordance with the International Standards on Related Services (ISRS 4400), applicable to agreed-upon procedures. The procedures performed were as set out in the Terms of Reference (ToR) appended to this report as appendices.

In the ToR, it was the responsibility of the Management of the covered entities to provide us with the required information/data on production levels and financial flows to the Federation Account while it is our responsibility to carry out independent review of the information/data provided and report our observations together with recommendations to NSWG.

The methodology and approach adopted for this engagement, was not designed to constitute an investigation/audit or review engagement made in accordance with International Standards on Auditing or on review of engagement. Accordingly, we do not express any assurance on the transaction beyond the explicit statement set out in this report.

This report is solely to inform the NSWG on all matters set out in our terms of reference, relates only to the subject matter specifically set out herein and does not extend to any financial statement of any entity taken as a whole.

Yours Faithfully,

Haruna N. Yahaya, FCA, mni
Managing Partner/CEO

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LIST OF ABBREVIATIONS AND ACRONYMS

ACRONYM	DEFINITION
AENR	Agip Energy and Natural Resources Limited
AF	Alternative Funding
AFS	Audited Financial Statements
AGO	Automotive Gas Oil
AMNI	Amni International Petroleum Development Company Limited
APDNL	Addax Production Development Nigeria Limited
APENL	Addax Production and Exploration Nigeria Limited
API	American Petroleum Institute (measurement for heaviness crude)
BBL	Barrels
Bbl/d	Barrels Per Day
BIS	Bank for International Settlement
BO	Beneficial Ownership
BSW	Basic Sediments and Water (number of contaminants in crude)
BTU	British Thermal Unit
CAC	Corporate Affairs Commission
CAPEX	Capital Expenditure
CBN	Central Bank of Nigeria
CGT	Capital Gains Tax
CITA	Company Income Tax Act
CIT	Company Income Tax
CNL	Chevron Nigeria Limited
COMD	Crude Oil Marketing Division of NNPC
COSM	Crude Oil Stock Management
DMO	Debt Management Office
DPK	Dual Purpose Kerosene
DPR	Department of Petroleum Resources
E&P	Exploration and Production
EDT	Education Tax
EGTL	Escravo Gas to Liquid Laboratory
EGP	Escravo Gas Plant
EITI	Extractive Industries Transparency Initiative
EEPNL	Esso Exploration and Production Nigeria Limited
EEPN(OE)L	Esso Exploration and Production Nigeria(Off Shore East) Limited
ERP	Enterprise Resource Planning
ES	Executive Secretary
FAAC	Federation Accounts Allocation Committee
FHN	First Hydrocarbon Nigeria Limited
FIRS	Federal Inland Revenue Service

FOB	Free on Board
GDP	Gross Domestic Product
GMD	Group Managing Director(NNPC)
IA	Independent Administrator
IFRS	International Financial Reporting Standards
IOC	International Oil Company
IPSAS	International Public Sector Accounting Standards
ISRS	International Standards on Related Services
JDZ	Joint Development Zone
JOA	Joint Operating Agreement
JVCC	Joint Venture Cash Calls
KRPC	Kaduna Refinery and Petrochemical Company
LC	Letter of Credit
LFN	Law of Federation of Nigeria
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
MCA	Modified Carry Agreement
MOF	Ministry of Finance
MOU	Memorandum of Understanding
MT	Metric Tons
NAE	Nigerian Agip Exploration Limited
NAOC	Nigerian Agip Oil Company
NAPIMS	National Petroleum Investment Management Service
NBS	National Bureau of Statistics
NCDMB	Nigerian Content Development and Monitoring Board
NDDC	Niger Delta Development Commission
NDPR	Niger Delta Petroleum Resources
NEITI	Nigeria Extractive Industries Transparency Initiative
NESS	Nigerian Export Supervision Scheme
NGC	Nigerian Gas Company
NGL	Natural Gas Liquid
NGMC	Nigeria Gas Management Company
NLNG	Nigeria Liquefied Natural Gas
NNPC	Nigerian National Petroleum Corporation
NPA	Nigerian Port Authority
NPDC	Nigerian Petroleum Development Company
NSWG	National Stakeholders Working Group
OML	Oil Mining Lease
OPCOM	Operating Committees
OPL	Oil Prospecting Licence
OSP	Official Selling Price

PAYE	Pay As You Earn
PHRC	Port Harcourt Refining Company
PLATFORM	Platform Petroleum Limited
PMS	Premium Motor Spirit
POCNL	Philips Oil Company Nigeria Limited
POOCN	Pan Ocean Oil Corporation (Nigeria) Limited
PPMC	Pipelines and Products Marketing Company
PPPRA	Petroleum Products Pricing Regulatory Agency
PPT	Petroleum Profits Tax
PSC	Production Sharing Contract
PSF	Petroleum Support Fund
QIT	Qua Iboe Terminal
RDP	Reserves Development Project
SC	Service Contracts
SDN	Sovereign Debt Note
SEEPCO	Sterling Oil Exploration and Energy Production Company Limited
SEPCOL	Shebah Exploration and Production Company Limited
SEPLAT	Seplat Petroleum Development Company Limited
SNEPCO	Shell Nigeria Exploration and Production Company Limited
SPDC	Shell Petroleum Development Company
STARDEEP	Star Deepwater Petroleum Limited
TEPNG	Total Exploration and Production Nigeria Limited
TOR	Terms of Reference
TUPNI	Total Upstream Nigeria Limited
USD	United States Dollar
VAT	Value Added Tax
WHT	Withholding Tax
WRPC	Warri Refining and Petrochemicals Company

NEITI AUDIT 2016 EXCHANGE RATE

Table 1.0 COMPUTED AVERAGE EXCHANGE RATE FOR 2014-2016 AS OBTAINED FROM OANDA

Year	Average Rate for Dollar ($)	Average Rate for Naira (₦)	Average Rate for Euros (€)	Average Rate for Pounds (£)
2014	1.00	163.5911	0.75354	0.60720
2015	1.00	196.4301	0.90090	0.65416
2016	1.00	259.6600	0.90400	0.74045

Note: *The above table shows the average exchange rate for the year 2014-2016 as obtained from:* https://www.oanda.com/currency/average

1.0 Introduction

This report sets out the results of reconciliation of cash flows from activities in the oil and gas sector in Nigeria for the 2016 fiscal year as well as the activities in the Joint Development Zone (JDZ) between Nigeria and the Democratic Republic of Sao Tome & Principe[1]. This report was commissioned as part of the implementation of the NEITI Act 2007 and the 2016 Extractive Industries Transparency Initiative (EITI) Standard.

1.1 EITI implementation

The EITI is a global initiative that promotes transparency and accountability in the global extractive sector. The EITI has evolved since the first EITI Conference in 2003 at which the EITI Principles were agreed. Its implementation is guided by the 2016 EITI Standard,which was formally launched at the EITI Global Conference in Lima, Peru in February 2016. The EITI Standard covers key issues across the extractive industry value chain. This includes how licenses are allocated and registered, who are the beneficial owners of those licenses, what are the fiscal and legal arrangements, how much is produced, how much is paid to government, and where those revenues are allocated. For more on EITI visit https://eiti.org/who-we-are.

1.2 EITI implementation in Nigeria

Nigeria joined EITI as a candidate country in November 2003 and became compliant with the initiative at the 5th EITI Global Conference in Paris in March 2011. It was the first country to domesticate the EITI by creating the Nigeria Extractive Industries Transparency Initiative (NEITI) through the NEITI Act 2007. NEITI has so far produced eight oil and gas industryreports covering 1st January 1999 to 31st December 2015. Haruna Yahaya & Co (Chartered Accountants) was appointed as the Independent Administrator by the NEITI NSWG to undertake the 2016 Financial, Physical and Process Audit of the Nigerian Oil and Gas Industry. For more on NEITI visit http://www.neiti.gov.ng/index.php/aboutus/brief-history-of-neiti.

1.3 Structure of the Report

The report consists of eight sections. Section 1 describes the background and objective of reporting. It also provides a description of our approach and methodology along with the materiality definitions and thresholds and the structural presentation of the aggregate financial flows. Section 2 provides record of total production of crude oil and gas in 2016, record of lifting of crude oil by all parties and the utilization of gas for the periodas well as crude oil losses. A record of revenues realized from the sale of federation equity crude oil and gas is provided in

[1] Appendix 5 Report on JDZ activities

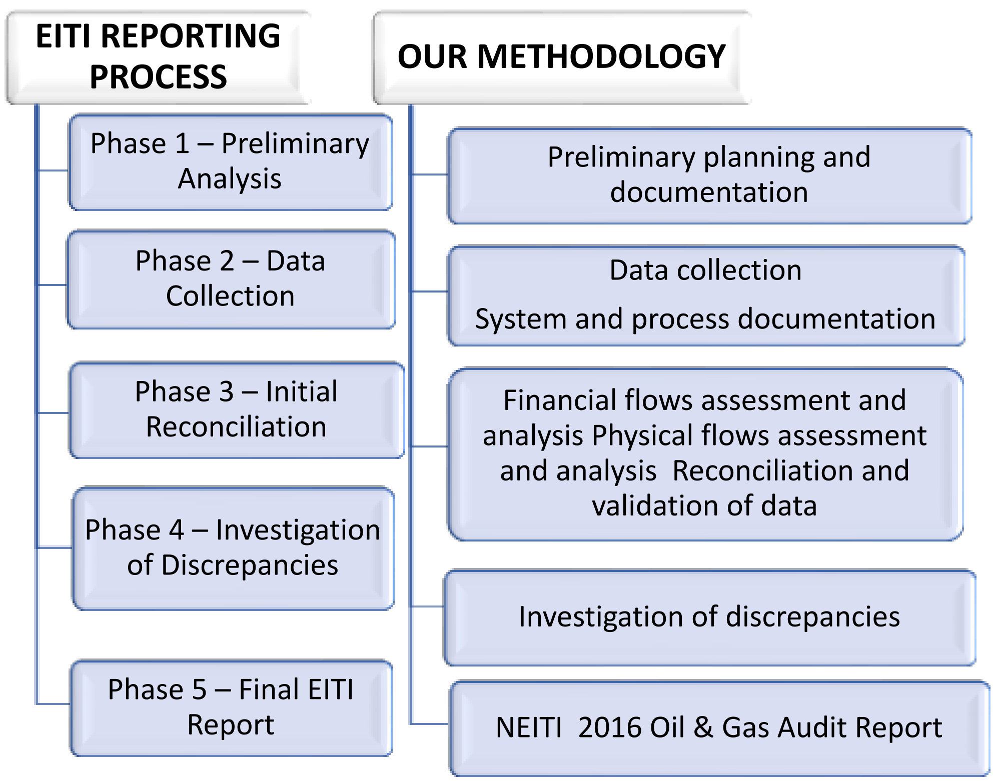
Section 3, followed by record of non-financial flows to government in the period in Section 4. Section 5 contains company-level reporting, which is followed by Cash Call funding (Section 6), downstream operation and Price Modulation Mechanism (Section 7). Section 8, which is the last Section of this report, covers outcomes and impacts.

Contextual information about the oil and gas sector in Nigeria hasbeen provided as part of the EITI Report on the NEITI website via this link:http://www.neiti.gov.ng/index.php/extractive-value-chain. The contextual informationis divided into five sub-sections under the following titles; Legal and Institutional framework, Contracts and Licenses, Production, Revenue Collection, Revenue Allocation and Social & Economic Spending.

1.4 Approach and methodology

We tailored our methodology to the EITI reporting process as illustrated in the diagram below:

Figure 1.0: Reporting process and methodology



i. Standard data collection templates were sent to all covered entities (companies and government) to gather data. We reviewed and validated returned populated templates.

ii. The two sets of data provided (i.e. government and company records) were then analysed and compared to identify and reconcile any material discrepancies.

iii. All corroborating documentary evidence, such as bank statements, audited financial statements, production reports, invoices and receipts were reviewed to ensure accuracy and completeness. All policies and procedures adopted in the preparation of financial statements by both government and companies were documented and reviewed to ensure compliance with the International Financial Reporting Standards (IFRS) and other relevant extant laws guiding the industry.

iv. A tripartite reconciliation meeting was held to reconcile all identified differences during the validation exercise.

v. We investigated all identified differences by conducting further analysis.

vi. At the final stage, we documented findings in line with the Terms of Reference (ToR)and the requirements of the EITI Standard.

1.5 Objectives of the Assignment

The main objective of this assignment is to produce the 2016 NEITI Oil & Gas Industry Audit Report. The report is titled "Financial, Physical and Process Audit: An Independent Report Assessing and Reconciling Physical and Financial Flows within Nigeria's Oil and Gas Industry – 2016" and referred to as "the report" in this document.

Other specific objectives of the assignment are:

i. To report on the revenue flows among the covered entities, with transactions made by participants (both public and private) in Nigeria's oil and gas industry;

ii. Undertake special verification work on certain classes of transactions;

iii. Report on balances payable/receivable at the end of the period for certain financial flows;

iv. Reconcile the physical/financial transactions reported by payers and recipients as appropriate, as per the scope set out herein;

v. Make observations on the assignment with appropriate recommendations that will aid policy making while considering recommendations from past reports.

1.6 Sources of data

The primary source of data for this report is the populated templates completed by the covered entities. Other sources of data include internal documents generated by the entities such as financial statements, accounting records, bank statements and other literature on the oil and gas sector in Nigeria. In addition, we consulted past NEITI Reports, CBN 2016 Annual Reports, FAAC Reports, NNPC Annual Statistical Bulletin, records from Revenue Mobilization Allocation and Fiscal Commission, NBS data, DPR 2016 Annual report as well as third-party confirmations where necessary.

1.7 Basis of accounting

Our work was carried out in accordance with International Auditing Standards applicable to related services (ISRS 4400) (Engagements to perform agreed upon procedures regarding Financial Information) and the ToR for the assignment. The data templates were completed on cash basis. Validation and reconciliation of data were carried out as defined in the ToR. The ToR is set out in Appendix 1.

1.8 Materiality for reporting

1.8.1 NSWG materiality decisions

The National Stakeholders Working Group (NSWG) approved its materiality decisions on April 13, 2018. The materiality decisions were necessary to define the material revenue streams and thematerial companies to be covered by the report. In arriving at its decisions, the NSWG considered both its responsibilities under the NEITI Act and its obligations under the 2016 EITI Standard. Details of the approved materiality decisions are contained in *Appendix 2.*

In summary, the NSWG approved that:

i. The report will reconcile to every extent possible, all revenue streams except Withholding Tax (WHT), Value Added Tax (VAT), and Pay as You Earn (PAYE).

ii. The report will adopt NSWG definitions of other transactions (such as transactions between state-owned enterprises determining whether there were infrastructure/barter arrangements, social expenditure, and quasi- fiscal expenditure among others). There were no infrastructure/barter arrangements in 2016, while social expenditure and quasi-fiscal expenditure were all determined as immaterial flows.

iii. The report will cover all exploration and production companies that made payment to the DPR in the year and material companies will be determined by each company's contribution to total revenue from companies in 2016. Material companies refer to those companies that will be reported on in fulfillment of the requirements of the 2016 EITI Standard.

In view of the foregoing, the revenue streams covered are presented in Table 1.1 below:

Table 1.1 Revenue Streams

Reconciled		Unilateral disclosure	
Revenue Streams	**Receiving Agency**	**Revenue Streams**	**Receiving Agency**
Proceeds from the sale of federation equity crude oil	Nigeria National Petroleum Corporation (NNPC)	Withholding Tax	FIRS
Proceeds from the sale of domestic crude	NNPC	Value Added Tax	FIRS
Proceeds from profit oil	NNPC	Pay as You Earn	FIRS
Proceeds from the sale of federation equity gas	NNPC	NESS Fee	Federal Ministry of Finance
Proceeds from the sale of feedstock	NNPC		
Petroleum Profit Tax	Federal Inland Revenue Service (FIRS)		
Royalty (oil)	Department of Petroleum Resources (DPR)		

Royalty (gas)	DPR			
Signature Bonus	DPR			
Gas flared penalties	DPR			
Concession Rentals	DPR			
Companies Income Tax	FIRS			
Capital Gains Tax	FIRS			
Dividends and repayment of loans by NLNG	NNPC			
Education Tax	FIRS			
Pipeline Transportation Fees	NNPC			
NDDC 3% Levy	Niger Delta Development Commission (NDDC)			
NCDMB 1% levy	Nigerian Content Development and Monitoring Board (NCDMB)			

We carried out further analysis based on NSWG's decisions and determined material companies for reporting. Each company's contribution to the total companies' revenue was analyzed in Appendix 4. This analysis showed that at a threshold of 0.5%, 21 material companies contributed 96.21% to total revenue from companies.This includes two companies that were not in the initial scope. The material companies are listed below:

1. Addax Petroleum Development (Nigeria) Limited
2. Chevron Nigeria Limited
3. Mobil Producing Nigeria Unlimited
4. Monipulo Petroleum Development
5. Nigeria Agip Oil Company Limited
6. Nigerian Petroleum Development Company Limited
7. Oriental Energy Resources Limited
8. Sterling Oil Exploration & Energy Production Co. LTD
9. Seplat Petroleum Development Company
10. Shell Nigeria Exploration and Production Company Limited
11. Shell Petroleum Development Company
12. Star Deep Water Petroleum Limited
13. Equinor Nigeria Energy Company Limited
14. Total Exploration & Production Nigeria Limited
15. Total Upstream Nigeria Limited
16. Esso Exploration and Production Nigeria Limited

17. Esso Exploration and Production (Offshore East) Nigeria Limited
18. Eroton E & P Company Limited
19. Famfa Oil Limited
20. Petrobras Oil & Gas
21. Addax Petroleum Exploration (Nigeria) Limited

However, the report will cover all other companies in fulfilment of NEITI's responsibilities under the NEITI Act. Consequently, the list of the entities to be covered is presented in the table below:

Table 1.2: Entities covered by report

	Companies	Power Generating Companies	Government Agencies
1	Addax Petroleum Development (Nigeria) Limited	1. Omotosho Power Plc	1. Nigerian National Petroleum Corporation
2	Addax Petroleum Exploration (Nigeria) Limited	2. Olorunshogo Power Plc	2. Central Bank of Nigeria
3	Agip Energy & Natural Resources	3. Afam	3. Federal Inland Revenue Service
4	AITEO Eastern E & P Company	4. Geregu Power	4. Department of Petroleum Resources
5	Allied Energy Resources (Nigeria) Limited/CAMAC	5. Egbin Power	5. Nigeria Sao Tome Joint Development Authority
6	Amalgamated Oil Company Limited	6. Transcorp Ughelli Power	6. Office of the Accountant General of the Federation
7	Amni International Petroleum Development Company Ltd	7. G-Euraafric Sapele Power	7. Niger Delta Development Commission
8	Atlas Petroleum (International) Limited		8. Federal Ministry of Finance
9	Belemaoil Producing Limited		9. Nigerian Content Development and Monitoring Board
10	Brittania-U Nigeria Limited		10. Revenue Mobilization and Fiscal Allocation Commission
11	Chevron Nigeria Limited		11. Petroleum Products Pricing Regulatory Agency
12	Conoil Producing Limited		
13	Construction Logistics limited		
14	Continental Oil and Gas Company Limited		
15	Dubri Oil Company Limited		
16	Emerald Energy Resources Limited		
17	Energia Limited		
18	Equinor Nigeria Energy Company Limited		
19	Eroton E & P Company Limited		
20	Esso Exploration and Production(Offshore East) Nigeria Ltd		
21	Esso Exploration and Production Nigeria Limited		
22	Elcrest Exploration & Production		
23	Express Petroleum and Gas Company Limited		
24	Famfa Oil Limited		
25	First Hydrocarbon Nigeria Ltd.		
26	Frontier Oil Limited		
27	Midwestern Oil and Gas Company		
28	Mobil Producing Nigeria Unlimited		
29	Monipulo Petroleum Development		
30	ND Western Limited		
31	Neconde Energy Limited		
32	Network E&P Nigeria Limited		

33	New-Cross Exploration & Production		
34	Newcross Petroleum Limited		
35	Newton Energy Limited		
36	Niger Delta Petroleum Resources Limited		
37	Nigeria Agip Oil Company Limited		
38	Nigerian Agip Exploration Limited		
39	Nigerian Petroleum Development Company Limited		
40	Oando Hydrocarbon		
41	Oando P&D Company		
42	Oando Qua Ibo		
43	Orient Petroleum Resources		
44	Oriental Energy Resources Limited		
45	Pan Ocean Oil Corporation (Nigeria)		
46	Petrobras Oil & Gas		
47	Pillar Oil Limited		
48	Platform Petroleum Limited		
49	Prime Exploration & Production		
50	Seplat Petroleum Development Company		
51	Shebah Exploration and Production Company Ltd		
52	Shell Nigeria Exploration and Production Company Limited		
53	Shell Petroleum Development Company		
54	Shoreline Natural Resources Limited		
55	South Atlantic Petroleum		
56	Star Deep Water Petroleum Limited		
57	Sterling Oil Exploration & Energy Production Co. LTD		
58	Total Exploration & Production Nigeria Limited		
59	Total Upstream Nigeria Limited		
60	Universal Energy Resources		
61	Walter-Smith Petroleum Oil Company Limited		
62	Yinka Folawiyo Petroleum Company Limited		

1.8.2 Independent Administrator's (IAs) opinion on materiality decisions

We have reviewed the 2016 EITI Standard, the NEITI Act, and materiality decisions approved by NSWG in the 2016 Oil and Gas Audit and hereby confirm that:

i. The considerations made by NSWG on the companies and revenue streams reported in the Nigerian oil and gas sector as stated in Appendix 2 are appropriate;

ii. Based on further assessment, Capital Gains Tax (CGT) was included as part of the revenue streams to be reconciled under the NEITI Act 2007;

iii. Seven (7) power generating companies privatized by BPE were recommended for inclusion in the scope of the audit in order to provide corroborating data on gas purchased from Nigeria Gas Marketing Company (NGMC);

iv. The Nigeria LNG limited, was also included to provide corroborating data on gas feedstock purchased and LNG exports;

v. Furthermore, based on our findings during field exercises, FAMFA Oil Limited, Petrobras Oil & Gas, Shebah Exploration and Production Company Ltd, South Atlantic Petroleum and Shoreline Natural Resources Limited were included in the scope of the audit.

1.9 Data Quality and Assurance

1.9.1 Legal and institutional requirement(s) for data quality and assurance in Nigeria

i. Companies

The Companies and Allied Matters Act (CAMA) 1990 is the extant legislation in Nigeria on the management of companies. It requires all registered companies operating in the country to keep proper books of accounts, prepare and publish their annual Audited Financial Statements (AFS) six months, at the most, after the preceding financial year end (*see Part XI of the Act.*[2]). An external auditor shall audit the account of companies.
All registered companies are required to file annual reports/returns with the Corporate Affairs Commission (CAC) (*part XII of the Act*) and the Securities and Exchange Commission (SEC) (for publicly quoted companies).[3]

Additionally, all companies operating in the country are required to prepare their annual audited financial statement/reports in accordance with the principles of International Financial Reporting Standards (IFRS), while quoted companies are required to publish same report. The adoption of IFRS for reporting of AFS by companies commenced in 2012. By this, all companies registered in Nigeria are mandated by law to file reports in compliance with the standard.

ii. Government

The 1999 Constitution of the Federal Republic of Nigeria in section 85 (1-6) provides that the public accounts of the Federation; Ministries, Departments and Agencies (MDA) shall be audited by the Auditor General for the Federation who then submits a report to the National Assembly.

[2] http://www.nigeria-law.org/CompaniesAndAlliedMattersActPartXI-XIV.htm
[3] http://sec.gov.ng/regulation/rules-codes/

Furthermore, sections 48 and 49 of the Fiscal Responsibility Act (FRA)[4] and Federal Government Financial Regulations require that the Federal Government including its Ministries, Departments and Agencies (MDAs) prepare financial statements for the period January to December each year. This statement shall be audited by the Auditor General for the Federation (AGF) for onward submission to the National Assembly.

In addition, to align with current global best practice, all federal government agencies doing business on behalf of government are mandated to produce their financial statement/report(s) based on the requirements of International Public Sector Accounting Standards (IPSAS) and IFRS (where government is not the sole owner of the business). This is to fulfill the requirement of the Financial Regulations, the Financial Reporting Council's requirement for financial reporting and other relevant extant laws/regulations in the country.

The public sector agencies in Nigeria have traditionally used the cash basis of accounting to account for revenues accruing to the federation, whereas private and publicly quoted companies use accrual basis. However, with the 2004 reforms in financial reporting standard in Nigeria, a number of government agencies are gradually adopting the accrual-based approach.

Overall, we are of the view that there exists an agreement between national financial reporting standard and international best practice. This similarity is most evident in the accounting and reporting (AFS) by all registered companies and a few federal government agencies. Consequently, most of the data supplied by companies and reconciled by us for the 2016Oil and Gas Report are in line with the 2016 EITI standard reporting requirement.

1.9.2 Assessment of practice

Part XI of CAMA 1990 mandates all registered companies, EI companies inclusive, to prepare and publish AFS for the preceding year at a defined date six months after the preceding year. The Financial Regulation requires same for government; MDAs. For the year 2016, a total of 62 companies and 11 government agencies were covered. From the 62 companies, 56 (90.32%) had their accounts audited. Filing of financial statements for five companies could not be confirmed from either the companies or the relevant government agency.

For government, eight (72.7%) of the 11 agencies have had their accounts audited, even though the AFS are not publicly available. However, the IA could not confirm the status of AFS for the outstanding three (27.3%) agencies. Details of entities compliance level is found in Appendix 3.

The AFS for quoted companies are publicly available for the companies covered in this report. The AFS of companies limited by liability or shares submitted to the relevant institution (CAC) were confirmed by us. A deviation we observed from the covered entities (mainly government MDAs) is that the Financial Regulations

[4] http://lawsofnigeria.placng.org/laws/fiscal%20responsibility.pdf

Requirement to have accounts of all government agencies doing business audited six months at the latest after a preceding year has not been adhered too. Recent reforms related to financial reporting in Nigeria has not had the desired effect as far as compliance on the part of government agencies is concerned.

We suggest the accelerated and complete adoption of the provisions of IPSAS/IFRS by all government entities doing business. Compliance on the part of company(s) to the reporting requirement of CAMA is very high (over 90%) for the year 2016. However, continuous improvement in compliance to extant laws and regulations is highly encouraged.

1.9.3 Procedure for establishing data quality assurance set by the IA

For establishing data quality and assurance, we executed the following:

1. Obtained annual Audited Financial Statement (AFS) from companies and relevant government agencies
2. Obtained attestation letter from companies
3. In addition to the collection of items 1 and 2 above from all covered entities, the under-listed processes were carried out by us to support data quality and provide assurance:
    a. Match data from templates against source documents from the covered entities.
    b. At the reconciliation stage, company payments were reconciled against receipts by government agencies.
    c. At the reconciliations end, the representative(s) of MDA were caused to sign-off on the reconciled position arrived at with the paying company affirming the adherence to the requirement(s) of the Financial Regulation (In conformity with the position of the AFS), i.e. the completeness and correctness of data supplied for the report.

The rationale for selecting the above quality assurance procedures was to ensure reliability, compatibility, completeness, and comprehensiveness of data used for the exercise. These steps reinforce the position of relevant laws and regulation that oversee the audit of government entities and companies in Nigeria.

In our professional view, a combination of having an annual AFS and the steps enumerated in three (3) above are sufficient to infer that the quality of data used for the audit exercise meets a minimum threshold for data quality and assurance.

1.9.4 Assessment of compliance with the IA's assurance procedure

As a first step, information collected using the data collection templates at the commencement of the exercise were adequate for that phase of the project. Our team through a rigorous process of sighting source documents (e.g.

receipts, swift slips, and bank statement), management accounts, AFS and other records validated the information received.

Furthermore, we obtained the following:

i. Fifty-six AFSs were confirmed from companies, which represents 90.32% from 62 upstream oil and gas companies for 2016. (See detail in Appendix 3).
ii. Seventeen companies (27.9%) provided attestation letters confirming that data provided conforms to data used in the Management Accounts.
iii. For the government entities, 72.7% had their AFS in place. No attestation letter was signed by any government agencies as most have their financial statement in place. In addition, the following steps were taken:
    - During reconciliation, company payments were reconciled against government receipts.
    - All representatives of relevant government agencies signed-off on reconciled positions,`with each of the paying entities (companies) confirming the completeness and correctness of data supplied.
    - The data from the companies were confirmed to the AFS and/or company records (management account). A sign-off by the companies on reconciled positions was obtained post final validation (i.e. reconciliation close-out).

A combination of the AFS submissions (90.32%), and sign-off by all relevant parties(all material companies and government agencies (100%)) indicates strong compliance to relevant legislation and regulations for auditing and reporting for companies and government agencies.

1.9.5 IA's assessment on the quality, comprehensiveness, and reliability of data utilised

Considering the outcome of the quality assurance procedure (95.9%), it is our professional view that data used for the exercise is comprehensive, reliable and meets the standard data quality and assurance required globally.

Furthermore, having reviewed the legal/statutory audit requirements for both companies and government entities the regarding quality of data/information provided for the 2016 Oil and Gas NEITI report, the IA's opinion is expressed below:

i. From a total of 62 companies covered in the exercise, only one company failed to provide data: Shebah Exploration and Production Company Ltd (OML 108). This had an impact on their partner's (Express Petroleum and Gas Company Limited) ability to provide some data for the audit exercise. The overall financial contribution attributed to the company is $1,853.This represents **0.00001%** of the total financial flows from all companies for the year under review. The contribution of both companies is not material and does not affect the comprehensiveness and completeness of the data used for the report.

ii. Relevant financial data used in the report matched information in the AFS and/or management accounts of companies. The IA considered the data used as reliable, accurate, and credible.

iii. The validation and reconciliation process employed by the IA provides the quality assurance required for the exercise. The IA concludes that data used for the report is of high quality (95.9%). See **Appendix 3** for information.

1.9.6. Limitation of the assessment

A limitation to this assessment was that some companies and public agencies did not fully comply with the Financial Regulations and other extant laws in the areas of audit and assurance procedure (e.g. not having an AFS). This takes away albeit minimally (5%) from the overall data quality and assurance position.

Recommendations

From the preceding, the IA recommends the following:

i. A full enforcement of all audit and assurance laws and regulations (e.g. Financial Regulations, Financial Reporting Act, CAMA etc.) by government agencies be pursued vigorously.

ii. The Federal government should build-up the capacity of and support the office of the Auditor General for the Federation to conduct audits of public sector agencies as at when due as enshrined in the Nigerian Constitution.

iii. To enrich the validation process, the OAuGF should provide attestation on behalf of the government entities.

1.10 Aggregate Financial Flows

The Table1.3 below shows the aggregate financial flows to the government for the year under review totalling $**17.054billion**. The table is divided into four sections. Sections 1 and 2 provide aggregate revenues received from the sale of profit oil and federation equity crude oil, gas and feedstock. They also include revenues from all non-financial transactions (including in-kind PPT and royalty). Section 3 contains sector specific Financial Flows, while Section 4 covers other nonspecific Financial Flows to Federation/ other entities.

Table1.3 Aggregated Financial Flows to Federation

Section		Table Ref.	2016
			$'000
1	**Sale of Federation Crude Oil and Gas**		
	Federation Equity	3.2	3,874,534
	Profit Oil	3.2	517,373

	Domestic Crude Sales	3.11	5,485,046
	Gas Sales	3.4	186,818
	Feedstock Sales	3.5	865,176
	Total Sales of Crude Oil and Gas (i)		**10,928,947**
2	Less:Production Sharing Contracts (PSCs)/Modified Carry Agreements (MCAs) in Kind Payments		
	Petroleum Profit Tax (PPT) – PSCs/SC	4.0	-2,152,155
	Petroleum Profit Tax (PPT) – MCAs	4.1	-299,097
	Royalty (Oil) – PSCs/SC	4.0	-391,192
	Royalty (Oil) – MCAs	4.1	-73,392
	MCA Gas CIT/EDT	4.1	-22,764
	MCA Oil EDT	4.1	-9,194
	MCA Royalty (Gas)	4.1	-5,287
	Concession Rental	4.0	-115
	Total PSCs/MCAs In-Kind Payments (ii)		**-2,953,196**
	Sub-Total (A) = (i) - (ii)		**7,975,751**
3	**Sector Specific Financial Flows**		
	Petroleum Profit Tax (PPT)	5	4,216,908
	Royalty (Oil)	5.1	1,577,040
	Royalty (Gas)	5.2	66,078
	Signature Bonus		0
	Gas Flared Penalties	5.3	8,799
	Concession Rental	5.4	824
	Company Income Tax (Gas)	5.5	314,846
	Dividends, Interest & Repayment of Loans by NLNG	5.1	390,234
	Pipeline- Transportation Fee	4.2	2,529
	Total Confirmed Flows (iii)		**6,577,258**
	Subtotal to the Federation iv (2+3)		**14,553,009**
4	**Other nonspecific Financial Flows to Federation/ other entities**		
	Value Added Tax (VAT)	5.14	563,801
	Capital Gain Tax (CGT)	5.6	176,516
	Pay As You Earn (PAYE)	5.16	41,210
	Withholding Tax (WHT)	5.15	763,936

	Contribution to NDDC	5.11	492,066
	Education Tax	5.7	317,853
	NCDMB 1% Levy	5.12	129,403
	NESS Fee	5.13	16,805
	Total Flows to Other Entities (v)		**2,501,590**
	Grand Total (iv+v)		**17,054,598**

1.11 Five-year aggregate financial flows

Table 1.4 below shows the trend analysis of petroleum revenues to the government from 2012 to 2016. There was a steady decline in year-on-year revenues from 2012 to 2015, with the sharpest drop of **54.55%** in 2015 compared to the preceding year. The year under review experienced drop in revenue by **31%** from **$24.790billion** in 2015 to **$17.055billion** in 2016.

Table 1.4 Aggregate financial flows in the past five years

YEAR	2012	2013	2014	2015	2016	TOTAL
	$'000	$'000	$'000	$'000	$'000	$'000
Grand Total	**62,944,356**	**58,079,681**	**54,555,279**	**24,790,797**	**17,054,599**	**217,424,712**
Difference	0	-4,864,675	-3,524,402	-29,764,482	-7,736,198	0
% Change	0	-8%	-6%	-55%	-31%	0

Figure 1.1: Summary of Financial Flows ($billion)

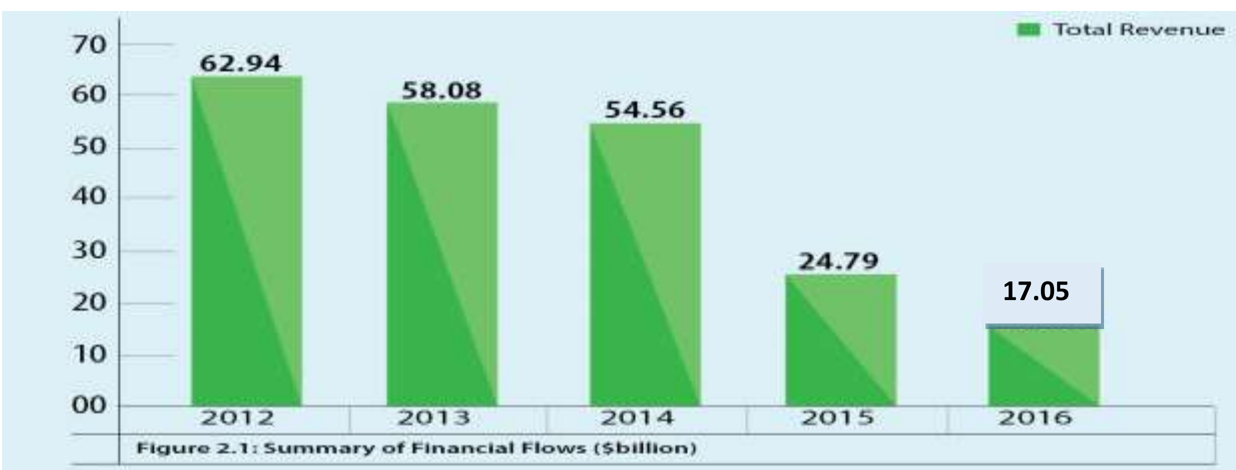


Table 1.5: Comparative analysis of revenues from 2012 to 2016

	2012	2013	2014	2015	2016
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Sale of Federation Crude Oil and Gas					
Federation Equity & Profit Oil	21,611,186	19,050,886	18,196,369	7,597,104	4,391,907
Domestic Crude Sales	18,147,751	17,435,818	15,674,817	7,775,228	5,485,046
Gas Sales	489,033	616,006	597,025	262,688	186,818
Feedstock Sales	1,845,370	1,357,525	1,682,650	1,089,827	865,176
Sales of Crude Oil and Gas (Total)	**42,093,340**	**38,460,235**	**36,150,861**	**16,724,847**	**10,928,947**
Less: PSCs/MCAs in Kind Payments					
Petroleum Profit Tax (PPT)-PSCs/MCAs	10,759,802	10,273,854	7,094,219	2,956,542	2,460,447
Royalty (Oil) - PSCs/MCAs	959,781	993,167	2,328,222	1,097,705	464,583
MCA Gas CIT/EDT		83,954	22,437	16,831	22,764
MCA Royalty (Gas)		18,343	68,952	3,649	5,287
Concession Rental	-	-	-	138	115
Total PSCs/MCAs In-Kind Payment	**11,719,583**	**11,369,318**	**9,513,830**	**4,074,865**	**2,953,196**
Sub-Total (A)	**30,373,757**	**27,090,917**	**26,637,031**	**12,649,982**	**7,975,751**
Other Sector Specific Financial Flows					
Petroleum Profit Tax (PPT)	18,851,676	17,591,512	15,697,977	5,389,868	4,216,908
Royalty (Oil)	6,725,282	6,182,319	6,311,102	2,784,534	1,577,040
Royalty (Gas)	107,601	119,093	135,030	107,160	66,078
Signature Bonus	0	12,500	142,249	902,720	0
Gas Flared Penalties	24,580	18,475	18,693	12,683	8,799
Concession Rental	2,895	133,750	2,628	1,006	824
Total Confirmed Flows	**25,712,034**	**24,057,649**	**22,307,679**	**9,197,971**	**5,869,648**
Other Flows to Federation					
Companies Income Tax (CIT)	441,048	556,050	521,827	603,499	314,846
Value Added Tax (VAT)	770,834	965,521	619,779	-	563,801
Capital Gains Tax					176,516

Total Other Flows to Federation	**1,211,882**	**1,521,571**	**1,141,606**	**603,499**	**1,055,163**
Sub-Total (B)	**26,923,916**	**25,579,220**	**23,449,285**	**9,801,470**	**6,924,812**
Total Flows to Federation (A+B)	**57,297,675**	**52,670,137**	**50,086,316**	**22,451,452**	**14,900,563**
Other Flows					
Dividends & Repayment of Loans by NLNG	2,795,531	1,289,592	1,420,406	1,076,012	390,234
PAYE	87,918	168,524	24,170	-	41,210
Withholding Tax (WHT)	794,880	991,693	697,095	-	763,936
Total Other Flows	**3,678,329**	**2,449,809**	**2,141,671**	**1,076,012**	**1,195,380**
Flows to States and Local Govt					
Withholding Tax (WHT)	11,314	17,740	857	**-**	-
PAYE	197,667	556,030	366,425	**-**	-
Dividends & Repayment of Loans by NLNG	36	1,089	-	**-**	-
Total Flow to States	**209,017**	**574,859**	**367,282**	**-**	-
Flows to Other Entities					
Contribution to NDDC	558,808	562,921	846,081	387,621	492,066
Education Tax	1,120,421	1,477,764	605,597	667,770	317,853
NCDMB 1% Levy	80,010	115,925	153,924	135,828	129,403
NESS Fee	-	63,100	38,875	47,504	16,805
NIWA Levy	96	221	-	-	-
Cabotage Levy	-	164,945	26,401	-	-
NIMASA Levy-Gross Freight	-	-	262,082		-
Pipeline Transportation	-	-	27,050	24,610	2,529
Total Flows to Other Entities	**1,759,335**	**2,384,876**	**1,960,010**	**1,263,333**	**958,656**
Grand Total	**62,944,356**	**58,079,681**	**54,555,279**	**24,790,797**	**17,054,599**

2.0 Production

2.1 Crude Oil Production

This section provides an evaluation of the quantity of crude oil and gas produced, utilised, and/or exported from the country. It analyzes total crude oil produced, total crude oil lifted, total gas produced, total gas utilized, total gas sold, and total gas flared. It also considers the various production arrangements: Joint Ventures (JVs), Production Sharing Contracts (PSCs), Service Contracts (SCs), Sole Risk Operators (SROs), Marginal Field Operators (MFOs) and their contributions to the overall crude oil and gas production and lifting in the country.

