

YEMEN EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE (YEITI)

Third Yemen EITI Reconciliation Report (2011)



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ABBREVIATIONS AND ACRONYMS

BBL	Barrels (of Crude Oil)
BCF	Billion cubic feet
CBY	Central Bank of Yemen
COCA	Central Organization for control and auditing
EITI	Extractive Industries Transparency Initiative
GDA	Gas Development Agreement
Government	Government of the Republic of Yemen
GSMRB	Yemen Geological Survey and Mineral Resources Board
IFAC	International Federation of Accountants
LLC	Limited Liability Company
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
Marib Refinery	Yemen Oil Refining Company
Mmbtu	Million BTU (British Thermal Units)
Mcf	Million cubic feet
Mmt	Million tonnes
MoF	Ministry of Finance
MOM	Ministry of Oil and Minerals
MOPIC	Ministry of Planning and International Cooperation
PEPA	Petroleum Exploration and Production Authority
PSA	Production Sharing Agreement
Reporting Entities	The Government departments / ministries and the companies listed in section 4.1.5 and 4.1.6 respectively of this report
Safer	Safer E&P Operation Company
SEPOC	Safer E&P Operation Company
TCF	Trillion cubic feet
TOR	Terms of Reference
USD	United States Dollars
YEITI	Yemen Extractive Industries Transparency Initiative
YEITIS	Yemen Extractive Industries Transparency Initiative Secretariat
YER	Yemeni Riyal
YGC	Yemen Gas Company
YICOM	Yemen Company for Investment in Oil and Minerals
YLNG	Yemen LNG Company
YOGC	Yemen Oil and Gas Corporation - Marketing Department
YTA	Yemen Tax Authority

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1 INTRODUCTION

This is the third Yemen Extractive Industries Transparency Initiative (EITI) reconciliation. The report covers the period from 1st January to 31st December 2011. The reconciliation work was carried out in accordance with the terms of reference included in Appendix B between 4th January and 9th April 2014.

The report is prepared under the EITI Standard (2013).

The report is intended for the use of the Yemen EITI Council for the purpose of that initiative and is not to be relied upon by other parties. In the event of any discrepancy between the English text and the Arabic translation, the English text shall prevail.

The report includes its Appendices, which are bound separately.

1.1 OBJECTIVE

The objective of the engagement is to ensure the transparency and credibility of certain sector payments and receipts in Yemen. To this end, the engagement entailed an analysis and reconciliation of material payments and receipts made by specified Reporting Entities in 2011.

1.2 SCOPE OF WORK

Hart Nurse Ltd (“the Consultant”) was required to undertake the work set out in the Terms of Reference for the engagement. The reconciliation has been carried out on a cash accounting basis.

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

In conducting our work, we have relied upon the information and explanations obtained from Reporting Entities.

Our report incorporates information received up to 9th April 2014. Any information received after this date is not, therefore, included in our report. Certain confirmations, that did not affect data or reconciliations, were received subsequently and have been included.

1.3 STRUCTURE OF THE REPORT

The report contains:-

- a. An Executive Summary
- b. An overview of the extractive sector in Yemen
- c. An overview of Reported Benefit Streams and Reporting Entities
- d. A description of our approach to undertaking the Engagement, the methodology adopted and the work done

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- e. The results of the reconciliation, including details of the flows (payments and receipts) reported, identification of unresolved differences, with information about the type of receipt/payment involved and the Reporting Entities whose reported figures remain un-reconciled.
- f. A summary of issues arising during the Engagement together with recommendations for improvements in transparency

Full details of initial differences, adjustments made and unresolved differences, analysed by type of financial / in kind flow, are reported, together with other supporting information.

1.4 ACKNOWLEDGEMENT

The Consultants would like to express their sincere thanks to Dr. Mohammed Saleh Moqbil, Chairman of the YEITI council, and to the YEITI council members, in particular the YEITI Council General Secretary Mr. Mohammed Al-Najjar and the YEITI Council Secretary Assistant Mr. Hani Oqba and the YEITI Council secretariat team, especially Messrs Awadh Alrofid and Adeeb Shawket, who have assisted us in receiving replies from the Government reporting entities and from companies, and also supporting and assisting us with organisation of meetings with major officials from the Government and its various organisations and agencies, as well as with the oil companies; and for sending and receiving official confirmation letters to/from these parties.

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2 EXECUTIVE SUMMARY

This summary sets out the main findings from the exercise to reconcile the receipts declared by the Government from oil companies included in the EITI reconciliation for 2011 with the payments to Government reported by those companies.

2.1 SUMMARY OF FLOWS REPORTED

Government receives benefits from the oil extractive sector in terms of:

- Crude oil transferred in kind from companies to the Government for export
- Crude oil transferred in kind by companies to Government refineries
- Financial payments from companies directly to the Government

Government receives benefits from the gas sector through YLNG in terms of:

- Proceeds of sale of Government share of gas
- Financial payments from YLNG to the Government

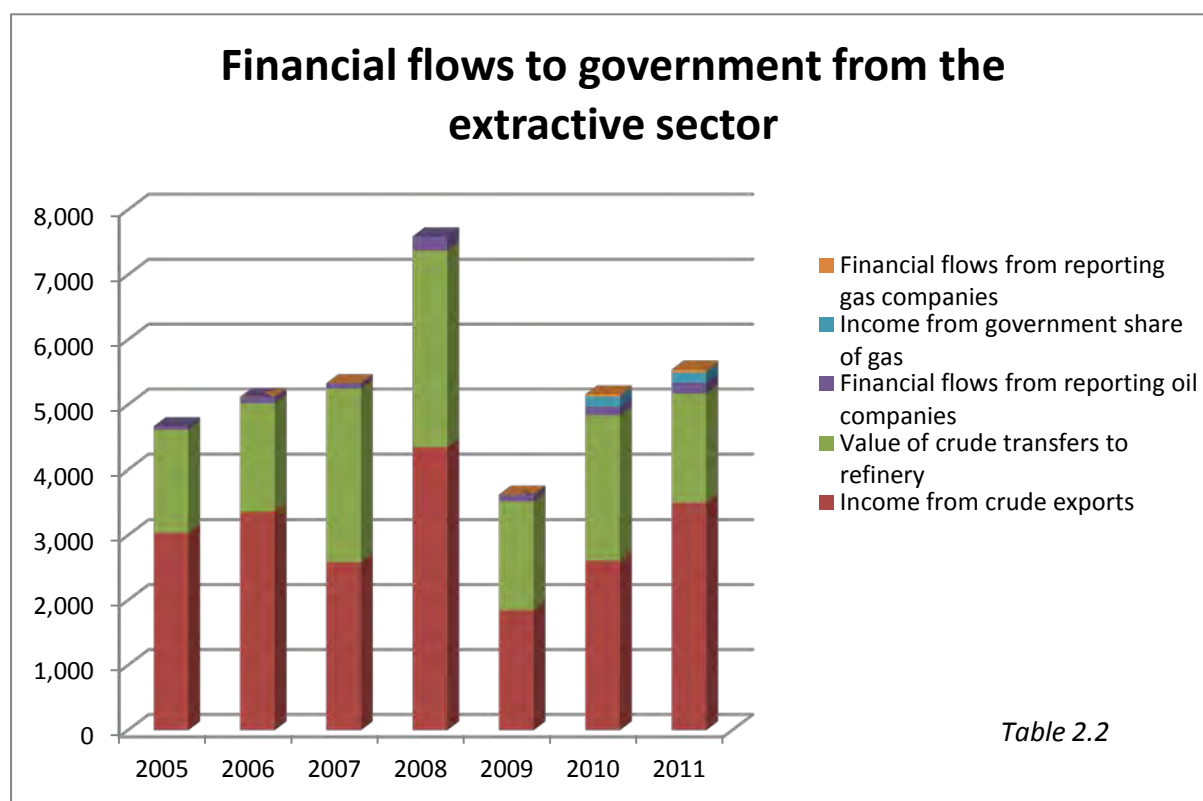
The benefit flows from the oil and gas companies included in the reconciliation to the Government, as reported by Government after completion of the reconciliation, are shown in the table which follows. Figures for 2005 to 2010, taken from the Yemen EITI report for those years, are included by way of comparison.

US\$ millions	2005	2006	2007	2008	2009	2010	2011
Crude oil							
Exports	3,034.4	3,363.1	2,584.8	4,340.9	1,845.3	2,610.3	3,501.7
Transfers to refinery	1,580.6	1,658.9	2,662.7	3,034.6	1,674.1	2,224.6	1,669.2
Financial flows	53.2	100.4	83.7	215.7	106.7	134.5	167.6
Sub-total oil companies	4,668.2	5,122.4	5,331.2	7,591.2	3,626.0	4,969.4	5,338.5
Gas							
Government share						154.9	154.9
Financial flows						38.0	46.3
Sub-total gas company	0.0	0.0	0.0	0.0	0.0	192.9	201.2
Total reported flows to government	4,668.2	5,122.4	5,331.2	7,591.2	3,626.0	5,162.3	5,539.7

Table 2.1

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These reported flows may be presented graphically as follows:



2.2 IN-KIND TRANSACTIONS

Terminal operators and government (MoF) reported volumes of crude oil transfers to government as shown in the table which follows, after reconciliation. Government crude exports include YOGC and YICOM exports.

Bbls 000	2011
As reported by government (MoF)	
Crude oil exports	31,508
Crude oil transfers to refineries	15,453
Total	46,961
As reported by terminal operators	
Crude oil exports	31,508
Crude oil transfers to refineries	15,453
Total	46,961

Table 2.3

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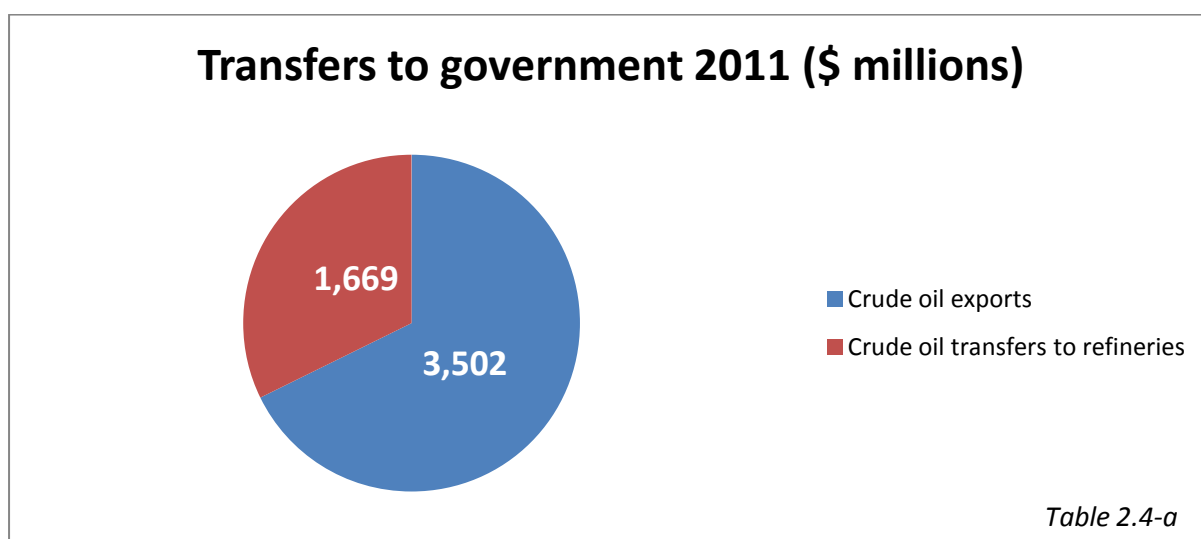
The value of these transfers, as reported by MOF, was as follows:-

\$ millions	2011
As reported by government (MoF)	
Crude oil exports	3,502
Crude oil transfers to refineries	1,669
Total	5,171

Table 2.4

MOF reported these figures in Yemeni Rials; for purposes of consistent reporting they are included here in USD (converted at the rate of YER 213.75 : USD 1, being the CBY rate at 31st December 2011).