In this section, we provided a record of the Federations share of lifting in 2016.

2.2 Total Crude Oil Production and Lifting

Crude oil production involves the extraction of hydrocarbons from the subsurface with an established quantity of recoverable reserve. The crude oil produced from the subsurface usually comes out with gas and water. The gas is first removed from the crude oil at flow stations to be used for other industrial purposes. Water is later removed from the crude oil leaving an exportable crude oil (base, sediment & water not more than 0.5%) at the Terminals.

Nigeria's economy depends largely on the revenue realized from the oil and gas sector. In recent years, there has been a steady decline in production rate which is largely attributeable to the high cost of production and vandalism. In 2016, the contribution of oil and gas to GDP fell to 8.3% from 9.5% in 2015.[5]

The total crude oil produced in 2016 was **659,136.76mbbls**, less than the 2015 production by 117,531mbbls. This represents a significant **15.1%** drop. The table below presents a record of production and liftings from the four production arrangements.

The first part of the table shows the total production for the period while the second part shows the lifting record. The lifting record is further sub-divided into federation lifting and company lifting. Details are presented below:

Table 2.0: Total crude oil production and lifting

		2016	2015	Variance
PRODUCTION		**Mbbls**	**Mbbls**	**%**
Joint Venture (JV)		289,174	375,524	-23%
Production Sharing Contracts (PSC)		324,071	320,596	1%
Service Contracts (SC)		2,153	2,487	-13%
Sole Risks (SR)		27,182	54,642	-50%
Marginal Fields (MF)		16,557	23,419	-29%
Total Production		**659,137**	**776,668**	
Total opening stock		17,817	20,141	-12%
Total stock for lifting		680,213	800,509	-15%
Zafiro crude [6]		3,259	3,700	-12%

[5] Gross Domestic Product Report 2017 (https://nigerianstat.gov.ng/download/795)

Terminal adjustment/shrinkage [7]	-	-	
Total available crude for lifting	**680,213**	**800,509**	-15%
LIFTING			
FEDERATION LIFTING:			
Federation Export:			
Joint Venture Operators (JV)	138,206	159,784	-14%
Production Sharing Contracts (PSC)	71,776	87,869	-18%
Sole Risk Operators (SR)		40	-100%
Marginal Field Operators (MF)	707	1,792	-61%
Service Contractors (SC)	780	370	111%
Sub-Total Federation Export	**211,469**	**249,855**	-15%
Domestic Lifting (Refinery and Export)			
Joint Venture Operators (JV)	33,046	61,644	-46%
Production Sharing Contracts (PSC)	-	1,837	
Service Contractors (SC)	-	-	
Marginal Field (MF)	100	-	
PPMC Domestic crude Supply (Refining/Export)	**33,146**	**63,481**	-48%
Sub-Total (Federation + Domestic Lifting)	**244,615**	**313,336**	-22%
COMPANY LIFTING:			
Joint Venture Operators (JV)	125,415	155,957	-20%
Production Sharing Contracts (PSC)	253,655	231,455	10%
Sole Risk Operators (SR)	28,346	54,757	-48%
Marginal Field Operators (MF)	14,616	22,741	-36%
Service Contractors (SC)	1,500	2,183	-31%
Sub-total other Operators	**423,533**	**467,093**	-9%
Total lifting	**668,148**	**780,429**	-14%
Balance closing stock	**16,401**	**20,080**	
Source: NEITI 2015 Audit Report and 2016 COMD Production Profile			

The drop in production was caused by the vandalization of oil pipelines that disrupted operations. In addition to this, there were increased challenges to cash call funding due to decline in revenues to the country caused by lower crude prices in the year.

There were 71 OMLs in production; however, only 30 produced above five million barrels in 2016.

Table 2.1: Total crude oil production, lifting and total gas production per project (OML) and their percentage ownership in Nigeria

OML	CRUDE OIL PRODUCTION	CRUDE OIL LIFTING	GAS PRODUCTION	LIFTING TERMINAL	PERCENTAGE HOLDING	PRODUCTION LOCATION
	MBBL	MBBL	MMSCF			
29	16,474	17,302.	14,461.07	BONNY	AITEO-45%, NNPC-55%	Bayelsa State
120	1,993	1,946	2,082.70	OYO	NAE, ALLIED-97.5%, CAMAC-2.5% (ERIN ENERGY-100%)	70km Offshore Western Delta
112	3,842	3,013	6,145.43	IMA/OKORO	AMNI-60%, ELF-40%	12km offshore Eastern Delta
109	210	383	809.08	UKPOKITI	ATLAS-70%, SUMMIT OIL-30%	12 miles Offshore Western Delta
55	2,721	1,711	2,825.30	BONNY	BELEMAOIL -40% NNPC-60%	Offshore South Eastern delta
49	58,191.	57,497	26,069.95	ESCRAVO	NNPC-60%, CNL-40%	Offshore North Western Delta

[6] Zafiro crude represents the production from the unitized zone operated by Nigeria and Mobil Equatorial Guinea which is not included in the production volumes of the Company but included in the lifting volumes of NNPC and the operating company

[7] Shrinkage and Terminal adjustment represent losses due to evaporation and drainages in the Terminals during the process of removing water and sediments from the crude during the period the crude stayed in the tanks before export

				S		
95			27,667.21	ESCRAVOS	NNPC-60%, CNL-40%	Offshore North Western Delta
90			110,323.5	ESCRAVOS	NNPC-60%, CNL-40%	Offshore North Western Delta
49/95			3,721.99	ESCRAVOS	NNPC-60%, CNL-40%	offshore North Western Delta
49/90			4,720.40	ESCRAVOS	NNPC-60%, CNL-40%	offshore North Western Delta
86			3,737.51	PENNINGTON	NNPC-60%, CNL-40%	30 km offshore central Delta
103	456	459	221.20	ESCRAVOS	CONOIL -100%	NorthWest Niger Delta
59	3,103	3,791	1,482.80	PENNINGTON (CONOG)	CONOIL -100%	South eastern Niger delta
96	92	114	1,795.40	ESCRAVOS	DUBRI - 100%	Edo State
99	34,459	36,957	223,582.85	AMENAM, USAN, BONNY, FORCADOS, EA, BONGA, EKANGA	NNPC-60%, TOTAL-40%	30KM OFSHORE Eastern Delta
100					NNPC-60%, TOTAL-40%	65km Offshore South-Eastern Delta
102					NNPC-60%, TOTAL-40%	65km Offshore South-Eastern Delta
58					NNPC-60%, TOTAL-40%	River state
18	10,915	11,543	26,517.50	BONNY	EROTON-45%, NNPC-55%	Rivers State
133	45,758	45,836	126,942.86	ERHA	EXXON - 56.25%, SNEPCO-43.75%	100 kilometres offshore.
138	37,385	37,297	53,671.79	USAN	SINOPEC-20%,EXXON-30%,CPNL-30%,NEXEN-20%	70 kilometres offshore, Eastern Niger Delta
108	19	49		UKPOKITI	EXPRESS-57.5%,SHEBBAH-40%,CAMAC-2.5%	off shore Western edge of Niger Delta
127/128	83,835	84,711	142,553.63	AGBAMI (STARDEEP)	127: FAMFA-60%, Star (a CNL Company)-32%, PETROBRAS-8%	off shore Western edge of Niger Delta
					128: NNPC-1000%, Equinor 0%, TNOS(CVX)-8%	
104	93,761	94,722	794,204.47	YOHO	NNPC-60%, MPN-40 %	75 KM offshore Akwa Ibom State
67				QIT	NNPC-60%, MPN-40 %	50 KM offshore Akwa Ibom State
68					NNPC-60%, MPN-40 %	offshore Akwa Ibom State
70					NNPC-60%, MPN-40 %	30KM offshore Akwa Ibom State
114	1,061	1,605	294.93	ANTAN	MONIPULO-60%, CAMAC-40%	Calabar State
24	6,460	7,449	6,483.64	BONNY	NEWCROSS E&P-45%, NNPC-55%	Rivers State,Port Harcourt
125	7,040	6,981	15,965.16	ABO (NAE)	ENI-85%, OANDO-15%	40KM Western Niger Delta
60	22,203	23,055	77,387	BRASS	NNPC-60%, NAOC-20%, OANDO-20%	Bayelsa State,Imo state,Delta state,Rivers state
61			209,499		NNPC-60%, NAOC-20%, OANDO-20%	
63			64,679		NNPC-60%, NAOC-20%, OANDO-20%	
116	2,153	2,280	2,807	BRASS	NNPC-100%	Bayelsa State
126	16,458	16,367	43,460	OKWORI	ADDAX-100%	River state, Port Harcourt
123				ANTAN	ADDAX-100%	Calabar State
124				BRASS	ADDAX-100%	Imo State
40	152	133		FORCADOS	NPDC-55%, ELCREST-45%	75KM offshore Northwestern Warri, Delta state
42	1,545	2,301	1,245.95	FORCADOS	NECONDE-45%, NPDC-55%	Delta state
26	253	1,047	205.03	FORCADOS	FIRST HYDROCARBON-45%, NPDC-55%	Delta state
34	1,070	100	54,651.50	FORCADOS	NPDC-55%, ND WESTERN-45%	Delta state
119	8,351	7,694	17,112.39	OKONO/ OKPOHO	NPDC-100%	50km offshore South eastern Niger delta

111	409	348	4,068.16	FORCADOS	NPDC-100%	Edo State
65			180.10	FORCADOS	NPDC-100%	Edo State
30	907	824		FORCADOS	NPDC-55%, SHORELINE NAT RESOURCES-45%	Delta State
98	207	150	1,993.03	FORCADOS	NNPC-60%, PANOCEAN-40%	Delta State
4	2,731	3,618	82,581.90	FORCADOS	SEPLAT-45%,NPDC-55%	Warri, Delta State
38				FORCADOS	SEPLAT-45%,NPDC-55%	Warri, Delta State
41				FORCADOS	SEPLAT-45%,NPDC-55%	Warri, Delta State
53	1,029	610		BRASS	SEPLAT CONS-40% NNPC-60%	Imo State
11	42,755	45,672	585,783.03	BONNY, FORCADOS, BRASS	NNPC-55%, SPDC-30%,ELF-10%, AGIP--5%	offshore South eastern Niger delta
17					NNPC-55%, SPDC-30%,ELF-10%, AGIP--5%	Port Harcourt , River State
20					NNPC-55%, SPDC-30%,ELF-10%, AGIP--5%	Port Harcourt , River State
21					NNPC-55%, SPDC-30%,ELF-10%, AGIP--5%	Port Harcourt , River State
22					NNPC-55%, SPDC-30%,ELF-10%, AGIP--5%	Port Harcourt , River State
23					NNPC-55%, SPDC-30%,ELF-10%, AGIP--5%	Delta State
25					NNPC-55%, SPDC-30%,ELF-10%, AGIP--5%	Delta State
28					NNPC-55%, SPDC-30%,ELF-10%, AGIP--5%	Bayelsa State
32					NNPC-55%, SPDC-30%,ELF-10%, AGIP--5%	onshore Central Niger Delta
35					NNPC-55%, SPDC-30%,ELF-10%, AGIP--5%	onshore Western Delta
43					NNPC-55%, SPDC-30%,ELF-10%, AGIP--5%	Warri, Delta State
45					NNPC-55%, SPDC-30%,ELF-10%, AGIP--5%	Warri, Delta State
46					NNPC-55%, SPDC-30%,ELF-10%, AGIP--5%	Bayelsa State
79				EA	NNPC-55%, SPDC-30%,ELF-10%, AGIP--5%	25-60km offshore western Niger Delta
118	74,453	74,973	56,262.72	BONGA	SNEPCO-55%, EXXON-20%,ENI-12.5%,ELF-12.5%	75km offshore Niger delta
130	49,847	50,639	193,277.7	AKPO (TUPNI)	CNOOC-45%, SOUTH ATL.-15%, PETROBRAS-16%, TOTAL-24%	Port Harcourt, River State
143	9,295	8,626	1,735.12	TULJA	STERLING GLOBAL 80%, ALLENE 20%	Kwali Delta State
67	7,869	8,109	5,126.70	QIT	ORIENTAL ENERGY (EBOK)	50 KM offshore
90	266	395	402.12	ESCRAVOS	BRITANNIA U (AJAPA FIELD)	50km Northwestern Niger Delta
54	1,433	972	11,276.10	BONNY	NDPR (OBGELE FIELD)	Port Harcourt , River State
11	244	301			PRIME (ASARAMATORU FIELD)	offshore South eastern Niger delta
38	621	554	7,010.96	BRASS/FORCADOS	PLATFORM (EGBOAMA FIELD)	Warri, Delta State
56	2,588	1,976	1,545.16	BRASS/FORCADOS	MIDWESTERN (UMUSADEGE FIELD)	Kwale , Delta state
56	540	511	178.75	BRASS/FORCADOS	PILLAR (UMUSATI FIELD)	
56	691	551	4,578.15	FORCADOS/BRASS	ENERGIA (EBENDO-OBODOGWA)	
16	1,010	649	344.82	FORCADOS	WALTERSMITH (IBIGWE FIELD)	Imo State

13	156	176	25,908.36	QIT	FRONTIER (UQUO FIELD)	Akwa Ibom State
14	543	577	418.45	QIT	UNIVERSAL ENERGY (STUBB CREEK)	Akwa Ibom State
13	595	651	542.15	QIT	NETWORK E&P	Akwa Ibom State
113	989	923	707.26	AJE	YINKA FOLAWIYO	Lagos State
SUB TOTAL	**659,138**					
Ekanga Production	**3,258.93**					
TOTAL	**662,396.93**	**668,148**	**3,051,248.19**			
SOURCE: COMD 2016 RECORD; COMPANY'S GAS AND VOLUMETRIC FLOWS TEMPLATE						
KEY:						
1. OML NUMBERS AND PERCENTAGE HOLDINGS ARE AS POPULATED IN THE DPR DOCUMENT FLOW TEMPLATE.						
NEITI OPL AND OML DATA REQUEST 2016 AND COMPANIES' 2016 HYDROCARBON						
2. EKANGA PRODUCTION IS NOT ADDED TO NIGERIA'S HELD PRODUCTION AS IT IS FROM EQUATORIAL GUINEA						

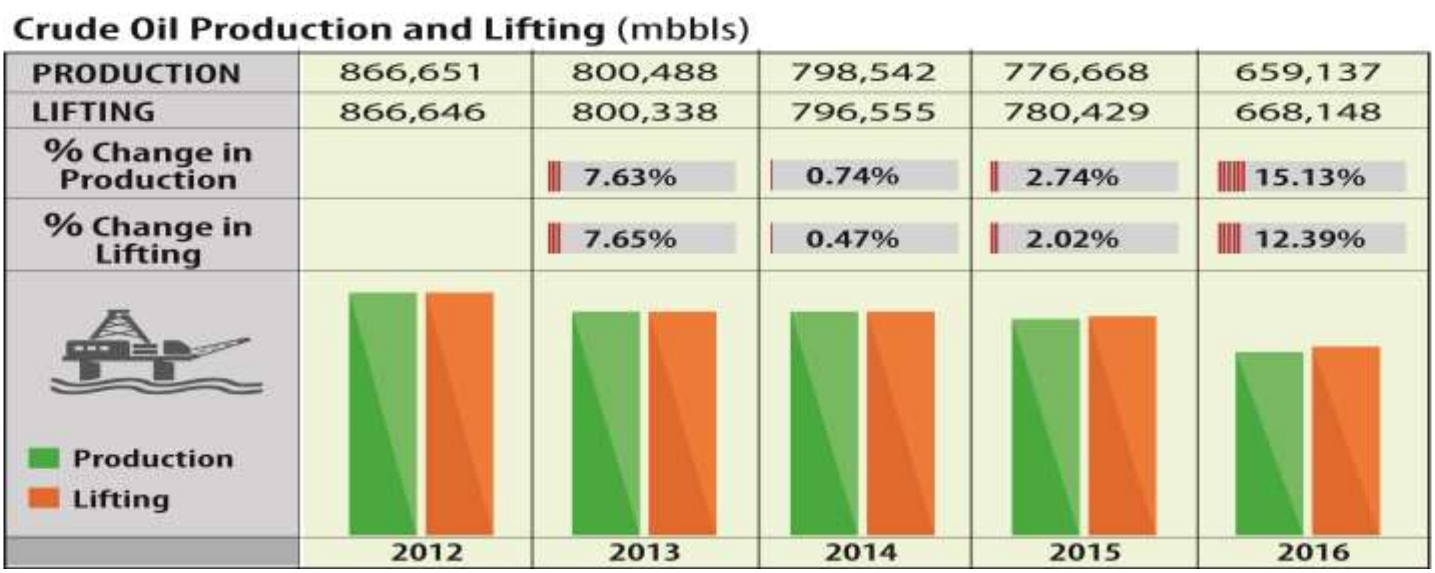
2.3: Five-year trend analysis of production and lifting

The table below shows a five-year analysis of total crude oil production and lifting in Nigeria.

Table 2.2: Five-year analysis of total crude oil production and lifting

CRUDE OIL PRODUCTION AND LIFTING (mbbls)					
	2012	**2013**	**2014**	**2015**	**2016**
Production	866,651	800,488	798,542	776,668	659,137
Lifting	866,646	800,338	796,555	780,429	668,148
% Change in Production		7.63%	0.24%	2.74%	15.13%
% change in Lifting		7.65%	0.47%	2.02%	14.39%

Figure 2.0: Five-year analysis of total crude oil production and lifting



Findings and Observations

In 2016, Nigeria's total crude oil production dropped by 117,531 mbbls (15.13%), i.e. from 776,668 mbbls in 2015 to 659,137mbbls in 2016. The analysis indicated a steady decline from 2012 to 2016, with the sharpest drop occurring between the years 2015 and 2016. Similarly, total crude oil lifting in 2016 dropped by 112,280 mbbls from 780,429 mbbls in 2015 to 668,148 mbbls in 2016, representing a 14.39% decline.

The reasons for the drop in production and consequently lifting are inadequate funding and technical challenges. Also, several force majeures were declared in the year due to pipeline vandalization.

The bombing of the under-water 48-inch Forcados Oil Loading/Export Pipeline was one of many major occurrences that befell the industry in the year under review. This incident occurred in February 2016 and the line remained un-operational for seven months (till September 2016). Shell Petroleum Development Company (SPDC) declared force majeure on lifting from Forcados on 21st February 2016. Companies injecting into the Forcados Terminal such as SEPLAT, PANOCEAN, MIDWESTERN, ENERGIA, PLATFORM, PILLAR, WALTERSMITH, NPDC/SHORELINE and EXCEL shut down production for over 147 days. NPDC and its JV Partners sought alternate evacuation routes via the Warri Refining and Petrochemical Company (WRPC) feed line. The Forcados 48-inch line became operational in October and November but went down again for maintenance purposes in the month of December as reflected in the DPR reconciled sign-off records.

SPDC declared a second force majeure at its Bonny Terminal from the 10th May to 7th July 2016 due to a leak on the Nembe Creek Pipeline. Companies like AITEO, EROTON and BELEMA that produce into the pipeline stopped operations while repairs were being affected. A third force majeure was declared SPDC on the Bonny Terminal from early August to October 2016 following leaks observed along the Nembe Creek Pipeline.

Nigeria Agip Oil Company (NAOC)/Eni also declared force majeure in Brass Terminal between July and August 2016 following an attack on Eni's Ogbaimbiri – Tebidaba Pipeline.

Mobil Producing Nigeria Unlimited (MPNU) declared Force Majeure twice between May/June and July/October 2016. This was due to a drilling process disruption and damage to the QIT loading system. MPNU's total production within the 4-month was 4,616,825bbls, this is less than half of what was produced in each previous month as reflected in DPR reconciled sign-off records. MPN lifted only 951,577bbls in the month of September 2016.

Frontier, Universal Energy and Network E&P (referred to as the FUN Group) injects into the QIT lines. The group recorded no production in August and September and a low production of 41,767 bbls in October. The FUN Group had no lifting from July through to September while the second force majeure lasted.

WalterSmith Company, a MF Operator shutdown their facility for a period of 147 days as reflected in WalterSmith deferred production record. This was due to the Forcados incidence. This caused the company a loss (in deferred production) of approximately one million barrels in 2016.

For more details of disaggregated company by company production records see Appendix 6(Report on Production).

2.3.1 Other related observations

i. **Cash Call funding difficulties**: the inability of the government to meet cash call obligations due to dearth of funds in 2016 made it difficult for JV operators to effectively run their operations. The total cash call liability in 2016 stood at $385,116,744.11.

ii. **Steady decline in production of some fields**: This is a normal occurrence as a field age. Reservoir pressures decline, and operators resort to artificial lift mechanisms to produce from such fields. This has added to the overall decline observed in the year.

iii. **Technical challenges**: The routine maintenance of some production pumps in the field caused production shutdowns in some instances. An MF operator reported that it could not produce viscous crude (with API 18 degrees) due to this challenge. The company had to use submersible pumps to produce same liquid, and this affected crude oil production.

On the average, Nigeria lost about 130 million barrels of export crude between March and December 2016. This was a huge loss to the Federation and the operators in the industry.

2.4 Monthly crude oil production by production arrangements

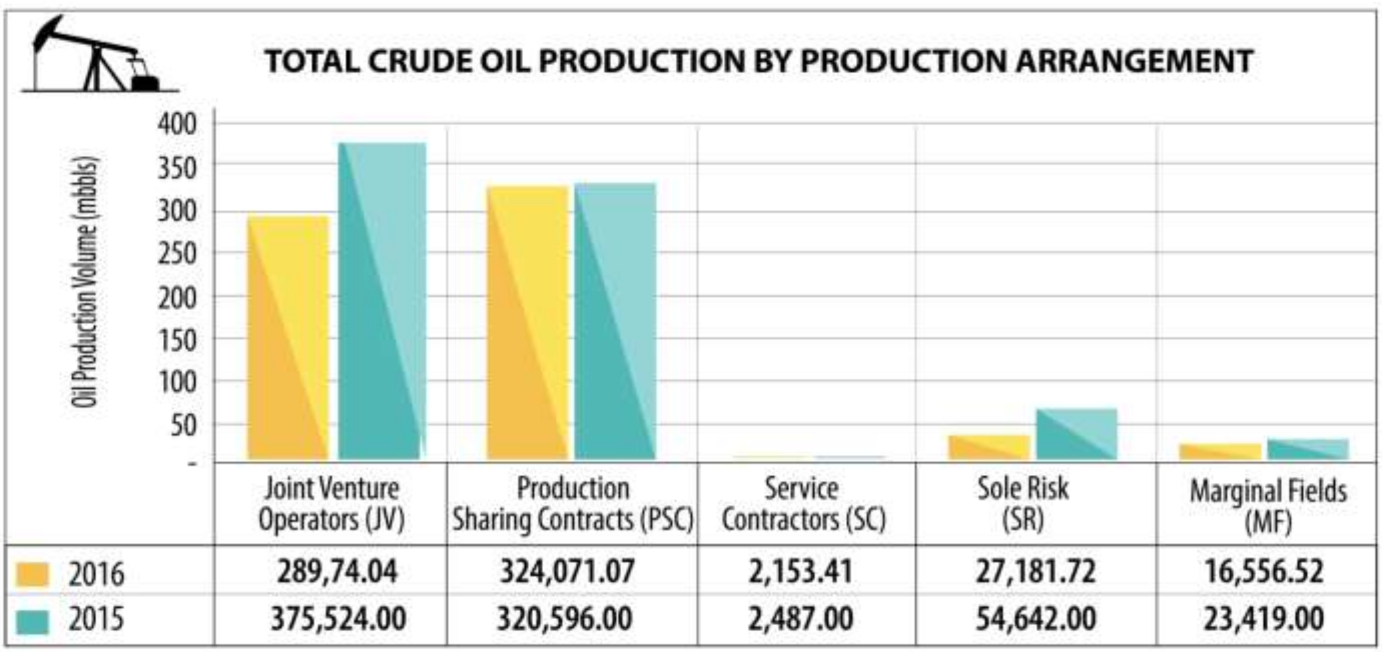
The table below shows disaggregated crude oil production per month per production arrangement and their contribution to the overall production in the year.

Table 2.3: Monthly crude production – by - production arrangements

MONTH	PRODUCTION	PER DAY	JV	AF (CA/MCA /TPF)	PSC	SC	SOLE RISK	MARGINAL FIELDS
	mbbls	mbbls	mbbls	Mbbls	mbbls	Mbbls	Mbbls	Mbbls
JANUARY	66,405.94	2,142.13	20,098.36	10,138.06	28,345.74	211.16	5,667.63	1,944.99
FEBRUARY							2,945.58	1,646.67

	59,535.29	2,052.94	20,743.87	8,828.56	25,175.27	195.35		
MARCH	60,511.04	1,951.97	20,273.44	9,421.14	27,515.89	208.95	1,559.65	1,531.97
APRIL	58,784.69	1,959.49	20,050.48	8,146.13	27,343.99	197.49	1,483.73	1,562.87
MAY	51,861.04	1,672.94	14,267.59	6,697.75	27,266.34	202.02	1,838.23	1,589.11
JUNE	52,571.01	1,752.37	14,611.64	7,785.51	27,009.12	192.06	1,831.43	1,141.25
JULY	51,154.39	1,650.14	15,914.81	5,466.57	27,347.50	197.69	1,112.96	1,114.86
AUGUST	47,954.15	1,546.91	12,674.19	3,281.23	28,946.24	191.82	1,761.84	1,098.83
SEPTEMBER	49,483.30	1,649.44	14,361.28	4,114.05	27,773.17	164.77	1,869.67	1,200.36
OCTOBER	54,619.49	1,761.92	16,028.94	6,426.16	28,234.10	136.64	2,669.26	1,124.39
NOVEMBER	58,007.97	1,933.60	18,775.73	8,146.02	27,141.85	124.31	2,501.12	1,318.93
DECEMBER	48,248.46	1,556.40	14,859.31	8,063.23	21,971.84	131.17	1,940.63	1,282.28
TOTAL	**659,136.76**		**202,659.65**	**86,514.39**	**324,071.07**	**2,153.41**	**27,181.72**	**16,556.52**
Source: COSM – COMD Records								

Figure 2.1:Total crude oil production - by - production arrangement



Findings and observations

Production from JV operations dropped by 86,350mbbls (23%) from 2015 records resulting from disruptions in operations experienced by most JV Companies due to sabotage. SR operators' production dropped by 27,460mbbls (50.25%) compared to 2015, this was due to the non-availability of the injection facilities owned by JV companies they inject into. The MF and SC production also reduced by 6,862.48mbbls (29.30%) and 333.59mbbls (13.41%) respectively when compared to 2015 numbers.

Conversely, PSC operators marginally increased their production in 2016 by 3,475mbbls (1.07%) compared to the previous year. The case of sabotage common to production onshore is not prevalent with PSCs due to the location of their facilities (shallow and deep-water offshore). Due of this, and for the first time, PSCs produced more volumes than JVs in Nigeria.

2.4.1 Monthly crude oil lifting by production arrangements

The monthly lifting by production arrangements shows that highest crude lifting was from the PSC arrangement where 325,431.57mbbls representing 48.7% of crude oil was lifted. The federation lifting was 71,776mbbls. The months of June, July, September and December witnessed the lowest volumes of crude lifted. This is attributed to the series of force majeure declared by SPDC, MOBIL and AGIP which hampered production and injection to terminals within the period.

Table 2.4: Total crude oil lifting by production arrangements

2016 MONTHLY CRUDE OIL LIFTING BY PRODUCTION ARRANGEMENT (mbbls)												
MONTH	**TOTAL**	**Joint Venture (JV)**		**AF (Carry/MCA/TPF)**		**Production Sharing Contract (PSC)**		**Service Contract (SC)**		**Sole Risk (SR)**	**Marginal Fields (MF)**	
		NNPC	Companies	NNPC	Companies	NNPC	Companies	NNPC	Companies	Companies	NNPC	Companies
JANUARY	67,590.82	15,469.41	9,997.89	4,123.21	3,085.80	7,650.60	21,186.10	-	-	4,238.46	-	1,839.36
FEBRUARY	61,243.08	10,200.53	12,923.02	5,692.69	2,758.22	6,653.66	19,220.03	200.00	-	2,127.61	6.34	1,460.98
MARCH	59,669.28	13,528.19	5,962.69	5,308.33	3,455.78	6,808.53	20,624.75	130.00	270.00	1,934.37	-	1,646.64
APRIL	59,466.54	11,706.48	9,855.45	5,165.56	2,911.12	5,179.75	22,313.39	-	-	1,124.53	-	1,210.26
MAY	54,919.17	10,935.44	5,708.99	3,825.06	2,944.86	4,228.15	24,706.77	200.00	80.00	1,027.35	697.65	564.91
JUNE	49,478.67	7,813.39	6,386.42	3,994.15	2,662.77	6,184.80	18,106.01	-	399.77	2,739.41	3.00	1,188.96
JULY	46,041.63	8,000.30	6,164.01	3,599.37	673.48	6,871.41	19,497.43	-	-	546.18	-	689.45
AUGUST	53,610.12	9,952.98	5,771.70	2,263.17	1,776.11	5,307.55	24,805.74	150.00	-	2,593.06	-	989.81
SEPTEMBER	48,336.72	6,079.12	7,434.33	2,517.96	1,596.20	5,435.92	20,998.35	-	250.00	2,168.52	100.00	1,756.33
OCTOBER	53,384.95	9,875.57	5,523.53	3,253.85	2,419.23	5,102.17	21,918.51	100.00	100.00	3,820.20	-	1,271.88
NOVEMBER	65,503.19	10,388.95	10,812.17	5,287.66	3,492.11	7,089.56	24,339.12	-	400.00	2,568.07	-	1,125.57
DECEMBER	48,904.01	7,053.05	7,953.85	5,217.42	3,145.77	5,264.38	15,938.91	-	-	3,458.40	-	872.23
TOTAL	**668,148.17**	**121,003.41**	**94,494.04**	**50,248.43**	**30,921.45**	**71,776.47**	**253,655.10**	**780.00**	**1,499.77**	**28,346.15**	**806.99**	**14,616.37**
Source: COMD												

<u>Findings and observations</u>

NNPC lifting for the year 2016 was 244,615mbbls; a drop of 21.93% when compared to the 2015 figure of 313,336mbbls. This decrease was due to a drop in production levels in the country. Overall, JV, SC, SR and MF companies lifted less in 2016 compared to 2015 due to lower production in the year. The PSCs lifted more in 2016 because they had excess crude oil from 2015 in addition to higher production.

For detailed record of production and lifting, see Appendix 6 of this report. It contains disaggregated data of volumes of production and lifting per company and stream. It also includes Federation entitlement to production in JVs and PSCs.

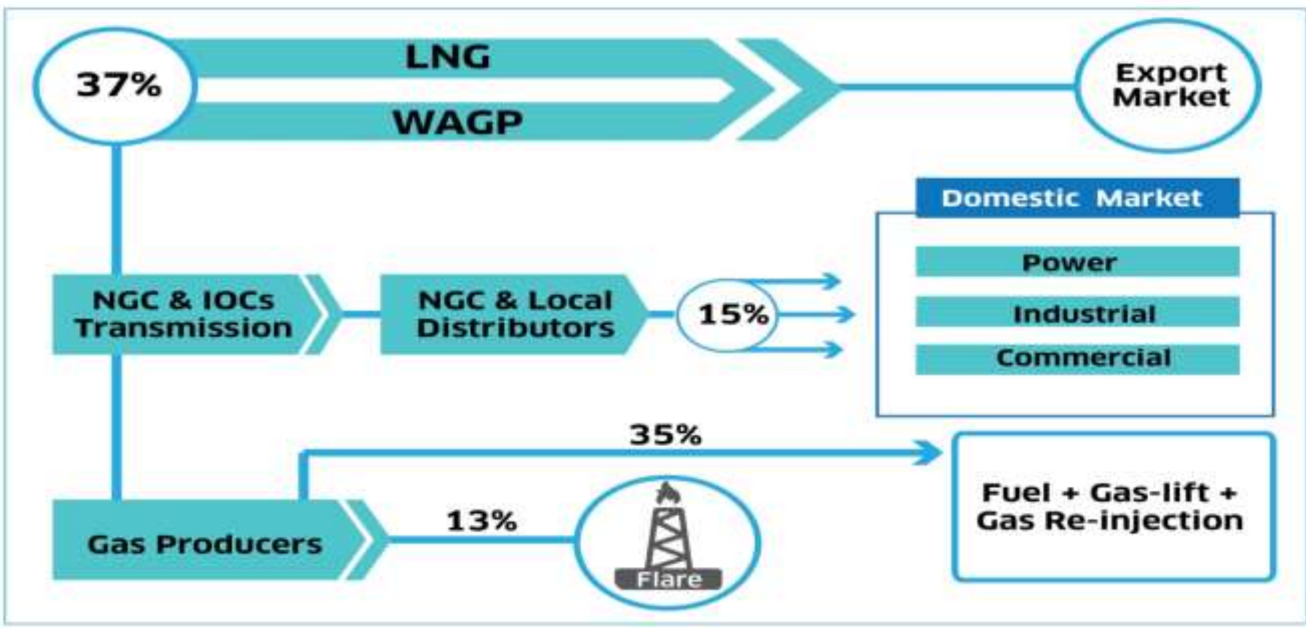
2.5 Gas production

2.5.1 Introduction

In the course of producing crude oil, gas accompanies the crude oil from the wells. This gas is separated from the crude oil at the flow stations and used for industrial purposes such as power generation, liquefaction for export, in the fertilizer industry, for re-injection as gas lift, in the petrochemical industry and for domestic use such as cooking gas.

The report also covers non-associated gas produced from gas wells.

Figure 2.2 Gas production, utilisation and distribution



2.5.2 Gas production and utilization

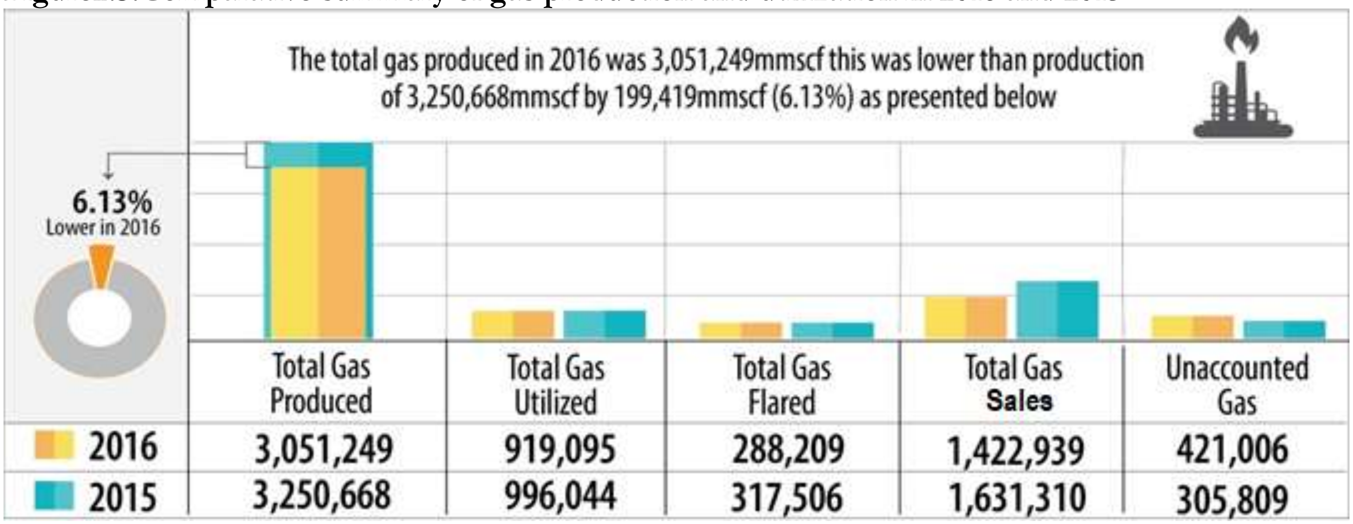
The total gas produced in 2016 from all arrangements was 3,051,249 mmscf. A decline of 6.13% from 2015 production volume. The Federations share of gas produced in 2016 was 27,141.95mmscf excluding NLNG purchase of 627,729.36 mmscf.

Table 2.5: Comparative Summary of Gas production and utilization (mmscf) in 2016 and 2015

	2016	2015

Gas utilized internally	919,095	996,044
Gas flared	288,209	317,506
Gas sales	1,422,939	1,631,310
Unaccounted gas	421,006	305,809
Total Gas produced	**3,051,249**	**3,250,668**

Figure2.3:Comparative summary of gas production and utilization in 2016 and 2015



Findings and observations

Total gas sales volume in 2015 was lower than the volume for 2015 by 208,370.59mmscf. The total volume of gas flared in 2016 reduced slightly by 29,296.96 mmscf. This represents 9.23% reduction, whereas total gas utilized in 2016 reduced marginally by 76,948.54 mmscf from 2015, with a 7.73% decline.

For detailed record of gas production, see Appendix 6 of this report. This includes disaggregated data on volumes of production per company and detailed gas reconciliation schedule between company records and DPR records.

2.5.3 Gas production and utilisation per company.

Table 2.5.1 2016 Gas Production and Utilisation

	SUMMARY OF 2016 GAS PRODUCTION AND UTILIZATION (MMSCF) AS PER DPR AND COMPANY'S TEMPLATE								
ENTITY	**GAS PRODUCED**		**UTILIZED/FUEL**	**REINJECTED**	**FLARE**		**SALES**	**% GAS FLARED**	**UNACCOUNTED GAS**
	COMPANY	**DPR**			**COMPANY**	**DPR**			
AADAX (APDNL)	36,131	36,131	1,692	12,028	22,411	22,412	-	62	-
AADAX (APENL)								17	

	7,329	7,330	1,043	5,044	1,242	1,242			
AENR	2,807	2,807	110	-	2,697	2,697	-	96	-
AITEO	14,461	14,684	263	-	13,207	6,023	991	91	-
ALLIED ENERGY	2,083	2,083	137	-	1,946	1,946	-	93	-
AMNI	6,145	6,154	178	1,501	4,466	4,496	-	73	0
ATLAS	809	809	174	-	635	635	-	78	-
BELEMA OIL	2,825		77		2,516		-	89	232
BRITTANIA U	402	383	320		83	83	-	21	-
CHEVERON	176,241	176,241	21,829	28,655	26,625	11,362	115,066	15	(15,935)
CONOIL	221	224	56		165	168	-	75	-
CONTINENTAL	1,483	1,557	124		1,359	1,425	-	92	(0)
DUBRI OIL	1,795	1,795			1,520	1,774	-	85	276
ENERGIA	4,578	4,578			3,617	3,917	962	79	0
EROTON	26,517	26,589	389		9,929	4,447	16,199	37	0
ESSO 133_ERHA	126,943	126,943	7,346	111,509	8,088	8,088	-	6	0
ESSO 138_USAN	53,672	53,679	5,211	48,147	9,964	9,979	-	19	(9,650)
EXPRESS**									-
FRONTIER	25,908	26,540	166		139	138	25,565	1	37
MIDWESTERN	1,545	1,548	0		1,545	1,548	-	100	-
MOBIL	794,204	405,153	32,963	300,702	40,144	16,064		5	420,395
MONI PULO	295	294	8		287	286	-	97	-

NAE	15,965	15,965	1,623	8,382	5,948	5,254	-	37	12
NAOC	351,565	351,565	32,601	2,559	18,334	3,667	268,744	5	29,327
NDPR	11,276	11,237	138		68	62	11,069	1	0
NEWCROSS	6,484	6,561			6,484		-	100	-
NETWORK	542	542	3		539	539	-	99	0
NPDC 100% OML 65 (ABURA)	180	176	-	-	180	20,383	-	100	-
NPDC 100% OML 111 (OREDO)	4,068	3,341	42	-	1,534		2,492	38	-
NPDC 55% - AENR 45% (OML 119)	17,112	17,112	1,017	-	16,095		-	94	-
NPDC 55% - FHN 45% (OML 26)	205	328			205			100	-
NPDC 55% - SHORELINE 45% (OML 30)		774							-
NPDC 55% - ND WESTERN 45% (OML 34)	54,652	99,940	-	-	-		54,652	-	-
NPDC 55% - ELCREST 45% (OML 40)	-	82	-	-	-		-		-
NPDC 55% - NECONDE 45% (OML 42)	1,246	2,021	-	-	1,246		-	100	-
OOL					3,667	3,667			(3,667)
ORIENTAL	5,127	5,127	529	343	4,254	4,254	-	83	-
PANOCEAN	1,993	1,995	80		7	21	1,863	0	44
PILLAR	179		9		170	149	-	95	-
PLATFORM	7,011	7,011	25		5,278	5,804	1,708	75	0
PRIME EXPLORATION**		165				165	-		-
SEEPCO	1,735	1,735	1,560		175	174	-	10	(0)

SEPLAT	82,582	82,582	3		5,551	5,947	77,037	7	(9)
SHEBA						909			
SNEPCO	56,263	56,321	4,140		6,018	6,018	46,163	11	(58)
SPDC	585,783	585,783	10,156	3,921	16,922	5,104	554,784	3	0
STAR DEEP	142,554	142,335	6,759	106,630	29,164	29,195	-	20	(0)
TEPNG	223,583	223,704	11,432	65,916	10,002	3,789	136,233	4	0
TUPNI	193,278	193,278	6,486	74,678	2,702	2,775	109,412	1	(0)
UNIVERSAL	418	416	6		413	411	-	99	-
WALTERSMITH	345	345		345		-	-	-	-
YINKA FOLAWIYO	707	723	35		672	313	-	95	-
TOTAL	**3,051,249**	**2,706,687**	**148,735**	**770,360**	**288,209**	**197,330**	**1,422,939**	**2,409**	**421,006**
SOURCE: 2016 DPR POPULATED TEMPLATE AND COMPANY'S GAS AND VOLUMETRIC FLOWS TEMPLATE									
KEY:									
****Company did not provide Gas and Volumetric Flows Template**									

<u>**Findings and Observations**</u>**:**

- Five companies namely: Express/Sheba, NPDC/Seplat JV, and Oando did not submit their gas volumetric flows data. Similarly, DPR did not submit gas production volumes for Belema oil, Express/ Shebha, and Pillar Oil.
- The absolute volume of unaccounted gas in 2016 was **421,006 mmscf**. This volume is significant when compared to the total volume gas produced in 2016.
- Mobil had the major volume for unaccounted gas of **420,395.33** mmscf, this constitutes 53% of total gas produced by Mobil.

2.6 Crude losses

2.6.1 Losses from sabotage and theft

Crude oil and gas operators in the country experienced losses to their production volumes when pumping from the flow stations through the pipelines to the terminals in preparation for export. These loses are caused by sabotage and theft. The losses through these acts cannot be recovered and represent permanent losses to the operators, shareholders and the government.

Twenty (20) entities reported crude losses of 101,053,104bbls due to sabotage and theft. SPDC and SEPLAT alone reported losses of 81,180,605.00bbls due to sabotage. Detail are provided in the table below.

Table 2.6: Losses from theft and sabotage

CRUDE OIL LOSSES DUE TO THEFT AND SABOTAGE (BBLS), 2016			
S/N	**COMPANY**	**SABOTAGE**	**THEFT**
1	AENR		48,932
2	AITEO		2,396,875
3	ADDAX		22,514
4	BELEMA OIL		208,435
5	CHEVRON		7,140,768
6	ENERGIA		43,835
7	EROTON		3,188,545
8	MIDWESTERN		161,962
9	NAOC		716,095
10	NDPR		82,717
11	NPDC		1,954,660
12	PILLAR		22,419
13	PLATFORM		18,102
14	SEPLAT	23,279,197	292,340
15	SPDC	57,901,408	2,076,523
16	TEPNG		386,240
17	WALTER SMITH		67,705
18	OOL		25,648
19	OPDC		777,596
20	QUA IBO		240,588
TOTAL		**81,180,605**	**19,872,499**

2.6.2 Losses from deferment

In the oil industry, operators routinely schedule maintenance of their production facilities. During this period, the facilities are shut-in to allow maintenance to be carried out safely. During scheduled maintenance, there is no production of crude oil through or into the facilities.

Crude oil that should have been produced at this time would be postponed or deferred until the maintenance is completed. This deferred production is not considered as total loss as it can be produced in future by the operators. However, deferred production can also result from unplanned maintenance.

a. Planned Maintenance: is a deliberate plan by the operators to carry out scheduled maintenance on their facilities. These are planned for the year. This deferred production does not affect the month's production plan – since it had been discounted in the forecast for the month.
b. Unscheduled Maintenance: During operations of the facilities, the equipment can fail. If such equipment needs to be maintained, the facility will be isolated to allow for safe work to be carried out and crude oil will not be produced through or into the facility. The deferred production in this instant is un-scheduled. However, it is not completely lost as it can be produced in future. Although this deferred crude is not lost, it will affect the volume of planned production for the month.

Table below shows that 15 entities reported 144,398,872.51bbls as crude losses due to deferred production resulting from unscheduled shut down of facilities and equipment.

Table 2.7: Losses from deferment

S/N	COMPANY	DEFERRED PRODUCTION (BBLS)
1	AITEO	8,166,189.42
2	ADDAX	2,550,412.00
3	BELEMA OIL	418,914.80
4	CHEVRON	6,320,449.91
5	ENERGIA	679,333.16
6	EROTON	9,388,751.50
7	NAE	35,409.00
8	NDPR	651,831.17
9	NPDC	20,696,189.00
10	ORIENTAL ENERGY	578,758.00
11	PILLAR	462,865.04
12	SNEPCO	4,073,788.12
13	SPDC	87,982,227.27
14	TEPNG	1,336,531.11
15	WALTER SMITH	1,057,223.00
	TOTAL	**144,398,872.51**

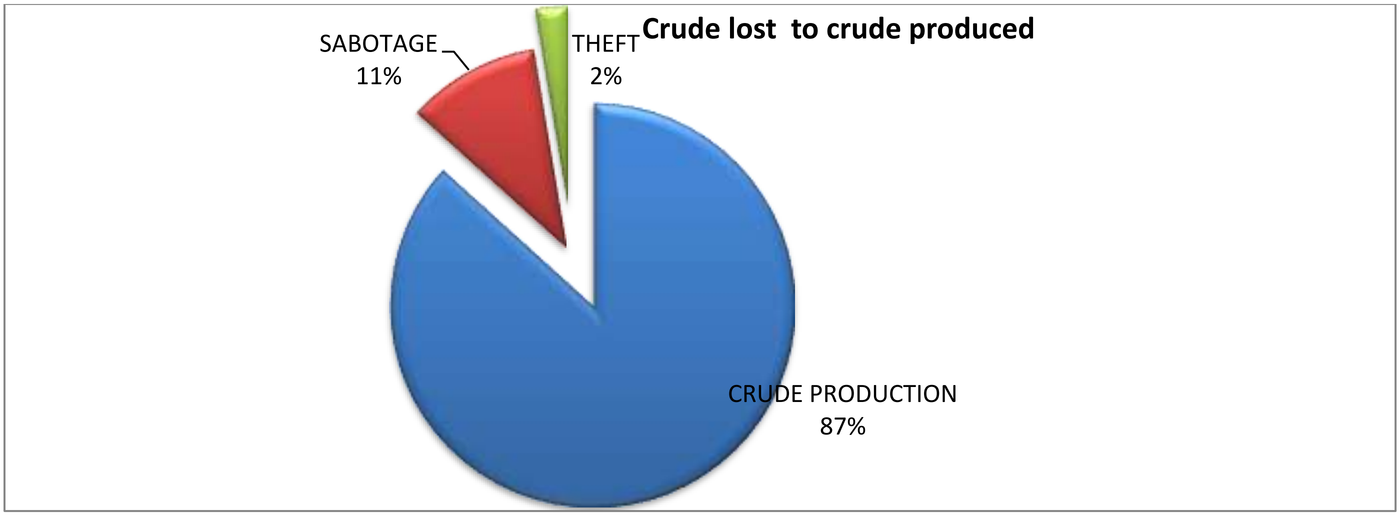
2.6.3. Analyis of crude oil production and losses against expected production

Table 2.8: Analysis of crude oil production and losses against expected production

	ITEMS	VOLUMES(Bbls)	PERCENTAGE
A	REALISED PRODUCTION	659,136,756	87%
B	SABOTAGE	81,180,605	10.4%
C	THEFT	19,872,499	2.6%

	ACTUAL PRODUCTION (a+b+c)	**760,189,860**	**100%**
D	**DEFERRED PRODUCTION**	144,398,873	
	MAXIMUM POTENTIAL PRODUCTION (C+D)	**904,588,734**	

Figure 2.4: 2016 Total Crude Losses to Total Crude Produced (BBLS)



Findings and Observations

The volume of crude oil lost in 2016 to sabotage and deferment is 13% and 19% respectively. Alternatively, volume of crude oil lost in 2016 to sabotage and deferment is 11% and 16% respectively of maximum potential production. The maximum potential production of 904,589mbbls is a potential that the country would have produced without all the sabotage and deferments. The high volume of deferment was evidence of either long periods of maintenance of the facilities during shut downs, or the frequency of unscheduled maintenance was high.

2.9 Comparative analysis of losses and deferred production in 2016 and 2015

S/No	Nature of Loss	2015	2016
1	Theft	27,121,454	19,872,499
2	Sabotage	-	81,180,605
3	Deferred production	87,502,901	144,398,873
	TOTAL	**114,624,355**	**245,451,977**

3.0 Federation Crude Oil and Gas Sales

3.1 Background

NNPC is the state-owned enterprise that assigned with the responsibility of overseeing the sale of crude oil and gas on behalf of the Federation. For more details about some provisions of the NNPC Act (1977), its subsidiaries and their roles, in revenue collection for the Federation visit http://www.neiti.gov.ng/index.php/revenue-collection.

The Federation, through various production arrangements, which include JVs, PSCs, SCs, SRs and MFs, is entitled to oil and gas revenue. Revenue is collected both in cash and inkind.

This section highlights the Federation's share of crude oil lifting volume and value derived from various sources. It also covers the Federation export crude oil proceeds received and traced into JP Morgan Chase crude oil revenue accounts, as well as the monthly reconciliation/ analysis of export crude oil expected against actual sales receipts (i.e. monthly reconciliation/analysis of export crude oil sales value and JP Morgan Chase receipt while identifying the reasons for variance).Furthermore, it involvesthe reconciliation of transfers of crude oil sales receipts from JP Morgan Chase Revenue Crude Oil (Dollar) account into JV Cash Call Account, Bank of International Settlement (BIS),and the Federation Account.

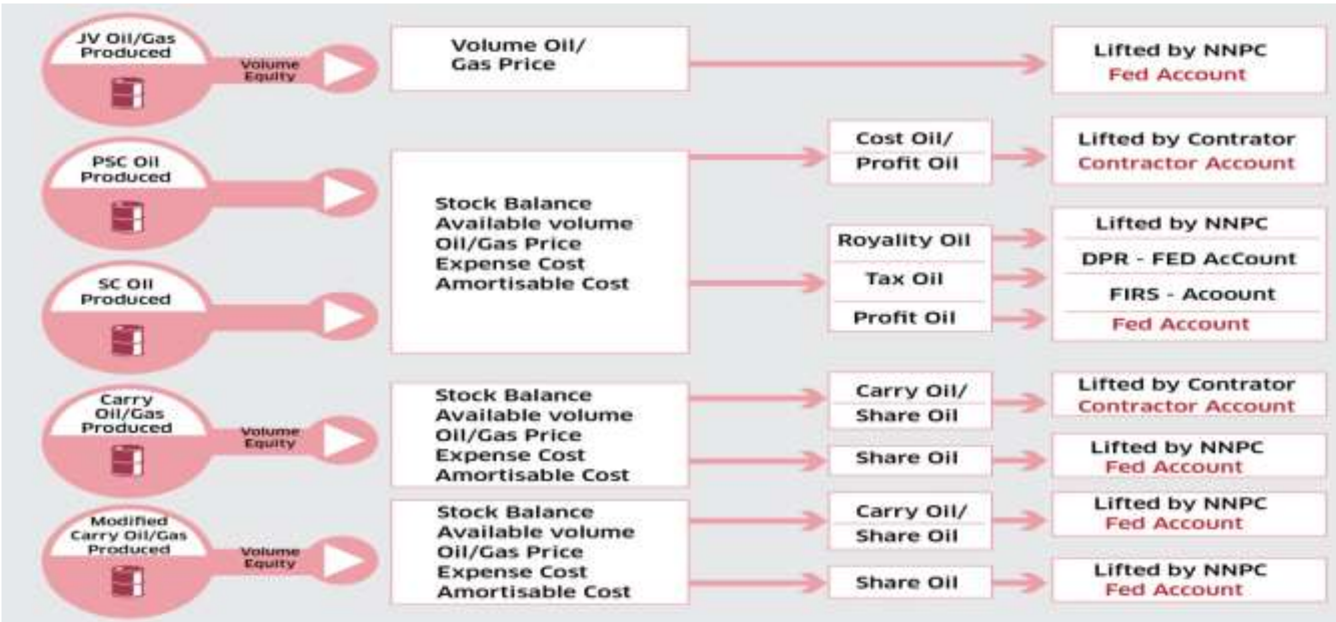
It also highlights the federation share of gas and NLNG feedstock- lifting volume derived from production through various JV arrangements. In addition, it provides a summary of gas and feedstock volume and value of NNPC lifting and destination accounts in which the funds were paid (i.e. JP Morgan Chase Gas Revenue (Dollar) and CBN-NNPC Gas (Naira) Accounts).

3.2 Sources of the Federation's crude oil and gas for lifting

Sources include Federation's share of crude oil from the various production arrangements. Liftings are done on the account of export crude sales, gas export sales, in-kind Petroleum Profit Tax (PPT) and royalty oil on the account of FIRS and DPR respectively. Federation's share from Modified Carry Arrangement (MCA) and Reserve Development Project/QIT (both alternative funding arrangements) are also included. In addition, domestic crude allocation of 445,000 barrels per day, allocated as domestic crude to the Federation, forms part of the Federation's share of crude oil and gas as well.

The diagram below shows the various sources of crude oil and gas, the custodians of the revenue generated from sales, and the destination accounts.

Figure 3.0: Sources of the Federation's crude oil and gas for lifting



Source: NNPC document

Federation's share of crude oil and gas is categorised as Federation export crude oil/gas and domestic crude allocation. The destination accounts for proceeds from all are the JP Morgan Chase Oil/Gas Revenue /(Dollar) and CBN-NNPC Crude Oil (Naira) Accounts; in-kind PPT and royalty accounts are designated FIRS and DPR bank accounts; whilst the MCA oil lifting revenue flows into the FIRS bank account, DPR and escrow bank accounts respectively. The Reserve Development Project (RDP) crude oil lifting revenue flows into the RDP bank account.

3.3 Crude oil sales, bidding process and terms of contracts

The Crude Oil Marketing Division (COMD), a division of NNPC, oversees marketing and sales of crude oil, gas and feedstock on behalf of the Federation and NPDC, as well as other projects such as pre-export financing, MCA and RDP/QIT.

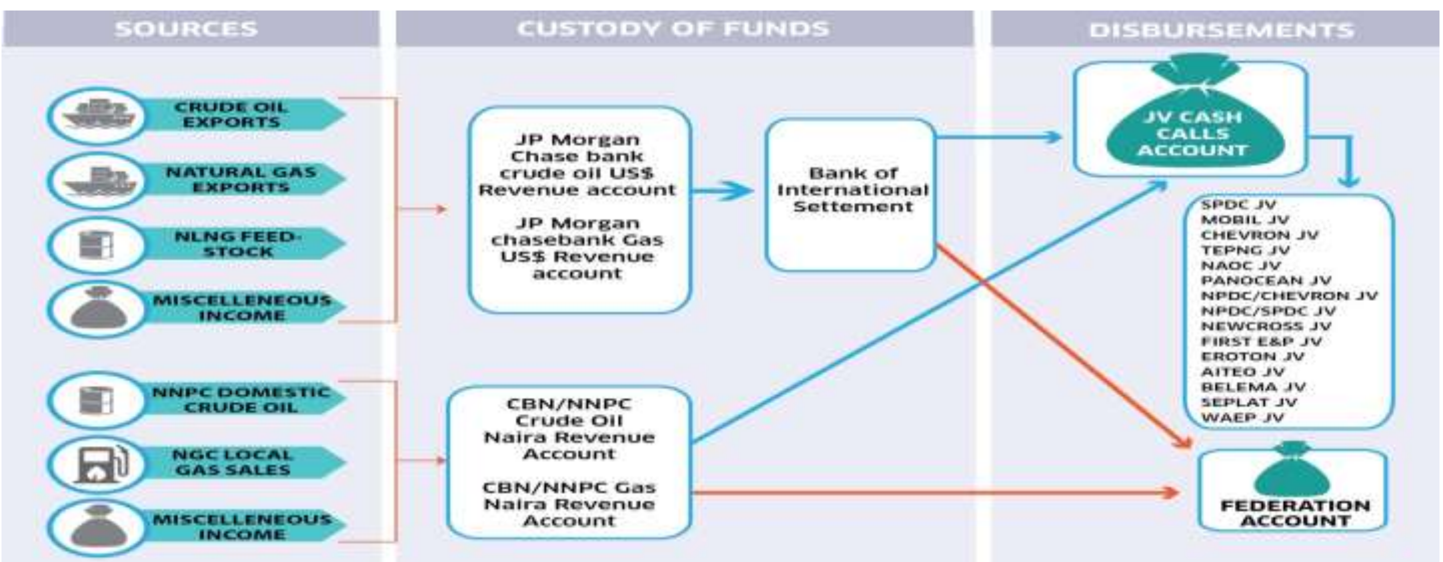
Crude oil and gas are sold to customers based on subsisting agreements. Customers are selected based on the terms set out in Public Procurement Act 2007, the NNPC procurement guidelines; NNPC Delegation of Authority Guide, Supply Chain Management Policy & Procedure Documents and NNPC Ethics Guide. As part of procurement requirement for customers lifting crude oil for the first time, a first lifting deposit of $2.5 million would be paid before lifting commences. This deposit is treated as first line deduction from sales proceeds. A total of $62.5 million was generated in the year as first lifting deposit for export crude and subsequently treated as first line deductions,while the customers subsequently paid the net sales proceeds.

In the year under review, the off-takers (customers) of the Federation's crude oil decreased by six (i.e. from 34 in 2015 to 28 in 2016). NNPC complied with the setout requirements as advertised. However, there were instances where the off-takers did not pay the required first lifting deposit.

3.4 Federation's lifting profile of crude oil and destination accounts

For export crude oil, gas and feedstock, customers are allowed a 30-day credit period. However, a Letter of Credit is provided to guarantee that payment is made directly (sales are invoiced and paid in USD) into JP Morgan Chase Crude Oil & Gas Revenue Account for crude and JP Morgan Chase Gas Account for gas and feedstock. For sales from domestic allocation, (i.e. sales/ deliveries in respect of Petroleum Products Marketing Company (PPMC), refineries and Offshore Processing Agreement (OPA)/Direct Sales Direct Purchase (DSDP)), customers are allowed a 90-day credit period. Sales are invoiced in USD and customers pay in similar currency in the first instance. In the second instance, NNPC aggregated monthly sales proceeds and converts same to Naira using a single monthly exchange rate advised by the Federation Account Allocation Committee (FAAC). Subsequently, the Naira equivalent of sales proceeds is transferred into the CBN-NNPC Domestic Crude Sales Revenue Naira Account.

Figure 3.1: Crude oil and gas lifting revenues to destination accounts



Source: NNPC Records

A change in US banking policy[8] in 2015 caused the Central Bank of Nigeria (CBN) to open a BIS account. The BIS account serves as a transit/holding account where funds are automatically transferred from the JP Morgan Chase accounts on a weekly and monthly basis. For outflows from the account, a mandate from the NNPC to the CBN

8

causes the CBN to instruct the BIS to transfer specific amounts to either the Federation Account or the Joint Venture Cash Call account as the case maybe.

3.5 Federation's lifting in volume

Federation lifting in the year was 244.615million barrels being 36.61% of the total production for the year. In 2015, federation lifting was 313.336mmbls. The table below presents details of the volumes lifted.

Table 3.0: 2016 Summary of federation lifting profile

S/N	Beneficiaries	
		Volume (Barrels' 000)
1.	Export (Equity, Profit Oil, Tax Oil & Royalty Oil)	118,452
2.	**Domestic (Equity and Profit Oil):**	
I	Refinery deliveries	23,086
Ii	PPMC	36,642
Iii	Offshore processing	10,441
Iv	Direct Sales Direct Purchase	55,995
	Total NNPC lifting	**244,615**

Source: 2016 NNPC COMD lifting profile

The table below shows how NNPC allocated its lifting of 244.615mmbls to each beneficiary account.

Table 3.1: Analysis of NNPC lifting for each beneficiary account

	Volume (Barrels' 000)	
Total NNPC lifting		244,615
Lifting per COMD Sales Profile		
Federation Account (Refinery deliveries)	23,086	
Federation Account (PPMC)	36,642	
Federation Account (Offshore processing)	10,441	
Federation Account (Direct Sales Direct Purchase)	55,995	
Modified Carry Agreement (MCA) Escrow account	9,042	
Reserve Development Project (RDP) Escrow account	950	
DPR account (Royalty and concession rentals)	9,816	
FIRS account (Tax Oil)	50,953	
Federation account (Equity and Profit Oil)	33,388	
Lifting on behalf of NPDC [9]	13,413	
Sub-total		**243,726**
Variance* (A- B)		**889**

Findings and observations

[9] **13,412,663** bbls Is NNPC lifting on behalf of NPDC from divested NAOC JV (OML 60 Series) Assets

The variance of 889mbbl was due to reporting difference between NNPC production planning unit and NNPC Sales unit. The production unit records actual lifting by cargoes, while the sales department recognizes sales when shipping documents and invoices are received.

Recommendation

The two departments should reconcile and harmonize their record to reflect, the actual lifting profile of NNPC, while NPDC lifting should be distinct from that of the federation.

3.6 NNPC lifting and destination accounts

The table below shows NNPC lifting and destination account:

Table 3.2: 2016 Summary of Crude Oil Volume and Value of NNPC Lifting and Destination Accounts

S/N	NNPC Lifting on Behalf of:	2016		Beneficiary Accounts				
		Volume	Value	Direct Federation	FIRS Account	DPR Account	Escrow Account	RDP Account
		Bbls'000	$'000	$'000	$'000	$'000	$'000	$'000
1	**Federation Export Crude Oil:**							
	Joint Venture Equity Oil	21,003	844,097	844,097				
	Production Sharing Contract- Profit Oil	11,788	517,373	517,373				
	Marginal Field	598	24,746	24,746				
2	**Federation Domestic Crude Oil:**							
	PPMC	36,642	1,416,217	1,416,217				
	Offshore Processing	10,441	360,719	360,719				
	Refinery Deliveries	23,086	1,047,383	1,047,383				
	Direct Sales Direct Purchase	55,995	2,660,727	2,660,727				
3	**Tax Oil:**							
	Production Sharing Contract- Tax Oil	50,566	2,183,618		2,183,618			
	Service Contract- Tax Oil	386	15,013		15,013			
4	**Royalty Oil:**							
	Production Sharing Contract	9,813	391,192			391,192		
5	Concession Rentals	3	115			115		
6	**MCA Oil:**						-	
	FIRS- Petroleum Profit Tax	6,234	267,635		267,635			
	DPR- Royalty	1,707	73,391			73,391		
	FIRS- Education tax	200	9,194		9,194			
	MCA Carry Oil	481	21,207				21,207	
	MCA Share Oil	419	16,828				16,828	
7	**Reserve Development Project**	950	27,498					27,498
	Total	**230,313**	**9,876,952**	**6,871,261**	**2,475,460**	**464,698**	**38,036**	**27,498**

Source: 2016 NNPC COMD crude oil lifting profile by beneficiary accounts & 2016 NNPC COMD crude oil sales profile

From the table above, total volume lifted by NNPC is 230.313million barrels valued at $9.877 billion. This comprises Federation Export Crude Oil, Federation Domestic Crude Oil, Tax Oil, Royalty Oil, MCA Oil, and Reserve Development Project. Below are the quarterly comparative sales for 2016 and 2015 respectively:

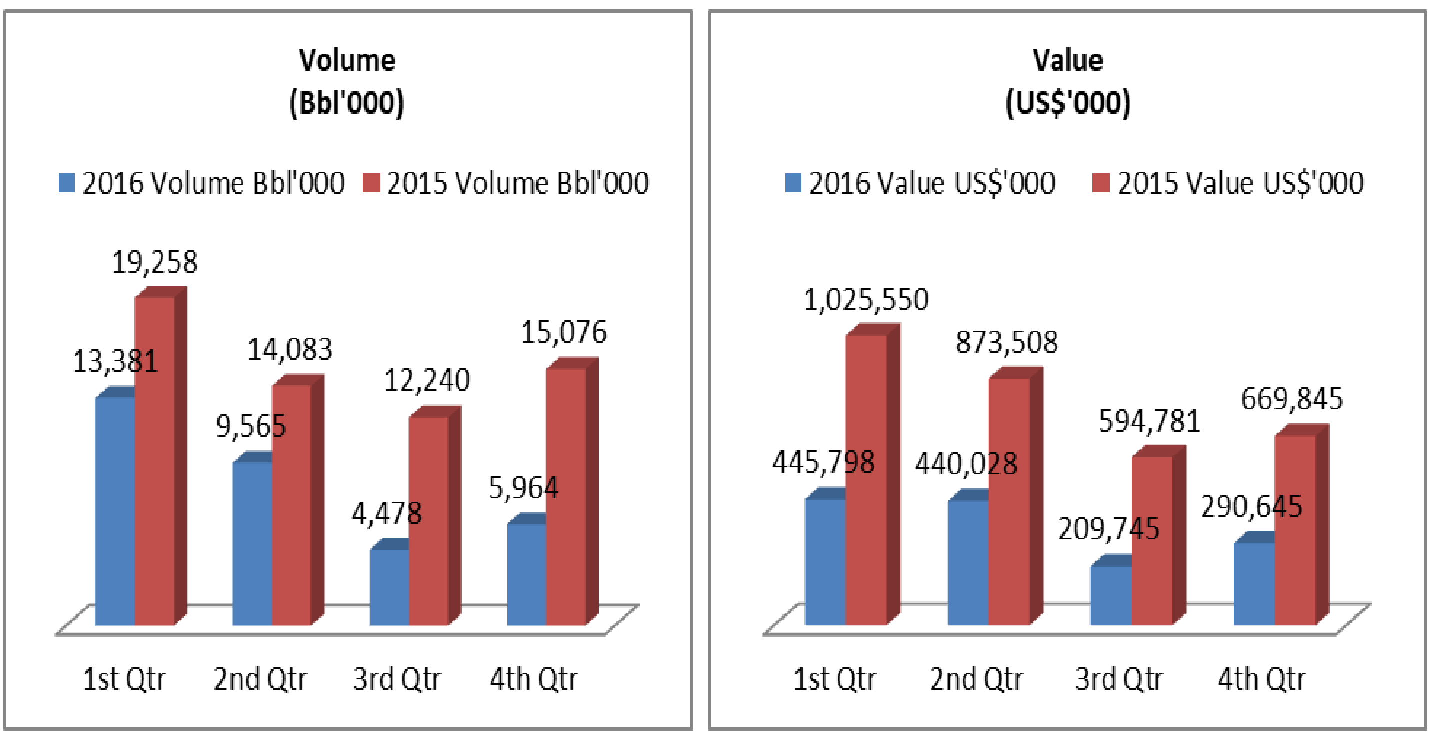
Table 3.3: 2016 and 2015 comparison of export crude oil sales volume and values (Sales Receivable)

Quarters	2016 Volume Bbl'000	2015 Volume Bbl'000	% Volume Change	2016 Value US$'000	2015 Value US$'000	% Value Change
1st	13,381	19,258	-30.52%	445,798	1,025,550	-56.53%
2nd	9,565	14,083	-32.08%	440,028	873,508	-49.63%
3rd	4,478	12,240	-63.42%	209,745	594,781	-64.74%
4th	5,964	15,076	-47.32%	290,645	669,845	-56.61%
Total	**33,388**	**60,659**	**-44.96%**	**1,386,215**	**3,163,685**	**-56.18%**

Source: NNPC COMD crude oil sales profile- 2016 and 2015 NEITI Oil & Gas Audit Report

Below is the graphical representation of 2016 and 2015 Quarterly Comparison - Volume & Values:

Figure 3.2: 2016 and 2015 Quarterly Comparison - Export Crude Oil Sales Volume & Values



Export crude oil sales volume decreased by 44.96% in 2016. Sales value decreased by 56.18% in 2016. This was due to drastic fall in price of crude oil in the global market.

3.7. Lifting profile of gas and destination accounts

The process for production and accounting for the proceeds of natural gas is shown in Figure 3.0 describing the process of movement of sales proceeds to destination accounts.

3.7.1 Federation lifting volume

Table 3.4: 2016 Summary of natural gas sales profile

S/N	Beneficiaries	Gas Lifting			
		Volume (mmscf)	Average Conversion Rate of mmscf to Metric Tonnes	Quantity (Metric Tonnes)	Percentage
1	**Federation Sales Profile**				
a	NNPC Sales	27,141.95	21.78	591,151.67	
b	NLNG Purchase	627,729.36	21.78	13,671,945.46	
	Subtotal Federation Sales	**654,871.31**	21.78	14,263,097.13	**46%**
2	**Company Sales Profile**			-	
a	NLNG Purchase	396,293.24	21.78	8,631,266.77	
b	Other buyers (Companies)	371,774.50	21.78	8,097,248.61	
	Subtotal Company Sales	768,067.74	21.78	16,728,515.38	**54%**
	Grand Total	**1,422,939.05**		**30,991,612.55**	

Source- 2016 NNPC COMD sales profile/ NLNG records

The table above shows that the total gas sold in 2016 was 1,422,939.05 mmscf (30,991,612.55mt).The federation's sales accounted for 46% of the total i.e. 654,871.31mmscf (14,263,097.13 mt).

3.7.2 Summary of gas volume and value of NNPC lifting and destination accounts

Below are tables indicating summary of gas and feedstock sold for the year under review:

Table 3.5: 2016 Summary of gas and feedstock quantity and value of NNPC lifting and destination accounts

S/N	NNPC Lifting on Behalf of:	2016		Beneficiary Accounts		
		Quantity	Value	Direct Federation	FIRS Account	DPR Account
	Feedstock	**BTU'000**	**$'000**	**$'000**	**$'000**	**$'000**
1	Federation NLNG- Feedstock	655,530	789,646	789,646		
2	MCA (NLNG-Feedstock)					
	FIRS- Company Income Tax	17,425	21,073		21,073	
	DPR- Royalty	4,372	5,287			5,287
	FIRS- Education tax	1,525	1,691		1,691	
	Carry Gas	35,902	43,319			
	Share Gas	3,232	4,160			
A	**Subtotal**	717,986	865,176	789,646	22,764	5,287
	Natural Gas	**MT'000**	**$'000**	**$'000**	**$'000**	**$'000**
3	**Federation Gas:**					
	LPG NGL	518	164,495	164,495		
	EGTL EGP Condensate	38	13,079	13,079		

	Domestic NGL	35	9,243	9,243		
B	Subtotal	591	186,818	186,818	-	-
	Grand Total		**1,051,994**	**976,464**	**22,764**	**5,287**

Source: 2016 NNPC COMD Gas and Feedstock lifting Profile by beneficiary accounts & 2016 NNPC COMD Gas and Feedstock Sales profile

The table above shows federation's share of 655.530 million BTU from the sale of NLNG – Feedstock and Federation Gas of 591,000 metric tons. Item 3 of the table further disaggregates natural gas (federation entitlement of 518,000metric tons of LPG-NGL and 38,000 metric tons of EGTL EGP condensate).

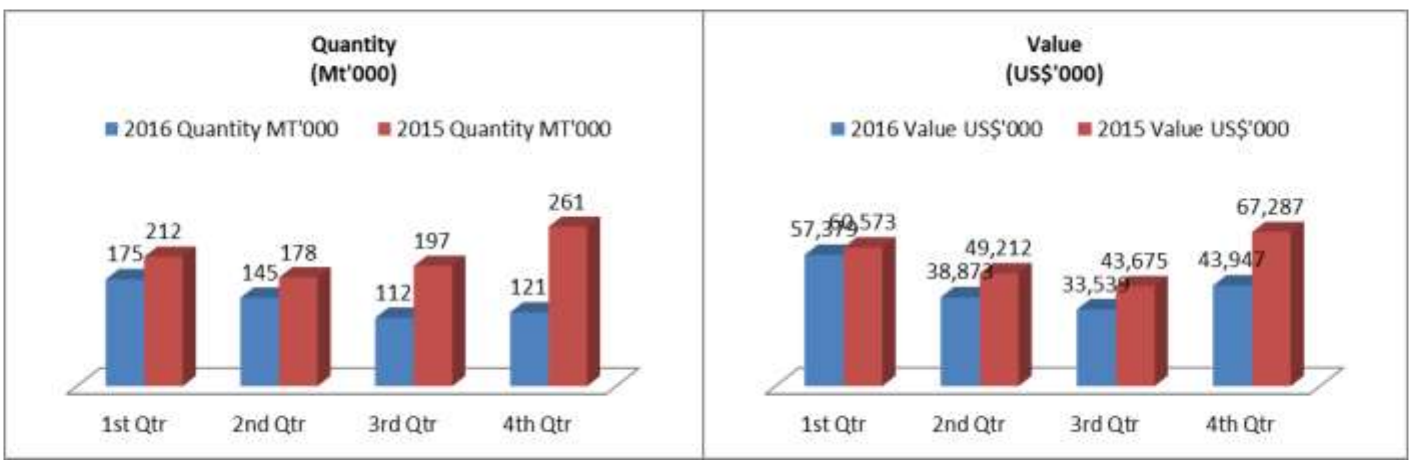
The quarterly comparative sales analysis for 2016 and 2015 respectively:

Table 3.6: Comparison of gas sales quantity and values (Sales Receivable)

	2016 Quantity MT'000	**2015 Quantity MT'000**	**% Quantity Change**	**2016 Value US$'000**	**2015 Value US$'000**	**% Value Change**
LPG_NGL						
1st Quarter	175	212	-17.51%	57,379	60,573	-5.27%
2nd Quarter	145	178	-18.83%	38,873	49,212	-21.01%
3rd Quarter	112	197	-43.30%	33,539	43,675	-23.21%
4th Quarter	121	261	-65.73%	43,947	67,287	-34.69%
Sub- total	**553**	**849**	**-34.84%**	**173,739**	**220,747**	**-21.30%**
EGP_EGTL Products	38	98	-61.37%	13,079	41,941	-69%
Total	**591**	**947**	**-37.59%**	**186,818**	**262,688**	**-28.88%**

Source: NNPC COMD gas sales profile- 2016 and 2015 NEITI Oil & Gas Audit Report

Figure 3.3
Below is the graphic representation of 2016 and 2015 Quarterly Comparison Gas Sales Quantity & Values:



Source: NNPC COMD gas sales profile- 2016 and 2015 NEITI Oil & Gas Audit Report

<u>Findings and observations (natural gas sales)</u>

Gas sales quantity decreased by 37.59% in 2016. This was due to interruptions in gas production. Sales value decreased by 28.88% in 2016 which was due to decrease in the quantity sold despite marginal increase in average selling price.

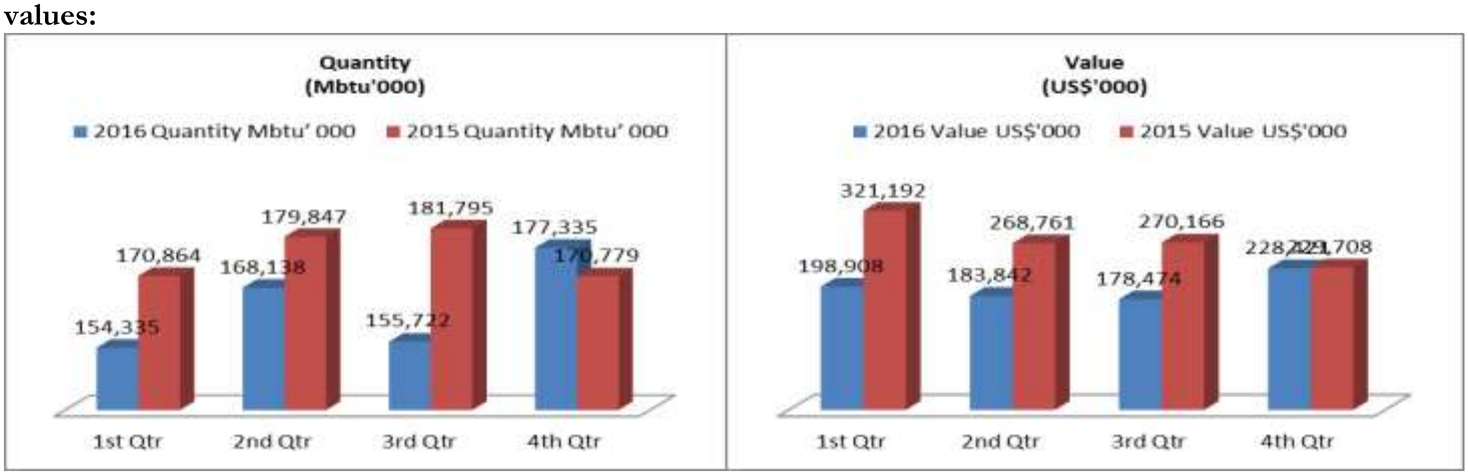
NLNG feedstock (the federation's entitlement of 655.530 million BTU) in table 3.6 above is further disaggregated in table 3.7 below.