The crude oil transfers to government, as reported by MoF, may be presented graphically as follows:



The value of the receipts in respect of crude oil transfers to government is not confirmed by the companies since they are not party to such information, and confirmation of these flows was limited to a comparison of volumes reported by YOGC, MOF and CBY (see section 7.4).

No in kind gas flows were reported, the government share was settled in cash.

2.3 SCOPING OF THE RECONCILIATION

The Yemen National EITI Council determined which companies, government departments and benefit flows were to be included in the 2011 reconciliation (see further section 4)

In accordance with our terms of reference, we have reconciled the flows between the companies and government as determined by the National Council.

Some receipts/payments were reported which were not included in the flows determined by the National Council. These payments are reported separately in section 8.5 but not included in the reconciliation.

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2.4 GOVERNMENT REPORTING OF PHYSICAL FLOWS

Transfers of crude oil to government for export or delivery to one of the two refineries were reported by:-

- i. Yemen Oil and Gas Corporation (YOGC) Marketing Department
- ii. Ministry of Finance (MoF) – Oil/Gas Revenue Management Department
- iii. Central Bank of Yemen (CBY)
- iv. Yemen Company for Investment in Oil and Minerals (YICOM)

We were not required to review or validate the pricing of the government oil sales and transfers for this report. The terms of reference provide for this to be undertaken as a second stage exercise.

2.5 COMPLETENESS OF INFORMATION

2.5.1 INFORMATION FROM REPORTING ENTITIES

We circulated to the Council on a daily basis a list of the information required for the reconciliation and the status of provision by reporting entities. Any information not received in time for inclusion in this report is noted in the relevant section.

2.6 MATERIALITY OF INCONSISTENCIES

Under the Terms of Reference, The YEITI Council has deemed that materiality of discrepancies or unreconciled items for any payment category is a government reported figure higher or lower by more than 3% as compared to that reported by the company.

Differences remained that exceeded the Council's definition of a material difference as shown in the table below.

	Unresolved following reconciliation		
	Government	Companies	Difference
	US Dollars	US Dollars	US Dollars
Oil sector			
Institutional bonus	4,614,855	4,024,000	590,855
Signature bonus	0	4,152,000	-4,152,000
GSR data analysis and studies	0	200,000	-200,000
Tax penalty	17,224	0	17,224

Table 2.4b

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The differences on the institutional bonuses arise because certain exploration companies did not report bonuses paid, while government reported receipts from those companies. Comment on these material differences is made in section 8.4.1. Full details of amounts reported may be found in Appendix C.

The difference on the signature bonus is discussed further in Section 8.4.1.

There is provision in the terms of reference for an audit to investigate any such differences as a second stage exercise.

2.7 COMPLETENESS AND ACCURACY OF DATA

Based on the list of entities specified by the Council to be included in the reconciliation, we confirm that all entities participated in the reconciliation, with the exception of :-

Non reporting companies

Exploration Companies	
1	GSPC Blocks 19, 28 and 57

Table 2.5

GSPC stopped its operation in Yemen after their PSA expired in 16 March 2013; this was confirmed officially from MOM. No information relating to the EITI requirements was available.

Companies which failed to report employee income tax

Exploration Companies	
1	Gallo Oil Block 13 - Block R-2
2	CCC Block 33 - Block 45
3	Reliance Block 34 - Block 37

Table 2.6

Other matters

Data from some entities was not presented in a manner that conformed to the templates approved by the Council and was incomplete (MOF - Tax Authority; CBY).

There were differences in the initial reconciliation due to inadequate understanding by some Government departments of the cash basis for reporting (MOF - Tax Authority; Safer Exploration and Production Operations (SEPOC); Ministry of Oil and Minerals - Accounting Department; Gallo Oil Yemen Inc).

Certain payments were misclassified on the reporting templates (Ministry of Oil and Minerals - Accounting Department; Canadian Nexen; Calvalley).

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Some returns contained inadequate details and supporting documents, and on occasion it was difficult to obtain supporting documents (Yemen Company For Investment In Oil And Minerals; Ministry of Oil and Minerals - Accounting Department; Yemen Tax Authority; Safer Exploration and Production Operations (SEPOC)). In the case of SEPOC, implementation of SAP led to inaccuracies in reporting in some areas in the initial templates; these were subsequently resolved with SEPOC.

There were delays in submission of templates by some reporting entities, in particular MOF – Tax Authority and templates from MOM relating to exploration companies.

2.8 HOW INCONSISTENCIES WERE RECONCILED OR RESOLVED

After identifying the existence of an inconsistency, we undertook the following work:

1. Government entities were contacted and visited for the purpose of investigating the differences and requesting the completion of any missing information.
2. For any update of the data templates, supporting documents were always requested.
3. For differences in financial transactions, we obtained supporting documents from both the Government and the related company.
4. For crude oil differences, we obtained the bills of lading and sales invoices and resolved the differences accordingly.

2.9 AUDITED DATA AND CONSISTENCY WITH FINANCIAL STATEMENTS

The Council asked Reporting Entities (both company and government) to provide confirmatory letters from their auditors stating that the data provided in the reporting templates was consistent with the audited financial statements. The Council also requested Reporting Entities to confirm that their financial statements were audited in accordance with International Auditing Standards.

2.9.1.1 Companies

The information provided by companies in this respect is summarised in section 5.5.

2.9.1.2 Government

The information provided by government in this respect is summarised in section 5.6. The audited financial statements for government in a number of cases contain qualifications in the audit opinions (see further section 5.6).

2.10 CADASTRE

PEPA maintains and publishes a record of all licensed and open blocks in respect of oil exploitation and exploration.

GSMRB is legally responsible for maintaining a record of licensed operators for the mining sector. However, GSMRB said that it does not have a complete mining cadastre.

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3 OVERVIEW OF THE EXTRACTIVE SECTOR

3.1 EXTRACTIVE ACTIVITIES IN YEMEN

Yemen's main extractive industries are oil, gas and mining. Commercial exploitation of gas increased significantly with the commencement of production from the LNG plant in November 2009.

We carried out a scoping exercise on the mining sector. The YEITI Council decided that the activities of the sector in 2011 were not material and that mining would not be included in the 2011 EITI reconciliation. However, a description of the sector is included later in this section.

3.2 LEGAL FRAMEWORK AND FISCAL REGIME

3.2.1 LICENSING

With defined exceptions, no minerals may be extracted in Yemen without first obtaining a licence from the Government. Law No 22 of 2010 states that "All mineral resources remain the property of the state until extracted" (see also the Constitution); and that "no person may carry out reconnaissance, exploration or mining of minerals; or extraction of quarry raw materials; or artisanal mining without first obtaining a licence from the Geological Survey and Mineral Resources Board."

Law No 22 of 2010 permits extraction of quarry materials without a licence by:-

- Landlord for the purpose of the construction of roads and buildings for their own interest as per standing legislations
- The entities empowered to construct public projects in certain lands as per standing Law or under a contract or a license or a facility for the purpose of construction of such projects
- The Mining licensees for the purpose of construction of buildings and temporary roads required for mining operations in these lands
- Military units and authorities for the purpose of construction of projects on military lands

Quarry materials extracted under this provision may not be sold

3.2.2 TAXATION

Law No 22 of 2010 regulates the operations and obligations of enterprises involved in mining, and encourages domestic and international investment into the sector.

Royalties

Production royalties paid to Yemen's government range between three and ten percent.

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Income Tax

Law No 17 of 2010 details the tax payable on any income derived from a source within the Republic of Yemen. Any income derived from enterprises operating in the oil, gas, or mining industry are subject to an income tax rate of 35%.

However, exploration companies are normally subject to the exploration tax during the exploration phase, and the corporate tax rate of 35% from the development period onwards.

Relief from Income Tax

An investment in mining, including prospecting and exploration, attracts deductions from income tax on the following expenditures:

- Capital expenditure; allowances of 100%¹ on plant, machinery and commercial vehicles; 20% on non-commercial vehicles; 100% on mining industrial buildings (5% on non-mining industrial buildings).
- Prospecting expenditure under special circumstances
- Mining expenditure under special circumstances
- Mining expenditure on a non-producing mine
- Mining expenses incurred by a mine of irregular production close to the end of its life.

Relief from other Surcharges

- A holder of a mining right is exempt from customs and excise duties in respect of all machinery and equipment required for exploration or mining activities

Remittance of profits

- There are no restrictions in respect of the amount of profits, dividends, or royalties that may be externalized, although a withholding tax of 15% is levied.

3.3 OIL

In 2011, Yemen production of oil was approximately 0.22 million bpd from twelve producing blocks.

Exploration and production are contracted under Production Sharing Agreements (PSAs). Each PSA must be ratified as a law approved by the Council of Ministers, Parliament, and the President of the Republic.

Details published by PEPA of oil companies licensed to operate in Yemen, both as producers and as exploration companies, are contained in Appendix A, together with open blocks (blocks not yet licensed).

¹ The capital allowance rate on plant and machinery fell to 25% from January 2013

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As illustrated in the following graph, total production is in long-term decline.