Table 3.7: Comparison of NLNG feedstock sales quantity and values (Sales Receivable)

Feedstock Sales						
	2016	**2015**	**%**	**2016**	**2015**	**% Value Change**
	Quantity	**Quantity**	**Quantity Change**	**Value**	**Value**	
	Mbtu' 000	**Mbtu' 000**		**US$'000**	**US$'000**	
1st Quarter	154,335	170,864	-9.67%	198,908	321,192	-38.07%
2nd Quarter	168,138	179,847	-6.51%	183,842	268,761	-31.60%
3rd Quarter	155,722	181,795	-14.34%	178,474	270,166	-33.94%
4th Quarter	177,335	170,779	3.84%	228,421	229,708	-0.56%
Total	**655,530**	**703,286**	**-6.79%**	**789,646**	**1,089,827**	**-27.54%**

Source: NNPC COMD Feedstock sales profile- 2016 (See Appendix 7) and 2015 NEITI Oil & Gas Audit Report

Figure 3.4 Graphic representation of 2016 and 2015 quarterly comparison of feedstock sales volume & values:



Source: NNPC COMD gas sales profile- 2016 and 2015 NEITI Oil & Gas Audit Report

<u>Findings and observations (feedstock sales)</u>

Export feedstock sales quantity decreased by 6.79% due to decrease in production. Sales value also decreased by 27.54% in 2016. This was due to decrease in production and a drop in average unit selling price.

3.8. Federation export crude, gas/NLNG feedstock receivables control account

In 2016, there were cases of delayed payments (i.e. delay in lodgment of sales proceeds into the relevant JP Morgan Chase Dollar Accounts). The date of receipt into JP Morgan Chase exceeded the expected due date of payment (i.e. Bill of Lading plus 30 days). This implied $692,694 as cost of delay on the sampled cases of delayed payments.[10]

A review of the NNPC-COMD populated template vis-à-vis available corroborating documents showed the Export Crude Oil and Gas/Feedstock Receivable control account as at 31st December 2016 was:

Table 3.8:Analysis and reconciliation of outstanding balance of export crude oil and gas receivable control account as at 31st December 2016.

Description	2016			2015		
	$000	**$000**	**$000**	**$000**	**$000**	**$000**
Balance as at 1st January (A)			**910,245**			**1,012,186**
Prior year adjustment			**(586,011)**			
Add: Sales						
(Ai)- Crude Oil Sales						
Crude Oil lifting– Federation	1,386,215.46			3,163,685		
Reserve Development Project & QIT Satellite Field	27,497.87			358,554		
Less: Crude Oil First Line Deductions						
Bank Charges	(0.10)			(1)		
Zafiro Technical Cost	(19,073.64)			(26,922)		
First Lifting Deposit	(62,499.89)			(12,500)		
Credit Notes	(916.17)	**1,331,223.53**		(10,672)	**3,472,145**	
(Aii)- Gas Sales (LPG, EGTL, EGP & Domestic)	186,818.00			262,688		
(Aiii)- Feedstock Sales	789,645.77			1,089,827		
	976,463.76			**1,352,515**		
Less: Gas & Feedstock first line Deductions						
Gas- NGL Funding Account Retention	(100,748.16)			(138,792)		
Gas- First lifting Deposit	(2,749.98)			(2,250)		
Gas- Shortfall/Charges	(0.17)			(1)		
Gas- Exchange Loss				(1,119)		
Gas -Credit Notes	(238.51)			(1,103)		
Feedstock MCA Escrow Account	(60,324.10)			(75,339)		
Feedstock NDPR Account	(4,256.30)			(6,001)		
Feedstock Soku Handling Charges	(2,914.77)					
Feedstock Credit Notes	(937.89)	**804,293.87**		(870)	**1,127,041**	
Total Sales for the Year (B)			**2,135,517**			**4,599,185**
Total Receivables (C= A+B)			**2,459,752**			**5,611,371**
Less: Receipts						
Receipts into:						

[10] Appendix 14 report on pricing methodology

JP Morgan Crude Oil and Gas Revenue (Dollar)						
Crude Oil- Prior year Receipt	177,653.07			249,960	-	
Crude Oil- Current Year Receipt	1,209,759.47			2,935,760		
Classified Other Income- QIT Satellite Field & RDP	50,987.19			314,349		
		1,438,399.72			3,500,069	
JP Morgan Gas Revenue (Dollar) Account:						
Gas & Feedstock Prior Year Outstanding Receipt	155,083.93			126,726		
Gas Sales Receipt- Current Year	53,574.53			104,505		
Gas sales payment through NGL 1 & 11 Revenue Account						
NGL Proceeds A/C - Distribution after Debt service - Price balance	6,549.97			13,970		
Feedstock and other Gas Sales- Current Year	642,522.15	857,730.58		868,182	1,113,383	
Further Analysis of NGL Funding Account:						
NGL Funding Account – Receipt	(100,748.16)			(138,792)		
NGL Funding Account- Receivable on December invoices				7,951		
RDP – Receivable	(23,489.32)			44,204		
Less: First line Deductions:						
Debt service (per audit work back)	94,198.19	(30,039.29)		124,822	38,185	
Total Receipts (D)			**2,266,091**			**4,651,637**
Prior year adjustment: Previous year Receivable balance						
Transfer to Escrow Account IRO Feedstock NAOC 193/12/2014; SPDC 1800013863; & TEPNG 150011002					(20,141)	
Transfer to NGL 2 funding Account IRO GS/12/026/2014- Sales receipt on 17 February 2015					(6,077)	
Transfer to NGL 2 funding Account IRO GS/11/NGCL/008/2014- Sales receipt on 15 March 2015					(2,183)	
Sale Receipt on 31 December 2014 IRO GS/12/025/2014 but included in year-end 2014 Sales Receivable			-		(21,088)	(49,489)
Outstanding balance as at 31st December (E= C-D)			**193,661**			**910,245**
Balance as at 31st December (As Per NNPC Record)			(193,661)			(324,235)
Un-explained Difference			**0**			**586,011**

Source: Confirmed and analyzed 2016 Crude Oil, Gas and Feedstock Sales Profile; 2016 JP Morgan Chase Crude Oil & Gas Revenue (Dollar) Account; 2016 JP Morgan Chase Gas Revenue (Dollar) Account; and 2015 NEITI Oil & Gas Audit Report.

Findings and observations

i. The sum of $94.20 million was deducted from gas sales proceeds during the period which is understood to be "debt servicing from Natural Gas Liquid (NGL) Funding Account".

ii. IA adjusted balance (per NNPC record) as at 31st December 2016 was $193.661 million ; the adjustment took into consideration the practice of NNPC not recognizing sales receipt at 31st December. See adjustment below:

Table 3.9: Statement of adjusted balance as at 31st December 2016.

	2016	2015
	$'000	**$'000**
Balance as per NNPC Record	172,657	348,498
Less: Sale Receipt on 31 December 2015 IRO COS/12/094/2015 but included in year-end 2015 Sales Receivable	-	(24,263)
Add: Understated 2015 Sales Receivable	(8,502)	
Add: LPG NGL, EGTL & EGP Sales Receivables omitted	29,507	-
Adjusted Balance as at 31st December (As Per NNPC Record)	**193,661**	**324,235**

Recommendations

NNPC should disclose by way of notes all year-end adjustments with respect to amount transferable to Escrow accounts on all unpaid sales invoice (sales receivables).

3.9 Lifting profile of domestic crude allocation

This section highlights the management of allocated domestic crude, operational changes in the period under review, summary of domestic crude oil allocation, lifting, sales and value disaggregated with respect to allocation to PPMC, deliveries to refineries, Offshore Processing, and Direct Sales Direct Purchase (DSDP). In addition,this section discusses domestic crude sales proceeds received and traced into CBN–NNPC Crude Oil Revenue (Naira) Accounts and the domestic crude oil receivables control account.

NNPC-COMD is responsible for ensuring proper lifting, sales (i.e. deliveries to refineries, PPMC and Offshore Processing) and timely lodgment of sales proceeds into the respective CBN Naira Account (i.e. the CBN NNPC Domestic Crude Oil Revenue Naira Account). Sales values are usually invoiced in USD and converted to Naira at monthly official exchange rate advised by FAAC before transfer is made into respective CBN Naira Accounts.

There were major operational changes within NNPC on the management of domestic crude allocatedin 2016. The DSDP replaced OPA with effect from January 2016 and a functional unit was created within the COMD to manage the DSDP. There was also discontinuation of the petroleum subsidy and commencement of NNPC under/over recovery of petroleum products.

Findings and observations

i. There were domestic crude sales in January, February and March under the OPA, this was described as a 'Stop-Gap OPA' solution by NNPC (due to the common practice of pre-delivery of refined petroleum product before the allocation of equivalent crude oil). The pre-delivery of refined petroleum product under the OPA in 2015 and the off-setting of equivalent crude oil in the first quarter and in some other months in 2016 led to the domestic lifting under the OPA in 2016 despite its discontinuation and commencement of DSDP with effect from January 2016;

ii. Unlike the OPA operations which were managed by the PPMC, the DSDP operations is managed by the COMD;

iii. The Presidential approval of the PMS under recovery regime (sighted by the NEITI audit team). NNPC commenced the under recovery in June 2016 as there were over recovery from January to May 2016.

3.10 Summary of domestic crude oil sales volume and value

Below is a comparative analysis of volume and value of domestic crude oil sales for 2016 and 2015.

Table 3.10: 2016 and 2015comparative analysis of domestic crude oil sales volume and values (Sales Receivable)

S/N	Description	Volume			Value		
		2016	2015	% Variance	2016	2015	% Variance
		Bbls'000	Bbls'000		$'000	$'000	
1	PPMC Lifting	36,642	56,111	-35%	1,416,217	2,847,041	-50%
2	Offshore Processing	10,441	88,119	-88%	360,719	4,464,434	-92%
3	Refinery Deliveries	23,086	9,005	156%	1,047,383	463,753	126%
4	Direct Sales Direct Purchase	55,995	-	NEW	2,660,727	-	Nil
	TOTAL	**126,163**	**153,235**	-18%	**5,485,045**	**7,775,228**	-29%

Source: NNPC COMD domestic crude oil sales profile- 2016 and 2015 NEITI Oil & Gas Audit Report

Figure 3.5 Domestic Allocations to PPMC, Refinery Deliveries and Offshore Processing

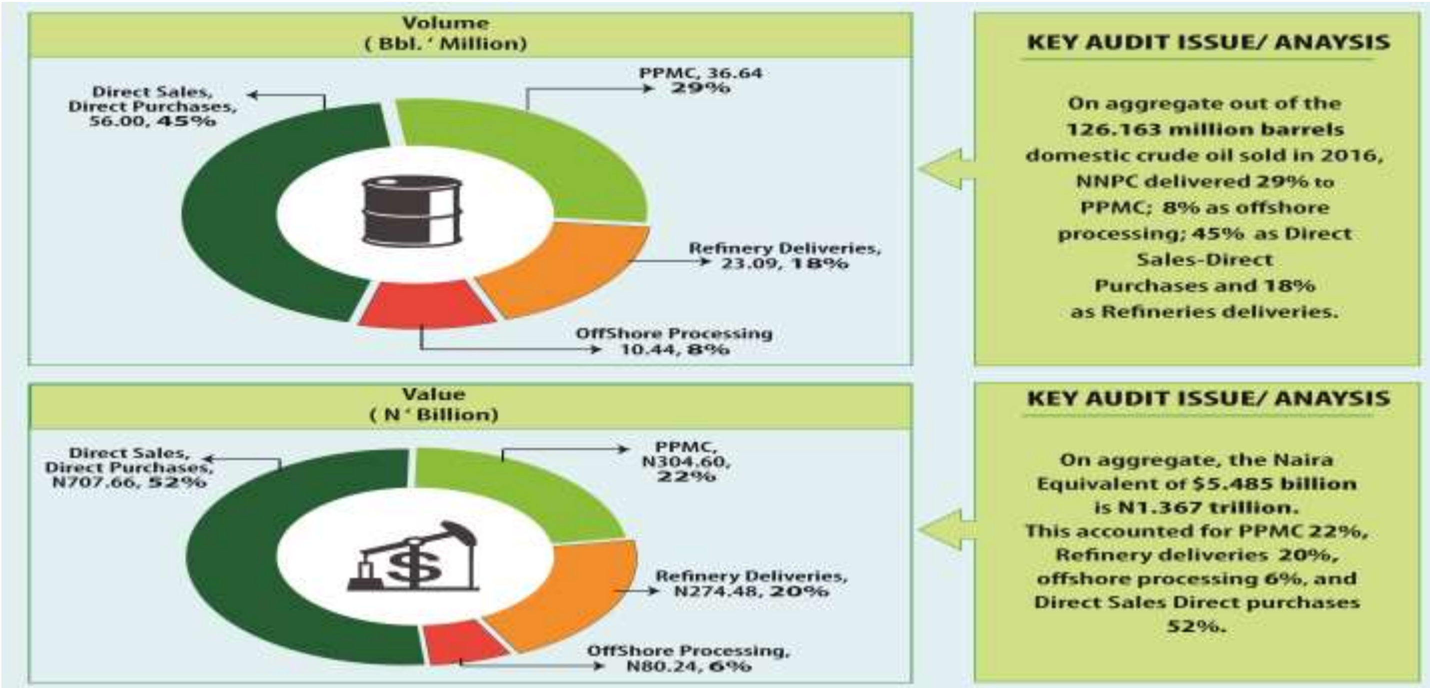


Table 3.11:2016 - Domestic crude sales volume and value (Sales Receivable)

2016	PPMC			Refinery Deliveries			Offshore Processing			Direct Sales Direct Purchases			Total Sales		
	Volume	Value	Value	Volume	Value	Value	Volume	Value	Value	Volume	Value	Value	Volume	Value	Value
	Bbl'000	US$'000	N'000	Bbl'000	US$'000	N'000	Bbl'000	US$'000	N'000	Bbl'000	US$'000	N'000	Bbl'000	US$'000	N'000
1st Quarter	22,936	793,920	155,608,260	4,281	150,851	29,566,893	8,540	263,384	51,623,178	-	-	-	35,757	1,208,155	236,798,331
2nd Quarter	8,021	355,251	69,629,105	5,693	258,000	50,567,990	-	-	-	24,639	1,129,935	239,909,846	38,353	1,743,186	360,106,941
3rd Quarter	1,888	83,827	23,639,147	6,512	306,962	93,519,300	951	44,291	12,490,028	9,487	448,794	138,732,661	18,838	883,873	268,381,135
4th Quarter	3,797	183,220	55,723,067	6,600	331,570	100,821,311	949	53,044	16,125,404	21,869	1,081,998	329,022,426	33,215	1,649,832	501,692,209
Total	**36,642**	**1,416,217**	**304,599,579**	**23,086**	**1,047,383**	**274,475,494**	**10,441**	**360,719**	**80,238,610**	**55,995**	**2,660,727**	**707,664,933**	**126,163**	**5,485,045**	**1,366,978,616**

Source: NNPC COMD Domestic Sales Profile- 2016

Table 3.12: 2015 - Domestic crude oil sales volume and value (Sales Receivable)

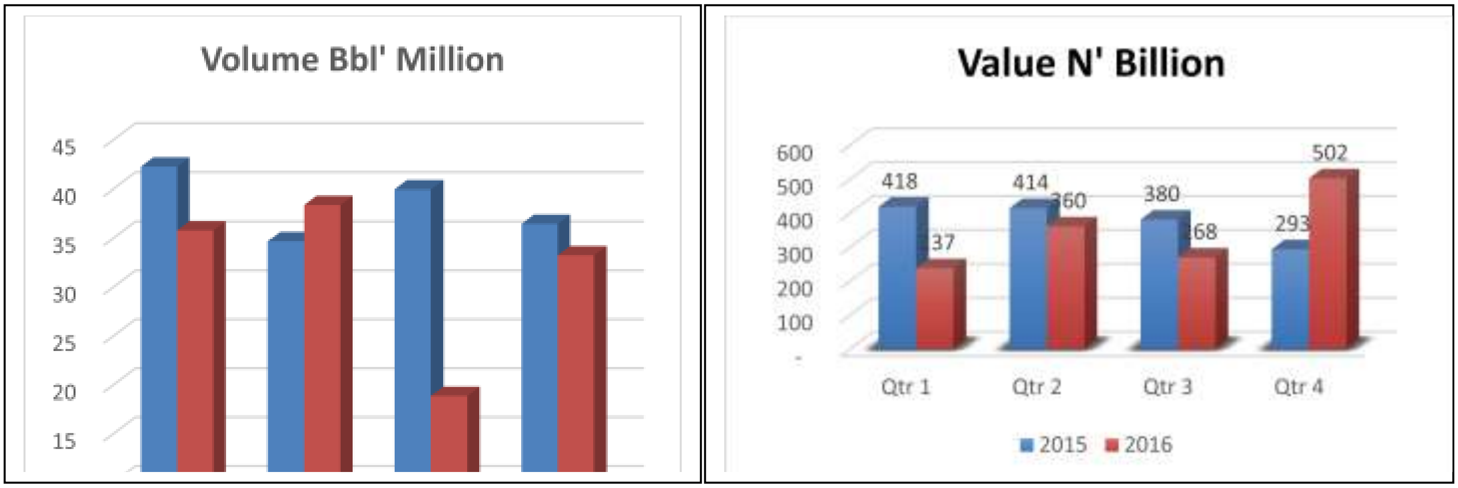
2015	PPMC			Refinery Deliveries			Offshore Processing			Total Sales		
	Volume	Value	Value	Volume	Value	Value	Volume	Value	Value	Volume	Value	Value
	Bbl'000	US$'000	N'000	Bbl'000	US$'000	N'000	Bbl'000	US$'000	N'000	Bbl'000	US$'000	N'000
1st Quarter	18,791	980,756	182,483,521	265	27,635	5,405,041	23,178	1,221,144	230,098,472	42,235	2,229,535	417,987,034
2nd Quarter	11,717	711,829	139,518,536	949	57,813	11,331,404	21,989	1,343,182	263,263,710	34,654	2,112,825	414,113,651
3rd Quarter	9,149	458,223	89,802,323	7,791	378,304	74,138,956	22,972	1,102,941	216,154,424	39,913	1,939,469	380,095,703
4th Quarter	16,454	696,232	136,440,256	-	-	-	19,980	797,166	156,223,901	36,433	1,493,399	292,664,157
Total	**56,111**	**2,847,041**	**548,244,637**	**9,005**	**463,753**	**90,875,402**	**88,119**	**4,464,434**	**865,740,506**	**153,235**	**7,775,228**	**1,504,860,545**

Source: NNPC COMD Domestic Sales Profile -201

In 2016, the exchange rates used were: January N196, February N196, March N196, April N196, May N196, June N242.37, July N282, August N312, September N305, October N304.25, November N304 and December N304

Below is the graphic representation of 2016 and 2015 Quarterly Comparison -Volume & Values

Figure 3.6:2016 and 2015 Quarterly Comparison – Domestic crude oil sales volume and value



__Findings and observations__

Domestic crude oil sales volume decreased by 18% in 2016. This was due to pipeline vandalism/sabotage. Sales value also decreased by 29% in 2016 due to reduction in the sales volume as well as fall in the price of crude oil in the global market.

3.11 Domestic crude oil receivables control account

For domestic crude oil sales (i.e. sales/deliveries to PPMC, refineries and OPA/DSDP) customers are allowed a 90-day credit period. Sales are invoiced in USD and customers pay in similar currency in the first instance. In the second instance, NNPC aggregates monthly sales proceeds and converts same into Naira using single monthly exchange rate as advised by FAAC. Consequently, the Naira equivalent of sales proceeds is transferred into the CBN NNPC Domestic Crude Sales Revenue Naira Account.

Findings and observations

1. There were cases of delayed payments (i.e. delay in lodgment of sales proceeds into the related CBN NNPC Domestic Crude Oil Naira Account). This meant that the actual date of receipt into the designated bank account exceeded the expected due date of payment (i.e. Bill of lading plus 90 days).
2. Specifically, NNPC and its subsidiaries defaulted in the 90 days payment cycle for domestic crude off-take. This resulted in an aggregated default of 284 days, considering that NNPC batches sales invoice for domestic sales monthly (hence, the adoption of month-end "estimated" Bill of Lading Date). From a time-value of money perspective,the audit estimates a loss of **N11.97 billion** to the federation in 2016. Listed below are some cases of domestic crude oil sales proceeds with delayed lodgments:

Table 3.13: Analysis of delays in domestic crude oil sales settlement by NNPC

Estimated Bill of Lading Date	Expected Payment Date	90 days Aging Analysis				Amount Due	First Line Deductions					Amount Outstanding	Cost of Delay 90 Day payment cycle Interest Rate (14%_2016 CBN MPR)
		Actual Payment Date	Expected Payment Cycle	Actual Payment Cycle	Default in Payment Cycle		Joint Venture Cash Call	Subsidy/ Under Recovery	Crude and Products Losses	Pipeline and Maintenance Cost	Actual Amount Paid		
						N' Billion	N' Billion	N' Billion	N' Billion	N' Billion	N' Billion	N' Billion	N' Billion
A	B	C	D	e= c/a	f =d - e	G	H	I	J	K	l	m= g -h-i-j-k-l	n= f/365 x g x 14%
30-Sep-15	29-Dec-15	28-Jan-16	90	120	(30)	152.35		(28.86)	(5.18)	(3.87)	(81.51)	32.94	(1.75)
31-Oct-15	29-Jan-16	21-Feb-16	90	113	(23)	132.53		(23.98)	(3.00)	(7.31)	(85.08)	13.16	(1.17)
30-Nov-15	28-Feb-16	22-Mar-16	90	113	(23)	157.78		(19.95)	(4.73)	(9.98)	(75.67)	47.46	(1.39)
31-Dec-15	30-Mar-16	21-Apr-16	90	112	(22)	95.98		14.75	(3.13)	(8.69)	(67.01)	31.90	(0.81)
31-Jan-16	30-Apr-16	23-May-16	90	113	(23)	62.86	-	-	(5.55)	(9.51)	-	47.80	(0.55)
28-Feb-16	28-May-16	21-Jun-16	90	114	(24)	66.31	-	7.27	(2.57)	(2.96)	(17.56)	50.49	(0.61)
31-Mar-16	29-Jun-16	20-Jul-16	90	111	(21)	107.62	(49.78)	(0.17)	(1.06)	(3.88)	(35.00)	17.72	(0.87)
30-Apr-16	29-Jul-16	26-Aug-16	90	118	(28)	107.37	(61.62)	0.21	(1.69)	(14.87)	(6.33)	23.08	(1.15)
31-May-16	29-Aug-16	21-Sep-16	90	113	(23)	104.64	(52.96)	(1.49)	(1.64)	(14.99)	-	33.56	(0.92)
30-Jun-16	28-Sep-16	24-Oct-16	90	116	(26)	84.78	(30.15)	(8.69)	(1.22)	(9.96)	(6.33)	28.43	(0.85)
31-Jul-16	29-Oct-16	24-Nov-16	90	116	(26)	114.17	(59.50)	(12.37)	(0.40)	(12.34)	(63.55)	(33.98)	(1.14)
31-Aug-16	29-Nov-16	14-Dec-16	90	105	(15)	131.38	(75.30)	(7.10)	(0.88)	(11.79)	-	36.32	(0.76)
					(284.00)	**1,317.79**	**(329.31)**	**(80.39)**	**(31.03)**	**(110.14)**	**(438.03)**	**328.90**	**(11.97)**

Source: Sales profile and analyzed CBN Domestic Crude Oil Revenue (Naira) Account

3. For domestic sales proceeds, NNPC instructs the customers to pay directly into CBN- Crude Oil & Gas Revenue – Naira Account. However, on monthly basis, NNPC transfers a lump sum into CBN NNPC Domestic Crude Oil Revenue (Naira) Account using a specific exchange rate. All transfers into CBN NNPC Domestic Crude Oil Revenue (Naira) Account are made net of "Under/ Over Recovery", Crude & Product Losses and Pipeline repairs & maintenance.

Below is a comparative analysis of domestic crude oil receivables control account for 2016 and 2015:

Table 3.14: Comparative analysis of domestic crude oil receivables control account for 2016 and 2015

Description	2016		2015	
	N'000	N'000	N'000	N'000
Balance as at 1st January (A)		736,468,702		**762,927,742**
Add: Sales				
(Ai)- Domestic Crude Oil Sales				
PPMC	84,817,429		548,244,637	
Offshore Processing	80,238,610		90,875,402	
Refineries Deliveries	274,475,494		865,740,506	
Direct Sales Direct Purchases	927,447,084		-	
Total Sales for the Year (Ai)	**1,366,978,616**		**1,504,860,545**	
Less: Crude Oil First Line Deductions				
Subsidy Deductions	-		(316,720,838)	
Net Under/ Over recovery	(99,598,630)			
Crude and Product Oil Losses	(20,390,189)		(60,997,115)	
Pipeline Repairs & Maintenance	(126,554,489)		(112,818,483)	
Joint Venture Cash Call	(512,094,592)			
Total Deduction for the Year (Aii)	(758,637,900)		(490,536,436)	
Net Sales for the year (B)		**608,340,716**		**1,014,324,109**
Total Receivables (C= A+B)		1,344,809,418		1,777,251,851
Less: Receipts				
Receipts into:				
CBN NNPC Crude Oil Revenue (Naira)				
Crude Oil- Prior year Receipt	224,186,110		428,885,255	
Crude Oil- Current Year Receipt	776,358,951		611,897,894	
Classified Other Income				
Total Receipts (D)		**1,000,545,061**		**1,040,783,149**
Outstanding balance as at 31st December (E= C-D)		**344,264,357**		**736,468,702**
Balance as at 31st December (As Per NNPC Record)				(418,993,170)
Un-explained Difference		**344,264,357**		**317,475,532**

Source: Sales profile and analyzed CBN-NNPC Domestic Crude Oil (Naira) Account

Table 3.15: Comparative summary analysis of expenses on pipeline repairs and maintenance in 2016 and 2015

Description	2016		2015	
	N' Billion	%	N' Billion	%
Fund releases for salaries	20.605	16.28%	22.105	19.59%
Share of upfront	11.164	8.82%	13.272	11.76%
Operations	11.419	9.02%	3.275	2.90%
Employer Pension	3.073	2.43%	-	0.00%
Through/Marine	4.332	3.42%	10.547	9.35%
Security	10.122	8.00%	1.959	1.74%
NPA	2.824	2.23%	-	0.00%
Projects	0.154	0.12%	1.355	1.20%
ITF Contribution	-	0.00%	0.396	0.35%
PPPRA	0.354	0.28%	0.641	0.57%
Others	0.017	0.01%	0.614	0.54%
Crude movement	7.437	5.88%	24.215	21.46%
Facilities repairs	2.354	1.86%	4.124	3.66%
Pipeline repairs	2.595	2.05%	-	0.00%
Port Charges	1.424	1.13%	-	0.00%
Products distribution	16.937	13.38%	11.373	10.08%
Refineries	19.975	15.78%	3.057	2.71%
TUMA/OLOIBIRI	-	0.00%	0.215	0.19%
Demurrage	11.769	9.30%	15.670	13.89%
Total	**126.554**	**100.00%**	**112.818**	**100.00%**

Source: NNPC- Capital record on 2016 expenses and schedules- NNPC & 2015 NEITI Oil & Gas Audit Report

Findings and Observations

- **i.** Under/Over Recovery of petroleum products accounted for ₦99.599 billion.
- **ii.** Joint Venture Cash Call accounted for N512.095 billion.
- **iii.** Crude and product oil losses accounted for N20.390 billion.
- **iv.** Pipeline repairs & maintenance N126.554 billion accounted

Find in table 3.15 the analysis of item (iii) as provided by NNPC: From the analysis above, beneficiaries' details were not available for the audit.

Recommendations

- NNPC should generate regular schedules on pipeline repairs & maintenance alongside other relevant data, i.e. the location of repairs, the cause of damage(s), the date damages occurred, the date repairs/maintenance was carried out, the names of vendor(s), contract sum, amounts paid and outstanding liability (if any). Additionally, the state of maintaenace should be provided in the schedule.

- To engender ttransparency and accountability, expenses not strictly for pipeline repairs and maintenance should not be charged to the maintenance account.
- Further, the audit recommends that a percentage of the corporation collected revenue be allocated to NNPC and their relevant subsidiaries to offset administrative cost(s) as practiced in the case of FIRS,Customs and DPR.
- All first line deductions by NNPC should stop.

3.12 Lifting profile of gas from Nigeria Gas Marketing Company

The Nigerian Gas Company (NGC), a key subsidiary of NNPC which was hitherto responsible for the marketing, sales, processing and transportation of gas was unbundled to form two entities: the NGC, responsible for the processing and transportation of gas and the Nigeria Gas Marketing Company (NGMC), responsible for the marketing and sales of gas.
This section summarises the quantity and value of gas sold by the Nigeria Gas Marketing Company (NGMC) in respect of each producer (i.e. Pan Ocean, Eroton, Shell and Chevron).It will also show NGMCs gas sales proceeds received/traced to CBN–NNPC Gas Revenue (Naira) Accounts.

An operational change in the marketing, sales, processing, and transportation of gas within NGMC resulting in the dissolution of NGMC and subsequent setting-up of the Nigeria Gas Processing and Transportation Company (NGPTC) and the Nigeria Gas Marketing Company (NGMC) occurred in 2016. The new NGMC is responsible for ensuring proper lifting, sales, and timely lodgment(s) of sales proceeds into respective CBN Naira Account (i.e. the CBN NNPC Domestic Gas Revenue Naira Account) on behalf of the Federation. In addition, the NGMC lifts and sell gas products on behalf of JV partners.

Summary of NGMC Gas Quantity and Value

Below are the quantity(s) and value of the gas taken by the NGMC (on credit) as well as the Federation's entitlement (quantity and value).

Table 3.16: 2016 Domestic gas (NGMC) sales quantity and value (Sales Receivable)

2016	JV Ratio		Federation Share		JV Operator Share		100% Joint Venture – Quantity& Value	
			Quantity	Value	Quantity	Value	Quantity	Value
	FG	JV	MSCF'000	N'000	MSCF'000	N'000	MSCF'000	N'000
Pan Ocean	60 %	40 %	1,117.87	579,766.04	745.25	386,510.69	1,863.11	966,276.74
Chevron	60 %	40 %	43,989.49	29,017,115.97	29,326.33	19,344,743.98	73,315.81	48,361,859.95
Shell	55 %	45 %	751.43	431,525.20	614.81	353,066.07	1,366.24	784,591.26
Eroton	55 %	45 %	1,097.50	148,589.40	897.96	121,573.14	1,995.46	270,162.54
Total			**46,956.29**	**30,176,996.61**	**31,584.34**	**20,205,893.89**	**78,540.63**	**50,382,890.49**

Source: NGMC Gas Sales* Profile– 2016

Sales in this case, represent Gas NGMC purchased from field operators (producers), which is 100% of what was produced. The purchase value is paid for by NGMC and shared between operators and NNPC based on the JV ratio. Therefore, sales receivable in this case means NNPC portion of what the producers sold to NGMC from which NNPC will get payment in respect to its equity holding in the JV. For details, see Appendix 7.

Table 3.17: 2015 Domestic Gas (NGMC) Sales Quantity and Value (Sales Receivable)

2015	JV Ratio		Federation Share		JV Operator Share		100% Joint Venture – Quantity& Value	
	FG	JV	Quantity	Value	Quantity	Value	Quantity	Value
			MSCF'000	N'000	MSCF'000	N'000	MSCF'000	N'000
Pan Ocean	60%	40%	5,139	1,431,151	3,426	954,101	8,565	2,385,252
Chevron	60%	40%	69,916	19,355,180	46,611	12,903,453	116,527	32,258,633
Shell	55%	45%	1,902	544,649	1,556	445,622	3,459	990,271
Eroton	55%	45%	3,603	487,803	2,948	399,111	6,551	886,914
Total			**80,561**	**21,818,783**	**54,541**	**14,702,287**	**135,102**	**36,521,070**

Source: NGMC gas sales profile-2015.

Findings and observations

i. There was no indication that NNPC tracked and analysed the federations portion in the 100% supply of gas/off-taking by NGMC (on credit) vis-a-vis Federation entitlement (split between Federation and JV partners);

ii. NNPC did not provide status update in respect of the quantities supplied to N-GAS and West Africa Gas Pipeline Company project.

3.13 Federation Pricing of Export Crude

3.13.1 Pricing and basis for official selling price

Federation Crude oil pricing has two major pricing components, namely: the average dated Brent thatis varied based on the pricing option elected by the customers and the Official Selling Price (OSP), which varies depending on the crude type[11].

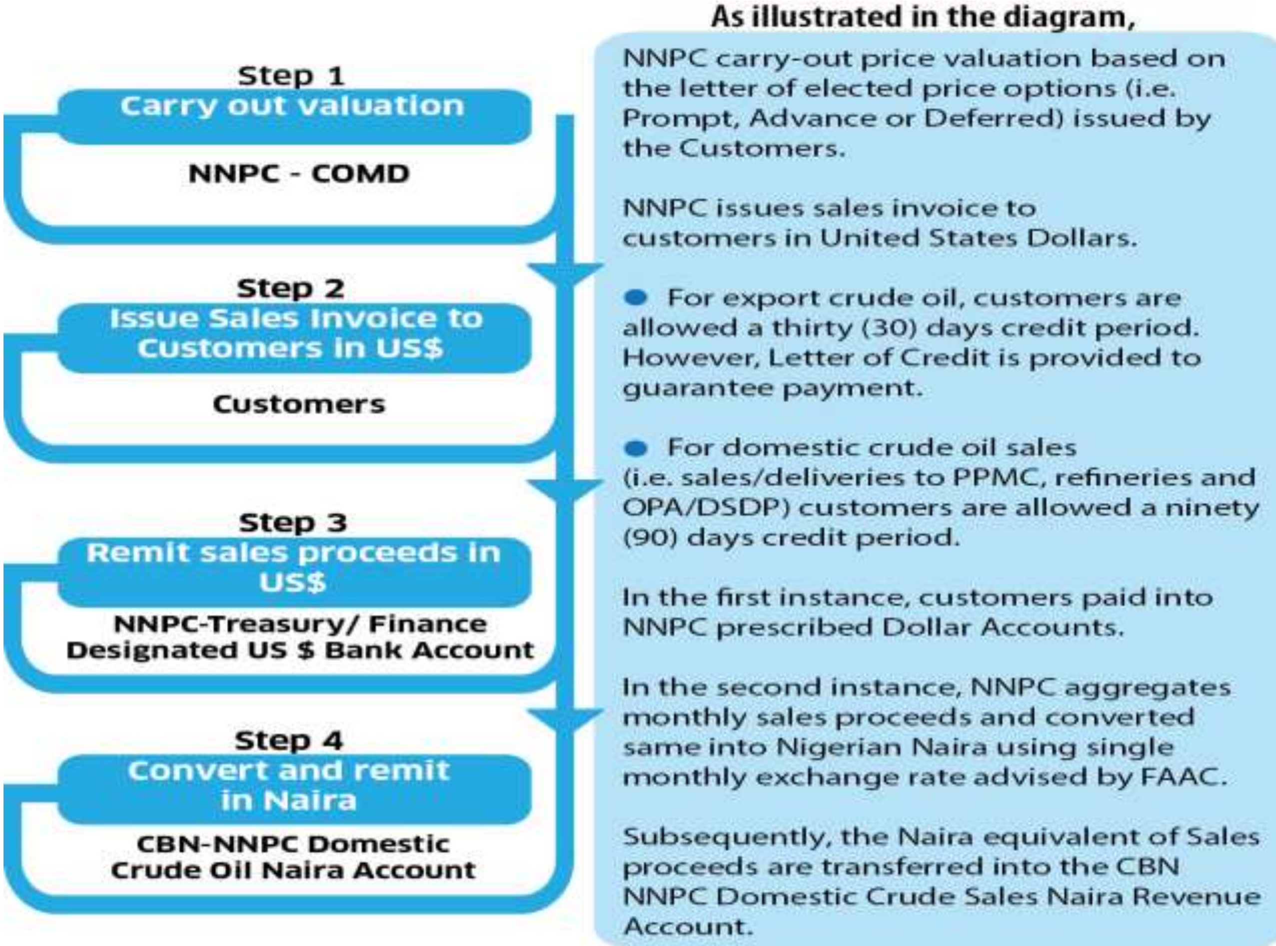
Specifically, there are three pricing options, namely: prompt (by default), advanced and deferred.

- Prompt (by default) pricing option is calculated as average of five working days dated daily Brent in international market - (i.e. first working day in international market will be a day after the bill of lading date) plus or minus differentials based on the NNPC published official selling price. For prompt (by default), the customers/off-takers give a prior "written" notice to NNPC on the elected pricing option.
- Advanced pricing option is calculated as average of five working days dated daily Brent in international market - (i.e. the first five working days in international market before the bill of lading date) plus or minus differentials based on the NNPC published Official Selling Price. For advanced pricing option, the customers/off-takers give a prior "written" notice to NNPC on the elected pricing option.
- Deferred pricing option is calculated as average of five working days dated daily Brent in international market - (i.e. the first working day in international marketwill be the sixth day after the bill of lading date) plus or minus differentials based on the NNPC published Official Selling Price. For deferred pricing option, the customers/off-takers give a prior "written" notice to NNPC on the elected pricing option.

A detail of the pricing mechanism for federation export crude is in appendix 14(report on pricing Mechanism)

[11] Appendix 14 report on pricing Mechanism

Figure 3.7: Valuation method on pricing mechanism



Findings and Observations

i. The average monthly selling price ($) per barrel for Federation export crude oil was **$43.73** in 2016 and **$52.5** in 2015.

ii. In the first quarter of 2016 (January-March), there were three cases of under-remittance which was as a result of double valuation, whereby unit prices and crude values on the sales invoice were higher than what were indicated in schedule of sales profile. This implies that at the point of remittance into the CBN-NNPC domestic crude oil (Naira) account, NNPC effect remittance to the Federation on another valuation report using a revised pricing option which is usually lower than the initial valuation stated on the Sales invoice- thereby, generating favorable margin which were being retained for the financial benefit of NNPC. This practice led to revenue loss of **$7.820** million to the Federation.

iii. **Underpriced cargoes due to crude quality:** there were instances where sales invoices were underpriced (i.e. price differentials below computed market price) leading to aggregated revenue loss of $2.055 million to the Federation. The audit observed that the Cargoes relating to pricing differential were "Tendered". Hence, cargoes were valued at prompt pricing option on exact BL date and tendered value representing the Official Selling Price (OSP). This was attributed to the low quality of crude pumped into the terminal for lifting.

iv. NNPC did not use market rate to convert the sales proceeds received in US$. This led to an under remittance of **N260.431 million.** However, NNPC justification to this practice is that FAAC official rate was adopted as the conversion rate.

Recommendations

i. Sales proceeds received in US$ should be remitted using the prevailing market rate as advised by CBN for the month.
ii. DPR should ensure that it monitor and supervise the quality of crude pumped to the terminals to to avoid losses at the point of sale.
iii. NNPC should ensure that the practice of double valuation is discontinued.

4.0 Non-Financial Flows

4.1 Background

Non-financial transactions are in-kind payments made under the JV Alternative Funding (AF) arrangements and PSCs. An In-kind transaction (revenue) is a transaction in which the Federation gets paid with commodity from concessions it has participatory interest in but does not fund such operations. Under this arrangement, settlement of taxes and royalty liabilities, financing cost such as Carried Party Costs, compensation and loan settlement are made by the allocation of crude oil.

The AF arrangements are in the form of Carry /Modified Carry Agreements and Third-Party Financing. All capital commitments by the operators (Carrying Party) on behalf of NNPC are settled through tax offsets and where there are balance(s), through crude oil allocation. Under the PSC, government statutory payments in respect of royalty and PPT, as well as share of Profit from PSC operations are settled by crude oil allocation to NNPC on behalf of the Federation and relevant agencies (DPR &FIRS).

4.2 In-kind flows under Production Sharing Contract operations

Under the PSC, the license is held by the Nigerian State. The state contracts a company to explore and produce oil and gas resources using the company's expertise, technology, human and capital resources with a guarantee from the stateon the recovery of investment and a share of the associated profit when crude is produced. The NNPC represents the state in these contracts.