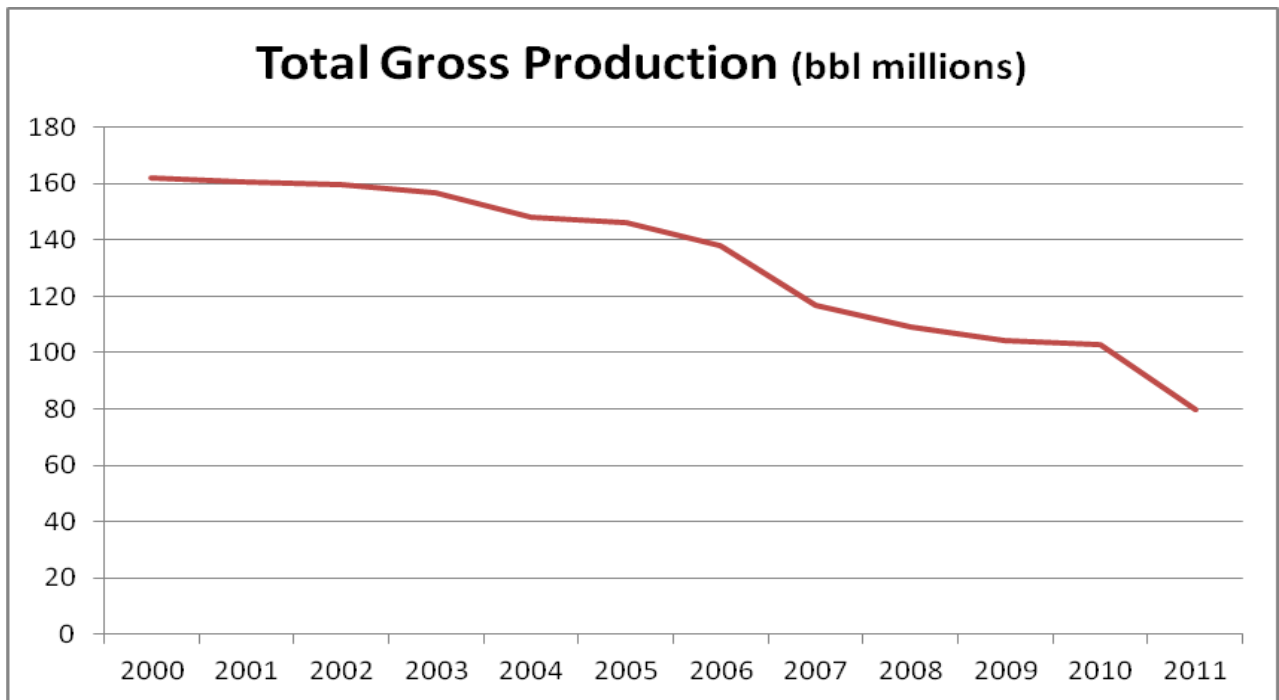


Table 3.1 (source: MOM published data)

3.3.1 ALLOCATION OF BLOCKS



Coloured blocks are under license for exploration, production, or approval. In 2012 five more blocks were tendered; in 2013 20 more blocks.

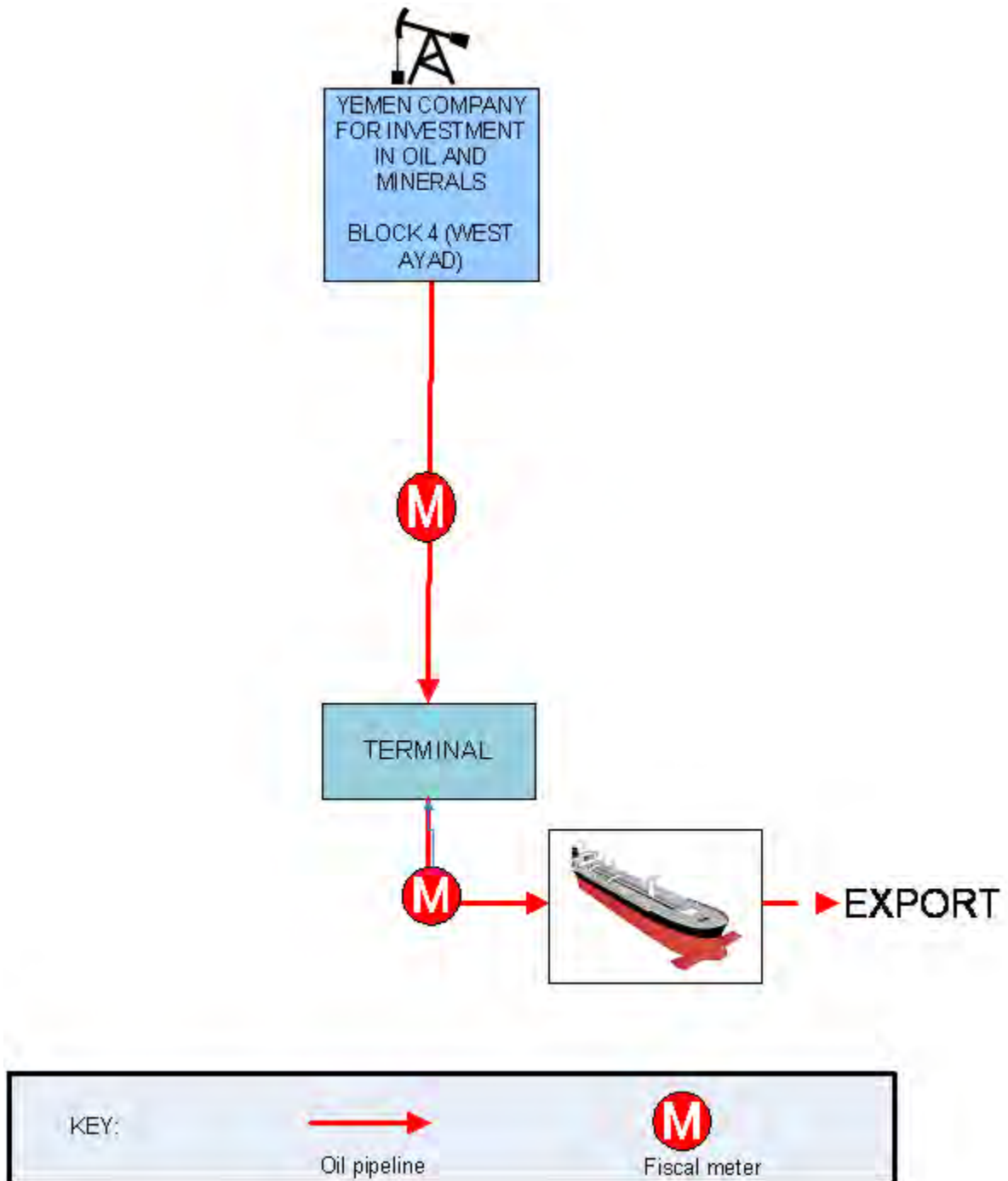
Table 3.3 (source: MOM published data)

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3.3.2 DIAGRAMMATIC REPRESENTATION OF PRODUCTION INFRASTRUCTURE

There are three terminal systems in Yemen, which are represented diagrammatically in the charts which follow.

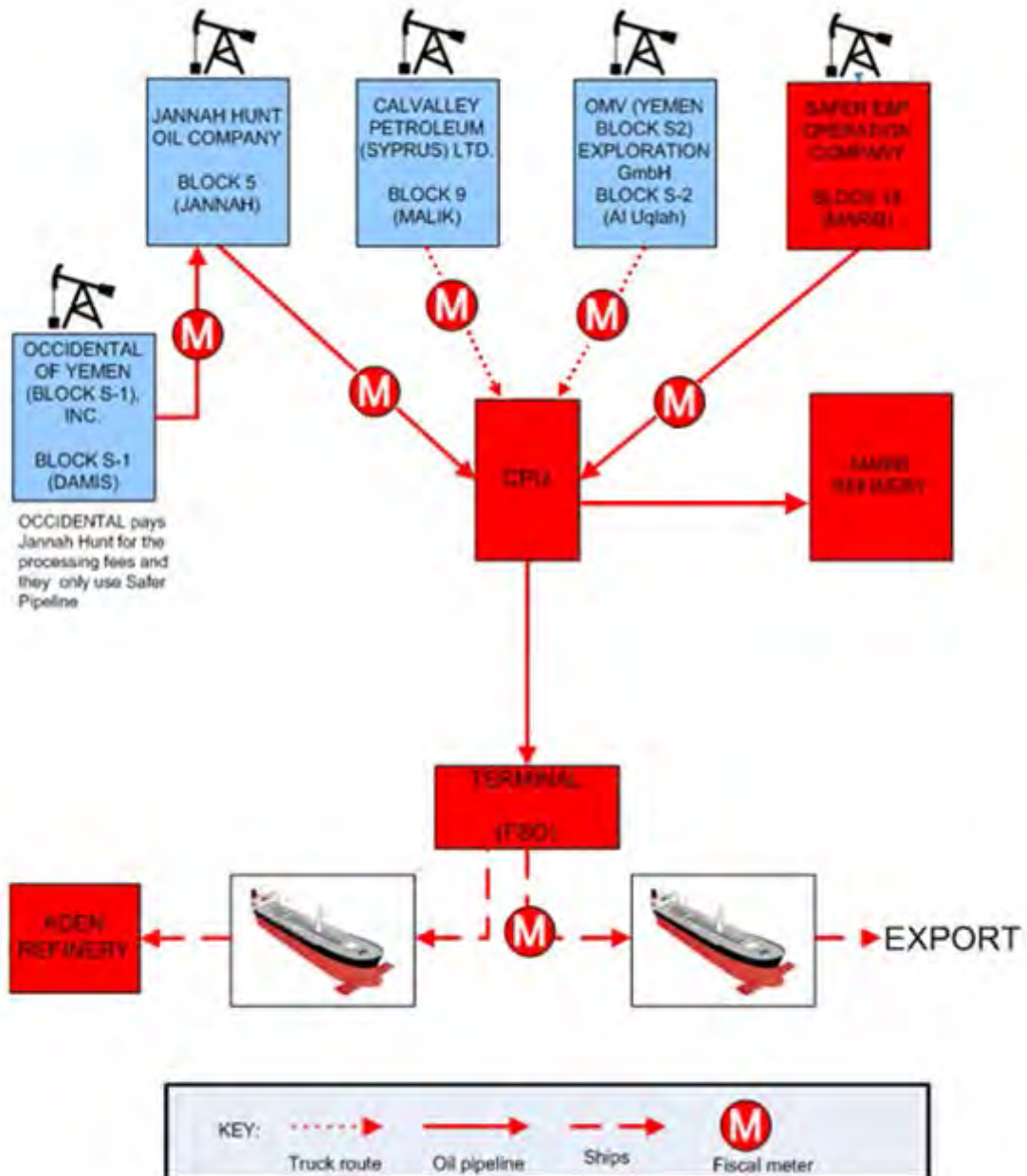
3.3.2.1 Bir Ali terminal



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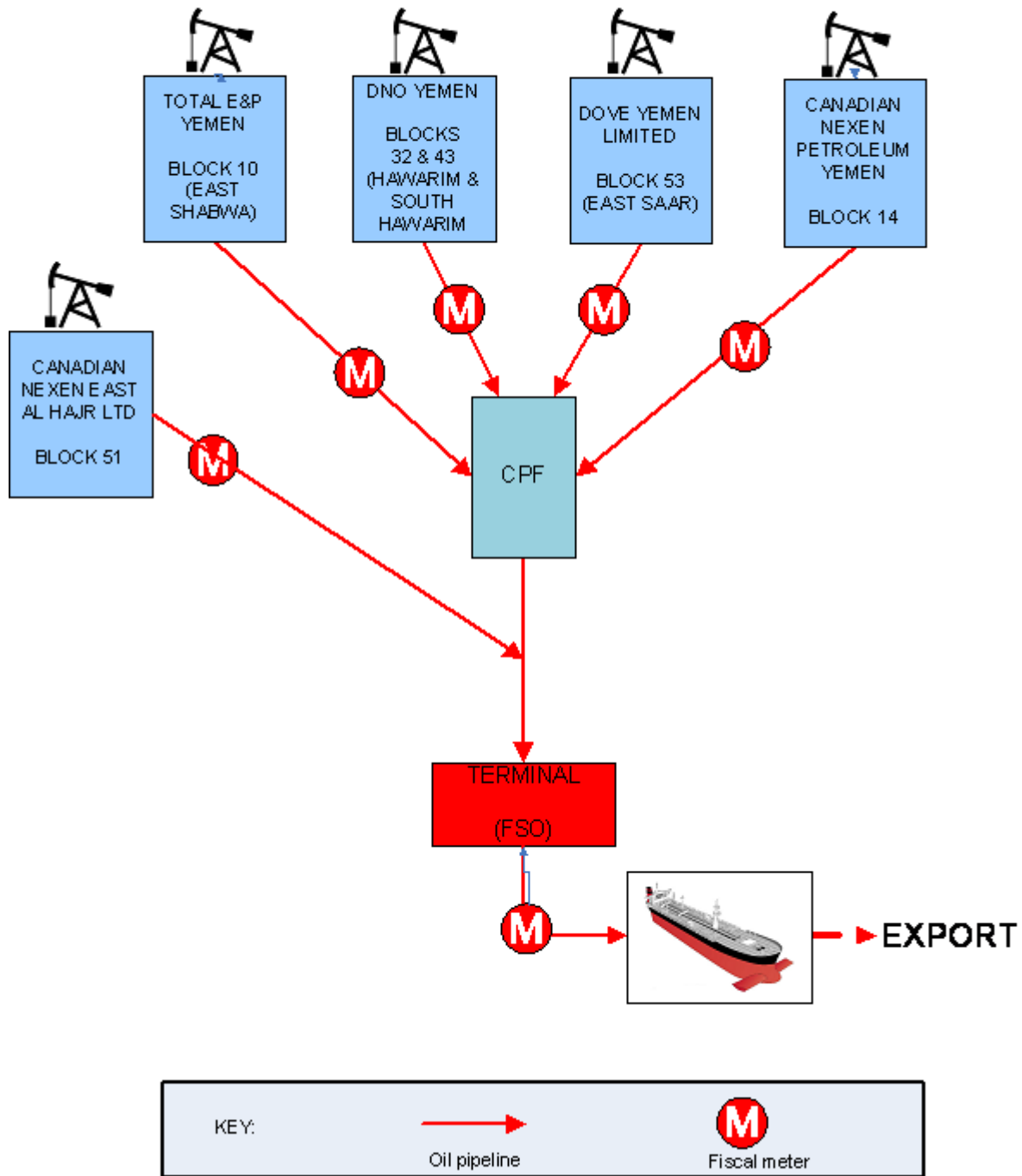
3.3.2.2 Marib-Ras Issa terminal (Safer)

Marib-Ras Issa Terminal
Schematic Diagram of Hydrocarbon Flows



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3.3.2.3 Ash Shihr Terminal



On 17th December 2011, Petro Masila took over the operation of Block 14 and operation of the terminal from Canadian Nexen Petroleum Yemen.

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3.4 GAS

The details of gas companies licensed to operate in Yemen are contained in Appendix D.

3.4.1 LNG

MOM published information states that exports of LNG during 2010 were 186.8 billion cubic feet in 2010, rising to 309.4 billion cubic feet in 2011 (2009 and 2008: NIL).

The YLNG project commenced commercial operations in November 2009. It consists of a 320 kilometre pipeline to transport gas from the Marib field (Block 18 – operated by Safer) in central Yemen to a two-train LNG plant in the port of Balhaf at the southern coast of the country. The design capacity is 6.7 million metric tonnes of LNG per annum. The capital cost of the plant is reported to be around \$4.5 billion.

Proven reserves of gas in the Marib field are said to be 9.15tcf, of which 1 tcf is reserved for the domestic market.

3.4.2 LPG AND OTHER GAS SALES

According to MOM, sales of LPG from the Aden and Marib refineries in 2008 – 2010 were (thousands metric tonnes):-

2008	758
2009	735
2010	728

Volumes for 2011 are reported as part of the reconciliation (see section 7.2).

Safer also provides gas to the Public Electricity Company for local power generation. Details of the gas provided are not included in the published information provided by MOM.

These activities are not included in the terms of reference for the EITI reconciliation for 2011, except that Safer was required to report gas production and use in respect of Block 18 (see Section 7.2).

3.5 MINING

3.5.1 OVERVIEW

The MOM lists a number of occurrences of industrial minerals in Yemen. Companies are active in exploration and appraisal. In 2011, MOM information states that 15 companies held exploitation licences for various minerals. MOM data for mining companies operating under license in Yemen appears in Appendix C.

Mining enterprises operating in Yemen explore for base metals, precious metals, and industrial minerals. These include gold and silver; copper, lead, magnesium, nickel, platinum-group metals, tin,

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and zinc; and basalt, clays, dolomite, feldspar, gypsum, kaolin, limestone, marble, perlite, pumice, quartz, salt, silica sand, travertine, volcanic tuff, and zeolite.

Yemen's mineral deposits are located largely in coastal regions, facilitating their shipping to regional and international markets.

The Yemen Geological Survey and Mineral Resources Board (GSMRB) is the state agency responsible for mineral production under the Ministry of Oil and Minerals. It has promoted investment in Yemen's mining sector and published reports on the mineral resources of Yemen.

Mining was reviewed to determine whether the sector was material in terms of the 2011 reconciliation. Following the review, the Council decided that it was not material and it has not been included in the present reconciliation.

3.5.2 LICENSING AND REGULATION

Article 95 of Law No 22 of 2010 requires the GSMRB to maintain a cadastre record. However, there is no complete cadastre and in addition, the position is complicated by the existence of unlicensed operators. The GSMRB has said that none of the metallic minerals mining companies was producing in 2011.

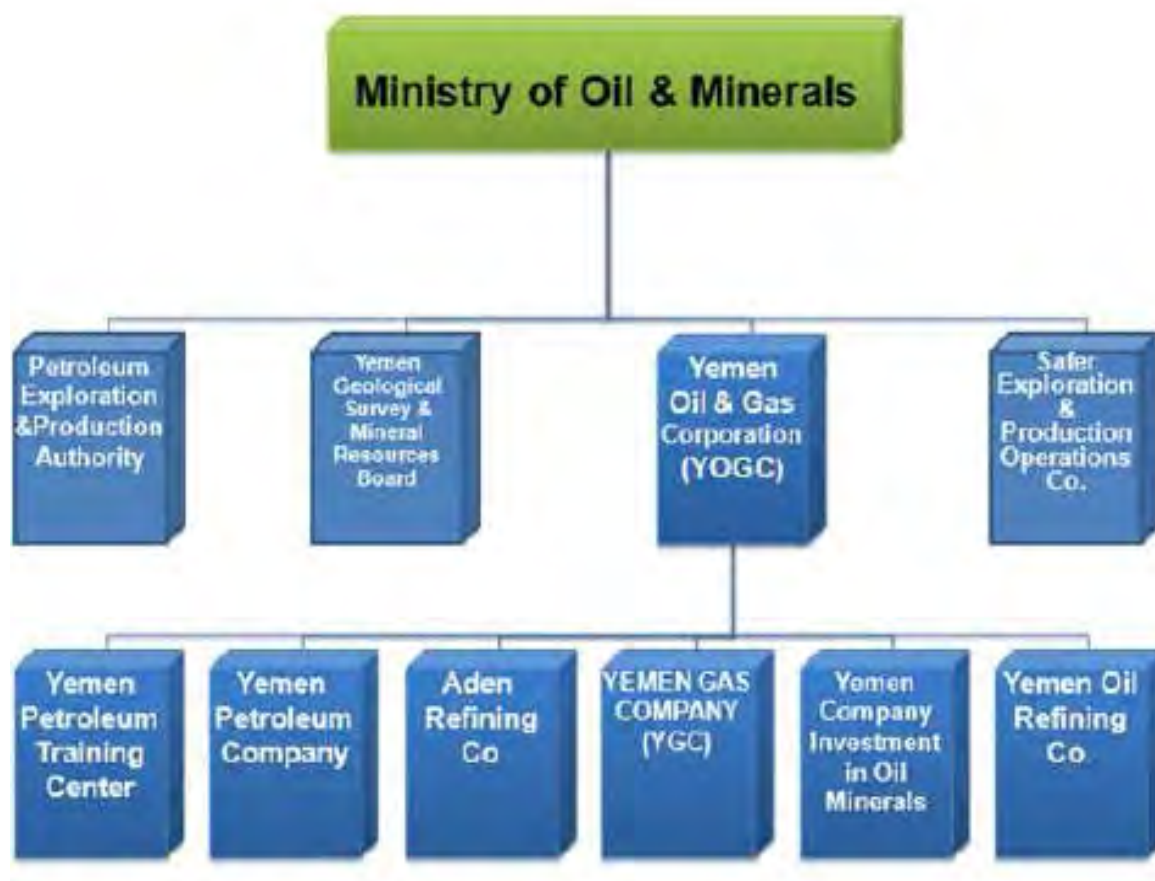
A list of companies to which licences have been issued by the GSMRB to extract metallic minerals was provided by the GSMRB and is included as Appendix E.

The MOM (GSMRB) and companies operating in the sector to whom we spoke said that no royalties were paid in 2011, notwithstanding that there was some industrial minerals production in 2011 and under the 2010 law there would therefore be a liability to pay royalties. In addition, it is very possible that the unlicensed producers referred to by GSMRB and others to whom we spoke would be liable to pay royalty to government, although government figures do not identify any significant income in this area (see section 3.6).

3.5.3 GOVERNMENT INVOLVEMENT IN THE OIL AND GAS SECTOR

The Government oversees the sector through the MOM. The MOM manages the Government interest under the PSAs. MOM is also responsible for a several Government-owned companies, as set out in the following diagram.

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3.5.4 THE LEGAL STRUCTURE OF THE SECTOR

3.5.4.1 *Relevant Government Agencies*

Ministry of Oil and Minerals

Yemen's Ministry of Oil and Minerals oversees the country's oil, natural gas, and mining sectors. The Ministry sets oil and gas policies and manages relations with foreign operators, but any contracts with foreign companies also require parliamentary approval. The Ministry contains an Accounting Department that falls within the scope of reporting entities under EITI.

The Geological Survey and Mineral Resources Board (GSMRB), part of the MOM, is responsible for activities in the mining sector.

Ministry of Finance

The website of the Ministry of Finance states that its priority is to achieve sustainable growth for Yemen and to provide the necessary financial resources to fund public growth.

Central Bank of Yemen

The website of the Central Bank of Yemen reports that it was created in 1990 with the objective of conducting monetary policy to keep inflation under control, stabilize the exchange rate of the national currency and promote investment and economic growth.