The main features of the PSC arrangement are as enumerated below:

i. The contractor bears all cost of exploration and production.If oil is not discovered in commercial quantity in the acreage, the contractor bears the loss.

ii. When there is a commercial find, cost is recoverable with crude oil (cost oil) after tax oil, royalty and concession rental have been deducted in full.

iii. Cost oil includes operational cost and capital investment.

iv. Profit oil is shared between NNPC and the PSC operators based on terms agreed in the PSC.

For details of licenses operating under PSCs and government'sholdings in them, see:http://www.neiti.gov.ng/index.php/classes-of-records/category/173-eog-references?download=777:pscs-with-equity-holdings

4.3 In-kind flows under Joint Venture Alternative Funding Arrangements

In the case of AF arrangements, the state through the NNPC enters into an agreement for the joint development ofjointly held assets (OPLs, OMLs or other projects). Each partner in the JV contributes to the costs and shares the benefits or losses of the operations in proportion to their equity interest in the venture. In Nigeria, a Joint Operating Agreement (JOA) with the NNPC, and a Memorandum of Understanding (MOU) with the Federal Government govern each JV. The JOA defines relationships regarding operatorship and obligations; work programme, plans and expenditure; governance; right of assignment by either party; etc. Both parties share the related Capital Expenditure (CAPEX) and Operating Expenditure (OPEX). The MOU on the other hand defines the fiscal responsibilities and relationship between the JV partners and the Federal Government. JV partner's obligations are met through cash calls.

Due to paucity of funds to meet cash call obligations on a timely basis,the Federal Government entered into various Alternative Funding Arrangements with some JV companies to provide the funds needed to smoothly run oil and gas operations for certain fields.

Broadly, two forms of AF arrangements were operational in the period:

i. Third-Party Financing
ii. Modified Carry Agreements (MCAs).

More information on non-financial transactions can be found in Appendix 8 (Non-Financial Flows).

4.4 Summary of quantity and value of NNPC lifting from PSC/SC operations in 2016

In 2016, the total liftings from PSCs for In-kind payments was 59,774 bbls valued at $2,543,462. These quantities are for tax (PPT), royalty and concession rentals oils.

Table 4.0: Summary of quantity and value of lifting by PSC/SC

S/N	ENTITIES	FIRS		DPR				TOTAL	
		PPT		ROYALTY		Concession Rent		Quantity	Value
		'000 BBLS	USD '000	'000 BBLS	USD '000	'000 BBLS	USD '000	'000 BBLS	USD '000
1	**ADDAX; EPNL/ ANPDL**	2,343.31	84,164	2,387	89,583	1	39.54	4,731	173,787
2	**AENR-(SC)**	386	15,013	320	14055	0.4	19.64	706	29,088

3	**EEPN(OE)L**	9,393.73	422,760	3,441	125,125	0.25	10.67	12,835	547,896
4	**EEPN**	998.97	32,379					999	32,379
5	**SNEPCO**	19,183.37	848,432	1,400	64,339	0.5	21.13	20,584	912,792
6	**EQUINOR**	16,582.57	718,787			0.65	24.03	16,583	718,811
7	**TUPNI**	997.03	27,042					997	27,042
8	**NAE**	72.87	3,578	400	20,932.80			473	24,511
9	**SEEPCO**	0		1,865	77,157			1,865	77,157
	TOTAL	49,957.85	2,152,155	9,813	391,191.8	2.80	115.01	59,774	2,543,462

Source: 2016 NNPC-COMD templates

The table above shows the summary of quantities and value of in-kind payments made by NNPC on behalf of PSC/SC contractors to the Federation. It should be noted, however, that Sterling Exploration &Production Company fulfilled part of its obligation to government by cash payments. Its off-takers paid directly to the Federation Account. The FIRS and DPR records of payments were validated with the records of the entities vis-à-vis NNPC-COMD records.

NNPC lifted;

a. 9,813mbbls on behalf of eight companies valued at $391.19 million, for the payment of royalty.
b. 49,957mbbls on behalf of eight companies valued at $2.152billion, for the payment of PPT.
c. 2,800 bbls on behalf of six companies valued at $115,010 for the payment of concession rentals.

4.5 Summary of Profit Oil

The federation share from the PSC production arrangement is termed profit oil. In the year under review the Federation shared profit oil from three PSC arrangements valued at $517.373 million (11,787,617bbls of crude). Details of payments are presented in the table below:

Table 4.1: Summary of quantity and value of Federation Summary of Profit Oil in 2016

S/N	ENTITY	**Quantity**	**Amount**
		Bbl	**USD'000**
1	ESSO	5,892,491	272,199,718
2	SNEPCO	5,685,300	236,654,565
3	SEEPCO	209,826	8,518,384
	Total	11,787,617	517,372,667

4.6 Summary of quantity and value of revenue derived by the Federation from MCA Projects

The MCA transactions for 2016 were reviewed to ascertain the veracity of the transactions. Crude oil and gas lifted in 2016 under each of the MCA projects was matched and government's take confirmed i.e. (MCA Royalty Oil and PPT Oil traced to the respective DPR and FIRS accounts).

In the year under review, five JV arrangements were involved in MCA projects. The total inflow from the MCA projects was $409.734 million, with PPT constituting 73% ($299.097million)of the total inflow. Details of payments are presented in the table below:

Table 4.2: Summary of quantity and value of Federation stake in MCA projects in 2016

ENTITY	PPT		ROYALTY OIL		ROYALTY GAS		CITA GAS		EDT OIL		EDT GAS		Total Value
	$'000	**Bbls '000**	**$'000**	**Bbls '000**	**$'000**	**MCSF '000**	**$'000**	**MCSF '000**	**$'000**	**Bbls '000**	**$'000**	**MCSF '000**	$0
CHEVRON	11,274	245	3011	65					348	7			14,633
MOBIL	216,854	4,424	49528	1181					7,925	171			274,307
NAOC	25,606	578	7511	170	446	345	1,176	953.46	921	21	110	104	35,770
TEPNG	45,363	989	13342	291	2202	1,773	9,379	7,485.52			697	594	70,983
SPDC					2639	2,254	10,518	8,986.39			884	827	14,041
Total	**299,097**	**6,236**	**73,392**	**1,707**	**5,287**	**4,372**	**21,073**	**17,425**	**9,194**	**199**	**1,691**	**1,525**	409,734

Source: 2016 NEITI Oil and GasTemplates

Table 4.2-b: Summary of Modified Carry Agreement (MCA) Inception to Dec 2016 Cost Performance Report

			Principal	Total Repayment			Balance
JV Operators	**Project Names**	**Approved Project Budget (NNPC Share)**	**Total Approved Carry Cost (NNPC Share) (a)**	**CTR (b)**	**RCO ©**	**Total Payment (CTR + RCO)**	**Outstanding Payment (d) d=a-b-c**
		$ (M)	**$ (M)**	**$ (M)**	**$ (M)**	**$ (M)**	**$ (M)**
SPDC (MCA 1)	Nembe Creek Bundle	648.47	614.46	537.43	65.99	603.42	11.04
	Cawthorne Channel	22.65	6.20	5.40		5.40	0.80

	Gbaran-Ubie Phase 1	1,691.49	1,664.91	1,451.73	205.38	1,657.11	7.80
	SPDC (MCA 1) Subtotal	**2,362.61**	**2,285.57**	**1,994.56**	**271.37**	**2,265.93**	**19.64**
SPDC (MCA 2)	Gbaran-Ubie Phase 2A	1,207.07	728.14	551.87	59.69	611.56	116.58
	TNP	772.19	89.06	72.13		72.13	16.93
	SPDC (MCA 2) Subtotal	**1,979.26**	**817.20**	**624.00**	**59.69**	**683.69**	**133.51**
	SPDC (MCA 1+2) Subtotal	**4,341.88**	**3,102.77**	**2,618.56**	**331.06**	**2,949.62**	**153.15**
TEPNG	Ofon 2	1,709.70	1,748.25	1,510.58	8.16	1,518.74	229.51
	OML 58	966.30	911.23	741.68	96.40	838.08	73.15
	TEPNG-Subtotal	**2,676.00**	**2,659.48**	**2,252.26**	**104.56**	**2,356.82**	**302.66**
MPN	2007-2009 Drilling Bundle	3,752.16	3,651.97	3,184.84	364.02	3,548.86	103.11
	2010 Drilling Bundle	903.52	658.02	582.66	65.85	648.51	9.51
	Oso Condensate	256.20	313.21	289.61	22.92	312.53	0.68
	MPN-Subtotal	**4,911.88**	**4,623.20**	**4,057.11**	**452.79**	**4,509.90**	**113.30**
NAOC	NLNG T4/T5 Gas Supply	598.55	589.64	495.45	73.18	568.63	21.01
	Ebocha-Beniboye	241.88	216.96	172.42	20.32	192.74	24.22
	NAOC-Subtotal	**840.43**	**806.60**	**667.87**	**93.50**	**761.37**	**45.23**
CNL	**2008 MCA**	**188.90**	188.05	166.33	21.70	22.70	0.02
TOTAL		**12,959.08**	**11,380.10**	**9,762.13**	**1,003.61**	**10,600.41**	**614.36**

Source: NNPC

4.7. Third Party Facility Arrangement Status as at 31 December 2016

Below is the summary of third-party facility arrangement status as at December 2016;

Table 4.2-c: Summary of third-party facility arrangement status as at December 2016

S/N	Project Names	Loan profile/status
1	Satellite Field Development Project	Loan Facility - $600.00M
	(Mobil JV)	Repayment as at 31 Dec. 2016 - $587.80M
		Outstanding principal as at 31 Dec. 2016 - $12.20M

2	NGLII Upsized Loan	Loan Facility - $1,100.00M
	(Mobil JV)	Repayment as at 31 Dec. 2016 - $990.00M
		Outstanding as at 31 Dec. 2016 - $110.00M
3	Reserve Development Project	Loan Facility - $1,500.00M
	(Mobil JV)	Repayment as at 31 Dec. 2016 - $1,453.41M
		Outstanding as at 31 Dec. 2016 - $46.59M
4	Project Cheetah	Loan facility available - $1,200.00M
	(Chevron JV)	Principal drawndown as at 31 Dec. 2016 - $662.26M
		Repayment as at 31 Dec. 2016 - NIL

Source: NNPC Populated Template

4.8. Other transactions and revenues

4.8.1 Infrastructure provisions and barter arrangements

In line with NSWG decisions, we confirm that there was no agreement involving the provision of infrastructure, goods, and services in full or partial exchange of petroleum licenses in 2016.

4.8.2 Transportation revenues

Nigeria earned transportation revenue from pipeline transportation fees in 2016. Pipeline transportation fees are paid by crude oil producers who, due to economy of scale opt to use existing pipeline for transport of crude oil to the export terminals. Some joint venture companies are part owners of pipeline infrastructure in Nigeria. As the operators of the joint assets, JV companies collect a fee (crude handling charge) from third-party users of the pipelines. The proceeds are shared according to the JV equity participation. The operator of the JV assets determines the fee (based on set guidelines) paid by third party injectors onto the pipeline infrastructure. In 2016, Nigeria earned pipeline transportation fees from the SPDC JV and the NAOC JV.

NGC, a subsidiary of NNPC also collects pipeline (transport) fee from users of its gas pipelines. Transportation fee here is divided into two: fees related to transportation of gas products owned by NGMC and another meant for gas products owned by N-Gas Limited destined for onward transportation through the West African Gas Pipeline to other African countries. The earnings accrue directly to NGC.

Table 4.3 Pipeline transportation fees

COMPANY NAME	Government ($)	Companies ($)	Difference ($)
Expected payment to government			
NAOC	10,382,350	10,382,350	
SPDC	25,713,879	25,713,879	
Amount received by government			
SPDC	2,528,552	25,713,879	-23,185,327
NAOC	-	-	
Outstanding			
NAOC	-10,382,350	-10,382,350	
SPDC	-23,185,327*	0	

Source: 2016 NEITI Oil and Gas Templates

In 2016, the total revenue that accrued as pipeline transportation fee was $36,097,229. This represents 55% counterpart share of the Federation in the SPDC pipeline JV infrastructure. These fees were paid directly to NNPC as income from the JV.
There was an un-reconciled difference of $23,185,327.00 as NNPC could not confirm receipt of the amount paid by SPDC. The audit could not establish (from NNPC and SPDC) the basis for the computation of amount paid by thirdparty users of the pipeline. NAOC liability for pipeline transportation fee for the year under review stood at $10,382,350. This represents 60% of the NNPC equity in the NNPC/NAOC JV.

4.8.3 Quasi-fiscal expenditures

Quasi-fiscal expenditures are public social expenditures carried out by the state-owned enterprises for social services, fuel subsidies and national debt servicing or public infrastructure, outside of the approved national budget.
In 2016, there was an un-appropriated public spending of ₦99.598 billion covering cost which was due to price variance in the importation of fuel by NNPC in the form of under recovery for imported petroleum products.

The Federal Government discontinued fuel subsidy in 2016. However, NNPC the sole importer of PMS introduced a system tagged "Under/Over Recovery" of petroleum products. The approach aims to address the shortfall in domestic supply of white fuels by importing products bought with revenues from the sale of excess domestic crude. The balance of the revenue is remitted to the Federation Account. This system commenced in 2016. The sum of ₦99.598 billion accounted for Under/Over Recovery of Petroleum Products[12].

1. [12]Details are in appendix 11 report on Downstream operations and Price Modulation Mechanism Report

5.0 Company Level Financial Flows

5.1 Introduction

The report considered 17 company level financial flows as listed in table 1.1. There were 11 revenue streams there were reconciled using both primary source documents and third-party confirmations. This is to ensure completeness, correctness, accuracy and reliability of data. There was no receipt of signature bonus in 2016.

NESS Fees were not reconciled because the audit could not obtain corroborating data from the Federal Ministry of Finance (MoF) as at the time of reporting. Eight companies in the industry enjoyed pioneer status in 2016. Pioneer status is an income tax holiday that serves as a fiscal incentive offered to companies operating in some designated pioneer industries and producing some designated pioneer products (by virtue of the express provisions of the Industrial Development Income Tax Relief Act). The income tax holiday provided under pioneer status can be up to five years. It is given to encourage investments and business expansion as well as growth and development. A new company or an existing company with expansion plan may apply for pioneer status certificate. The eight companies that enjoyed pioneer status in the oil and gas sector in 2016 are: Network E & P, Frontier Oil, Newcross Petroleum, Elcrest, Shoreline, Neconde, Platform and ND Western. The companies under pioneer status do not pay PPT and EDT.

The revenue streams validated and reconciled are:

1. Petroleum Profits Tax (PPT)
2. Royalty (oil)
3. Royalty (gas)
4. Company Income Tax (CIT)
5. Education Tax
6. Concession Rentals
7. NDDC Levy
8. NCDMB Payments
9. Gas Flared Penalty
10. Dividend, interest and loan repayment by NLNG
11. Capital Gains Tax
12. Pipeline Transportation fees

The revenue streams unilaterally disclosed were:

1. NESS Fees
2. Withholding Tax
3. Value Added Tax
4. Pay as You Earn (PAYE)

5.2 Petroleum Profit Tax (PPT)

The Petroleum Profit Tax Act (PPTA) is the tax law governing the taxation of companies that are engaged in petroleum operations in Nigeria. The Act defines petroleum operations as, "the winning or obtaining and transportation of petroleum or chargeable oil in Nigeria by or on behalf of a company for its own account by any drilling, mining, extracting or other like operations or process, not including refining at a refinery, in the course of a business carried by the company engaged in such operations, and all operations incidental there to and sale of or any disposal of chargeable oil by or on behalf of the company."[1] By this definition, Petroleum Profit Tax is applicable to the companies operating in the upstream sector of the petroleum industry.

PPT payments are either paid through direct financial transactions or in-kind depending on the operating contract of the company. For JV arrangements, payments are made on company level basis while in PSCs, PPT payments to FIRS are based on oil fields and are made in-kind,meaning NNPC lifts crude in lieu of financial payment for PPT liabilities, where applicable.

Table 5.0: Petroleum Profit Tax

PPT PAYMENT				
S/N	**COMPANY NAME**	**GOVERNMENT**	**COMPANY**	**DIFFERENCE**
		$	**$**	**$**
1	ADDAX –APDNL	56,168,362	56,168,362	-
2	ADDAX –APENL	27,995,467	27,995,467	-
3	AMNI	3,105,671	3,105,671	-
4	ATLAS	750,000	750,000	-
5	CHEVRON	103,602,617	103,602,617	-
6	CON OIL	216,500	216,500	-
7	CONTINENTAL OIL	2,548,500	2,548,500	-
8	EEPNL	405,384,665	405,384,665	-
9	EROTON	3,434,667	3,434,667	-
10	FAMFA	259,730,148	259,730,148	-
11	FIRST HYDROCARBON	76,992	76,992	-
12	MOBIL	443,147,668	443,147,668	-

13	MONI PULO	17,093,687	17,093,687	-
14	NEWCROSS	553,895	553,895	-
15	NEWCROSS E&P	655,079	655,079	-
16	NDPR	883,979	883,979	-
17	NAE	3,577,676	3,577,676	-
18	NPDC	186,322,969	186,322,969	-
19	OANDO HYDROCARBONS	15,750,000	15,750,000	-
20	ORIENTAL	2,791,855	2,791,855	-
21	PETROBRAS	58,779,601	58,779,601	-
22	PILLAR	75,860	75,860	-
23	SNEPCO	771,960,558	771,960,558	-
24	SPDC	516,753,049	516,753,049	-
25	STAR DEEP	296,264,890	296,264,890	-
26	EQUINOR	666,294,223	666,294,223	-
27	TEPNG	72,342,024	72,342,024	-
28	TUPNI	27,041,529	27,041,529	-
29	WALTERSMITH	450,000	450,000	-
	Sub-Total	**3,943,752,131**	**3,943,752,131**	**-**
	MCAs			
	MOBIL	213,456,178	213,456,178	-
	TEPNG	37,176,009	37,176,009	-
	NAOC	22,523,219	22,523,219	
	Sub-Total	**273,155,406**	**273,155,406**	**-**
	Grand Total	**4,216,907,537**	**4,216,907,537**	**-**

Source: 2016 validated template

Findings and observations

The total PPT payment in 2016 was **$4,216,907,537** a 22% decrease from 2015.
From the audit, PPT payments of 27 companies did not feature in 2016 report. Listed below are the affected companies and the reasons:

Table 5.0 (b): List of companies with PPT payment issues

S/no	Company	PPT payment status	Remarks
1	AENR	N/A	Service Contractor
2	Amalgamated, Newton Energy Limited, Excel, Construction Logistics, Emerald Energy Resources, Orient Petroleum, Prime Exploration	N/A	Not in production in 2016
3	Network E & P, Frontier Oil, Newcross Petroleum, Elcrest, Shoreline, Neconde,	N/A	Enjoy pioneer status

	Platform and ND Western		
4	EEPN (OE)L, STERLING GLOBAL, UNIVERSAL ENERGY	N/A	Due to cost recovery
5	OANDO OML 125 &134 and OPDC LTD	Applicable	PPT payments made by business partners
6	AITEO, ALLIED ENERGY, BELEMA OIL, BRITTANIA-U, DUBRI OIL, ENERGIA LIMITED, MIDWESTERN, PAN OCEAN, SA PETROLEUM, SEPLAT, and YINKA FOLAWIYO	Applicable	Defaulted PPT payment
7	EXPRESS and SHEBA,	Applicable	Did not provide information

5.3 Royalty (oil)

The Petroleum Act (1969) requires operators of OMLs to pay royalties to the Federal Government based on their volume of production. This is usually in the form of monthly cash payments at an agreed percentage of the quantity of crude oil/gas produced after adjusting for treatment, handling, and related expenses. This payment is made either in cash or in-kind and is accounted for by the DPR.

The total revenue from royalty oil in 2016 was $1,577,039,768 as presented below. There was a decrease of 43.36% in relation to 2016.

Table 5.1: Royalty (oil)

ROYALTY (OIL)				
S/N	**COMPANY NAME**	**GOVERNMENT**	**COMPANY**	**DIFFERENCE**
		$	**$**	**$**
1	ADDAX –APDNL	71,994,289	71,994,289	-
2	ADDAX –APENL	17,588,750	17,588,750	-
3	AENR	14,054,991	14,054,991	-
4	AITEO	35,538,280	35,538,280	-
5	ALLIED	2,580,000	2,580,000	-
6	AMNI	6,493,097	6,493,097	-
7	ATLAS	3,653,078	3,653,078	-
8	BELEMA OIL	2,200,000	2,200,000	-
9	BRITTANIA-U	50,000	50,000	-
10	CHEVRON	208,865,364	208,865,364	-
11	CONOIL	2,429,689	2,429,689	-

12	CONTINENTAL OIL	32,021,825	32,021,825	-
13	DUBRI OIL	707,196	707,196	-
14	EEPNL	125,125,386	125,125,386	-
15	ENERGIA LIMITED	1,616,434	1,616,434	-
16	EROTON	49,044,796	49,044,796	-
17	FIRST HYDROCARBON	1,148,537	1,148,537	-
18	FRONTIER OIL	164,083	164,083	-
19	MIDWESTERN	8,000,000	8,000,000	-
20	MOBIL	317,437,169	317,437,169	-
21	MONI PULO	20,912,416	20,912,416	-
22	ND WESTERN	2,000,000	2,000,000	-
23	NECONDE	3,740,000	3,740,000	-
24	NETWORK E&P	472,358	472,358	-
25	NEWCROSS E&P	8,350,000	8,350,000	-
26	NDPR	1,782,889	1,782,889	-
27	NAOC	55,957,789	55,957,789	-
28	NAE	13,594,000	13,594,000	-
29	NPDC	86,054,094	86,054,094	-
30	OANDO HYDROCARBONS	17,902,920	17,902,920	-
31	ORIENTAL	30,706,245	30,706,245	-
32	PILLAR	309,951	309,951	-
33	PLATFORM	368,443	368,443	
34	SEPLAT	32,647,160	32,647,160	-
35	SNEPCO	56,410,575	56,410,575	-
36	SPDC	109,889,187	109,889,187	-
37	STERLING GLOBAL	80,254,776	80,254,776	-
38	TEPNG	144,610,705	144,610,705	-
39	UNIVERSAL ENERGY	985,096	985,096	-
40	WALTERSMITH	500,000	500,000	-
	Sub Total	**1,568,161,568**	**1,568,161,568**	**-**
	MCAs			
	SPDC	933,456	933,456	**-**
	TOTAL E&P NIGERIA LIMITED	311,152	311,152	**-**
	NAOC	7,633,592	7,633,592	
	Sub Total	**8,878,200**	**8,878,200**	**-**
	Grand Total	**1,577,039,768**	**1,577,039,768**	**-**

Source: NEITI 2016 Oil and Gas Template

Findings and observations

1. Sixteen (16) companies did not make royalty payments on oil due to the reasons stated in the table below:

Table 5.1(b): List of companies with no Royalty payment.

S/no	Company	Royalty payment status	Remarks
1	Oando Qua Ibo	Applicable	Paid by Network E&P
2	OPDC	Applicable	Paid by Energia
3	Oando OML 125&134 Ltd.	Applicable	Paid by NAE
4	EEPN(OE)L, STARDEEP and TUPNI	N/A	Offshore beyond 1000 meters water depth
5	Elcrest	Applicable	Payment was made in 2017, due to delay in DPR approval to use payment of ($770k) paid in 2015 to offset against royalty obligations for 2016
	Amalgamated, Newton Energy Limited, Excel, Construction Logitics, Emerald Energy Resources, Orient Petroluem and Prime Exploration	Applicable	Not in production in the reporting period
6	Dubri Oil, NPDC,Newcross E&P ND Western, Platform	Applicable	There were instances of under payment by these entities
7	Panocean, Shoreline and Yinka Folawiyo	Applicable	Defaulted in royalty payment in 2016
8	Sheba Petroleum, Express Petroleum,	Applicable	Did not provide information.

5.4 Royalty (Gas)

Royalty on gas is the sum paid by gas producers for the quantity produced/sold. The applicable royalty rate on gas is 7% and 5% for onshore and offshore respectively. Royalty on gas is paid to DPR in USD. The table below shows the details of royalty on gas paid in 2016.

Table 5.2 Royalty (gas)

ROYALTY ON GAS				
S/N	**COMPANY NAME**	**GOVERNMENT**	**COMPANY**	**DIFFERENCE**
		$	**$**	**$**
1	CHEVRON	13,000,798	13,000,798	-
2	EROTON	282,484	282,484	-
3	ND WESTERN	962,798	962,798	-
4	NDPR	674,988	674,988	-
5	NAOC	7,884,954	7,884,954	-
6	OANDO HYDROCARBONS	5,316,328	5,316,328	-
7	SEPLAT	5,458,381	5,458,381	-
8	SPDC	15,292,865	15,292,865	-
9	TEPNG	12,599,895	12,599,895	-
	Sub Total	**61,473,491**	**61,473,491**	**-**
	MCAs			
10	**NAOC**	516,867	516,867	
11	SPDC	1,418,756	1,418,756	-
12	TEPNG	2,668,799	2,668,799	-
	Sub Total	**4,604,422**	**4,604,422**	**-**
	Grand Total	**66,077,913**	**66,077,913**	**-**

Source: NEITI 2016 Oil and Gas Template

<u>Findings and observations</u>

The total royalty on gas received by government in dropped by 38.34% in 2016. The PSC contracts did not make provisions on how gas produced is to be shared with the Federation.

Three companies namely Frontier, NPDC and ND Westren have an outstanding liability of $**19,988,735** as at 31st December 2016.

5.5 Gas flare penalty

Gas flared penalty is a fine imposed on producing companies for flaring gas in the course of production. The Petroleum Act 1969 is the primary law regulating oil and gas exploration activities in Nigeria.However, over the years additional laws and regulations have been passed; Petroleum (Drilling and Production) Act 1979, the Associated Gas Re-Injection Act 1979 (as amended), Associated Gas Re-injection (Continued Flaring of Gas) Regulations, 1984, Cap. 26 Laws of the Federation of Nigeria, 1990. In 2018, the Federal Government approved a new regulation guiding the flaring of gas.

See link for new regulation http://www.ngfcp.gov.ng/resources/regulations/ngfcp-regulations/.

Table 5.3: Gas flared penalty

GAS FLARE PENALTY				
S/N	**COMPANY NAME**	**GOVERNMENT**	**COMPANY**	**DIFFERENCE**
		$	**$**	**$**
1	ADDAX –APDNL	896,554	896,554	-
2	ADDAX –APENL	42,391	42,391	-
3	AENR	1,268,135	1,268,135	-
4	AMNI	292,448	292,448	-
5	ATLAS	99,532	99,532	-
6	CHEVRON	593,623	593,623	-
7	CON OIL	4,186	4,186	-
8	DUBRI OIL	32,953	32,953	-
9	EEPN(OE)L	427,432	427,432	-
10	EEPNL	318,792	318,792	-
11	ENERGIA LIMITED	253,146	253,146	-
12	EROTON	84,658	84,658	-
13	MIDWESTERN	16,179	16,179	-
14	MOBIL	626,077	626,077	-
15	MONI PULO	13,195	13,195	-
16	NETWORK E&P	26,208	26,208	-
17	NEWCROSS	9,904	9,904	-
18	NAOC	159,450	159,450	-
19	NAE	141,835	141,835	-
20	OANDO HYDROCARBONS	129,791	129,791	-
21	ORIENTAL ENERGY	120,166	120,166	-
22	PILLAR	6,891	6,891	-
23	PLATFORM	449,557	449,557	-
24	SA PETROLEUM	18,903	18,903	-
25	SNEPCO	637,993	637,993	-
26	SPDC	677,369	677,369	-
27	STAR DEEP	1,203,592	1,203,592	-
28	STERLING GLOBAL	8,316	8,316	-
29	TEPNG	95,867	95,867	-
30	TUPNI	124,891	124,891	-
31	UNIVERSAL ENERGY	19,377	19,377	-
	TOTAL	**8,799,411**	**8,799,411**	**-**

Source: NEITI 2016 Oil and Gas Template

<u>Findings and observations</u>

Total payments from gas flared penalty in 2016 were $8,799,411 as against $12,683,078 received in 2015 representing 30.62% reduction.

- The total volume of gas flared in 2016 was 288,209mmscf representing 9.45% of the total gas produced i.e. 3.051249mmscft in 2016.
- The outstanding liability on Gas flared penalty as at 31st December 2016 is USD $3.63million as indicated in table 5.3.1. However, the entities did not provide evidence as to whether the outstanding has been offset subsequently.

Table 5.3.1 Gas Flared Penalty Liability

S/N	ENTITY	GAS FLARED (MSCF)	GFP ($)	LIABILITY AS AT 31 DECEMBER,2016
1	AADAX (APDNL)	22,411,000	863,090	-863,090
2	AADAX (APENL)	1,242,000	47,832	-47,832
3	AITEO	13,207,000	508,627	-508,627
4	ALLIED ENERGY	1,946,000	74,944	-74,944
5	AMNI	4,466,000	171,994	-171,994
7	BELEMA OIL	2,516,000	96,896	-96,896
8	BRITTANIA U	83,000	3,196	-3,196
9	CONOIL	165,000	6,354	-6,354
10	CONTINENTAL	1,359,000	52,338	-52,338
11	DUBRI OIL	1,520,000	67,572	-29,243
12	ENERGIA	3,617,000	139,298	-124,298
13	EROTON	9,929,000	382,385	-297,727
14	FRONTIER	139,000	5,367	-5,367
15	MIDWESTERN	1,545,000	59,606	-59,606
16	NDPR	68,000	2,619	-2,619
17	NEWCROSS	6,484,000	249,711	-249,711
18	NPDC	19,260,000	782,629	-622,595
19	OOL	3,667,000	141,223	-11,432
20	ORIENTAL	4,254,000	163,830	-163,830
21	PANOCEAN	7,000	270	-270
22	PLATFORM	5,278,000	222,309	-214,226
23	YINKA FOLAWIYO	672,000	25,880	-25,880
	TOTAL	**103,835,000**	**4,067,970**	**-3,632,075**

Source: Audit Analysis

5.6 Concession Rentals

Concession Rentals are paid on oil for concessions held by oil companies. The total amount received in 2016 was $824,018. These exclude payments that were made in-kind.

Table 5.4: Concession Rentals

CONSESSION RENTAL				
S/N	**COMPANY NAME**	**GOVERNMENT**	**COMPANY**	**DIFFERENCE**
		$	**$**	**$**
1	ADDAX –APDNL	39,544	39,544	-
2	ADDAX –APENL	31,068	31,068	-
3	AENR	19,638	19,638	-
4	BELEMA OIL	16,980	16,980	-
5	CHEVRON	83,232	83,232	-
6	EEPNL	10,675	10,675	-
7	EROTON	15,525	15,525	-
8	MOBIL	48,662	48,662	-
9	MONI PULO	32,419	32,419	-
10	NAOC	45,683	45,683	-
11	NPDC	97,521	97,521	-
12	SA PETROLEUM	38,850	38,850	-
13	SNEPCO	21,126	21,126	-
14	SPDC	241,090	241,090	-
15	STAR DEEP	12,780	12,780	-
16	EQUINOR	24,029	24,029	-
	Sub Total	**778,821**	**778,821**	**-**
	Unilateral Disclosure			
14	AMALGAMATED OIL COMPANY NIGERIA LIMITED	2,014	2,014	-
15	ORIENT PETROLEUM RESOURCES	8,333	8,333	-
16	SAHARA ENERGY FIELD LIMITED	34,850	34,850	-
	Sub Total	**45,197**	**45,197**	**-**
	Grand Total	**824,018**	**824,018**	**-**

Source: NEITI 2016 Oil and Gas Template

<u>Findings and observations</u>

For the period under review, companies made payments totaling $824,018 as premium for concession rentals. This amount was credited into the Signature Bonus account and include unilateral disclosures of $45,197 by Amalgamated Oil Company Nigeria Limited, Orient Petroleum Resources and Sahara Energy Field Limited.

5.7 Company Income Tax (Gas)

The total Company Income Tax (CIT) on Gas in 2016 was $**314,845,606**, as against 2015 figure of $603,499,000.

Table 5.5: Company Income Tax (Gas)

CIT (GAS)				
S/N	**COMPANY NAME**	**GOVERNMENT**	**COMPANY**	**DIFFERENCE**
		$	**$**	**$**
1	EEPN(OE)L	14,201	14,201	-
2	MOBIL	39,214,515	39,214,515	-
3	NAOC	53,448,250	53,448,250	
4	SPDC	108,696,197	108,696,197	-
5	TEPNG	95,312,125	95,312,125	-
	Sub Total	**296,685,288**	**296,685,288**	**-**
	MCAs			
6	**NAOC**	1,952,528	1,952,528	
7	SPDC	5,654,757	5,654,757	-
8	TEPNG	10,553,033	10,553,033	-
	Sub Total	**18,160,318**	**18,160,318**	**-**
	Grand Total	**314,845,606**	**314,845,606**	**-**

Source: NEITI 2016 Oil and Gas Template

5.8 Capital Gains Tax

Capital Gains Tax (CGT) is charged on profit from the disposal or exchange of assets. In Nigeria, CGT is 10% of the profits from the sale of the qualifying asset. The Capital Gains Tax Act Cap LFN 2004 regulates the administration of the CGT in Nigeria. Both Federal Inland Revenue Service (FIRS) and the States Internal Revenue Service administer the Act.

For the year under review, the revenue earned as Capital Gains Tax was **$176,515,841** paid on disposed asset by SPDC for OML 18, 29, 71/72 and NCTL assets.

Table 5.6: Capital Gains Tax

COMPANY NAME	**GOVERNMENT**	**COMPANY**	**DIFFERENCE**
	$	**$**	**$**
SPDC	176,515,841	176,515,841	-
TOTAL	**176,515,841**	**176,515,841**	**-**

Source: **NEITI 2016 Oil and Gas Template**

5.9 Education Tax

The payment of Education Tax (EDT) was promulgated under the Education Tax Act 7 of 1993 and amended by Act No 40 of 22 December 1998. It is a 2% rate charge on assessable profits of a registered company in Nigeria. The total EDT received in 2016 was **$317,853,133**. See table below for details.

Table 5.7: Education Tax

	EDUCATION TAX			
S/N	**COMPANY NAME**	**GOVERNMENT**	**COMPANY**	**DIFFERENCE**
		$	**$**	**$**
1	AENR	3,421,293	3,421,293	-
2	AMNI	484,331	484,331	-
3	CHEVRON	16,895,992	16,895,992	-
4	CONTINENTAL OIL	14,500	14,500	-
5	DUBRI OIL	8,072,093	8,072,093	-
6	EEPN(OE)L	12,892,389	12,892,389	-
7	EEPNL	18,684,132	18,684,132	-
8	ENERGIA LIMITED	251,815	251,815	-
9	EROTON	719,352	719,352	-
10	FAMFA	12,393,726	12,393,726	-
11	FIRST HYDROCARBON	56,171	56,171	-
12	MOBIL	38,433,150	38,433,150	-
13	MONI PULO	634,225	634,225	-
14	NDPR	36,483	36,483	-
15	NAOC	7,774,990	7,774,990	-
16	NAE	3,546,931	3,546,931	-
17	ORIENTAL	180,400	180,400	-
18	PETROBRAS	4,603,384	4,603,384	-
19	PILLAR	14,753	14,753	-
20	PLATFORM	394,187	394,187	-
21	SA PETROLEUM	13,313,620	13,313,620	-
22	SNEPCO	51,501,066	51,501,066	-
23	SPDC	32,764,438	32,764,438	-
24	STAR DEEP	18,413,534	18,413,534	-
25	EQUINOR	23,201,622	23,201,622	-
26	TEPNG	9,421,996	9,421,996	-
27	TUPNI	26,291,102	26,291,102	-
	Sub Total	**304,411,675**	**304,411,675**	**-**
	MCAs			
28	MOBIL	7,925,094	7,925,094	**-**
29	NAOC	1,347,849	1,347,849	
	Sub Total	**9,272,943**	**9,272,943**	**-**
		313,684,618	**313,684,618**	**-**
	Unilateral Disclosures			
30	BRASS OIL SERVICES COMPANY LTD	4,152,794		-
31	CNOOC EXPLORATION AND PRODU	1,139		-
32	PETRALON 54 LTD	2,368		-

33	SASOL EXPL AND PROD NIG	8,648		-
34	SHELL NIG ULTRA DEEP LTD	3,566		-
	Sub Total	**4,168,515**		**-**
	Grand Total	**317,853,133**	**313,684,618**	**-**

Source: NEITI 2016 Oil and Gas Template

<u>Findings and observations</u>

The Education Tax (EDT) payment dropped by 52.4% from $667,7710,142 in 2015 to $317,853,133 in 2016. It is noteworthy that 31 companies did not make EDT payments in 2016.
The following are the companies as well as reasons given for non-payment:

i. Eight companies, namely Network E & P, Frontier Oil, Newcross Petroleum, Elcrest, Shoreline, Neconde, Platform, and ND Western, were granted pioneer status and therefore exempted from payment of EDT.
ii. SEPLAT, SA PETROLEUM, UNIVERSAL ENERGY, and STERLING GLOBAL are PSC companies that did not pay EDT due to cost recovery.
iii. While AITEO, ALLIED ENERGY, BELEMA OIL, BRITTANIA-U, DUBRI OIL, ENERGIA LIMITED, EXPRESS, MIDWESTERN, PAN OCEAN, SHEBA, and YINKA FOLAWIYO were defaulting companies as at 31 December 2016.

5.10 Dividend, interest, and loan repayment by NLNG

The Nigeria Liquefied Natural Gas Limited (NLNG) is a Joint venture company owned by four shareholders, namely: The Federal Government of Nigeria, represented by the Nigerian National Petroleum Corporation (49%), Shell Gas BV. (25.6%), Total LNG Nigeria Limited (15%) and Eni International (10.4%). The company was incorporated as a Limited Liability Company on May 17, 1989 to harness Nigeria's natural gas resource through production and export of Liquefied Natural Gas (LNG) and Natural Gas Liquids (NGL)[13].

5.10.1 Nigeria's Investment in NLNG

The table below summarizes details of Nigeria's investment in NLNG.

Table 5.8: Federation investment profile in NLNG

	Principal Loan 1995-2005 $	Interest Capitalized $	Total Loan $	Repayment to Date $	Balance $
Total Shareholders Loan	4,043,924,266	1,411,027,387	5,454,951,652	5,384,681,382	70,270,269
NNPC 49.00%	**1,981,522,890**	**691,403,419**	**2,672,926,309**	**2,638,493,877**	**34,432,432**

Source: 2016 NLNG template

[13]Details on NLNG operations and activities http://www.nlng.com/nignlng/home.aspx.

The total Federation loan/investment in the NLNG project was $2,672,926,309 as at December 2016 out of which $2,638,493,877 has been liquidated leaving an outstanding balance of $34,432,432.

5.10.2 Loan repayment, interest, and dividend

For the period under review, NLNG paid a total of $390,234,415 to NNPC as loan repayments, interest, and dividend. The dividend accruing to the Federation in 2016 was $356,126,898 representing 91.26% of the total revenues while interest and principal repayment was $2,323,733 (0.60%) and $31,783,784 (8.14%) respectively.

Table 5.9: Summary of loan repayment, interest, and dividend payment

	Amount $	% contribution
DIVIDEND	356,126,898	91.26%
INTEREST	2,323,733	0.60%
PRINCIPAL	31,783,784	8.14%
Total	**390,234,415**	

Source: NEITI 2016 Oil and Gas Template

Findings and observations

NNPC confirmed receipt of $390,234,415 being payment of dividend, loan repayment and interest by NLNG in 2016. These monies were paid into JP Morgan Chase NNPC Depository Account domiciled with the CBN.

The cumulative amount received from NLNG to date (including amounts revealed in previous audit reports 2000 - 2016) is $17,288,959,416. Details of payments made per year can be seen in Table 5.10 below.