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Yemen Oil and Gas Corporation

The Yemen Oil and Gas Corporation was established in 1996 to implement policies required to develop oil and gas resources, and facilitate their effective utilisation. The Corp is the national oil company and guides a number of state-owned subsidiaries that handle most day-to-day operations and deals with energy sector revenues. The website of the Corporation lists the following subsidiaries:

<ul style="list-style-type: none"> ▪ Aden Refinery Company 	<p>Oversees operations at the Aden refinery, including transport to international destinations. The website of the ARC reports that its main role is to process crude oil for local markets; to process crude oil for clients that include countries (Iran, Iraq, Libya, Russia) and companies (Total, Coastal, Petronas), and transport petroleum products.</p> <p>The refining operation is out of the scope of the reconciliation. Oil receipts at refineries are treated as crude oil placed in the hands of Government. Oil that is exported from the terminal for the account of the Aden refinery is treated as Government exports.</p>
<ul style="list-style-type: none"> ▪ Yemen Petroleum Company 	<p>The company's website reports that it specializes in distributing petroleum products to the local market.</p>
<ul style="list-style-type: none"> ▪ Yemen Investments Company for Oil and Minerals 	<p>An upstream operator; focused on Jannah and West Ayad areas. The Company's website reports that it has complete financial and administrative autonomy, has the right to participate in ventures with other companies, and the right to establish companies.</p>
<ul style="list-style-type: none"> ▪ Yemen Gas Company 	<p>Yemen Gas Company is responsible for sales, marketing, and supply of liquefied petroleum gases domestically. The company's website reports that it has been 100% state-owned since establishment in 1996.</p> <p>As part of its main task to strengthen the country's domestic gas market, the website of the Company reports that it subsidizes gas in order to meet the fuel requirements of disadvantaged Yemenis</p>
<ul style="list-style-type: none"> ▪ Yemen Oil Refining Company (Marib) 	<p>Oversees domestic refining operations.</p> <p>Treated in the reconciliation in the same way as the Aden refinery.</p>

Other government organisations with responsibility for or activities in the extractive sector are:

Petroleum Exploration and Production Authority

Established under Resolution No. (204) of 1997, the Petroleum Exploration and Production Authority (PEPA) provides the oil investors with all the support, any assessment help, and coordinate operation activates. PEPA drives and manages all concessions promotion activates in Yemen. By 2011, PEPA had conducted four major international and successful concession license rounds.

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Safer E&P Operations Company

Upstream operator of Block 18 since 2005. Its website also reports that it is the largest and second largest producer of gas and oil in the country respectively.

The production of Block 18 is treated as a sector production operation. The benefit flows to Government from Block 18 are treated as transferred to Government at the point the oil leaves the terminal, whether for export or transfer to a refinery.

Masila Petroleum Exploration and Production Company (PetroMasila)

In November 2011, the nation's Supreme Economic Council approved the establishment of a company to replace Canadian Nexen Petroleum Yemen in block 14 in Masila, in the Hadramout province. The Masila Company for Petroleum Exploration and Production, to be known as PetroMasila, would take Canadian Nexen Petroleum Yemen's place when the company's licence expired on 17 December 2011, with "all the rights and privileges of the former operator Nexen",

Yemen LNG is a joint venture between Yemen Gas Company and international companies, including Total (Project Technical Leader), Hunt, SK Innovation, Korea Gas Corporation, Hyundai Corporation, and The General Authority for Social Security and Pensions. In addition to facilitating the export of Yemen LNG, the website of Yemen LNG reports that the venture has supported economic, social, and vulnerability alleviation programmes.

3.6 CONTRIBUTION OF THE EXTRACTIVE SECTOR TO THE ECONOMY

The International Monetary Fund estimates that around 63% of government revenue came from hydrocarbon exports between 2010 and 2012. In 2011, 89% of Yemen's total exports came from the extractive sector.

In 2011, Yemen's domestic natural gas consumption was 31 bcf, out of a total production of 339 bcf.

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3.6.1 GOVERNMENT REVENUES IN AGGREGATE

Figures provided by the MOF for total government income in 2011 show:-

Total Government Income in 2011	Actual 2011 USD
Tax Income	1,771,915,902
Donation	168,825,427
Equity Income and selling of goods, services and other	6,181,187,108
Disposition of Non Financial assets	1,187,268
Disposition of financial assets and financial liabilities bearing interest	74,761,673
Total Income for the Government	8,197,877,377
Note No.1	
Equity Income and selling of goods, services and other	6,181,187,108
Equity Income	5,949,708,796
Profit surplus from state owned corporation	210,727,968
Profit surplus from state owned corporation in Oil and Minerals sector	51,545,478
Income	”
Oil Exported	3,389,118,080
Oil consumed locally	1,829,083,573
GAS Exported	179,044,446
GAS consumed locally	121,900,604
Production Bonuses	497,311
Royalties from the production operation of Oil, Gas and Minerals	96,532,672
Fixed tax from exploration companies in Oil, Gas and Minerals sectors	13,932,595
Training & Institutional Bonuses	1,796,543
Quarry Sales	48,231
Total Income from Oil, Gas and Mining Sectors	5,631,954,054
Total Profit and Income from Oil, Gas and Mining Sectors	5,683,499,532

The table above is based on the information provided and has not been validated nor has its completeness been confirmed.

3.6.2 CONTRIBUTION OF THE EXTRACTIVE SECTOR TO GOVERNMENT REVENUES IN 2011

An analysis of these figures to highlight the contribution of the oil and gas sector, and separately the mining sector, to government revenues shows:-

- i. Of the amounts described in the MOF figures as income from the oil, gas and mining sectors – a total of \$5,683 million, a total of \$5,518 million comes from the value of oil and gas exported or consumed domestically. This represents 97% of the income identified by MOF from the extractive sector.
- ii. A further \$51.5 million (0.9%) comes from profits from state owned companies in the extractive sector. These companies were stated by MOF to be Aden & Marib Refinery and YPC, YICOM and YGC, which are all in the oil/gas sector.

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- iii. MOF said that no royalties were received from the minerals sector in 2011. The figure for royalties in the table above (\$96.5 million, or 1.7% of the total from the oil/gas/mining sector) thus also derives from the oil sector.

These three categories alone (exported product, state owned extractive companies and royalties) account for 99.6% of the declared government income from the oil/gas/mining sector, and all relate to the oil and gas sector.

On this basis, the flows in 2011 from the mining sector – which cannot exceed 0.4% of government income from the oil/gas/mining sector – are not financially material.

3.6.3 CONTRIBUTION OF THE MINING SECTOR

The MOF figures, as discussed in the preceding section, show a very small contribution and MOF stated that no royalties were received. Both YCC and a private cement company said that no royalties were paid in 2011, notwithstanding that both organisations were producing in 2011 and under the 2010 law would therefore be liable to pay royalties. In addition, it is very possible that the unlicensed producers referred to by GSMRB and others to whom we spoke would be liable to pay royalty to government.

However, this is a matter of regulation – which is concerned with what should be paid - and not a matter of EITI reconciliation – which is concerned with what has been paid.

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4 BENEFIT STREAMS AND ENTITIES REPORTED

4.1 MINING SECTOR - DESCRIPTION

We discussed the operation of the Yemen mining sector in 2011 with the Geological Survey and Mineral Resources Board, the Ministry of Oil and Minerals Finance Department, the Ministry of Finance, Ministry of Industry and Trade, Yemen Corporation for Cement Industry and Marketing and with private companies. In addition, we reviewed the legislation applying to the mining sector and information on government revenues provided by the Ministry of Finance.

4.1.1 LICENSING

With defined exceptions, no minerals may be extracted without first obtaining a licence from the Government.

Law No 22 of 2010 states

- that all mineral resources remain the property of the state until extracted (see also the Constitution); and
- that no person may carry out
 - reconnaissance, exploration or mining of minerals
 - extraction of quarry raw materials
 - artisanal mining

without first obtaining a licence from the Geological Survey and Mineral Resources Board.

Law No 22 of 2010 permits extraction of quarry materials without a licence by

- Landlord for the purpose of the construction of roads and buildings for their own interest as per standing legislations
- The entities empowered to construct public projects in certain lands as per standing Law or under a contract or a license or a facility for the purpose of construction of such projects
- The Mining licensees for the purpose of construction of buildings and temporary roads required for mining operations in these lands
- Military units and authorities for the purpose of construction of projects on military lands

Quarry materials extracted under this provision may not be sold.

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4.1.2 FLOWS FROM THE SECTOR

The flows from the mining sector to government are as set out in the table below.

MINISTRY OF OIL AND MINERALS (MOM)
Licence request fee
Annual licence fee per sq km
Extension request fees
Fees for delay / penalty fees
Fees for addition of new exploration area
Fees for sale by export of quarry products
Licence transfer fees
Royalty
Rent Fees
Signature Bonus
Institutional Bonus
MINISTRY OF FINANCE TAX AUTHORITY
Profit tax
Employee income tax deducted from payroll

Table 4.1

4.1.3 COMPANIES IN THE SECTOR

4.1.3.1 General

Article 59 of Law No 22 of 2010 requires the Geological Survey and Mineral Resources Board to maintain a cadastre record. However, there is no complete cadastre; this has had a particular impact on our review of the cement and non metallic minerals sector. In addition, the position is complicated by the existence of unlicensed operators.

In this section, we review the information made available to us. We would note that the GSMRB stated that none of the metallic minerals mining companies was producing in 2011. We have requested from the GSMRB information on production from the non metallic minerals companies in 2011.

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4.1.3.2 Companies with licences to mine metallic minerals

The Geological Survey and Minerals Resources Board provided a list of companies to which it has issued licences to extract metallic minerals, as follows:-

	Company name	License type	License period	Scope of work	area	Area size
1	Jabal Salab (yemen) Ltd	exploitation	22/07/2007 20 years	zinc, lead and silver	Nahm-Sana'a	4.452 sq km
2	Cantex Mine Development (yemen) Corp	exploration	06/08/2009-06/08/2011	gold	Hariqah- Hajja	71.1 sq km, 110 sq km
		exploration	06/08/2009-06/08/2011	copper, nickel and cobalt	Suwar, Qutabah-Amran	1065 sq km
3	Thani Dubai Mining yemen	exploration	26/1/2011-25/01/2016	Precious and basement rocks	Mudan valley - Hadramawt	343 sq km
		exploration	04/09/2011-03/09/2016		Sharis valley - Hajja	3800 sq km
4	Volrock Mining UK Ltd	exploration	12/09/2010-3/09/2014	Gold and associated minerals	A'ahim- Hajja	432 sq km
5	Ansan Wikfs Ltd	survey	1/08/2011-07/01/2012	Gold, copper and nickel	Fadiha - Al-Beidha	3800 sq km
		survey	1/08/2011-07/01/2012	Rare metals, gold and associated minerals	Nisab, Mujab- Shabwah Shatbah- Abyan	3000 sq km
6	Yemen Iron Steel	exploration	21/02/2011-20/02/2015	Steel and associated minerals	Thanyiah- Mareb	220 sq km
7	Omar Tawfik Abdulraheem Mutahar	survey	08/01/2011-31/07/2012	Metallic minerals	Southeast Taiz-Taiz, lahj	3000 sq km
8	CC Mining	exploration	22/06/2009-21/06/2011	Gold and associated minerals	Ottma- Dhamar Wazi'aiyah- Taiz	914 sq km
9	Stone Resources Ltd	exploration	22/06/2009-21/06/2011	Copper, nickel, and associated minerals	Haifan - Taiz	200 sq km

Table 4.2

The Terms of Reference list a number of mining companies, as follows:

- i. Jabal Sulub Ltd Company
- ii. Cantex Corp for mining
- iii. Aal_Thani Company – Dubai Mining
- iv. Ansan Wikfs Company (Hadramout)
- v. Yemeni Company for Iron Steel Ltd
- vi. Al-Mashreq for Mining Company
- vii. Stone Resources Company Ltd – Yemen
- viii. FolRock Company for Mining Ltd
- ix. CC Company for Mining
- x. Shubair for Minerals and Metallics Ltd
- xi. Tritone Resources Company
- xii. S3 Mineral Company Ltd
- xiii. Naine Company for Mineral Resources
- xiv. The Arabian Company (Lhoist)
- xv. Arabian Mining Company
- xvi. Najarjona Company Ltd
- xvii. Catatex Mine Development Sana'a

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- xviii. Yemen iron Steel
- xix. Aden for Iron – Lahj
- xx. Al-Masafi International
- xxi. Anmar
- xxii. Almasa for Industry, Investment and Construction Ltd
- xxiii. Almar for Oil and Gas Services

In the absence of a formal cadastre, and in view of the existence of unlicensed operators in this sector, it has not been possible to conclude on a definitive list.

A comparison of the list of licensed companies provided by the licensing authority (GSMRB) with the list in the Terms of Reference suggests that many of the companies in the latter are operating without a licence.

The GSMRB stated that none of the metallic mining companies was producing in 2011.

The decision of the Council on the materiality of the mining sector (Section 4.2.1) was that none of these companies paid material flows to government in 2011.

4.1.3.3 Companies mining non metallic minerals

GSMRB provided a list of licenses issued and renewed during 2009 to 2011 for mining non metallic but did not provide a comprehensive list of companies licensed to extract non-metallic minerals. We were told that many of these companies operate without a licence, but we did not receive any specific information identifying any such companies.

The Terms of Reference list a number of quarry companies including cement companies and sites operating in Yemen, as follows:-

Cement Companies factories :

- i. Amran Cement
- ii. Al-Barh Cement
- iii. Bajil Cement
- iv. Al-Watania Cement Company
- v. Al-Arabia Cement Company
- vi. Al-Wahdah Cement Company

The first three named organisations are plants operated by the state owned Yemen Corporation for Cement Industry and Marketing, and not separate organisations. A representative from the Al-Watania Cement Company travelled from Aden to attend the EITI template training workshop in Sana'a.

In the absence of a formal cadastre, and in view of the acknowledged existence of unlicensed operators in this sector (see above), it has not been possible to conclude on a definitive list.

The decision of the Council on the materiality of the mining sector (Section 4.2.1) was that none of these companies paid material flows to government in 2011.

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4.2 MINING SECTOR – MATERIALITY

The figures for government income provided by MOF show that the contribution of the mining sector to government revenues in 2011 was not financially material.

A complete list of licensed mining companies was not available (in the absence of a cadastre), nor were mining production figures covering the whole sector available from government. This information would give some further background but would not affect the conclusions to be drawn from the MOF statements of flows from the sector.

4.2.1 MATERIALITY RECOMMENDATION

Based on the MOF figures and information on production provided verbally by GSMRB, there do not appear to be any financially material flows from the mining sector to government in 2011 for inclusion in the YEITI 2011 reconciliation, although the sector should be kept under review for possible inclusion in future reports.

At a meeting on 2nd March 2014, the YEITI Council decided that the flows from the sector in 2011 were not material and that mining companies and government were not required to report as part of the 2011 YEITI reconciliation.

4.2.2 PROCEDURAL RECOMMENDATIONS

In section 9 of this report, we make recommendations in respect of the mining sector for future reconciliations, and on establishment of a mining cadastre.

4.3 OIL AND GAS SECTORS: BENEFIT STREAMS AND ENTITIES INCLUDED IN THE RECONCILIATION

4.3.1 FINANCIAL FLOWS INCLUDED: OIL SECTOR

The financial flows for the oil sector which the Yemen National EITI Council decided should be reported by both government and companies in respect of 2011 are shown below.

MOM

1. Production bonus
2. Training bonus
3. Institutional bonus
4. Social development bonus
5. Signature bonus
6. Tariff fees
7. PSA inventory transfer fees*
8. Amounts received under letters of credit or bank guarantees
9. Amounts received following assignment of PSAs
10. Excess recovery
11. Audit settlements

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12. Price adjustments
13. GSR data analysis and studies*
14. Facilities usage fees paid to MOM

MOF

15. Exploration tax*
16. Tax shortfall*
17. Tax penalty
18. Employee income tax deducted from payroll*

Others

19. Tariff fees paid to Safer
20. Facilities usage fees paid to Safer
21. Tariff fees paid to Petro Masila**
22. Facilities usage fees paid to Petro Masila**
23. PSA Tax paid to YICOM

In addition, the Council decided that all companies should report payments to government in respect of

- Military security services*
- Road projects*
- Other social expenditure

but that government was not required to report receipts (other than for headings 1 to 23), so payments under these last three categories are not to be reconciled.

*Flows marked * were not mandatory in the 2008 – 2010 reconciliation.*

*Flows marked ** did not apply in the 2008 – 2010 reconciliation.*

4.3.2 FINANCIAL FLOWS INCLUDED: GAS SECTOR

The financial flows for the gas sector which the Yemen National EITI Council decided to include are shown below.

MOM

24. Government profit share
25. LNG royalty
26. LPG royalty
27. Production bonus
28. Social & medical projects bonus
29. Social and medical projects bonus paid on behalf of shareholders
30. Fixed Tax

MOF

31. Employee income tax deducted from payroll *

Safer

32. Upstream fees

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CBY

33. Master Lease Agreement - rental fee *

YGC

34. Upstream tax

In addition, the Council decided that YLNG should report payments to government in respect of

- Military security services*
- Road projects*
- Other social expenditure

but that government was not required to report receipts (other than for headings 24 to 34), so payments under these last three categories are not to be reconciled.

*Flows marked * were not included in the 2008 – 2010 reconciliation.*

4.3.3 IN KIND FLOWS INCLUDED – OIL SECTOR

Physical flows were reported by the companies and government entities shown in the table below.

Entities reporting government crude oil volumes exported / transferred to refineries

	MOF	YOGC	CBY	YICOM	Aden refinery	Marib refinery	Terminal operators
Government lifting	✓	✓	✓	✓			✓
YOGC lifting	✓	✓	✓				✓
YICOM lifting	✓	✓		✓			✓
Transfers to Aden refinery	✓	✓		✓	✓		✓
Transfers to Marib refinery	✓	✓		✓		✓	✓

Table 4.5

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4.3.4 IN KIND FLOWS INCLUDED GAS SECTOR

Physical flows were reported as follows:-

1. Gas transferred to YLNG from Block 18

Reported by Safer and YLNG

2. Gas transferred to other outlets or re-injected

Reported by Safer

4.3.5 GOVERNMENT REPORTING ENTITIES

The Government entities which the Yemen National EITI Council decided to include in the 2011 Yemen EITI reconciliation are:

	Oil	Gas
Ministry of Oil and Minerals - Accounting Department	✓	✓
Yemen Oil and Gas Corporation - Marketing Department	✓	
Yemen Company for Investment in Oil and Minerals	✓	
Safer E&P Operations Company	✓	✓
Masila Petroleum E&P Company	✓	
Aden Refinery Company	✓	
Yemen Oil Refining Company (Marib Refinery)	✓	
Ministry of Finance - Revenue Department	✓	✓
Ministry of Finance - Tax Authority	✓	✓
Central Bank of Yemen	✓	✓
Yemen Gas Company	✓	✓

Table 4.6

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4.3.6 COMPANY REPORTING ENTITIES

The Yemen National EITI Council defined the following list of reporting companies:-

Operators of Producing Blocks		Operators of Exploration blocks	
Safer	18	Sinopec	1, 69, 71
Petro-masila	14	OMV	2, 29
Total	10	Oil Search	3, 7
DNO	32, 43, 47, 72*	Gallo Oil	13, R 2
Dove Energy	53	GSPC	19, 28, 57
Jannah Hunt	5	CCC	33, 45
YICOM	4	Reliance	34, 37
Canadian Nexen	51, 14**	Kuwait Energy	49
Occidental	S 1	Midas	68
Calvalley	9	Total	70, 72
OMV	S 2	Occidental	75
		Medco	82, 83

* Block 72 was under DNO operation until October 2011

** Block 14 was under Nexen operation until 17 December 2011

Companies producing gas (other than Safer, which supplied gas to YLNG in 2011) were not included on the grounds that the gas production is not commercialised.

Mining companies were not included by the National Council within the scope of the reconciliation.

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5 APPROACH, METHODOLOGY AND WORK DONE

5.1 ELEMENTS OF THE RECONCILIATION WORK

The approach we have adopted is summarised below:

- Gained an understanding of the oil, gas and mining sectors through discussions with the YEITI Secretariat, government departments and companies, and review of relevant documents;
- Reviewed the flows, revenues and reporting entities contained in the Terms of Reference and commented on their compliance with the Requirements of the EITI Standard (2013)
- Developed with input from the Council draft data collection templates and proposed them for approval by the Council
- Following approval of revised templates by the Council, conducted training sessions with representatives from reporting companies and government departments
- During the training sessions, issued the templates in soft and hard copy, to those entities that the Council had determined to be included within the scope of the reconciliation;
- Held meetings with representatives from the Government Departments;
- Liaised with both Companies and Government Departments to resolve discrepancies.

5.2 ANALYSIS OF REPORTING TEMPLATE DATA RECEIVED

Excel spreadsheets were used to match

- a. taxes and fees paid by reporting companies to Government shown the template supplied by each company; and
- b. those recorded on each template prepared by reporting Government entities.

All discrepancies arising were tabulated and:

- Detailed information was requested as necessary from relevant Government Entities and Tax Authorities (detailing the dates and amounts of receipts making up the total monetary transactions disclosed by the respective government entities) and used to match with reconciliations of payments made by companies in order to identify the details of, and where possible explain, the discrepancy;
- Where the difference related to reported oil volumes, bills of lading and other supporting documentation was obtained so that difference could be resolved
- After considering the discrepancies that occurred for a particular company of a benefit flow, we:-
 - Reviewed the validity of data contained in templates. Depending on the nature of the item, this involved checking from source documents, analytical review or independent confirmations.
 - Requested the relevant company to provide a copy of its workings detailing the payment dates and amounts supporting the calculation of the payment figures it had included on its template.

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- Where this procedure was not satisfactory to explain a discrepancy, we reverted to the review process outlined above.
- Where the process described above did not resolve the manner in which the discrepancy(s) should be corrected, meetings have been held with the company and the relevant Government entity to agree a solution.
- Discrepancies identified by the matching process have been classified by type / nature once the reasons for the discrepancy(s) have been identified (or if necessary unresolved) in order to highlight any common issues which occurred in the preparation of the templates and the EITI process.
- In certain instances, frequent follow up was required from our staff and from the YEITI council Secretariat team to speed up the flow of information. This was the case in:
 - Yemen Company for Investment In Oil And Minerals
 - Ministry of Oil And Minerals - Accounting Department
 - Yemen Oil & Gas Corporation - Marketing Department

We reported on progress to the YEITI Council on a daily basis. The YEITI National Secretariat intervened to support the collection of information from reporting entities.