NEITI has consistently maintained that these monies should be paid into the Federation Account. This position is supported by Section 162(1) of the constitution of the Federal Republic of Nigeria which stipulates that "all revenue proceeds should be paid to the Federation Account." NNPC has always referred to approvals by the Federal Government, authorizing it to withhold remittances or in some cases utilize fund for some specific projects such as the Brass LNG Project. NNPC made available these approvals for sighting by our team. The fund is managed by the MoF.

Recommendation

The audit recommends that the Federal Government should make a public pronouncement on treatment of all categories of payments from NLNG

5.10.3 NLNG Income payments (2000-2016)

The total payment from NLNG in the past 15 years was **$17,288,959,416**, with the highest payment recorded in 2012.

Table5.10: Total NLNG Dividend, Interest and Loan Repayments

Year	Amount $
2000	211,341,000
2001	322,077,000
2002	226,562,000
2003	436,272,000
2004	280,095,000
2005	207,282,000
2006	332,980,000
2007	842,957,000
2008	2,613,170,000
2009	879,839,000
2010	1,427,512,000
2011	2,537,503,000
2012	2,795,531,000
2013	1,289,592,000
2014	1,420,000,000
2016	1,076,012,000
2016	390,234,415.7
Total	**17,288,959,416**

Source: NEITI Audit Reports & NEITI 2016 Oil and Gas Template

5.11 NDDC Levy

NDDC Levy is a mandatory social payment made by oil and gas companies operating in the Niger Delta region. NDDC was established in 2000 with the mandate of facilitating rapid,steady and sustainable development of the Niger Delta into a region that is economically prosperous, socially stable, ecologically regenerative, and politically peaceful. Pursuant to Section 14(b) of the NDDC Act, the Commission collects 3% of the total annual budget of any oil producing company operating onshore and offshore in the Niger Delta area, including gas - processing companies[14].

The total contribution received by NDDC from covered entities in 2016 was **$492,065,771** as presented in the table below:

[14] NDDC Acts, functions and mandates http://www.nddc.gov.ng/about%20us.html, https://docs.google.com/gview?url=http://www.nddc.gov.ng/theNDDCACT.pdf&embedded=true.

Table 5.11: NDDC Levy

NDDC				
S/N	**COMPANY NAME**	**GOVERNMENT**	**COMPANY**	**DIFFERENCE**
		$	**$**	**$**
1	ADDAX –APDNL	17,167,456	17,167,456	-
2	ADDAX –APENL	8,951,518	8,951,518	-
3	AENR	806,052	806,052	-
4	AITEO	4,319,000	4,319,000	-
5	AMNI	798,000	798,000	-
6	BELEMA OIL	387,404	387,404	-
7	BRITTANIA-U	88,763	88,763	-
8	CHEVRON	47,259,827	47,259,827	-
9	DUBRI OIL	30,808	30,808	-
10	EEPN(OE)L	28,143,408	28,143,408	-
11	EEPNL	31,792,591	31,792,591	-
12	MOBIL	67,665,904	67,665,904	-
13	NETWORK E&P	265,999	265,999	-
14	NAOC	17,898,547	17,898,547	-
15	NAE	4,536,608	4,536,608	-
16	NPDC	3,851,190	3,851,190	-
17	ORIENTAL	1,786,057	1,786,057	-
18	PLATFORM	70,000	70,000	-
19	SA PETROLEUM	18,093,659	18,093,659	-
20	SEPLAT	21,600,887	21,600,887	-
21	SNEPCO	30,531,105	30,531,105	-
22	SPDC	73,412,169	73,412,169	-
23	STAR DEEP	27,162,497	27,162,497	-
24	EQUINOR	21,488,891	21,488,891	-
25	STERLING GLOBAL	4,883,309	5,653,547	-770,238
26	TEPNG	7,155,211	7,155,211	-
27	TUPNI	51,072,546	51,072,546	-
28	UNIVERSAL ENERGY	410,736	410,736	-
29	WALTERSMITH	101,650	101,650	-
	Sub Total	**491,731,792**	**492,502,030**	**-770,238**
	Unilateral Disclosures			
30	JUSTICE	182,572		
31	TEXACO NIG. OUTERSHELF	151,407		
	Sub Total	**333,979**		
	Grand Total	**492,065,771**	**492,502,030**	**-770,238**

Source:NEITI 2016 Oil and Gas Template

Findings and observations

There was an un-reconciled sum of **₦200,000,000 ($770,238)** being payment made by Sterling Oil Exploration. It was observed that Sterling Oil Exploration paid the naira equivalent of **$770,238,** which was not traceable to NDDC bank account. There was a unilateral disclosure of $333,979 by Justice and Texaco Nigeria Outer-shelf in 2016.

Recommendation

NDDC should be ensure a reconciliation of the difference of **$770,238 with** Sterling Oil Exploration and confirm receipts of funds**.**

5.12 NCDMB Levy

The Nigerian Oil and Gas Industry Content Development Act (NOGICD) of 2010 aims to promote the development and utilization of local capacities for the industrialization of Nigeria, through the effective implementation of the Nigerian Content Act. Section 104 of the NOGICD Act provides that 1% of every contract in the upstream sector of the Nigerian Oil and Gas industry shall be deducted at source and paid into the Fund[15].

[15] Guidelines and Act of NCDMB http://ncdmb.gov.ng/images/GUIDELINES/NCACT.pdf

Table 5.12: NCDMB Levy

NCDMB				
S/N	**COMPANY NAME**	**GOVERNMENT**	**COMPANY**	**DIFFERENCE**
		$	**$**	**$**
1	ADDAX –APDNL	2,459,495	2,459,495	-
2	ADDAX –APENL	727,730	727,730	-
3	AENR	186,490	186,490	-
4	AMNI	226,151	226,151	-
5	CHEVRON	7,264,256	7,264,256	-
6	EEPN(OE)L	19,471,031	19,471,031	-
7	EEPNL	8,578,719	8,578,719	-
8	ENERGIA LIMITED	227,986	227,986	-
9	MIDWESTERN	734,932	734,932	-
10	MOBIL	7,629,029	8,186,493	-557,464
11	MONI PULO	25,094	25,094	-
12	NAOC	822,905	822,905	-
13	NAE	1,089,063	1,089,063	-
14	NPDC	1,331,859	1,331,859	-
15	ORIENTAL	437,755	437,755	-
16	PETROBRAS	9,997	9,997	-
17	PILLAR	63,205	63,205	-
18	PLATFORM	173,968	173,968	-
19	SEPLAT	1,724,324	1,724,324	-
20	SHORELINE	6,398	6,398	-
21	SNEPCO	4,848,161	4,848,161	-
22	SPDC	13,570,718	13,570,718	-
23	STAR DEEP	3,711,809	3,711,809	-
24	EQUINOR	17,768	17,768	-
25	STERLING GLOBAL	134,224	134,224	-
26	TEPNG	8,283,703	8,283,703	-
27	TUPNI	26,491,702	26,491,702	-
28	UNIVERSAL ENERGY	165,807	165,807	-
	Sub Totals	**110,414,279**	**110,971,743**	**-557,464**
29	**Unilateral Disclosures**	18,989,141		
	Grand Total	**129,403,420**	**110,971,743**	**-557,464**

Source: NEITI 2016 Oil and Gas Template

Findings and observations

The total NCDMB levy received in 2016 was $129,403,420 representing 4.73% decrease.

There was an un-reconciled amount of $557,464 being payment made by Mobil which could not be confirmed by NCDMB. These payments for August & December were made into NCDMB TSA account.

Recommendation

NCDMB should ensure that monies are traced to the relevant CBN account. Monthly or quarterly reconciliations should be carried out to avoid mis-statements and differences.

5.13 NESS Fee

The Pre-shipment Inspection of Exports Act was enacted in 1996 and this birthed the Nigeria Export Supervision Scheme (NESS). The scheme requires exporters to make statutory payments called NESS Fee to the Federal Government, which is 0.12% of the Free on Board (FOB) value. The scheme requires the appointment of Pre-shipment Inspection Agents (PIAs) as well as Monitoring and Evaluation Agents (MEAs) to monitor exporters under the supervision of the Federal Ministry of Finance (FMF) while the NESS secretariat, domiciled in CBN manages the implementation of the Scheme.

The table below shows the total number of covered entities that paid Ness Fee in 2016.

Table 5.13: NESS Fee

NESS FEE		
S/N	COMPANY NAME	COMPANY
		$
1	ADDAX –APDNL	627,515
2	ADDAX –APENL	306,289
3	AENR	132,608
4	AITEO	305,858
5	ALLIED	83,120
6	AMNI	153,703
7	BRITTANIA-U	20,522
8	CHEVRON	1,478,290
9	DUBRI OIL	4,815
10	EEPN(OE)L	498,618
11	EEPNL	601,545
12	ELCREST	3,981

13	EROTON	157,910
14	FAMFA	377,586
15	FIRST HYDROCARBON	12,193
16	MIDWESTERN	103,544
17	MOBIL	1,887,173
18	MONI PULO	84,074
19	NECONDE	45,957
20	NDPR	294,337
21	NAOC	303,404
22	NAE	345,670
23	OANDO HYDROCARBONS	240,598
24	PETROBRAS	231,423
25	PILLAR	22,793
26	PLATFORM	16,506
27	SEPLAT	98,885
28	SHORELINE	7,951
29	SNEPCO	2,089,570
30	SPDC	95,736
31	STAR DEEP	2,266,460
32	EQUINOR	378,937
33	STERLING GLOBAL	1,483,332
34	TEPNG	1,329,957
35	TUPNI	687,031
36	WALTERSMITH	27,471
	TOTAL	**16,805,364**

Source: NEITI 2016 Oil and Gas Template

Findings and observations

The total NESS fee collected in 2016 was $16,805,364 compared to $47,503,586 in 2015 which represents 64.19% decrease. Companies' records were validated against their bank statements and NESS teller receipts. However, due to non-availability of corroborating documents (such as bank statements and monthly reports) from MoF, we could not fully reconcile the transactions.

5.14 Value Added Tax (VAT)

The VAT is a form of tax charged on the supply of goods and services, which is eventually borne by the final consumer but collected at each stage of the production and distribution chain. (Sometimes multiple layers do bear part of the burden, e.g. VAT on tax for services and fixed assets). The standard rate of VAT is currently 5% of invoice value of goods and services except items specifically stated as exempt or zero-rated. The FIRS administers the VAT system in Nigeria. All existing manufacturers, distributors, importers, and suppliers of goods and services are required to register for VAT and obtain a permanent VAT registration number.

The liability to VAT arises when the output is more than the input. The net VAT in a tax period is the amount to be remitted to the FIRS. Output VAT is tax that is due on VATable supplies which is derived by multiplying the value of the aggregate supply by the tax rate. Input VAT is charged on business purchases and expenses. These include goods and services supplied in Nigeria or imported.

The total unilaterally disclosed VAT received by FIRS in 2016 was $563,801,405 as presented below.

Table 5.14:Value Added Tax

S/N	COMPANY NAME	GOVERNMENT
		$
1	ADDAX –APDNL	10,211,893
2	ADDAX –APENL	2,951,937
3	AENR	1,042,716
4	ALLIED	970,703
5	AMNI	2,882,063
6	ATLAS	588,231
7	BRITTANIA-U	28,131
8	CHEVRON	68,481,490
9	CON OIL	1,193,819
10	DUBRI OIL	100,828
11	EEPN(OE)L	24,105,813
12	EEPNL	32,764,033
13	ELCREST	151,089
14	ENERGIA LIMITED	1,198,542
15	EROTON	5,564,912
16	EXPRESS	997
17	FAMFA	201,772
18	FIRST HYDROCARBON	310,069
19	FRONTIER OIL	705,657
20	MIDWESTERN	2,552,710
21	MOBIL	43,523,750
22	MONI PULO	5,894,642
23	ND WESTERN	8,680

24	NECONDE	1,616,617
25	NETWORK E&P	74,847
26	NEWCROSS	126,870
27	NEWCROSS E&P	86,205
28	NDPR	840,329
29	NAOC	33,265,490
30	NAE	10,247,366
31	NLNG	24,607,304
32	NPDC	9,791,426
33	OANDO HYDROCARBONS	83,504
34	ORIENTAL ENERGY	5,131,351
35	PAN OCEAN	248,145
36	PETROBRAS	135,702
37	PILLAR	368,123
38	PLATFORM	950,082
39	SA PETROLEUM	529,190
40	SEPLAT	7,403,838
41	SHEBA	154,989
42	SHORELINE	37,303
43	SNEPCO	20,942,231
44	SPDC	66,030,983
45	STAR DEEP	21,836,677
46	EQUINOR	408,866
47	STERLING GLOBAL	369,931
48	TEPNG	36,784,907
49	TUPNI	116,025,462
50	UNIVERSAL ENERGY	252,226
51	YINKA FOLAWIYO PETR. LTD	16,964
	TOTAL	**563,801,405**

Source: FIRS Reporting template

5.15 Withholding Tax (WHT)

Withholding tax is an advance and indirect taxation deducted at source from the invoice of the taxpayer. Its main purpose is to capture as many taxpayers into the tax net. Withholding tax rates are usually 10% or 5% depending on the type of transaction and collecting authority for the tax (which can be the federal or state agency). The total withholding tax reported by FIRS in 2016 was $763,936,272 as presented below.

Table 5.15:Withholding Tax

S/N	COMPANY NAME	GOVERNMENT
		$
1	ADDAX –APDNL	10,658,887
2	ADDAX –APENL	4,305,463
3	AENR	1,382,426
4	ALLIED	2,384,750
5	AMNI	2,061,277
6	ATLAS	134,191
7	BRITTANIA-U	81,630
8	CHEVRON	71,445,865
9	CON OIL	6,932,142
10	DUBRI OIL	138,817
11	EEPN(OE)L	23,025,221
12	EEPNL	43,917,742
13	ELCREST	145,515
14	ENERGIA LIMITED	1,448,141
15	EROTON	3,533,482
16	FAMFA	425,754
17	FIRST HYDROCARBON	323,683
18	FRONTIER OIL	1,153,628
19	MIDWESTERN	3,511,666
20	MOBIL	55,832,926
21	MONI PULO	10,686,265
22	ND WESTERN	98,819
23	NECONDE	1,942,160
24	NETWORK E&P	194,168
25	NEWCROSS	109,976
26	NEWCROSS E&P	663,221
27	NDPR	1,497,904
28	NAOC	37,642,563
29	NAE	1,949,904
30	NLNG	85,066,148

31	NPDC	13,657,724
32	OANDO HYDROCARBONS	65,090
33	ORIENTAL ENERGY	4,749,758
34	PAN OCEAN	331,098
35	PETROBRAS	130,106
36	PILLAR	345,851
37	PLATFORM	1,360,938
38	SA PETROLEUM	591,871
39	SEPLAT	10,502,119
40	SHEBA	14,706
41	SHORELINE	28,265
42	SNEPCO	32,717,941
43	SPDC	99,937,983
44	STAR DEEP	29,746,588
45	EQUINOR	313,730
46	STERLING GLOBAL	1,210,571
47	TEPNG	59,072,016
48	TUPNI	136,254,678
49	UNIVERSAL ENERGY	208,966
50	YINKA FOLAWIYO PETR. LTD	1,939
	TOTAL	**763,936,272**

Source: FIRS Reporting template

5.16 Pay As You Earn (PAYE)

Salary earners in Nigeria are mandated by law to pay tax under the Pay As You Earn (PAYE) scheme; on a monthly basis as tax.

Taxes under the PAYE scheme fall under the jurisdiction of the State Inland Revenue Service, meaning that all the taxes paid under this scheme are remitted to the state of the employees' residence. Nigeria's Personal Income Tax Laws have evolved over the years with several amendments introduced to align with the income of Nigerians, with the latest amendment being in 2012. The new amendments affect several sections of the Personal Income Tax Act, particularly Section 33, which deals with personal relief and relief for children, dependents, etc. This has now been replaced with a Consolidated Relief Allowance (CRA) of N200,000 + 20% of gross income. The minimum tax upwards from 0.5% to 1% and the Tax table has been notably amended.The total PAYE reported by FIRS was $41,209,736 as presented below.

Table 5.16:PAYE

S/N	COMPANY NAME	GOVERNMENT ($)
1	ADDAX –APDNL	31,768
2	AENR	45,647
3	CHEVRON	1,395,121
4	EEPN(OE)L	5,492
5	EEPNL	13,090
6	ENERGIA LIMITED	249
7	MOBIL	508,323
8	NECONDE	46,532
9	NDPR	515,704
10	NAOC	1,316,324
11	NAE	2,648,998
12	NLNG	29,772,802
13	NPDC	1,143
14	ORIENTAL ENERGY	62,523
15	SEPLAT	4,586,476
16	SNEPCO	2,380
17	SPDC	18
18	STERLING GLOBAL	257,146
	TOTAL	**41,209,736**

Source: FIRS reporting template

5.17 Summary of reconciliation of aggregate company financial flows

The IA carried out reconciliation of financial flows by comparing the initial templates submitted by government agencies and companies, and validated data provided in initial templates with payment instruments to ensure completeness and accuracy. Payments were made in USD, Naira, Euro or Pounds and to ease analysis, all currencies were converted to USD using international average rate as presented in **Table 1.0**. The total unresolved difference with respect to company level flows is **$24,513,029.** This represents 0.14% of the aggregated financial flows of **$17.054billion**.

The unresolved difference between government and companies resulted from the following:

i. Pipeline transportation fee: The un-reconciled difference of $23,185,327 arose due to non-confirmation of receipt by NNPC.

ii. NDDC Levy: The un-reconciled sum of N200,000,000 ($770,238) being payment made by Sterling Oil Exploration. The audit revealed that Sterling paid the naira equivalent of

$770,238, which was not traceable to NDDC bank account despite presentation of bank statement showing the debit of same amount by Sterling Oil.

a. NCDMB Levy: The un-reconciled difference of $557,464 arose due to non-confirmation of receipt by NCDMB for the payment by Mobil in the months of August and December 2016. However, NCDMB were able to confirm payments for other months.

A summary is presented in the table below.

Table 5.17:Reconciliation of aggregate company financial flows

		INITIAL TEMPLATE			ADJUSTMENT			FINAL		
S/N	**REVENUE STREAM**	**COMPANY**	**GOVERNMENT**	**DIFFERENCES**	**COMPANY**	**GOVERNMENT**	**DIFFERENCES**	**COMPANY**	**GOVERNMENT**	**DIFFERENCES**
		$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
1	CGT	176,515,841.00	-	176,515,841.00	-	176,515,841.00	(176,515,841.00)	176,515,841.00	176,515,841.00	-
2	CIT	205,451,532.00	308,585,683.00	(103,134,151.00)	109,394,074.00	6,259,923.00	103,134,151.00	314,845,606.00	314,845,606.00	-
3	CONCESSIONAL RENTALS	476,205.00	256,058.00	220,147.00	302,616.00	522,763.00	(220,147.00)	778,821.00	778,821.00	-
4	EDUCATION TAX	307,875,937.00	294,451,783.00	13,424,155.00	5,808,681.00	19,232,835.00	(13,424,154.00)	313,684,618.00	313,684,618.00	-
5	GAS FLARE PENALTY	7,665,187.00	6,836,587.00	828,600.00	1,134,224.00	1,962,824.00	(828,600.00)	8,799,411.00	8,799,411.00	-
6	NCDMB	64,336,269.00	76,215,365.00	(11,879,096.00)	46,635,474.00	34,198,914.00	12,436,560.00	110,971,743.00	110,414,279.00	557,464.00
7	NDDC	506,156,044.00	494,384,046.00	11,771,998.00	(13,654,014.00)	(2,652,254.00)	(11,001,760.00)	492,502,030.00	491,731,792.00	770,238.00
8	NLNG	390,234,416.00	-	390,234,416.00	(1.00)	390,234,415.00	(390,234,416.00)	390,234,415.00	390,234,415.00	-
9	PIPELINE TRANSPORTATION	79,712,658.00	-	79,712,658.00	(53,998,779.00)	2,528,552.00	(56,527,331.00)	25,713,879.00	2,528,552.00	23,185,327.00
10	PPT	2,654,705,079.00	4,224,996,568.00	(1,570,291,489.00)	1,562,202,458.00	(8,089,031.00)	1,570,291,489.00	4,216,907,537.00	4,216,907,537.00	-
11	ROYALTY GAS	65,785,601.00	35,523,107.00	30,262,494.00	292,312.00	30,554,806.00	(30,262,494.00)	66,077,913.00	66,077,913.00	-
12	ROYALTY OIL	1,064,378,024.00	823,237,822.00	241,140,202.00	512,661,744.00	753,801,946.00	(241,140,202.00)	1,577,039,768.00	1,577,039,768.00	-
	TOTAL	**5,523,292,793.00**	**6,264,487,019.00**	**(741,194,225.00)**	**2,170,778,789.00**	**1,405,071,534.00**	**765,707,255.00**	**7,694,071,582.00**	**7,669,558,553.00**	**24,513,029.00**

5.18 Summary of company level financial flows

Table 5.18:Summary of company level financial flows

COMPANY NAME	EDT	ROYALTY OIL	PPT	NDDC	NCDMB	GAS FLARE PEN	Concessional Rentals	NESS	CIT	ROYALTY	PIPELINE TRANS	NLNG Dividend/interest	WHT	CGT	VAT	PAYE	TOTAL
								FEE		**GAS**	**FEE**						
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**						
ADDAX – APDNL	-	71,994	56,168	17,167	2,459	897	40	628					10,659		10,212	32	**170,256**
ADDAX – APENL	-	17,589	27,995	8,952	728	42	31	306					4,305		2,952	-	**62,901**
AENR	3,421	14,055	-	806	186	1,268	20	133					1,382		1,043	46	**22,360**
AITEO	-	35,538	-	4,319	-	-	-	306					-		-	-	**40,163**
ALLIED	-	2,580	-	-	-	-	-	83					2,385		971	-	**6,019**

AMNI	484	6,493	3,106	798	226	292	-	154					2,061		2,882	-	16,497
ATLAS	-	3,653	750	-	-	100	-	-					134		588	-	5,225
BRITTANIA-U	-	50	-	89	-	-	-	21					82		28	-	269
BELEMA OIL	-	2,200	-	387	-	-	17	-					-		-	-	2,604
CHEVRON	16,896	208,865	103,603	47,260	7,264	594	83	1,478		13,001			71,446		68,481	1,395	540,366
CON OIL	-	2,430	217	-	-	4	-	-					6,932		1,194	-	10,776
CONTINENTAL OIL	15	32,022	2,549	-	-	-	-	-					-		-	-	34,585
DUBRI OIL	8,072	707	-	31	-	33	-	5					139		101	-	9,088
ELCREST	-	-	-	-	-	-	-	4					146		151	-	301
ENERGIA LIMITED	252	1,616	-	-	228	253	-	-					1,448		1,199	0	4,996
EROTON	719	49,045	3,435	-	-	85	16	158		282			3,533		5,565	-	62,838
EXPRESS	-	-	-	-	-	-	-	-					-		1	-	1
FAMFA	12,394	-	259,730	-	-	-	-	378					426		202	-	273,129
FIRST HYDROCARBON	56	1,149	77	-	-	-	-	12					324		310	-	1,928
FRONTIER OIL	-	164	-	-	-	-	-	-					1,154		706	-	2,023
MIDWESTERN	-	8,000	-	-	735	16	-	104					3,512		2,553	-	14,919
EEPNL	18,684	125,125	405,385	31,793	8,579	319	11	602					43,918		32,764	13	667,191
EEPN(OE)L	12,892	-	-	28,143	19,471	427	-	499	14				23,025		24,106	5	108,584
MOBIL	46,358	317,437	656,604	67,666	7,629	626	49	1,887	39,215				55,833		43,524	508	1,237,336
MONI PULO	634	20,912	17,094	-	25	13	32	84					10,686		5,895	-	55,376
NAE	3,547	13,594	3,578	4,537	1,089	142	-	346					1,950		10,247	2,649	41,678
NAOC	9,123	63,591	22,523	17,899	823	159	46	303	55,401	8,402			37,643		33,265	1,316	250,494
ND WESTERN	-	2,000	-	-	-	-	-	-		963			99		9	-	3,070
NDPR	36	1,783	884	-	-	-	-	294		675			1,498		840	516	6,527
NECONDE	-	3,740	-	-	-	-	-	46					1,942		1,617	47	7,391
NETWORK E&P	-	472	-	266	-	26	-	-					194		75	-	1,034
NEWCROSS	-	-	554	-	-	10	-	-					110		127	-	801
NEWCROSS E&P	-	8,350	655	-	-	-	-	-					663		86	-	9,755
NPDC	-	86,054	186,323	3,851	1,332	-	98	-					13,658		9,791	1	301,108
OANDO HYDROCARBONS	-	17,903	15,750	-	-	130	-	241		5,316			65		84	-	39,488
OANDO OML 125 & 134	-	-	-	-	-	-	-	-					-		-	-	0
OPDC LTD	-	-	-	-	-	-	-	-					-		-	-	0
ORIENTAL ENERGY	180	30,706	2,792	1,786	438	120	-	-					4,750		5,131	63	45,966
PAN OCEAN	-	-	-	-	-	-	-	-					331		248	-	579

PETROBRAS	4,603	-	58,780	-	10	-	-	231					130		136	-	**63,890**
PILLAR	15	310	76	-	63	7	-	23					346		368	-	**1,207**
PLATFORM	394	368	-	70	174	450	-	17					1,361		950	-	**3,784**
SA PETROLEUM	13,314	-	-	18,094	-	19	39	-					592		529	-	**32,586**
SEPLAT	-	32,647	-	21,601	1,724	-	-	99		5,458			10,502		7,404	4,586	**84,022**
SHEBA	-	-	-	-	-	-	-	-					15		155	-	**170**
SHORELINE	-	-	-	-	6	-	-	8					28		37	-	**80**
SNEPCO	51,501	56,411	771,961	30,531	4,848	638	21	2,090					32,718		20,942	2	**971,663**
SPDC	32,764	110,823	516,753	73,412	13,571	677	241	96	114,351	16,712	2,529		99,938	176,516	66,031	0	**1,224,413**
STAR DEEP	18,414	-	296,265	27,162	3,712	1,204	13	2,266					29,747		21,837	-	**400,619**
EQUINOR	23,202	-	666,294	21,489	18	-	24	379					314		409	-	**712,128**
STERLING GLOBAL	-	80,255	-	4,883	134	8	-	1,483					1,211		370	257	**88,602**
TEPNG	9,422	144,922	109,518	7,155	8,284	96	-	1,330	105,865	15,269			59,072		36,785	-	**497,717**
TUPNI	26,291	-	27,042	51,073	26,492	125	-	687					136,255		116,025	-	**383,989**
UNIVERSAL ENERGY	-	985	-	411	166	19	-	-					209		252	-	**2,042**
WALTERSMITH	-	500	450	102	-	-	-	27					-		-	-	**1,079**
YINKA FOLAWIYO PETR. LTD							-						2		17		**19**
SUB TOTAL	**313,685**	**1,577,040**	**4,216,908**	**491,732**	**110,414**	**8,799**	**779**	**16,805**	**314,846**	**66,078**	**2,529**		**678,870**	**176,516**	**539,194**	**11,437**	**8,525,631**
NLNG												390,234	85,066		24,607	29,773	**529,681**
Unilateral Disclosure	4,169		-	334	18,989		45										**23,537**
TOTAL	**317,853**	**1,577,040**	**4,216,908**	**492,066**	**129,403**	**8,799**	**824**	**16,805**	**314,846**	**66,078**	**2,529**	**390,234**	**763,936**	**176,516**	**563,801**	**41,210**	**9,078,848**

5.19 Social Expenditures by Extractive Companies

Social expenditures are defined as payments or contributions by extractive companies which are either mandated by law, discretionary, or part of company's legal and contractual obligations. These can be in cash or kind to a third party or a government agency.

In Nigeria, social expenditures are classified as mandatory and non-mandatory payments. The mandatory social expenditures are payments mandated by law that do not accrue to the Federation but to respective agencies. There were two such payments in 2016 to NDDC and NCDMB. Section 14(b) of the NDDC Act,mandates the commission to collect 3% of the total annual budget of any oil producing company operating onshore and offshore in the Niger Delta area ,including gas processing companies. Also,the NCDMB levy Section 104 of the NOGICD Act of 2010 provides that 1% of every contract in the upstream sector of the Nigerian oil and gas industry shall be deducted at source and paid to the NCDMB.

Non-mandatory social expenditures are expenditures incurred by companies to increase their social capital with the communities they operate in. These are usually in the form of Community Development Programmes (CDPs), Memorandum of Understanding (MOUs) signed between companies and host communities and projects embarked on by companies to get their annual work-plans signed off by the DPR. Non- Mandatory social expenditures carried out by companies include:

- Provision of amenities and infrastructure (road, potable water, health centres, etc.)
- Educational scholarships (Primary. Secondary and Tertiary)
- Skills acquisition (fashion designing, hairdressing, cobbling etc.)
- Agriculture support (provisions of seedlings, fertilisers, fishing gears, etc.)
-

The total social expenditure (mandatory and non-mandatory) in 2016 was $781,741,339, out of which non-mandatory contribution constituted 20.5% ($160,272148), while mandatory contribution consisting of NDDC's 3% levy of $492,065,771[16]and NCDMB's 1% levy of $129,403,420[17]constituted 79.5% ($621,469,191).

Out of the 62 covered companies, 31 executed 457 non-mandatory social expenditure projects. Details of the non-mandatory social expenditures are contained in Appendix 9 (Schedule of non-mandatory of social expenditure).

Table 5.19: Summary of non-mandatory Social Expenditure

S/N	ENTITY	NO OF PROJECTS	AMOUNT		BASE FIGURE
			NGN	USD	USD
1	AENR	1	298,176,799		1,148,336
2	AMNI	12	220,144,463		847,818
3	APDNL	41	8,417,736,103	1,455,367	33,873,668
4	APENL	9	8,425,000	32,000	64,446
5	BELEMAOIL	12	3,719,784,870	13,512,101	27,837,699
6	CONOIL	1	50,000,000		192,560
7	CONTINENTAL OIL LTD	2	320,500,000		1,234,306
8	CHEVRON	10	1,842,626,544	7,192,196	14,288,501
9	ENERGIA	107	572,876,916	3,793,452	5,999,710
10	EROTON	1	668,825,455	343,636	2,919,410
11	ESSO ERHA	3	272,886,466	1,334,028	2,384,966
12	ESSO USAN	2	15,850,000		61,041
13	MIDWESTERN	5		613,000	613,000

16 Details of companies that paid NDDC Levy is in section7

17 Details of companies that paid NCDMB Levy is in section7

14	MPN	6	776,846,799	3,486,596	6,478,381
15	NAE	12	41,541,000	305,000	464,982
16	NAOC	10	3,241,984,000		12,485,496
17	NDPR	7	28,443,964		109,543
18	NETWORK E&P	16	33,436,408	61,294	190,064
19	ORIENTAL	2	50,232,260		193,454
20	PLATFORM/ NEWCROSS	13	76,414,495		294,287
21	SAPETRO	1		256,929	256,929
22	SEPLAT	3	630,179,453		2,426,941
23	SHORELINE	7	604,330,000		2,327,390
24	SNEPCO	19	78,902,997	250,967	554,837
25	SPDC	80	4,141,426,588		15,949,421
26	STAR DEEP	20	1,112,532,000	3,287,000	7,571,572
27	TEPNG	7	5,282,937	2,212	22,558
28	TUPNI	30		19,138,504	19,138,504
29	UNIVERSAL	15	34,251,045		131,907
30	WALTER SMITH	3	54,638,000		210,421
	TOTAL	**457**	**27,318,274,562**	**55,064,282**	**160,272,148**

Source: 2016 NEITI Oil and Gas Templates on Social Expenditure

6.0 Cash Call Funding

6.1 Background

Nigeria (represented by NNPC)owns equity share in joint venture arrangements with other oil companies. The joint venture operations are guided by the Joint Operation Agreement (JOA) and is funded based on each party's equity share holding. The parties jointly share both financial and operational risks.

The operator is appointed by the JOA and manages the operations on behalf of the partners. The operator provides written estimate for expenditures to be paid for a project on a monthly basis. This is the basis for the cash call invoice to the non-operator(s). The operator must send this estimate to the other joint partners not later than 30 days before the start of the month the cash call applies to.

The Federation has participatory interest in 15 Joint Venture arrangements made up of five IOCs, and ten indigenous companies. There were Three JV arrangements that came into effect in 2016.

Table 6.0: Schedule of Joint Venture arrangements for which Nigeria has participatory interest

S/No	**JV**	**OPERATOR**	***PARTICIPATORY INTEREST***														
			NNPC %	**SPDC %**	**MOBIL %**	**CHEVRON %**	**TOTAL %**	**NAOC %**	***POCNL%***	**POOCN %**	**NCR %**	**FIRST E&P %**	**EROTON %**	**AITEO %**	**BELEMA %**	**SEPLAT %**	**WAEP %**
1	SPDC JV	SPDC JV	55	30			10	5									
2	MOBIL JV	MOBIL JV	60		40												
3	CHEVRON JV	CHEVRON JV	60			40											
4	TEPNG JV	TEPNG JV	60				40										
5	NAOC JV	NAOC JV	60					20	20								
6	PANOCEAN JV	PANOCEAN JV	60							40							
7	NPDC/CHEVRON JV	NPDC/CHEVRON JV	60			40											
8	NPDC/SPDC JV	NPDC/SPDC JV	55	45													
9	NEWCROSS JV	NEWCROSS JV	55								45						
10	FIRST E&P JV	FIRST E&P JV	55									45					
11	EROTON JV	EROTON JV	55										45				
12	AITEO JV	AITEO JV	55											45			
13	BELEMA JV	BELEMA JV	60												40		
14	SEPLAT JV	SEPLAT JV	60													40	
15	WAEP JV	WAEP JV	60														40

6.2 Cash call budget approval process

Cash call budgets are based on the annual work programme as approved by all parties. The funding covers all exploration, development, production, drilling, technical and administrative operations for both oil and gas. The cash call budget is then presented to the National Assembly for appropriation.

NNPC and the JV partners set up a committee representing both parties and a meeting is held upon request of cash call, which is deliberated and agreed on. NNPC and other partners including the JV operator sign off the agreement after the request is reviewed. Their Operating Committees (OPCOM) as provided in the JOA approves the work programme agreed in advance among the JV partners. The OPCOM is constituted in accordance with the JOA as the highest decision-making authority and is charged with the overall supervision, control and direction of all matters pertaining to the joint operations.

In 2016, a new funding arrangement was introduced in order to ensure transparency, accountability and control. The new JV processes were designed to simplify and streamline the governance mechanisms. Features of this new JV self-financing model are as enumerated below:

i. Annual budget estimates will be appropriated for oil and gas revenues such as royalties, PPT and profit oil;
ii. NNPC recovers cost of production (T1+T2) and cash call arrears repayments will be set off from gross sales proceeds net of royalties;
iii. Royalties, taxes and profit oil components of the gross oil and gas sales proceeds will be paid directly to the Federation Account,while the Federation will also receive royalties and taxes from entire JV Operations (JV Partners+ NNPC's Equity share of the JVs);
iv. NNPC may use a portion of profit oil to finance shortfall in cash call activities in lieu of obtaining third party financing;
v. A new dependent dividend policy will be initiated;
vi. Each of the JVs will be incorporated, where each Incorporated JV (IJV) can use the strength of its financial position to raise third party finance and also can use its reserves as collateral to borrow funds;
vii. Escrow Accounts will be maintained for each JV Operations Account for all oil and gas revenues and expenditures to monitor the efficiency of each JV Partner.

Details of components of the self-financing model are in Appendix 10 (Cash Call Funding).

6.3 Joint Venture cash call budget

The total approved budget[18] by the National Assembly for the year 2016 was $8.203 billion. JV Cash Calls (Oil & Domestic Gas) constituted 67.7% of the total budget. The table below showed an increase of $844.467 million in 2016 when compared to $7.359 billion in 2015, representing 11.48% increase.

Table 6.1: JV Cash Call Approved budget

		2016	2015	VARIANCE
		$'000	$'000	$'000
1	JV CASH CALLS (Oil& Domestic Gas)	5,554,898.48	5,336,000.00	218,898.48
2	NATIONAL DOMESTIC GAS DEVELOPMENT	1,426,106.60	1,307,000.00	119,106.60
3	BRASS LNG GAS SUPPLY PROJECT	97,350.25	106,000.00	(8,649.75)
4	CRUDE OIL-PRE-EXPORT INSPECTION AGENCY	20,000.00	20,000.00	
5	FRONTIER EXPLORATION SERVICES	202,461.93	100,000.00	102,461.93
6	GAS INFRASTRUCTURE	1,000,000.00	490,000.00	510,000.00
	TOTAL	**8,203,467.01**	**7,359,000.00**	**844,467.01**

Source: Approved budget

6.4 Funding into JV Cash call account

Each JV Operator makes monthly request to other partners in their respective participating interests for advance payment in order to meet anticipated costs and expenditures in the respective cash call month. These requests are made in the currencies as stipulated in the JOA (both Naira and Dollar).

As first reported in the 2015 NEITI oil and gas industry Report, NAPIMS through CBN opened an account with BIS to keep excess bank balances above the prescribed threshold allowed by the US Government. However due to regulatory requirement imposed on the JP Morgan Chase Bank, New York, a new account was opened in February 2016 with Standard Chartered Bank, London and all payment mandates by NAPIMS was instructed to the bank. The banks maintained for JV Cash Call are namely:

i. JP Morgan Chase NNPC/CBN JV Dollar Cash Call Account – For dollar denominated expenditure
ii. Standard Chartered Bank NNPC/CBN JV Dollar Cash Call Account
iii. NNPC/CBN JV Cash Call Naira Account – For Naira denominated Cost

[18] National Assembly approved budget for NNPC

In 2016,NNPC entered into new agreement with its five legacy JV partners on the repayment of cash call arrears.

Major highlights of these agreements are as presented below:

i. **Full and final settlement of cash call arrears**: The outstanding liabilities were discounted to **$5.1billion,**which represents 75% of the reported arrears amount of $6.8billion.

ii. **Repayment source**: NNPC's share of **incremental production** from JV activities after payment of royalties.

iii. **Duration of repayment**: 5 years.

iv. **Interest charges**: There will be no interest charged on the amount of arrears during the repayment period.

v. **Tax deductibility**: The $1.7billion reduction write-down will not qualify as a tax-deductible expense by the IOC JV partners for PPT determination.

vi. **Royalties in kind:** HMPR will issue a notice to call for and receive royalty in kind to be lifted by NNPC on behalf of the Federation as a first line charge to gross production.

vii. **Tax payable on arrears**: Receipt by the IOC JV Partners of the repayment of Cash Call arrears of $5.1Billion represent refund of advances made on behalf of NNPC and is not revenue to the IOCs and therefore not subject to any Tax, Fee or Levy.

viii. **Percenatage PPT from Incremental Crude Oil**: 100% is payable to FIRS after deduction of related cost of production and accumulated arraes as PPT (deemed loss carried forward from prior years un-recovered Cost of Production whose related revenues have already been enjoyed by the Federation Account).

In the year under review, the total financial funding into the Cash Call Account was $5,558,636,759.79. There was a decrease in cash call funding by $593,024,240.21 which represents 9.64%. The total Cash Call Account funding by the Federal Government in 2016 was $5,558,179,820.77 while total interest earned on cash call was $ 436,251.59 and interest on LC Elcee A/C NESTOIL was $20,687.43.