5.3 MATERIALITY

The Council decided that materiality of inconsistencies or unreconciled items for any payment category is a government reported figure higher or lower by more than 3% as compared to that reported by the company.

Where an unresolved difference exceeded these parameters, we noted that they constitute a material difference. Other differences are classified as not material.

5.4 AUTHORITY OF DATA TEMPLATES

Government and Companies provided to us using the data collection templates approved by the Council. As part of obtaining assurance on the information provided, templates were required to be signed by a senior official from the reporting entity.

Signed templates were received from all producing oil and gas companies. The table, below, shows whether formal signed templates were received from oil exploration companies.

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		Signed templates received
Oil Exploration Companies		
Oil Search	Block3	✓
Oil Search	Block 7	✓
Total	Block 70	✓
Total	Block 72	✓
DNO Yemen	Block 72	✓
Occidental of Yemen	Block 75	✓
Gallo Oil Yemen Inc	Block 13	✓
Gallo Oil Yemen Inc	Block R2	✓
Midas Oil & Gas	Block 68	✓
Kuwait Energy	Block 49	✓
Sinopec	Block 1	✓
Sinopec	Block 69	✓
Sinopec	Block 71	✓
GSPC	Block 19	
GSPC	Block 28	
GSPC	Block 57	
CCC	Block 33	✓
CCC	Block 45	✓
Reliance	Block 34	
Reliance	Block 37	
Medco	Block 82	✓
Medco	Block 83	✓
OMV Exploration GMBH	Block 2	✓
OMV Exploration GMBH	Block 29	✓

Table 5.1

GSPC stopped its operation in Yemen after their PSA expired in 16 March 2013; this was confirmed officially from MOM. No information relating to the EITI requirements was available.

We were informed that Reliance left Yemen in 2013; the company nevertheless provided soft copy templates at a late stage of the reconciliation, although it did not provided signed copies.

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Signed templates were received from government entities as follows:-

	Signed templates received
Ministry of Oil and Minerals - Accounting Department	✓
Ministry of Oil and Minerals - Gas Department	✓
Yemen Oil and Gas Corporation - Marketing Department	✓
Yemen Company for Investment in Oil and Minerals	✓
Aden Refinery Company	✓
Yemen Oil Refining Company (Marib Refinery)	✓
Ministry of Finance - Revenue Department	✓
Ministry of Finance - Tax Authority	✓
Central Bank of Yemen	✓
Yemen Gas Company	✓

Table 5.2

5.5 INFORMATION BASED ON AUDITED FINANCIAL STATEMENTS

The YEITI Council requested all companies to confirm that the data they submitted for reconciliation was consistent with their audited financial statements, and requested that all producing companies should provide a written confirmation from their auditors that the data submitted for reconciliation was consistent with financial statements audited in accordance with international auditing standards. Below is the list of producing companies which have provided their audited financial statements for the financial year 2011 and confirmation from their auditors.

	Copy of financial statements provided	Audit letter
	2011	
Oil and Gas - Producing Companies		
Total	YES	YES
DNO Yemen	YES	YES
Dove Energy Yemen Limited	YES	YES
KNOC	YES	
Canadian Nexen Petroleum Yemen	YES	YES
Canadian Nexen Petroleum East Al Hajr Ltd	YES	YES
Occidental of Yemen (Block S-1 Inc)	YES	YES
Calvalley Petroleum (Cyprus) Ltd	YES	YES
OMV (Yemen Block S2) Exploration GMBH	YES	YES
YLNG	YES	YES

Table 5.3

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5.6 GOVERNMENT AUDIT

The Council asked government entities and the government auditor to provide confirmation that the data they reported was consistent with financial statements which had been audited under International Auditing Standards, and to provide a copy of the audited financial statements.

The audit confirmation and audited accounts received from government entities were:

	Audit Letter	Audited financial statements
YOGC	✓	✓
YGC	✓	✓
YICOM	✓	✓
Marib	✓	✓
MOM - Oil Accounting Department	✓	Note 1
MOM - Gas Department	n/a	Note 2
MOF - Revenue Department	✓	Note 3
MOF - Tax Authority		Note 4
Safer	✓	✓
Petro Masila	n/a	✓
Aden refinery	✓	✓
Central Bank	✓	✓

Table 5.4

Notes

1. The financial statements provided were incomplete and unsigned and there was no audit report.
2. MOM Gas department provided volumes only and did not provide financial data, so no audit confirmation was required.
3. The financial statements provided were unsigned and there was no audit report.
4. The financial statements provided comprised a statement of income and expenditure (2 pages) and there was no audit report.

CBY, SEPOC and PetroMasila are audited by independent auditors rather than COCA.

The text of the COCA audit letters received in respect of each government reporting entity is included at Appendix H.

The COCA audit report in the audited government departmental financial statements received states that the audit was conducted according to the audit methodology used by COCA and generally accepted auditing standards.

Certain of the reports contain qualifications; for example, there are several qualifications in respect of compliance with law and poor recording. The YICOM financial statements are qualified on the

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grounds they didn't recognise or record the transaction related to the classification of Expenditure and Profit shares of the contractors in Block 4 for the period 26 May 2008 until 31 December 2011. The YGC financial statements are qualified on seven grounds, while those of YOGC (GA) have two qualifications and those of Marib Refinery contain three qualifications.

6 SUMMARY OF TRANSACTION FLOWS REPORTED

6.1 OIL SECTOR

The aggregated reported transaction flows for each of the years are summarised in the following tables, by year.

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						Year : 2011
<i>See explanatory notes following the tables in this section.</i>	Volume			Value		
	Reported by		Unresolved differences Bbls 000	Reported by		Unresolved differences US\$ 000
	Government Bbls 000	Companies Bbls 000		Government US\$ 000	Companies US\$ 000	
In kind flows						
Crude oil exports	31,508	31,508	0	3,501,725		
Crude oil transfers to refineries	15,453	15,453	0	1,669,178		
Sub total	46,961	46,961	0	5,170,903		
Financial flows						
1 Production bonus				500	500	0
2 Training bonus				3,655	3,549	106
3 Institutional bonus				4,855	4,024	831
4 Social development bonus				3,500	3,530	-30
5 Signature bonus				0	4,152	-4,152
6 Tariff fees				28,684	28,684	0
7 PSA inventory transfer fees				5,199	5,199	0
8 Amounts rec'd under I-o-c or bank guarantees				0	0	0
9 Amounts rec'd following assignment of PSAs				0	0	0
10 Excess recovery				53,908	53,908	0
11 Audit settlements				3,251	3,251	0
12 Price adjustments				0	0	0
13 GSR data analysis and studies				0	200	-200
14 Facilities usage fees				1,485	1,485	0
15 Exploration tax				3,508	3,512	-4
16 Tax shortfall				481	481	0
17 Tax penalty				17	0	17
18 Employee income tax deducted from payroll				37,208	37,334	-126
19 Tariff fees paid to Safer				0	0	0
20 Facilities usage fees paid to Safer				18,922	18,889	33
21 Tariff fees paid to Petro Masila				0	0	0
22 Facilities usage fees paid to Petro Masila				0	0	0
23 PSA Tax				2,419	2,419	0
Sub total				167,592	171,117	-3,525
Total flows to government	46,961	46,961	0	5,338,495		
The net difference above includes						
Amounts reported by government which were greater than amounts reported by companies on the same line						
Amounts reported by companies which were greater than amounts reported by government on the same line						

Table 6.1

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Notes on summary of financial flows

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

Some companies reported payments which were not included in the flows determined by the National Council; these are not included in the figures in this section. Details of these payments are included in section 8.3.2.

Companies and government both reported volumes of oil exported by the government or transferred to the government refineries. However, the value of the oil is reported only by government and companies are not in possession of this information.

The volumes and value of government oil were reported by MOF, YOGC, YICOM and CBY. See section 7.4 for further details.

6.2 GAS SECTOR

The reported transaction flows for 2011 are summarised in the following table.

			2011	
			Value	
			Reported by	
			Government	
			Companies	
			Unresolved differences	
			US\$ 000	
			US\$ 000	
			US\$ 000	
24	Government profit share	154,877	154,877	0
25	LNG royalty	25,137	25,137	0
26	LPG royalty	0	0	0
27	Production bonus	0	0	0
28	Social & medical projects bonus	1,000	1,000	0
29	Social & medical projects bonus on behalf of shareholders	0	0	0
30	Fixed Tax	6,652	6,652	0
31	Employee income tax deducted from payroll	3,161	2,900	261
32	Upstream fees	0	0	0
33	Master Lease Agreement - rental fee	2,063	2,063	0
34	Upstream fees and tax	8,371	8,372	-1
	Total	201,261	201,001	260

Table 6.2

Third Yemen EITI Reconciliation (2011)

7 SUMMARY OF IN KIND FLOWS

The Council decided that entities should report in-kind flows for crude oil and gas. During 2011, the government share of gas supplied to YLNG was settled in cash and there were no in kind gas flows. There was no third party commercialisation of gas other than transfers to YLNG. Gas products supplied for electricity generation or for LPG were handled by other government entities and were not included in the scope of the 2011 reconciliation.

7.1 IN KIND FLOWS – OIL

7.1.1 GOVERNMENT REPORTING

Transfers of crude oil to government for export or delivery to one of the two refineries were reported by:-

i. Yemen Oil and Gas Corporation (YOGC) Marketing Department

YOGC markets the crude oil exports on behalf of the government, and arranges the transfers to the Aden and Marib refineries. YOGC reported volumes of oil exported or transferred to the refineries, and the amounts received in US\$ and Yemeni Rials.

YOGC reported volumes of oil exported or transferred to refineries in each calendar year during the period, with associated cash receipts (which might have been received in a different year from that in which the volume was exported or transferred). This differs from the basis of reporting by MoF.

ii. Ministry of Finance (MoF) – Oil/Gas Revenue Management Department

MoF is responsible for monitoring receipt of the proceeds of sale of export crude and for allocation within government of the value of the crude oil transferred to the refineries.

MOF reported cash receipts in each calendar year, with associated volumes of oil exported or transferred to refineries (these volumes may have been exported or transferred in a different year from that in which the cash was received). This differs from the basis of reporting by YOGC.

iii. Central Bank of Yemen (CBY)

The bank account into which US\$ proceeds of crude oil exports are received is held at the CBY, which monetises the US\$ so that government departments receive Yemeni Rials. The government accounts for the Aden and Marib refineries are also held by CBY.

We were not required to review or validate the pricing of the government oil sales and transfers for the EITI reconciliation.

Third Yemen EITI Reconciliation (2011)

7.1.2 CRUDE OIL TRANSFERRED TO THE GOVERNMENT FOR EXPORT

Volumes of crude oil exports reported initially by Government (YOGC) and companies (Terminal Operators), and the adjusted volumes after reconciliation, together with the government receipts reported by MOF initially and after reconciliation, were:-

	As reported by			Differences Bbls 000
	Government		Companies	
	US\$ 000	Bbls 000	Bbls 000	
Crude oil exports				
As initially reported	3,442,235	32,008	33,909	-1,901
Reconciliation adjustments	59,491	-500	-2,401	1,901
After adjustment	3,501,726	31,508	31,508	0

Table 7.1

7.1.3 CRUDE OIL TRANSFERRED TO GOVERNMENT REFINERIES

There are two refineries operating refineries: both are government owned.