Table6.2: Analysis of Inflows into Cash Call Account (2012-2016)

FIVE YEARS SUMMARY OF INFLOWS INTO CASH CALL ACCOUNT					
FUNDING	2012	2013	2014	2015	2016
	$	$	$	$	$
Inflows into JP Morgan JV Cash Call Account	7,310,861,360.62	7,277,349,866.46	7,275,514,893.90	6,150,628,000	5,558,179,820.77
Interest Earned	998,881.77	372,048.38	-	950,000	436,251.59
Interest on LC Elcee A/C – NESTOIL				83,000	20,687.43
Total Inflow	**7,311,860,242.39**	**7,277,721,914.84**	7,275,514,893.90	**6,151,661,000**	**5,558,636,759.79**
Difference		(34,138,327.55)	(2,207,020.94)	(1,123,853,893.90)	**(593,024,240.21)**
Percentage change		(0.47)	(0.03)	(15.45)	(9.64**)**
Source: JP Morgan Chase/Standard Chartered Bank NNPC/CBN JV Dollar Cash Call Account					

6.5 Cash call payments to operators

The summary of Cash Call paid by NNPC/NAPIMS to JV operators in 2016 was $3,515,452,820.15.

Table 6.3: Summary of Dollar and Naira Cash call paid by NAPIMS to JV operators

ENTITY	SOURCE CURRENCY			FUNCTIONAL CURRENCY
	NAIRA	($ EQV of a)	USD	USD
	(a)	(b)	(c)	(b+c)
NNPC/SPDC/TEPNG/NAOC	125,815,601,770.00	484,539,789.61	362,314,270.00	846,854,059.61
NNPC/MOBIL	87,963,576,180.00	338,764,446.51	287,390,210.00	626,154,656.51
NNPC/CHEVRON	125,045,711,400.00	481,574,795.50	508,091,320.00	989,666,115.50
NNPC/NAOC	15,994,447,190.00	61,597,655.36	19,639,320.00	81,236,975.36
NNPC/TEPNG	67,936,041,450.00	261,634,604.68	265,503,180.00	527,137,784.68
NNPC/PANOCEAN	18,505,024,240.00	71,266,364.63	124,825,590.00	196,091,954.63
NPDC-CNL	631,923,500.00	2,433,657.48	193,560.00	2,627,217.48
NPDC-SPDC	1,909,300,360.00	7,353,078.53	6,156,130.00	13,509,208.53
NNPC/NEWCROSS	7,694,161,620.00	29,631,678.43	18,829,820.00	48,461,498.43
NNPC/FIRST E&P	1,476,297,170.00	5,685,500.92	2,855,900.00	8,541,400.92
NNPC/EROTON	8,698,425,100.00	33,499,287.91	23,505,700.00	57,004,987.91
NNPC/AITEO	18,545,709,640.00	71,423,051.84	29,994,120.00	101,417,171.84
NNPC/BELEMA	978,406,320.00	3,768,028.65	4,212,200.00	7,980,228.65
NNPC/SEPLAT	1,307,000,000.00	5,033,505.35	3,014,000.00	8,047,505.35
NNPC/WAEP	172,511,550.00	664,374.76	57,680.00	722,054.76
TOTAL	**482,674,137,490.00**	**1,858,869,820.15**	**1,656,583,000.00**	**3,515,452,820.15**
Source: JP Morgan/Standard Chartered Bank NNPC/CBN JVCC Dollar Cash Call Account, NNPC/CBN JVCC Naira Cash Call Account and Cash Call Mandates.				

Find below cash call paid to JV operators by products:

Table 6.4: Analysis of Dollar Cash calls paid by NAPIMS

ENTITIES	E & P (CRUDE)	DOM GAS	TOTAL
	USD	USD	USD
NNPC/SPDC/TEPNG/NAOC	252,100,520.00	110,213,750.00	362,314,270.00
NNPC/MOBIL	281,450,180.00	5,940,000.00	287,390,180.00
NNPC/CHEVRON	357,627,950.00	150,462,520.00	508,090,470.00
NNPC/NAOC	13,153,830.00	6,485,490.00	19,639,320.00
NNPC/TEPNG	248,255,190.00	17,575,890.00	265,831,080.00
NNPC/PANOCEAN	83,412,587.00	41,413,000.00	124,825,587.00
NPDC-CNL	193,560.00	-	193,560.00
NPDC-SPDC	3,435,740.00	2,720,390.00	6,156,130.00
NNPC/NEWCROSS	18,829,820.00	-	18,829,820.00
NNPC/FIRST E&P	2,855,900.00	-	2,855,900.00
NNPC/EROTON	23,505,700.00	-	23,505,700.00
NNPC/AITEO	29,994,120.00	-	29,994,120.00
NNPC/BELEMA	4,212,200.00	-	4,212,200.00
NNPC/SEPLAT	3,014,000.00	-	3,014,000.00
NNPC/WAEP	57,680.00		57,680.00
TOTAL	**1,322,098,977.00**	**334,811,040.00**	**1,656,910,017.00**
Source: JP Morgan/Standard Chartered Bank NNPC/CBN JVCC Dollar Cash Call Account, Cash Call Mandates and NAPIMS populated Templates.			

The analysis above shows an increase in JV funding of $298,843,277.00 compared to payment in 2015 of $1,023,255,700.00, indicating a 29.21% increase. However, there was a decline in domiciliary gas payment of $121,558,720.00 compared to 2015.payment of $456,369,760.00, indicating 26.64% decrease.

Table 6.5: Analysis of Naira Cash calls paid by NAPIMS

ENTITIES	E & P (CRUDE)	DOM GAS	TOTAL
	NAIRA	NAIRA	NAIRA
NNPC/SPDC/TEPNG/NAOC	113,274,904,730.00	12,540,697,040.00	125,815,601,770.00
NNPC/MOBIL	87,129,182,580.00	834,393,600.00	87,963,576,180.00
NNPC/CHEVRON	97,832,701,800.00	27,213,009,600.00	125,045,711,400.00
NNPC/NAOC	15,094,751,660.00	899,695,530.00	15,994,447,190.00
NNPC/TEPNG	66,302,964,460.00	1,633,076,990.00	67,936,041,450.00
NNPC/PANOCEAN	12,531,877,740.00	5,973,146,500.00	18,505,024,240.00
NPDC-CNL	631,923,500.00	-	631,923,500.00
NPDC-SPDC	1,307,597,750.00	601,702,610.00	1,909,300,360.00
NNPC/NEWCROSS	7,694,161,620.00	-	7,694,161,620.00
NNPC/FIRST E&P	1,476,297,170.00	-	1,476,297,170.00
NNPC/EROTON	8,698,425,100.00	-	8,698,425,100.00

NNPC/AITEO	18,545,709,640.00	-	18,545,709,640.00
NNPC/BELEMA	978,406,320.00	-	978,406,320.00
NNPC/SEPLAT	1,307,000,000.00		1,307,000,000.00
NNPC/WAEP	172,511,550.00		172,511,550.00
TOTAL	**432,978,415,620.00**	**49,695,721,870.00**	**482,674,137,490.00**
Source: JP Morgan/Standard Chartered Bank NNPC/CBN JVCC Naira Cash Call Account, Cash Call Mandates and NAPIMS populated templates.			

Total fund transfers made by NAPIMS to JV companies for Naira cash call in 2016 was N482,674,137,490.00.

The table above shows both increase in the E &P (crude) and Dom Gas Naira cash call funding. The E & P (crude) increased by ₦82,555,383,540.00 compared to 2015 payment of N350,423,032,080.00. This represents 25.56%. While Dom Gas cash call fund increased by N12,352,758,380.00 compared to 2015 payment of N37,342,963,490.00, representing 33.08%.

The total cash calls funding by the Federal Government to JV operators in 2016 was $3,515,779,837.11.

The amount of cash calls funding by the Federal Government to joint venture operators dropped by $854,715,162.89, a 19% decline. The cash call value was based on NAPIMS's submission which was traced to the bank statements and mandates issued to the banks for disbursement. However, some payments were received in 2017.

Three new indigenous JV operators; Belema Oil (OML 55), Seplat (OML 53) and WAEP (OML 71 and 72), were included in the cash calls for the first time in December 2016

Table 6.6: Comparison of cash call payment by NNPC/NAPIMS to JV operators

ENTITY	2016 Amount in USD 000	2015 Amount in USD 000	Increase/Decrease in Cash Call Funding	% change in Cash Call Funding
NNPC/SPDC/TEPNG/NAOC	846,854,059.61	1,100,592,000	(253,737,940.39)	-23.05
NNPC/MOBIL	626,154,626.51	795,389,000	(169,234,373.49)	-21.28
NNPC/CHEVRON	989,665,265.50	864,917,000	124,748,265.50	14.42
NNPC/NAOC	81,236,975.36	680,797,000	(599,560,024.64)	-88.07
NNPC/TEPNG	527,465,684.68	796,213,000	(268,747,315.32)	-33.75
NNPC/PANOCEAN	196,091,951.63	50,181,000	145,910,951.63	290.77
NPDC-CNL	2,627,217.48	11,589,000	(8,961,782.52)	-77.33
NPDC-SPDC	13,509,208.49	10,979,000	2,530,208.49	23.05
NNPC/NEWCROSS	48,461,498.43	52,313,000	(3,851,501.57)	-7.36
NNPC/FIRST E&P	8,541,400.92	7,525,000	1,016,400.92	13.51
NNPC/EROTON	57,004,987.91	-	57,004,987.91	
NNPC/AITEO	101,417,171.84	-	101,417,171.84	
NNPC/BELEMA	7,980,228.65	-	7,980,228.65	

NNPC/SEPLAT	8,047,505.35	-	8,047,505.35	
NNPC/WAEP	722,054.76		722,054.76	
TOTAL	**3,515,779,837.11**	**4,370,495,000.00**	**(854,715,162.89)**	**-19.56**
Source: JP Morgan NNPC/Standard Chartered Bank NNPC/CBN JV Dollar Cash Call Account, NNPC/ CBN JV Naira Cash Call and NAPIMS Cash Call Mandates and Templates.				

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6.6 Non-JV Cash call expenditure

A review of the payment mandates and bank statements showed that non-JV cash call transactions amounting to $874.045million were funded by NAPIMS from CBN/JP Morgan Chase, Standard Chartered Bank Cash Call Dollar Account, and CBN/NNPC JV Cash Call Naira Account as presented below.

The total amount of non-JV cash call expenditures represents 10.65% of the approved cash call budget

Table 6.7: Summary of Non-JV cash expenditures

NATURE OF PAYMENTS	SOURCE CURRENCY			FUNCTIONAL CURRENCY	(%) contribution
	NAIRA (a)	**$ EQV of (a) (b)**	**USD (c)**	**USD (b+c)**	
NAPIMS Administrative Overhead	-	-	365,148,209.15	365,148,209.15	41.78
Security	841,442,279.80	3,240,554.11	11,879.32	3,252,433.43	0.37
Training	1,275,245.00	4,911.21	44,414,110.37	44,419,021.58	5.08
WHT and VAT	1,475,814,643.28	5,683,642.62	8,595,975.70	14,279,618.32	1.63
Traveling & Accommodation	120,871,636.91	465,499.64	547,759.06	1,013,258.70	0.12
Survey and Sand Search	3,796,170.00	14,619.77	55,124.55	69,744.32	0.01
Transfer (NEES Fee)	-	-	445,553,431.37	445,553,431.37	50.98
Consultancy	76,711,197.73	295,429.40	0.00	295,429.40	0.03
Community Service (Waste Disposal)	3,551,190.48	13,676.31	0.00	13,676.31	0.01
TOTAL	**2,523,462,363.20**	**9,718,333.06**	**864,326,489.52**	**874,044,822.58**	**100.00**
Source: JP Morgan/Standard Chartered Bank NNPC/CBN JVCC Dollar Cash Call Account, NNPC/CBN JVCC Naira Cash Call Account and Cash Call Mandates.					

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6.7 Variance analysis of budgeted cash call to actual funding

Table 6.8: Variance analysis of cash call funding

BUDGET PERFORMANCE					
	ITEM	**2016**		**% Utilization**	**% Funding**
		$	**$**		
Budget Provision (A)			**8,203,467,010.00**		
Actual Inflow					
	Inflows into JP Morgan JV Cash Call Account	5,558,179,820.77			
	Interest Earned	436,251.59			
	Interest on LC Elcee A/C-NESTOIL	20,687.43			
Total Inflow: (B)		**5,558,636,759.79**			**68%**
Difference (A-B)			**2,644,830,250.21**		
Outflow (Expenditure)					
	Cash Call Payments to JV Operators	3,515,779,837.11			
	Gas Infrastructure	578,486,746.17			
	Non-JV Cash Call Payments	874,044,822.58			
Total Outflow (C)		**4,968,311,405.86**		**89.39%**	
Difference (A-C)			**3,235,155,604.14**		
Surplus (B-C)		**590,325,353.93**			
Source:2016 NAPIMS Templates and Budget					

The total cash call budget as shown in the table above was $8.203 billion, while the total inflow was $5.558 billion indicating a 68% funding. However, $4.968billion was paid out of a total inflow representing a 89.39% fund utilization. The year under review had a surplus of $590.325 million.

6.8 Cash call liabilities

Table 6.9: Summary of cash call liabilities owed by NAPIMS

S/N	ENTITY	LIABILITY AS AT 31/12/2015	NEGOTIATED CASH CALL LIABILITY AS AT 1ST JANUARY 2016	REPAYMENTS AS AT 31ST OCTOBER 2018	BALANCE ON NEGOTIATED CASH CALL LIABILITY AS AT 31ST OCTOBER 2018
	Indigenous companies	**$'** billion	**$'** billion	**$'** billion	$' billion
1	NEWCROSS	0.037	0.028	0.028	-
2	EROTON	0.088	0.066	0.066	-

3	AITEO	0.265	0.199	0.199	-
4	POL	0.191	0.143	0.143	-
5	FEPL	0.00026	0.0002	0.0002	-
	SUB-TOTAL	**0.58126**	**0.436**	**0.436**	**-**
	IOC's				
1	SPDC	1.830	1.373	-	1.373
2	CHEVRON	1.464	1.098	0.445	0.654
3	NAOC	1.033	0.775	0.145	0.630
4	TOTAL E & P	0.815	0.611	0.076	0.535
5	MPN	1.112	0.834	0.525	0.309
	SUB-TOTAL	**6.254**	**4.691**	**1.191**	**3.501**
	TOTAL	**6.835**	**5.127**	**1.627**	**3.501**

Source: NNPC Response

Findings and Observations:

- **a.** The table above shows the pre-2016 negotiated cash call liabilities for the major operators which are being repaid based on the executed Repayment Agreements.
- **b.** The pre-2016 cash call liabilities for the indigenous JV operators was settled in November 2018
- **c.** While the cash call liabilities for both indigenous and the major JV operators in 2016 has been settled.

6.9 Joint Venture equity divestments

In the year under review, equity holdings in six assets under the JV arrangement were divested to five indigenous companies. Chevron Nigeria Limited divested OML 53 to Seplat Petroleum Development Company Limited,and OML 55 to Belema Oil Producing Limited while SPDC divested OML 71 and 72 to West African Exploration & Production Company Limited. In addition, a review of NNPC-

COMD record showed that Oriental Oil acquired a field in OML 67that was divested by SPDC. From the asset, the federation lifted 598,000bbls of crude amounting to $24.746 million[19].

Table 6.10: Divested assets

S/N	NEW OWNERS	OML	DATE DIVESTED/NOVATION
1	SEPLAT PET. DEV. COMPANY PLC	OML 53	27TH JANUARY 2015
2	AMNI INTERNATIONAL PET. DEV. COMPANY LIMITED	OML 52	16TH DECEMBER 2016
3	WEST AFRICAN EXPLORATION & PRODUCTION COMPANY LIMITED	OML 71 AND 72	31ST DECEMBER 2015
4	BELEMA OIL PRODUCING LIMITED	OML 55	27TH JANUARY 2015
5	ORIENTAL OIL	OML 67	2016

Source: NAPIMS template

Findings and Observation

- There was no award of new license, but assets were transferred during the period. DPR monitored the transfer processes of the assets, and all the parties involve adhered to the requirements for the transfer of asset(s) as enshrined in schedule 14, 15 and 16 of the 1969 Petroleum Act. Thus, it has been established by the IA that there was no deviation from the applicable legal and regulatory framework governing license transfers and award.

[19] See Table 3.2:2016 Summary of Crude Oil Volume and Value of NNPC Lifting and Destination Accounts

7.0 Downstream operations and Price Modulation Mechanism

7.1 Downstream operations

Downstream operations involves crude oil refining, transaportaion,storage and distribution. Refined products are distributed around the country via pipelines and trucks. In 2016, Nigeria sold crude oil outside the country and purchased white products directly from refiners. This was done through the Direct Sales Direct Purchase (DSDP) initiative of the NNPC. The crude oil utilized for these operations was sourced from the crude allocated for domestic use.

7.2 Crude allocation for domestic use

The Federal Government allocates 445,000 bbls of crude oil daily to the four refineries in the country for domestic use based on their installed refining capacity. Due to the under-performance of the refineries, a significant volume of crude from the allocation is sold outside the country to purchase refined products which supplements the locally refined products whilethe balance is sold (domestic export) for cash.

7.2.1 Crude oil allocation to the refineries

The table below shows the allocation to the different refineries.

Table 7.0: Crude oil allocation to the refineries

Refinery	Capacity	Unit
Port Harcourt Refining Company (PHRC) – Old	65,000.00	BOPD
Port Harcourt Refining Company (PHRC) – New	150,000.00	BOPD
Warri Refining and Petrochemical Company Limited (WRPC)	120,000.00	BOPD
Kaduna Refining and Petrochemical Company Limited (KRPC)	110,000.00	BOPD
TOTAL	**445,000.00**	**BOPD**

Source: PPMC lifting profile

7.2.2 Actual domestic allocation

In 2016, the Federal Government allocated a total of 126,163.39mbbls for domestic use. This fell short of the annual allocation by 22.33%.

Table 7.1: Schedule of domestic allocation

Domestic Allocations (mbbls)	2016
Actual Refinery supply	23,085.64
Direct Sale Direct Purchase	55,995.40
PPMC lifting (crude product exchange and un-utilized export)	36,641.60
Off-shore processing	10,440.76
Total	**126,163.40**
Source: 2016 COMD – COSM Records	

7.3 Utilization of domestic allocation

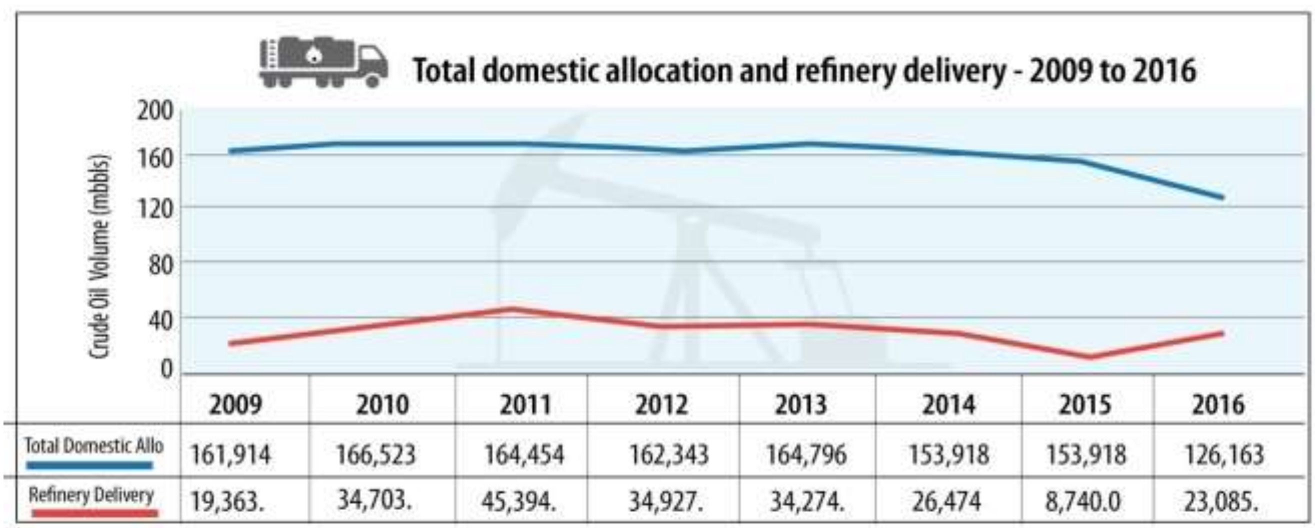
Table 7.2: Comparison of utilization of domestic allocation (2009 – 2016)

Yearly	Total Domestic Allocated Crude	Refinery Delivery	Unprocessed Crude Export	Offshore Processing	Crude Exchange	Crude Product Exchange	Direct Sale Direct Purchase (DSDP)
	Mbbls	Mbbls	Mbbls	Mbbls	Mbbls	Mbbls	Mbbls
2009	161,914.00	19,363.00	142,551.00	-	-	-	
2010	166,523.00	34,703.00	97,792.00	27,336.00	950.00	5,742.00	
2011	164,454.00	45,394.00	39,341.00	23,688.00	-	56,032.00	
2012	162,343.00	34,927.00	49,214.00	22,755.00	-	55,447.00	
2013	164,796.00	34,274.00	36,392.00	24,665.00	-	59,464.00	
2014	160,201.00	26,474.00	56,181.00	21,111.00	-	56,435.00	
2015	153,918.00	8,740.00	56,111.00	89,067.00	-	-	
2016	**126,163.39**	**23,085.64**	*	10,440.76	*	36,641.60*	**55,995.395**

Source: NEITI 2009 - 2015 Oil and Gas Audit Reports/COMD 2016 Crude Production Profile

36,641.60* - These are PPMC lifting's which include crude product exchange and un-utilized export.

Figure 7.0: Total domestic allocation and refinery delivery – 2009 to 2016



Source; ***NEITI 2009 - 2015 Oil and Gas Audit Reports/COMD 2016 Crude Production Profile***

Findings and observations

Total domestic allocation dropped from 153,918mbbls in 2015 to 126,163mbbls in 2016 – a drop of 27,755mbbls (18,03%). Domestic refinery supply as a percentage of total domestic allocation in 2016 was 18.30%. This is an improvement from 2015 by 5.68%. Allocation to the refineries increased to 23,085.64mbbls in 2016 which was due of a marginal increase in refining capacities of the refineries.

Recommendation

Privatization of these refineries has become imperative to ensure better utilization of these national assets and stop the waste in keeping the facilities. This recommendation was first made in the NEITI 2009 – 2011 Report.

7.4 Alternative Processing Arrangement

Alternative Processing Arrangement refers to the method NNPC adopts to source for products outside the country in order to supplement local refined products.

This practice can be by 'Crude For Product Exchange', here, crude oil is exchanged for products, or the DSDP initiative where NNPC sells the crude and with the proceeds directly purchases products for domestic use. Other methods earlier discontinued were the 'Offshore Processing' and ''Crude For Product Exchange''.

Table7.3: Summary of loss/gain from alternative processing arrangements – 2010 to 2016

YEAR	ARRANGEMENT	NET LOSS/GAIN ($)
2010	SWAP	(654,441.00)
	OPA	63,332,980.00
2011	SWAP	(499,420,800.00)
	OPA	(429,447,283.00)
2012	SWAP	(107,252,316.00)
	OPA	(135,793,319.00)
2013	SWAP	(211,886,660.00)
	OPA	(306,161,180.00)
2014	SWAP	(118,350,380.00)
	OPA	(80,408,941.00)
2015	SWAP	**DISCONTINUED**
	OPA	(723,285,930.00)
2016	OPA	Discontinued Sept.2015

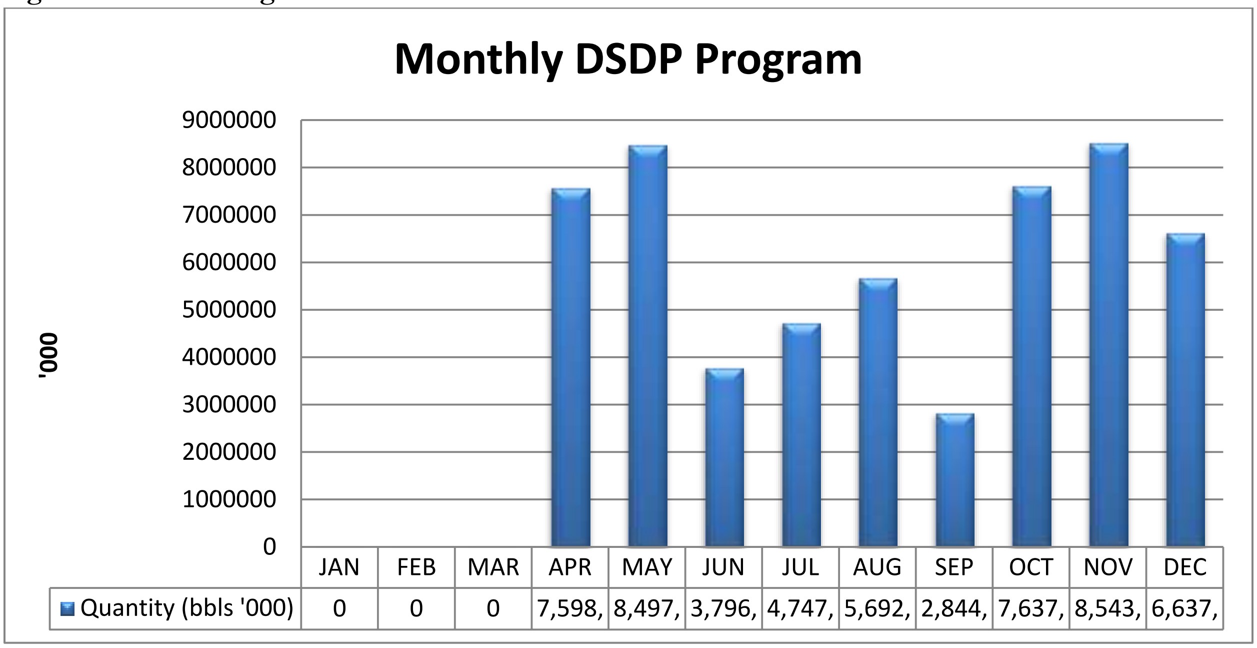
Source: NEITI 2009 -2015 Oil and Gas audit report - PPMC 2016 offshore processing template

Table7.4: 2016 monthly crude quantities utilised for DSDP

MONTH	QUANTITY (bbls)
JAN	-
FEB	-
MAR	-
APR	7,598,172.00
MAY	8,497,284.00
JUN	3,796,099.00
JUL	4,747,855.00

AUG	5,692,779.00
SEP	2,844,545.00
OCT	7,637,629.00
NOV	8,543,232.00
DEC	6,637,800.00
TOTAL	55,995,395.00
SOURCE: PPMC Records	

Figure 7.1 DSDP Program



Source: PPMC lifting profile

7.5 Refinery balances

"Refinery balances' are a reconciliation of crude oil supplied to the refineries, the refined crude and the petroleum products. Findings from an examination of the three (3) functional refineries are presented below.

Findings and observations (Kaduna Refinery)

- **i.** The closing stocks provided by the Refinery varied from the quantities calculated by the IA.
- **ii.** For crude material balance, there was a variance of 3,501 bbls of crude oil. The refinery closing balance was higher than the calculated one.
- **iii.** For the products material balance, there was a difference of 446 MT. The refinery closing stock was lower than the calculated closing stock.
- **iv.** The refinery did not provide any reasons for the identified differences.

Findings and observations (Port Harcourt Refinery)

- **i.** The crude material balance's table showed a closing stock different from that calculated by the IA. The difference amounted to **42,047 MT** of crude.
- **ii.** The closing stock provided by the refinery was higher than that calculated by the IA.
- **iii.** The products material balance had a closing stock lower than IA calculated value of **14,550.99 MT.**
- **iv.** The IA could not obtain any expalantions for the identified differences.

Findings and observations (Warri Refinery)

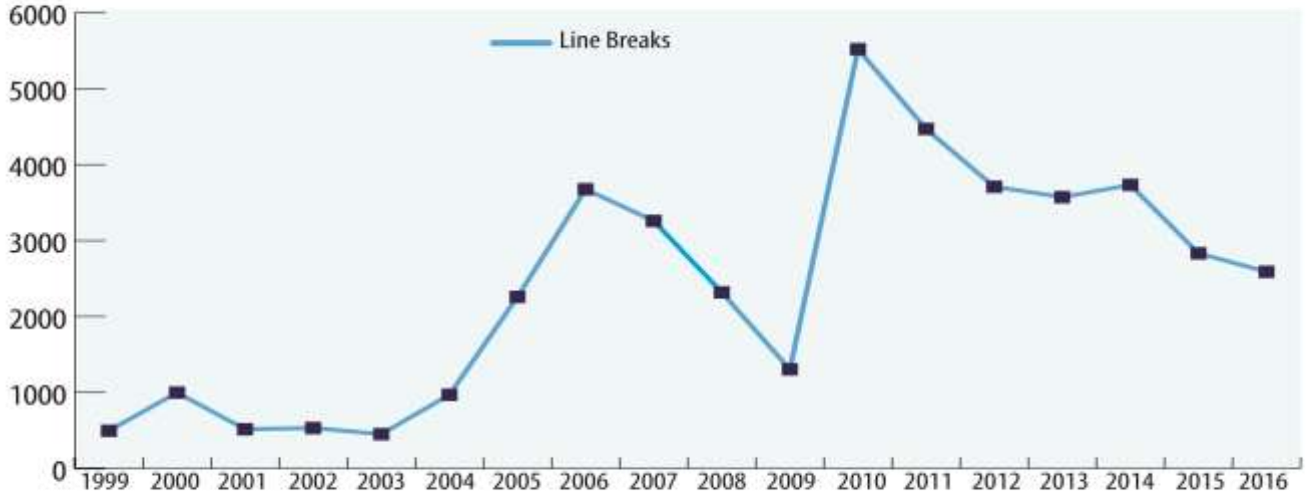
- **i.** The Warri Refinery crude material balance table had a closing stock lower than that calculated by the audit at **6,476 MT** of crude.
- **ii.** The products material balance had a closing stock lower than IA calculated by value of **50,976.69 MT.**
- **iii.** Total losses comprising of burnt coke, internal consumption and operational losses from production amounted to **124,514 MT.**
- **iv.** The refinery explained that the variance observed by the IA was due to quantity of water drained, evaporation and slop.

7.6 Product losses from pipeline breaks

'Pipeline Breaks' are acts of sabotage, here pipelines are vandalized for two main reason; to steal the content of the pipes, and as act of protest.

These acts of vandalism cost the Federal Government huge sums of money. Apart from the monetary costs, there are other costs; fire hazards and environmental issues that affect the immediate communities.

Figure 7.2 Pipeline breaks



Source: NPSC

Iincidents of product pipeline breakages in Nigeria peaked in 2010 (5,518 breakages) and gradually reduced to 2,589 in 2016. This indicates that mitigation measures put in place are yielding positive results.

Table 7.5 Summary of 2016 Pipeline Losses (Quantity)

MOSIMI AREA					
PRODUCT	**FROM**	**RECEIVED**		**TOTAL**	**VARIANCE**
PMS	ATLAS COVE	MOSIMI	SATELLITE		
	863,251		785,587	785,587	-77,664
	MOSIMI		IBADAN		
	171,041		144,033	144,033	-27,008
	IBADAN		ILORIN		
	5,010		662	662	-4,348
AGO	ATLAS COVE	MOSIMI			
KAD AREA					
PMS	KADUNA		JOS		
	971		0	0	-971
	KADUNA		SULEJA		
	0		782	782	782
AGO	KADUNA		KANO		
	1,840		6,544	6,544	4,704
PH AREA					
PMS	PHRC		ABA		
	45,345		41,084	41,084	-4,261
AGO	24,471		20,338	20,338	-4,133

Source: NPSC Pipeline Movement populated template

Table 7.6: Summary of 2016 Pipeline Losses (Value)

Product	(MT)	Ltrs	Unit Price (₦)	Value (₦)	MONTH
PMS	73,516	99,721,000	77.66	7,744,332,860.00	**January to April**
	10,136	13,749,000	133.28	1,832,466,720.00	**May to December**
TOTAL (PMS)	83,652	113,470,000		9,576,799,580.00	
AGO	571	645,198	245	158,073,446	January to December
TOTAL	**84,223**	**114,115,198**		**9,734,873,026**	
1 MT =1,356.4471935108 Litres for Liquid of 737.22kg/m³ for PMS					
1 MT =1,129.9435028249 Litres for Liquid of 885kg/m³ for AGO					
1 MT =1,223.7655265251 Litres for Liquid of 817.5kg/m³ for HHK					

Findings and observations

From the table above, the total PMS lost in 2016 was 113,470,000 Litres. This amounted to ₦9, 576,799,580, while AGO recorded 645,198 litres loss amounting to ₦158, 073,446.

- **i.** There was no information on DPK losses.
- **ii.** Pipeline vandalisms also causes damage to the environment pollution from and fire hazard.

Recommendations

- i. Government should enhance security around pipelines to further mitigate cases of vandalism.
- ii. Seismic sensors should be installed along the pipeline network to provide alarm against digging activities.
- iii. Host communities should be continuously sensitized and carried along to mitigate pipeline breakages and vandalism.

For more information, see appendix 11- Report on Downstream Operations and Price Modulation Mechanism

7.7 Price Modulation Mechanism (PMM)

7.7.1 Background

There was no appropriation for subsidy of petroleum products in 2016. Subsidy on PMS was discontinued in 2016 and the NNPC commenced the under/over recovery of petroleum products.

The mechanism was intended to guide the pricing of Premium Motor Spirit (PMS) with effect from the first quarter of 2016. Through the PMM, government adjusted the pump price of PMS in line with prevailing market fundamentals. If there are savings during low price, the saved fund was to be utilized to mitigate price in periods of high price. The PMM was intended to enhance efficiency, transparency and minimize government's financial exposure in terms of payment of subsidy for PMS.

7.7.2 Price challenges in the importation of PMS in 2016

Oil Marketing Companies (OMCs) experienced difficulties fulfilling their obligations because of challenges faced in sourcing foreign exchange at the CBN Interbank rate to finance PMS importation. This is more so as the Petroleum Products Pricing Regulatory Agency (PPPRA) pricing template, as then approved, only recognized prevailing CBN Interbank rate which averaged at N197/ $ in Q1 and early part of Q2 in 2016.

The consequence of this was the acute shortage of PMS witnessed in the country during the period as the burden of supply fell solely on NNPC.

Government made efforts to address the challenge by providing foreign exchange to marketers through NNPC at CBN Interbank rate. However, this was grossly inadequate and could not guarantee the required volumes.

7.7.3 Appropriate Pricing Framework (APF)

In the absence of budgetary provision for subsidy payment, and in order to enlist the participation of OMCs in product sourcing and distribution in Nigeria, government adopted the Appropriate Pricing Framework (APF) with effect from May 11, 2016 to reflect prevailing market fundamentals in pricing of petroleum products in Nigeria.

The objectives were to:

i. Guarantee participation of OMCs in the supply and distribution of PMS in the downstream sector of the oil and gas industry in Nigeria.
ii. Ensure adequate supply of products in the system.
iii. Enthrone healthy competition among operators in the industry.
iv. Encourage private investments in the downstream sector.
v. Provide additional funds for the government, as government was set toeradicate subsidy payment on petroleum products.
vi. Pave the way for the eventual deregulation of the downstream sector.

This process was approved by the PPPRA.

7.7.4 Approved allocation to import in 2016

Table below shows a summary approved allocation to to import PMS in 2016

Table 7.7: Summary of approved allocation to import by NNPC and other marketers in 2016 - performance review

S/N	Company Name	Approved Quantity (MT)	Actual Volume imported (MT)	Variance		Remarks
				Volume (MT)	Percentage	
1	NNPC	8,650,000	7,930,087	(719,913)	-8%	Under Importation
2	A.A. Rano Nig. Ltd	300,000	187,380	(112,620)	-38%	Under Importation
3	Agge Ref. &Petchem Ltd	270,000	N/A	N/A	N/A	No Importation
4	AIPEC Oil & Gas Ltd	30,000	N/A	N/A	N/A	No Importation
5	Alkanes Pet. Ltd	120,000	N/A	N/A	N/A	No Importation
6	Amicable Oil & Gas Ltd	180,000	N/A	N/A	N/A	No Importation
7	Authentic Energy	100,000	N/A	N/A	N/A	No Importation
8	Bovas & Co Ltd	75,000	50,459	(24,541)	-33%	Under Importation
9	Chipet International	30,000	N/A	N/A	N/A	No Importation
10	Conoil PLC	315,000	70,688	(244,312)	-78%	Under Importation
11	Danium Energy Services	225,000	12,095	(212,905)	-95%	Under Importation
12	Deerfield Pet. Resources	15,000	N/A	N/A	N/A	No Importation
13	DSV Pipetronix Ltd	40,000	N/A	N/A	N/A	No Importation
14	Duchess Energy	90,000	N/A	N/A	N/A	No Importation
15	Duport Marine Ltd	60,000	N/A	N/A	N/A	No Importation
16	Emadeb Energy Service	180,000	94,650	(85,350)	-47%	Under Importation
17	Ever Oil & Gas Ltd	30,000	N/A	N/A	N/A	No Importation
18	First Royal Oil Ltd	20,000	N/A	N/A	N/A	No Importation
19	Folawiyo Energy PLC	780,000	452,322	(327,678)	-42%	Under Importation
20	Forte Oil PLC	390,000	154,875	(235,125)	-60%	Under Importation
21	Fynefield Petroleum	160,000	150,427	(9,573)	-6%	Under Importation
22	Global Bulk Fuels Ltd	60,000	N/A	N/A	N/A	No Importation
23	Gonzaga Nig. Ltd	30,000	N/A	N/A	N/A	No Importation
24	Heyden Petroleum	380,000	162,769	(217,231)	-57%	Under Importation
25	Honeywell Oil & Gas Ltd	90,000	N/A	N/A	N/A	No Importation
26	Infrastructures Solutions	100,000	N/A	N/A	N/A	No Importation
27	Integrated Oil & Gas	180,000	185,790	5,790	3%	Exceed Allocation
28	July Seventh Oil Ltd	40,000	N/A	N/A	N/A	No Importation
29	Knights Templars Ltd	135,000	N/A	N/A	N/A	No Importation
30	Lanaka Pet Ltd	150,000	N/A	N/A	N/A	No Importation
31	Leighton Petroleum	30,000	N/A	N/A	N/A	No Importation
32	Mainland Oil & Gas	150,000	92,302	(57,698)	-38%	Under Importation
33	Mao Petroleum	90,000	N/A	N/A	N/A	No Importation
34	Masters Energy Ltd	300,000	137,817	(162,183)	-54%	Under Importation
35	Matrix Energy Ltd	360,000	291,400	(68,600)	-19%	Under Importation
36	Mobil Oil PLC	360,000	220,894	(139,106	-39%	Under

				)		Importation
37	MRS Oil & Gas	510,000	318,983	(191,017)	-37%	Under Importation
38	MRS Oil Nig PLC	300,000	147,900	(152,100)	-51%	Under Importation
39	Negoa Energy Ltd	60,000	N/A	N/A	N/A	No Importation
40	NIPCO	420,000	202,568	(217,432)	-52%	Under Importation
41	NNPC Retail Ltd	120,000	148,338	28,338	24%	Exceed Allocation
42	Nortwest Petroleum	380,000	223,324	(156,676)	-41%	Under Importation
43	OANDO PLC	600,000	153,822	(446,178)	-74%	Under Importation
44	Optima Energy Resources Ltd	150,000	N/A	N/A	N/A	No Importation
45	Oranto Petroleum	360,000	N/A	N/A	N/A	No Importation
46	Petrocam Trading Ltd	40,000	N/A	N/A	N/A	No Importation
47	Petrowest Energy	120,000	N/A	N/A	N/A	No Importation
48	Pinnacle Oil & Gas Ltd	150,000	14,725	(135,275)	-90%	Under Importation
49	Platinium Vault Group	210,000	N/A	N/A	N/A	No Importation
50	Prudent Energy	120,000	109,377	(10,623)	-9%	Under Importation
51	Rahamaniya Oil & Gas	450,000	262,412	(187,588)	-42%	Under Importation
52	Rainoil LTD	250,000	265,156	15,156	6%	Exceed Allocation
53	Red Star Oil & Gas Ltd	20,000	N/A	N/A	N/A	No Importation
54	Sahara Energy Ltd	349,500	87,665	(261,835)	-75%	Under Importation
55	Shorelink Oil	150,000	69,507	(80,493)	-54%	Under Importation
56	Specialty Oil Co. Ltd	30,000	N/A	N/A	N/A	No Importation
	Techno Oil	180,000	164,900	(15,100)	-8%	Under Importation
58	Renoir Logistics Ltd	60,000	29,326	(30,674)	-51%	Under Importation
59	Total Nig PLC	600,000	648,178	48,178	8%	Exceed Allocation
60	Tradelink Oil & Gas Ltd	60,000	N/A	N/A	N/A	No Importation
61	**T-Time Petroleum Services**	40,000	N/A	N/A	N/A	No Importation
62	Wabeco Petroleum	120,000	N/A	N/A	N/A	No Importation
63	World Oil Industries	30,000	N/A	N/A	N/A	No Importation
64	Wosbab Energy	94,000	N/A	N/A	N/A	No Importation
65	Zone 4 Energy Ltd	45,000	N/A	N/A	N/A	No Importation
66	Zubai Energy Services Ltd	30,000	N/A	N/A	N/A	No Importation
	Grand Total	**20,563,500**				

Source: PPPRA Executive Secretary's letter of representation dated 16 July 2018 (A.4/4/735/C.288/III/7) "RE: 2016 Oil & Gas Checklist of Required Document/ Information" and PPPRA Under/ Over Recovery populated template/Profile.

Findings and observations

Sixty-five (65) marketers and NNPC participated in the under/over recovery under the Price Modulation Mechanism (PMM) in 2016.

Four marketers exceeded their allocated quantity, 36 marketers did not import any petroleum products (i.e. zero importation) while 23 marketers and NNPC imported products but did not meet the required target (i.e. under importation). For cases of under-importation and zero importation, there are possibilities that the marketers obtained foreign exchange, which could have been diverted for other uses.

Recommendation

PPPRA should investigate marketers with zero importation/ under importation in 2016 to ascertain that they did not obtain foreign exchange and diverted them to other uses.

7.7.5 Product importation and distribution

The table below provides a summary quantity of products supplied which form the basis for processing under / over recovery by the PPPRA.

Table 7.8: 2016 Summary of quantities supplied, and subsidy claims by NNPC and other marketers

S/N	MARKETER	Q1 (Ltrs)	Q2 (Ltrs)	Q3 (Ltrs)	Q4 (Ltrs)	Total (Ltrs)
1	A.A RANO NIG. LTD	52,394,733	45,218,106	79,394,246	80,024,365	257,031,450
2	ASCON OIL COMPANY LTD	-	-	-	18,421,799	18,421,799
3	A–Z PETROLEUM PRODUCTS LTD	-	-	17,958,448	-	17,958,448
4	BLUEFIN ENERGY LTD	39,749,116	-	-	-	39,749,116
5	BOVAS & COMPANY LTD	42,693,824	26,510,066	-	-	69,203,890
6	CONOIL PLC	-	77,346,907	20,579,991	-	97,926,898
7	CYBERNETICS INTERNATIONAL SERVICES LTD	-	-	-	17,568,381	17,568,381
8	DANIUM ENERGY SERVICES LIMITED	-	-	-	16,464,395	16,464,395
9	DEE JONES PETROLEUM & GAS LTD	10,574,615	-	-	55,227,796	65,802,411
10	DOZZY OIL AND GAS LTD	20,502,899	12,886,356	19,507,079	18,451,002	71,347,336
11	EMADEB ENERGY SERVICES LTD	40,311,270	27,263,766	42,179,675	19,074,227	128,828,938
12	FATGBEMS PET CO. LTD	14,646,421	-	-	-	14,646,421
13	FOLAWIYO ENERGY LTD	82,462,352	83,062,811	253,476,349	204,899,577	623,901,089
14	FORTE OIL PLC (FORMERLY AP PLC)	86,099,232	85,390,649	42,095,158	-	213,585,039
15	FRADRO INTERNATIONAL LTD	8,841,389	-	-	-	8,841,389
16	FYNEFIELD PETROLEUM COMPANY LTD	20,576,741	45,292,848	32,186,722	110,349,883	208,406,194
17	GULF TREASURES LIMITED	-	21,100,818	19,386,907	20,864,440	61,352,165
18	HEYDEN PETROLEUM	37,188,805	50,506,436	71,713,536	64,964,686	224,373,463
19	HYDE ENERGY (NIG) LIMITED	-	-	27,519,483	60,167,063	87,686,546
20	INTEGRATED OIL & GAS	90,834,933	41,008,437	40,711,014	83,464,774	256,019,158
21	MAINLAND OIL & GAS LIMITED	31,538,548	-	40,281,361	56,353,627	128,173,536
22	MASTERS ENERGY OIL & GAS LTD	126,936,679	36,406,518	-	27,165,980	190,509,177
23	MATRIX ENERGY LTD	40,347,681	163,824,477	118,563,454	79,517,713	402,253,325
24	MOBIL OIL NIGERIA PLC	118,775,363	122,577,691	42,824,131	19,437,163	303,614,348
25	MRS OIL & GAS COMPANY LTD	81,160,244	74,066,642	121,916,108	164,769,740	441,912,734
26	MRS OIL NIG. PLC	73,894,371	87,160,210	43,321,815	-	204,376,396
27	NEPAL OIL AND GAS SERV. LTD	22,757,630	-	34,725,167	32,907,785	90,390,582

28	NIPCO PLC	38,224,773	79,896,951	82,524,475	79,017,604	279,663,803
29	NNPC RETAIL LTD	-	94,248,150	47,125,487	60,893,341	202,266,978
30	NORTHWEST PETROLEUM & GAS LTD	83,157,109	122,875,155	40,868,174	60,064,843	306,965,280
31	OANDO PLC	-	41,757,591	77,079,923	94,325,809	213,163,323
32	OBAT OIL & PETROLEUM LTD	-	-	-	17,633,804	17,633,804
33	OTHNIEL BROOKS LIMITED	-	-	19,915,786	62,001,533	81,917,319
34	PINNACLE CONTRACTORS LTD	-	-	-	20,353,983	20,353,983
35	PRUDENT ENERGY & SERVICES LTD	-	-	64,908,264	86,332,093	151,240,357
36	RAHAMANIYYA OIL AND GAS LTD	24,046,802	35,095,479	82,691,352	219,002,843	360,836,476
37	RAINOIL LTD	105,266,437	42,914,177	98,992,403	118,878,641	366,051,658
38	RENOIR LOGISTICS LTD	-	-	-	40,637,355	40,637,355
39	ROSA MYSTICA ENERGY FZE	-	-	16,608,772	20,497,510	37,106,282
40	SAHARA ENERGY RESOURCE LTD	55,357,393	25,358,065	19,814,550	20,581,450	121,111,459
41	SAMON PETROLEUM FZE	-	19,595,077	-	-	19,595,077
42	SHORELINK OIL AND GAS SERVICES LTD	62,163,028	14,836,661	18,991,030	-	95,990,719
43	SWIFT OIL LTD	-	-	18,108,554	-	18,108,554
44	TAURUS OIL & GAS LTD	-	11,400,384	10,742,833	39,971,660	62,114,877
45	TECHNO OIL LTD	46,204,828	76,190,515	64,660,562	39,556,019	226,611,924
46	TEMPOGATE OIL & ENERGY COMPANY LTD	-	-	-	35,499,323	35,499,323
47	TOTAL NIGERIA PLC	187,590,633	236,374,905	278,611,524	198,011,408	900,588,470
	Total Product Quantity:	**1,644,297,849**	**1,800,165,848**	**2,009,984,333**	**2,363,353,615**	**7,817,801,645**

Source: PPPRA Product Importation, Under/Over Recovery populated template/Profile

Table 7.9: Monthly discharge/ supplies by NNPC

Month	Total Quantity (Ltrs)
January	952,879,349.04
February	956,784,002.79
March	947,559,524.93
April	892,317,758.91
May	1,283,394,788.65
June	1,105,306,063.00
July	1,079,022,825.00
August	809,720,129.00
September	461,863,838.00
October	795,064,796.00
November	891,275,140.00
December	763,016,664.00
Total:	10,938,204,879.32

Source: PPPRA product importation, Under/ Over Recovery populated template/Profile

7.7.6 Recovery claims by other marketers in 2016

There was an 'under-recovery' of N8.499 billion and an 'over-recovery' of N8.835 billion claimed by other marketers in the year. Debt notes issued to other marketers sum up to N28.181 billion in 2016. The summary of reconciliation of debt notes issued vis-à-vis record of under/ over recovery amount is presented in the table below.

Table 7.10: Reconciliation of the Debt Notes issued to other marketers and the actual refund

S/N	Description	N
1	**2016 Over Recovery per PPPRA record**	8,835,164,377.33
2	**2016 Under Recovery per PPPRA record**	(8,499,612,795.83)
3	**Net Recovery payable by marketers**	**335,551,581.50**
4	**2016 SDN issued per DMO record**	28,181,265,372.25
	Variance	**28,516,816,953.75**

The variance indicated lack of reconciliation between PPPRA and DMO as required by Part IV (Section E subsection 4 & 7 with respect to responsibilities of stakeholders/ operators) of the revised guidelines for the administration of Petroleum Support Fund (PSF).

Findings and observations

PPPRA did not keep accurate data of all other marketers issued with Debt Notes. It also did not carry-out reconciliation with CBN/MoF on processed subsidy vis-à-vis actual payments to determine whether marketers with zero importation/under importation was allocated foreign exchange.

Recommendation

PPPRA should strictly to the provision of Part IV (Section E subsection 4 & 7 with respect to responsibilities of stakeholders/ operators) of the revised guidelines for the administration of Petroleum Support Fund (PSF).

7.7.7 Recovery claims by NNPC

For the period January to 10th May 2016, N 7.271 billion was net recovery refundable by NNPC as computed and advised by PPPRA (See Appendix 12 - Extract of Correspondence advising NNPC to remit the over recovery to the Government). However, with effect from 11 May 2016, NNPC computed the under/over recovery using its internal mechanism as documented below.

Table 7.11: 2016 Monthly Summary of quantities supplied, and Under/Over Recovery Amount claimed by NNPC

S/N	Month	Quantity Imported (Liters)	Under Recovery Amount (N)	Over Recovery Amount (N)	Net Recovery Amount (N)	Remarks
1	January	952,879,349	2,175,897,168	613,168,927	(1,562,728,241)	
2	February	956,784,003	497,873,786	6,456,254,075	5,958,380,289	
3	March	947,559,525	0	10,419,540,949	10,419,540,949	
4	April	892,317,759	6,308,417,217	940,254,712	(5,368,162,505)	
5	May (1st - 10th)	379,593,210	2,176,163,393	0	(2,176,163,393)	
	May (11th - 31st)	903,801,579	0	0	0	
Net Recovery (January to May 2016)- A					7,270,867,099	*Claimed by NNPC in as firstline deduction in February 2016*
6	June	1,105,306,063	173,405,834	0	(173,405,834)	*Claimed by NNPC in as firstline deduction in March 2016*

Source: PPPRA Product Importation, Over/under recovery amount claimed and approved profile

Findings and observations

i. Price Modulation Mechanism (PMM) was introduced and administered by PPPRA in lieu of subsidy.
ii. PPPRA administered the PMM for both the NNPC and other oil marketers. However, NNPC took over the responsibility as from 11 May 2016.

Recommendations

The computation of Over/Under recovery should be the sole responsibility of the PPPRA. This will transparency and accountability.

For more information on the foregoing, see appendix 11- Report on Downstream operations and Price Modulation Mechanism.

8.0 Outcomes and impact

The EITI implementation has had a visible impact on the management of the extractive sector in Nigeria. To date, it continues to be a source of the data repository to all and sundry. Over the years, NEITI reports have become the major publications to provide insight into the revenues collected by the government. It also allows all citizens to have access to information of the sector. The information provided through the Nigeria EITI Reports allows citizens to hold government accountable for revenues accruing from the sector. The report also provides the opportunities for increased revenue, improved and up-to-date legislation, a platform for critiquing and updating obsolete legislation, and a driver for improving the sectors rating on some international indices as it supports prudent management of resources.

The implementation of the EITI has brought about significant reforms in the sector while pushing for more. It is also widening the space for increased disclosures as some Government agencies have started disclosing information on their activities. It has also improved the relationship between government agencies in the sector while allowing for free participation of the civil society in the process. It is also facilitating the establishment of a central register of beneficial ownership information of the extractive companies in Nigeria. A summary of the activities undertaken in the previous year can be accessed from the link below:

http://www.neiti.gov.ng/index.php/resources/internal-resources/annual-neiti-eiti-reports?download=727:neiti-apr-2017.

The recommendations made in EITI reports are being implemented to ensure effective management of the extractive sector in Nigeria. Table 8.0 below shows some of the recommendations made in past reports and the progress made in implementation so far.

8.1 Updates on past recommendations from 2015 NEITI Reports

Table 8.0: Updates on past recommendations from 2015 NEITI Reports

S/N	Issues	Details of the Issue (Findings)	Recommendation	Status of Implementation (Yes/No/Ongoing)
1.	**Unaccounted Export Sales**	$586.011 million accounted for un-reconciled export sales receivables in the year under review. This is as a result of previous year unexplained/unreconciled difference	There should be proper reconciliation of unexplained/unreconciled difference of previous audit years	Yes- Prior year adjustment. Issue Resolved.
2.	**Lifting arrangement model by NPDC**	NNPC lifted, marketed and sold on behalf of NPDC based on the following business models: • Model 1- NPDC direct assets (i.e. 100% NPDC owned assets) - this relates to OML 64, 65, 66, 111 and 119. NNPC Lifting and Sales under this category belongs to NPDC. • Model 2- NPDC jointly owned assets operated by NPDC through JV with First Hydrocarbon, Shoreline, ND Western, El Crest and Neconde- this relates to OML 26, 30, 34, 40 and 42. NNPC Lifting and Sales under this category belongs to NPDC. But the value of the divested OMLs must be paid. • Model 3- NPDC jointly owned assets and not operated by NPDC but Seplat. This relates to OML 4, 38 and 41. NNPC Lifting and Sales under this category belongs to NPDC. Nevertheless, the value of the divested OMLs must be paid. • Model 4 - Non-Equity Assets operated by NPDC on behalf of NNPC for transfer of knowledge/ technical capacity building of NPDC personnel. This relates to OML 11, 20, 49 and 51. NNPC Lifting and Sales under this category **do not** belong to NPDC but NNPC. Based on four models above relating to NNPC, neither NNPC nor NPDC provided production and lifting profiles for each model.	NNPC should always track production and lifting profiles relating to federation from NPDC and make adequate disclosure in line with the approved business models.	Yes- Recommendation being implemented.
3	**Unaccounted ₦317.476 billion**	**₦317.476 billion** accounted for unreconciled sales receivables in the year under review. This is because of un-	NNPC should account for **₦317.476 billion** and remit the said amount to	Ongoing- NNPC provided a template showing

		explained receivables.	the federation immediately.	reconciliation statement from 2010-2016.
4	**Pan Ocean Long Outstanding Debt**	Pan Ocean had a participating agreement with NNPC to explore and produce oil from **OML98** as an operator for itself and on behalf of NNPC. This agreement was dated August 1st, 1979 and the distribution of the participating interests are as follows: **NNPC 60% and PAN OCEAN 40%.** There is an outstanding debt of $135,793,096.28 due from Pan Ocean to NNPC Recovery of only the principal debt amount put at **$135,793,096.28** without consideration of interest, results to a loss in the time value of money.	There should be an independent valuation of PanOcean indebtedness to determining the true fair value of interest thereon from 1985.	Ongoing- The **GMD of NNPC** has constituteda committee on the recovery of interest accrued on the indebtedness.
5	**Inconsistency in Pricing Methodology (Exchange Rate Differentials)**	At the point of remittance into the CBN-NNPC domestic crude oil (Naira) accounts by NNPC, NNPC based remittance on another valuation report using a revised pricing option, which is usually lower than the initial valuation. The initial valuation was not consistently applied for domestic crude sales leading to a revenue loss of $90.176 million.	NNPC should discontinue the practice of double valuation. There is a need to be consistent with the initial valuation pricing option. NNPC should account for the shortfall of $90.176 million due to inconsistent pricing methodology	No- NNPC still does not use CBN rate to convert the sales proceeds received in US$. It maintains that it uses FAAC conversion rate. However, the audit position is that Sales Proceeds received in US$ should have been remitted using the prevailing CBN rate for the month. The rationale being that these were transactions which originated between NNPC and third-parties (i.e. Government-to-Business) and NNPC should have used the

				prevailing "market rate" at the time of remittance to the destination account (i.e. Federation account). Therefore, NNPC using FAAC/ Government rate has resulted in a revenue gain to NNPC whereby treating the transactions as one that originated as Government-to-Government.
6	**First Line Charge Deductions by NNPC**	**NNPC deducted first line charge of N60.997 billion** for "Crude and Product Oil losses"; **N112.818 billion** for "Pipeline repairs & maintenance"; and **N316.721 billion** for "Subsidy deduction".	NNPC should adhere to the provision of the constitution of the Federal Republic of Nigeria 1999, and the framework of the Petroleum Support Fund (PSF) Also, the first-line deduction should be as appropriated.	No- NNPC still deducts but has now added that they have the authority and backing to do so, this document has not been shared with the IA. This issue is a recurrent one.
7	**NLNG Loan repayment and interest payment**	NNPC received from NLNG, Loan repayment, interest and dividend totalling**$1,076,011,598, which** was not paid into the federation account.	All receipts from NLNG should be paid directly into the Federation account and not NNPC Account.	No- NNPC still withholds this payment from the Federation Account but has now added that they have the authority and backing to do so. Since 2016, MoF is now in custody of the fund. This issue is presently part of a Senate enquiry on the deductions from this account.
8	**Pipeline Transportation Fee**	NNPC did not populate templates nor confirm receipt of payments made on behalf of other IOCs for Pipeline	NNPC should reconfirm receipt of $16,477,740.02 and ₦1,597,275,831.11	No- NNPC still cannot substantiate the position on

		Transportation Fee by SPDC. There was no trace of such payment in the JV Morgan bank statement. The total Pipeline Transportation Fee was $24,609,523; this represented 55% counterpart share of Federation (NNPC) in the SPDC/NNPC Joint Venture infrastructural development of Oil Pipeline. c. These fees were paid directly to NNPC as part of its share of the JV arrangements.	with documentary evidence. NNPC should populate the template as required by NEITI	the issues. It still did not populate the data templates.
9	**NNPC Pricing of Export Crude Oil**	The Federation export crude oil monthly Average Selling Price ($) per barrel was computed using the monthly total of sales and a monthly total of quantity (barrels). Therefore, the annual average selling price was **$52.16 per barrel** in 2015 (2014: **$101.91 per barrel**) Thiswas consistently applied on the export crude sales except for Ebok crude type lifted by Messrs. Dans Global (one of the NNPC crude oil off-takers) resulting to a revenue loss of **$735,724.68 (Schedule of pricing shortfall- Export Crude).**	Consistent pricing methodology should be used for all Export Crude Sales.	Ongoing- NNPC(COMD) says the unit price was **$53.776 while t**he Bill of lading quantity of the cargo was **624,189 barrels** and the total value of **$33,566,387.66**. However, the company had remitted **$32,830,731.98** to the Federation account at an out turn quantity of **610,609 barrels** based on the outturn report[20] from the independent inspectors and the GMD approval to use net outturn volumes. COMD after that issued a valuation after receiving DPR position on the outturn.
10	**NNPC Pricing of Domestic Crude Oil**	The total dollar equivalent for the year under review was **$7.775 billion (i.e. N1.505 trillion)** based on exchange rate of **N167** in January, **N195.58** inFebruary **(as against N197 CBN buying rate)**, **N196 in** March to June**,N195.95 in** July **(as against N196 CBN buying rate)**, **N196** in August, **N196 in** September, **N195.95 in**	Consistent pricing Methodology should be used. NNPC should account for the revenue shortfall of **N4.024 million**	No- NNPC claims that the practice of double valuation vis-à-vis retaining margin has been stopped,but this issue is recorded in the 2016 audit.

[20] Detailed report prepared by the discharging terminal to record discrepancies in the form of over, short and damaged cargo as manifested and cargo checked at a time and place of discharge from ship.

		October **(as against N195.98 CBN buying rate)**, **N196** in November and **N195.97 in** December **(as against N196 CBN buying rate).**The inconsistent application of CBN exchange rate, owing to NNPC not converting on the date of invoice but aggregating all Dollar invoices for the month and converting at an average exchange rate, led to underpayment of **N4.024 million** ***(Schedule of converting aggregated monthly dollar invoices into naira)***		
11	**Federation Export Crude Sales**	The total lifting profile for the Federation for the period under review 2015 was **780.429 million barrels** out of which **40.15% (i.e. 313.336 million barrels)** was NNPC entitled lifting. NNPC under lifted 15.317 million barrels (i.e. 313.336 million barrels indicated by 2015 NNPC-COMD lifting profile from aggregated streams indicated what NNPC lifting was as against 298.018 million barrels indicated in the COMD lifting profile by beneficiary accounts). See Section 6.2 of the Report for more details	NNPC should lift the allocated barrels fully,and any under-lifted should be adequately declared with full documentation	No- This is still recurring in the 2016 report.
12	**NESS FEES**	CBN used PIA and MEA's Report to populate NESS template Based on CBN available record, a total of 88 oil companies with Nigerian Export Proceeds Form Number (**NXP Number**) exported 544,871,473 bbl. of crude oil with FOB value of $28,707,865,543. The concerned companies paid a NESS fee of ₦4,220,387,234 as against ₦ 6,690,155,992 payable, leaving an outstanding liability of ₦ 2,469,768,758 payable by these companies. A further review of CBN available record showed that a total of 39 oil companies have no NXP Number. The 39 companies exported 231,712,199bbls of crude oil with a FOB value of $**11,885,814,632**. They paid a NESS fee of **₦587,396** against **₦2,793,767,675** payable, leaving an outstanding liability of **₦2,793,180,279**.	For subsequent Audit, CBN should populate NESS Fee Template using the bank statements. Collecting Banks should ensure that no exporter's form is processed without NXP Number.	No- CBN still did not populate the template for 2016
13	**Management of Cash Calls**	The non-cash Call transactions of $597.86million were funded from both the CBN/NNPC JP Morgan Chase Cash Call Dollar Account and CBN/NNPC JV Naira Cash Call account.	Subsequent expenditures should be funded from NNPC overhead budgets and not the cash call budget	No- NAPIMS has stated that these expenditures are approved, and the process will continue

14	**NAOC and SPDC Divestment of Assets to NPDC**	There is an outstanding liability of $**1.954billion** to be paid by NPDC	The outstanding amount should be paid, within the time frame given	Ongoing- The NPDC is still owing the following ; For SPDC- **$1,747,000,000** and NAOC- **$332,530,531.72**
15	**NDDC Levy**	There was an unreconciled sum of **₦175,000,000 ($890,902)** being a payment made by Sterling Oil Exploration. The audit revealed that Sterling paid the naira equivalent of **$890,902,** which was not traceable to NDDC bank account	Sterling and NDDC should reconcile the identified difference of **$890,902**	Ongoing- NDDC had made great strides in its past reconciliation issues with companies. It is necessary it maintains the tempo and not have one or two companies with such issues as is being noticed in recent time.
16	**Signature Bonus**	For the period under review, payments totalling$902,722,250 which were made by companies as a premium for license renewals were credited into the signature bonus account. An unreconciled difference of $**3,000,000** was observed from payments made by EEPN(OE)L and Atlas.	There should be a proper classification of payments.	No- This payment continues with little or no classification. The 2016 audit is going to recommend that a new account be opened for renewals.
17	**Royalty Gas**	An outstanding liability of **$32,568,142** for Royalty Gas against seven companies namely; Eroton, AITEO, NPDC, Frontier, Pan-Ocean and SEPLAT.	DPR should recover this outstanding amount as it has led to revenue loss	Ongoing-Three companies have paid their outstanding liability(Eroton, Aiteo, Seplat) while four have not paid their liability(NPDC, Frontier, and Pan- Ocean)
18	**Royalty Oil**	Differences in oil royalty computation by AITEO and MONI PULO The outstanding liability for Royalty Oil was **$324,925,064** which was as a result of under assessment or late payment The unresolved operational depth of SNEPCO which result in variance in royalty calculation by the entity and DPR	Reconciliation meetings by parties involved to resolve this lingering issue	Yes- Issue resolved for Aiteo and Moni Pulo. The issue on the SNEPCO depth lingers.
19	**Gas Flare Penalty**	The outstanding gas flared liability was **$6,230,267.** the following entities; Allied Energy, Atlas, Britannia U, New Cross, Prime E&P and Sheba E&P did not provide gas production data	Covered entities should be encouraged to provide relevant data as at when due to ease reconciliation. Recovery of owed amounts and The Federal	No- Gas flare penalty payments are still recurring issues.

			Government should enforce the new gas flared regime to deter gas flared on the one hand and promote investment in gas utilisation and infrastructure development	
20	**Pioneer Status**	Eight entities were granted tax holidays for five (5) years straight instead of the normal three (3) years at first instance, and after that additional two (2) years after satisfying conditions set by the NIPC for the first grant.	NIPC should adhere to the rules and guidelines on granting companies pioneer status. NIPC should collaborate with FIRS on the update of companies granted pioneer status. Only qualifying companies should be granted pioneer status relief and not bought over companies.	No- Remains the same
21	**PPT Fiscal Pricing Liability**	The Crude oil fiscal value shows a liability of **$3,414,400**	All associated liability should be recovered	Ongoing- Reconciliation and recoveries are ongoing.
22	**Petroleum Industry Governance Bill (PIGB) 2017**	The PIGB was passed by the Senate on 26th May 2017 and yet to be passed by the lower chamber.	The passage of this bill by both house of parliament is needed for it to move to approval by the president	No- The bill was passed by both houses of parliament but not accented to by the President.

8.2 Observations and recommendations

During this reconciliation exercise, we noted areas where improvements can be made to the sector; increase revenue to the Government, improve government's control over revenue, ensure that laid down procedures for the sector are adhered to, improve accountability and transparency, and assist in carrying out future NEITI reconciliations. The combination of all these and more is to ensure wealth creation for the general populace.

The Recommendations from the 2016 NEITI Oil and Gas report areas presented below

Table 8.1: Current Year Observations and recommendations

S/ N.	ISSUE	FINDINGS	IMPLICATION	RECOMMENDATION	ENTITY'S RESPONSE
1.	**NPDC Legacy Liability**	**Liability status on NPDC Divested Assets;** There are outstanding liabilities arising from the transfer of assets (**SPDC and NAOC Assets**) to NPDC		The payment terms as agreed by NNPC should be adhered to, while DPR and FIRS should carry out close monitoring and quarterly reconciliation with the concerned entity in order to ensure compliance with the agreed repayment plan	The Good and Valuable Consideration(G& VC) in respect of the divested SPDC Assets (OMLs 26, 30, 34, 40, 42, &4/38/41) was $1,847,785,233.96, the G&VC in respect of the divested NAOC Assets (OMLs 60,61,62 &63) was $1,554,099,949.52. Apart from the $100 million already paid in respect of the divested SPDC assets, loan is currently being secured to defray the balance of $1,747.785million. In addition, effective December 2018, NPDC has secured NNPC top management approval to dedicate 30,000bopd with the intention of paying at least $50million per month to commence the

					payment of outstanding liability pending the time the loan is secured. With regards to the NAOC assets, long after the divestment, proceeds from the NNPC crude lifting were remitted to the Federation Account. To date, revenue generated from OMLs 60-63 gas feedstock into LNG is being remitted to the Federation Account. Consequently, reconciliation is currently ongoing amongst the representatives of NNPC/NPDC, DPR, Revenue Mobilization and Fiscal Commission and FAAC to establish the actual liability on the assets. The outstanding G&VC will be settled by NPDC immediately.
2	**Operation & Management**	$**874.044 million was expended on** non-JV cash call activities. Out of which;	Non-adherence to set rule/ benchmark of		

	of Cash Calls	✓ $365.148 million representing 41.78% accounted for NAPIMS Administrative overhead. ✓ $508.897 million representing 58.22% accounted for Security, training, Withholding & Value Added Tax, Travelling & Accommodation, Survey & sand search, transfer (NESS fees), consultancy, community services and waste disposal. However, in the opinion of the audit, these expenses accounts could also relate to NAPIMS overhead. **Cash Call Liabilities**; Total Cash Call liability as at 31stDecember 2016, was $**5,510,539,835**; this is inclusive of outstanding balance for 2016 which is $**385,116,744** as well as the negotiated liability of the federation of $**5,125,423,091**[21]**.** However, by October 2018, the liability has been reduced to $3.501billion[22]	what constitutes NAPIMS administrative overheads/cost provides an avenue for abuse of funds, which goes against the tenets of accountability and transparency. Increase in cash call liability will hamper production, which hitherto affects government revenue.	There should be full implementation of the new JV self -funding model that has been approved (Agreement between NNPC &IOCs)the model. (See table 6.9)	
3	**Inconsistency in Pricing Methodology (Export Crude)**	**In the first quarter of 2016 (i.e. January – March), there were three cases of under-remittance**, where unit prices and crude values on the sales invoice were higher than what was indicated in sales Profile. However, this practice has been discontinued.	This practice led to an aggregate revenue loss of **$7.820 million**.	NNPC should refund **$7.820 million** to the Federation Account.	The practice has been discontinued.
4	**Underpriced**	Sales invoices were underpriced (i.e. price	This practice led to an	In view of the losses	

[21] Details of summary extract of the agreements is in appendix 10 report on cash call.

[22] See table 6.9: Summary of cash call liabilities owed by NAPIMS

	cargoes due to crude quality due to the bad quality of the crude	differentials below computed market price). The audit revealed that the Cargoes relating to pricing differential was "Tendered" (I.e. the off-taker bought it below any NNPC set price option). Hence, cargoes were valued at prompt pricing option on exact BL date and tendered value representing the Official Selling Price (OSP).	aggregated revenue loss **of $2.055 million** to the Federation.	involved in pumping low quality products, DPR should monitor and ensure that crude pumped by crude oil producers is of the required quality, and appropriate sanction meted to erring producers.	
5	**Export Crude (NNPC Lifting)**	There was a variance of 889mbbl due to reporting difference between NNPC production planning unit and NNPC Sales unit. The production unit records actual lifting by cargoes, while the sales department recognizes sales when shipping documents and invoices are received.	These conflicting figures led to a variance of 889mbbl	The two departments should reconcile and harmonize their record to reflect, the actual lifting profile of NNPC, while NPDC lifting should be distinct from the federation record of lifting.	
6	**Domestic Crude Sales**	NNPC did not apply market rate as advised by CBN to convert the sales proceeds received in US dollars. NNPC explanation is that conversions were done at FAAC official rate as against the CBN rate. However, the audit position is that Sales Proceeds received in US$ should have been remitted using the prevailing CBN rate for the month. The rationale being that these were transactions which originated between NNPC and third-parties (i.e. Government-to-Business) and NNPC should have used the prevailing "market rate" at the time of remittance to the	This practice led to under-remittance of **N260.431million**	NNPC should refund **N260.43 million** to the Federation Account. NNPC should always use market rate to convert proceeds received from the third party in USD. The use of FAAC rate should be limited to Government proceeds.	

		destination account (i.e. Federation account). Therefore, NNPC using FAAC/ Government rate has resulted in a hidden gain to NNPC whereby treating the transactions as one that originated as Government-to-Government.			
7	**First line deductions from federation domestic crude sales proceeds**	**NNPC deducted first line charge** for pipeline repairs and maintenance in 2016 was N126.554 billion. Out of the total N126.554 billion in 2016; Only N4.949 billion accounting for 3.91% directly relates to repairs and maintenance. Other payments such as ITF contribution, NPA, PEF, Salaries, Employee pension etc. do not directly relate to pipelines repairs and maintenance	The inclusion of other non-related expenses into the account of pipeline repairs and maintenance shows lack of transparency and accountability.	1. A periodic audit by the federal government to verify the utilisation of amount deducted for pipeline maintenance and repairs should be undertaken. 2. Government should consider the following options: a) Allocating specific crude volume to NNPC to cater for their operational costs. b) Consider a a specific percentage of their revenue collection to cater for their costs. c) Define the ceiling to be expended in defraying their costs.	
8	**NLNG Dividend,**	NNPC confirmed receipt of $390,234,415 being payment of dividend, loan repayment and	Witholding of these revenues contravenes	The Federal Government should	NNPC stated that it has the approval to

	Loan repayment and interest payment	interest by NLNG in 2016. These monies were paid into JP Morgan Chase NNPC Depository Account domiciled with the CBN. The cumulative amount received from NLNG to date (including amounts revealed in previous audit reports 2000 - 2016) is $17,288,959,416. Details of payments made per year can be seen in Table 5.10 below. NEITI has consistently maintained that these monies should be paid into the Federation Account. This position is based on Section 162(1) of the constitution of the Federal Republic of Nigeria which stipulates that "all revenue proceeds should be paid to the Federation Account." NNPC has always made reference to approvals by the Federal Government, authorizing it to withhold remittances or in some cases utilize fund for some specific projects such as the Brass LNG Project. NNPC made available these approvals for sighting to our team. The fund is managed by the MoF.	the constitution and does not promote transparency and accountability.	make a public pronouncement on treatment of all categories of payments from NLNG	withhold these funds.
9	**NDDC Levy**	There was an un-reconciled amount of **₦200,000,000 ($770,238)** being a payment made by Sterling Oil Exploration. The audit revealed that Sterling paid the naira equivalent of **$770,238,** which was not traceable to NDDC bank account.	Possible loss due to poor record keeping	NDDC to ensure reconciliation of the duifferences with Sterling and confirm payment of the funds to the Bank account.($770,238 for 2016 & $890,902 for 2015)	
10	**Signature Bonus**	There was no payment for signature bonus in 2016.However, payments made by companies as premium for license renewals were credited into the signature bonus account.	The non-classification, in some instances, of payments into this account made it difficult to ascertain the purpose of some payments.	Henceforth, companies should properly classify payments made into the signature bonus account. Also, DPR may	

				consider opening a seperate account for license renewals to ensure accountability.	
11	**NCDMB**	There was an un-reconciled amount of **$557,464** being a payment made by Mobil for the month of August and December. The audit revealed that Mobil paid the money into NCDMB TSA account, but NCDMB has no confirmation of the payment in their account.		NCDMB to ensure that the funds are traced to the Bank account.	
12	**Gas Flare Penalties**	There was a total liability of **$3,632,075** incurred by 23 companies. (See Table 5.3.1)	Possible revenue loss on account of delayed payment	DPR should followup and confirm recovery of outstanding payment of $3.632 million.	
13	**Gas Royalty**	The total gas royalty underpayment is **$ 19,988,735.16.** The companies involved are; NPDC- **$11,585,837.09** ND Western- **$6,595,455.38** Frontier **-** $ 1,807,442.69	Possible revenue loss due to underpayment by companies.	DPR should followup and recover the outstanding sum of **$19,988,735.16** from NPDC, ND Western and Frontier	
14	**Oil Royalty**	The total oil royalty underpayment is **$ 46,674,360.78.** The companies involved are; Dubri Oil- $228,569.87 NPDC- $22,835,358.68 Newcross E&P- $ 13,715,001.08 ND Western- $9,366,000.28 Platform- $ 529,430.87	The nonpayment by these companies will result to revenue loss	DPR should follow up and confirm recovery of outstanding payment of $46.674 million.	Entities signed off on these liabilities

		The following companies defaulted in payment of royalty in 2016 Panocean, Shoreline and Yinka Folawiyo	The nonpayment by these companies will result to revenue loss to the federation. It is worthy to note that, Pan Ocean did not make any financial payments in 2016, despite being in JV arrangement with the Federation.	DPR should investigate the nonpayment by these companies and ensure recovery as appropriate.	
15	**Losses from Crude Theft and Sabotage**	Losses arising from crude oil theft and sabotage continued in 2016 in the upstream and downstream. The losses from Crude theft was 19,872,498.78bbls,while losses from Sabotage was 81,180,605bbls.These losses are valued at **$869.02 million** and **$3.55 billion** respectively. The crude price ($43.73) used for estimate was computed using the actual monthly sales and quantity figures for 2016. The total PMS and AGO loss was 114,115,198 litres valued at N9,734,873,026. Two thousand five hundred eighty-nine (2,589) pipeline breaks were recorded.		1. NNPC should ensure proper surveillance (land-based and aerial satellite photography and geo-phones trenched pipelines) to minimisevandalisation and crude oil theft, and the pipeline networks need to be updated. 2. The Federal Government needs to ensure the success of oil and gas industrial parks in the Niger Delta region; This will ensure the development of oil and gas infrastructure in the oil-producing	

				states. It will create employment for the populace in the Niger Delta.	
16	**Pipeline transportation revenue**	1. Demurrage Receipt: - the NNPC described this income as transportation revenue, which accounted for only **$2,528,552**-received from SPDC on the 23 July 2016 as against **$25,713,879** reported by SPDC. 2. Neither NNPC nor SPDC could provide the basis for the computation of the amount paid by other operators.This is expected to provide the basis for determining the amount due to the government.	1. This led to an un-reconciled difference **of $23,185,327** due to the inability of NNPC to provide proof of receipt of the total fund paid by SPDC.	NNPC and SPDC should provide the basis for the computation of amount payable to ensure that government receive what is due. While NNPC should account for the difference.	
		NAOC liability for the year under review stood at $10,382,350. This represents 60% of the NNPC equity in the NNPC/NAOC JV.	The outstanding liability of $10,382,350 led to a reduction in government revenue.	NNPC to followup and recover the sum of $10.382million from NAOC.	NAOC has confirmed the liability. The next audit will need to confirm the payment.
17	**Unaccounted revenue by NNPC**	A further analysis of Transport Revenue as submitted by SPDC revealed that other ipayments were made as enumerated below: ii. Income generated from Power = $35,588,893.95	This could lead to financial misstatement, while the misclassification of income into inappropriate sub-	1. NNPC to followup and recover the sum of $**36,345,675.95 from NAOC** **2.** NNPC to followup on all revenues due	

		ii. Miscellaneous income = $357,493 v. Income from Osubi airstrip = $399,289 **TOTAL = $36,345,675.95**	heads may result in overstatement of such sub-heads.	from JV companies.	
18	**PPT liabilities**	The following companies defaulted in tax payment in 2016; Aiteo, Allied Energy, Belema Oil, Brittania-U, Dubri Oil, Energia Limited, Midwestern, Pan Ocean, SA Petroleum, Seplat, and Yinka Folawiyo. Express Petroleum and Sheba Petroleum did not provide relevant information to the audit.	This leads to revenue loss to the Federation.	FIRS should carry out tax audit of these defaulting companies. There is need for the Federal Ministry of Finance to task FIRS to provide a status update on all companies and their outstanding liabilities till date.	
19	**Reconciliation of the debt notes issued to other marketers and the actual refund thereon in 2016**	There was a variance of **₦28, 516,816,953.75** betweenPPPRA and DMO. PPPRA did not keep accurate data of all other marketers issued with Debt Notes. It also did not carry-out reconciliation with CBN/MoF on processed subsidy vis-à-vis actual payments to determine whether marketers with zero importation/under importations were allocated foreign exchange.		PPPRA to reconcile difference	