Aden refinery receives Marib crude oil from Blocks 18, Block 5, Block S-1, Block S-2 and Block 9. The oil is shipped from Ras Issa terminal under Bills of Lading.

Marib refinery receives oil by pipeline from Safer (Block 18), which is refined to produce Naphtha/Slop. Marib was also said to transfer oil back to Safer if it is excess to requirements.

Volumes of crude oil transferred to refineries as reported initially by Government (MoF) and companies (Terminal Operators), and the adjusted volumes after reconciliation, were:-

	As reported by			Differences Bbls 000
	Government		Companies	
	US\$ 000	Bbls 000	Bbls 000	
Transfers to Aden refinery				
As initially reported	1,559,260	14,795	13,295	1,500
Reconciliation adjustments	-126,318	1,500	0	1,500
After adjustment	1,432,942	13,295	13,295	0
Transfers to Marib refinery				
As initially reported	237,373	2,208	2,158	50
Reconciliation adjustments	-1,137	-50		-50
After adjustment	236,236	2,158	2,158	0

Table 7.2

Third Yemen EITI Reconciliation (2011)

7.1.4 INCONSISTENCIES WITHIN GOVERNMENT REPORTING

7.1.4.1 Central government entities

Volumes and values for government crude reported by MOF, YOGC, YICOM and CBY are shown below. Commentary on the figures follows the table of figures.

The initial differences in volumes between the various government entities were reconciled by reference to bills of lading and other supporting documentation..

	Volume reported (barrels)					
	MOF	YOGC	CBY	YICOM	Refineries	Companies
Initial template						
Exports						
Government share	31,257,167	31,216,314	31,507,814			33,655,400
YOGC share	255,500	291,500				253,500
YICOM share	-	500,070				-
Sub total	31,512,667	32,007,884	31,507,814	-	-	33,908,900
Transferred to refinery						
Aden	14,794,640	12,294,503			13,294,661	13,294,661
Aden through YICOM				500,070		
Marib	2,207,577	2,158,634			2,158,604	2,158,634
Sub total	17,002,217	14,453,137	-	500,070	15,453,265	15,453,295
TOTAL	48,514,884	46,461,021	31,507,814	500,070	15,453,265	49,362,195
Adjustments						
Exports						
Government share	18,147	59,000				2,380,086-
YOGC share	23,000-	59,000-				21,000-
YICOM share	-	500,070-				-
Sub total	4,853-	500,070-	-		-	2,401,086-
Transferred to refinery						
Aden	2,000,049-	500,088				
Aden through YICOM	500,070	500,070				
Marib	48,944-	-				
Sub total	1,548,923-	1,000,158	-		-	-
TOTAL	1,553,776-	500,088	-		-	2,401,086-
After reconciliation						
Exports						
Government share	31,275,314	31,275,314	31,507,814	-	-	31,275,314
YOGC share	232,500	232,500	-	-	-	232,500
YICOM share	-	-	-	-	-	-
Sub total	31,507,814	31,507,814	31,507,814	-	-	31,507,814
Transferred to refinery						
Aden	12,794,591	12,794,591	-	-	13,294,661	13,294,661
Aden through YICOM	500,070	500,070	-	500,070	-	-
Marib	2,158,633	2,158,634	-	-	2,158,604	2,158,634
Sub total	15,453,294	15,453,295	-	500,070	15,453,265	15,453,295
TOTAL	46,961,108	46,961,109	31,507,814	500,070	15,453,265	46,961,109

Table 7.3

Third Yemen EITI Reconciliation (2011)

It can be seen that after reconciliation, the volumes of oil declared by all the parties agreed, both for government share exported and for government share transferred to refineries. YICOM reported only its own share of oil; this was reported by YICOM as transferred to Aden refinery, and the Aden refinery return showed a transfer from YICOM.

7.2 PHYSICAL FLOWS – GAS

7.2.1 SAFER – BLOCK 18

Safer reported the volumes of gas produced from Block 18 and the uses of that gas, as follows:

No.	GAS PHYSICAL FLOW Stream	mcf
1	Supplies to YLNG	373,858
2	Supplied to Marib Power Station	11,849
3	Supplied to YGC or converted to LPG	13,961
4	Re-injected	260,524
5	Other use ((Fuel use & flaring))	21,926
	Total	682,117

Table 7.4

7.2.2 YLNG FEEDGAS

Feedgas for the YLNG plant is supplied by Safer from Block 18. Safer reported the amounts supplied in mcf (see previous section). YLNG reported the amounts supplied in tonnes and MMBTU as follows:-

GAS PHYSICAL FLOW Stream	YLNG	
	Tonnes	MMBTU
1 Natural Gas supplied by Block 18 to YLNG	7,651,155	396,173,201

Table 7.5

The Feedgas Delivery Agreement between the Government and YLNG specifies that the unit of measurement shall be the Standard Cubic Foot and/or MMBTU.

The MMBTU reported by YLNG, converted at the rate of 1073 MMBTU = 1 million cubic feet for purposes of comparison to the quantities reported by Safer produces reported quantities as shown in the following table.

Third Yemen EITI Reconciliation (2011)

GAS PHYSICAL FLOW Stream		mcf	
		SEPOC	YLNG
1	Natural Gas supplied by Block 18 to YLNG	373,858	385,758

Table 7.6

We were not required to reconcile the amounts of gas reported nor to examine the existence of a common and agreed methodology for measuring and reporting gas supplied by the government (Safer) to the YLNG plant.

Third Yemen EITI Reconciliation (2011)

8 FINANCIAL FLOWS TO GOVERNMENT

8.1 OIL AND GAS SECTOR IN TOTAL

The results of the reconciliation of financial flows for the oil and gas sector are shown in the table which follows. Details of oil sector financial flows are set out in Section 8.2 (and Appendix C), while details of gas sector flows² are set out in Section 6.2.

	2011 Template originally lodged			Adjustments		2011 Final reconciliation		
	Government	Companies	Difference	Government	Companies	Government	Companies	Difference
	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars
Oil companies								
In Production	170,130,577	157,463,055	12,667,522	-13,571,079	3,195,209	156,559,498	160,658,265	-4,098,766
In Exploration	10,974,349	28,599,941	-17,625,591	58,877	-18,141,112	11,033,226	10,458,828	574,398
Sub Total	181,104,926	186,062,996	-4,958,069	-13,512,202	-14,945,903	167,592,725	171,117,093	-3,524,368
Gas company	201,261,000	201,001,000	260,000			201,261,000	201,001,000	260,000
Total Financial Flows	382,365,926	387,063,996	-4,698,069	-13,512,202	-14,945,903	368,853,725	372,118,093	-3,264,368

Table 8.1

In kind flows for the oil sector are included in Table 2.1.

8.2 OIL SECTOR

This section summarises the reconciliation in total and analyses the unresolved differences by company. The reconciliation of flows by company is contained in Appendix C.

The templates submitted to the consultant contained a number of obvious errors in completion or omissions. Further details are set out in section 8.1.5.1.

The tables in the following sections show:

- i. The aggregate flows reported by Reporting Entities initially, and the differences between receipts reported by Government and payments reported by companies;
- ii. Adjustments made as a result of our reconciliation work; and
- iii. The adjusted aggregate flows and the differences that could not be resolved.

² There were no in kind flows in the gas sector in 2011; government share of gas was paid in cash.

Third Yemen EITI Reconciliation (2011)

8.2.1 2011 FINANCIAL FLOWS - OIL

2011 financial flows for all blocks aggregated by type of flow were reported as follows:

No.	Cash Flow Stream	2011 Template originally lodged			Adjustments		2011 Final reconciliation		
		Government	Company	Difference	Government	Company	Government	Company	Difference
		US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars
Oil Cash Flows									
1	Production bonus	499,963	500,000	(37)	-	-	499,963	500,000	(37)
2	Training bonus	3,629,855	3,799,000	(169,145)	25,000	(250,000)	3,654,855	3,549,000	105,855
3	Institutional bonus	4,854,855	4,324,000	530,855	-	(300,000)	4,854,855	4,024,000	830,855
4	Social development bonus	3,499,905	3,930,000	(430,095)	-	(400,000)	3,499,905	3,530,000	(30,095)
5	Signature bonus	-	21,152,000	(21,152,000)	-	(17,000,000)	-	4,152,000	(4,152,000)
6	Tariff fees	-	53,466,382	(53,466,382)	28,684,206	(24,782,172)	28,684,206	28,684,210	(4)
7	PSA inventory transfer fees	5,156,270	5,076,369	79,901	42,513	122,416	5,198,783	5,198,785	(2)
8	Amounts rec'd under l-o-c or bank guarantees	5,000,000	-	5,000,000	(5,000,000)	-	-	-	-
9	Amounts rec'd following assignment of PSAs	-	-	-	-	-	-	-	-
10	Excess recovery	50,020,303	28,676,719	21,343,584	3,888,006	25,231,591	53,908,309	53,908,310	(1)
11	Audit settlements	3,250,958	-	3,250,958	-	3,250,958	3,250,958	3,250,958	-
12	Price adjustments	-	-	-	-	-	-	-	-
13	GSR data analysis and studies	-	327,200	(327,200)	-	(127,200)	-	200,000	(200,000)
14	Facilities usage fees	29,611,282	1,485,054	28,126,228	(28,126,228)	-	1,485,054	1,485,054	-
	Sub-total	105,523,391	122,736,723	(17,213,332)	(486,503)	(14,254,407)	105,036,888	108,482,317	(3,445,428)
15	Exploration tax	6,117,648	3,680,468	2,437,180	(2,609,466)	(168,283)	3,508,182	3,512,185	(4,003)
16	Tax shortfall	480,631	480,631	(0)	-	-	480,631	480,631	(0)
17	Tax penalty	17,224	-	17,224	-	-	17,224	-	17,224
18	Employee income tax deducted from payroll	36,394,645	37,166,652	(772,007)	813,626	167,272	37,208,271	37,333,924	(125,653)
	Sub-total	43,010,148	41,327,751	1,682,397	(1,795,840)	(1,011)	41,214,308	41,326,740	(112,432)
19	Tariff fees	-	-	-	-	-	-	-	-
20	Facilities usage fees	31,316,281	19,556,614	11,759,666	(12,393,830)	(667,656)	18,922,450	18,888,958	33,492
	Sub-total	31,316,281	19,556,614	11,759,666	(12,393,830)	(667,656)	18,922,450	18,888,958	33,492
21	Tariff fees	-	-	-	-	-	-	-	-
22	Facilities usage fees	-	-	-	-	-	-	-	-
	Sub-total	-	-	-	-	-	-	-	-
23	PSA Tax	1,255,107	2,441,908	(1,186,801)	1,163,971	(22,829)	2,419,078	2,419,078	-
	Sub-total	1,255,107	2,441,908	(1,186,801)	1,163,971	(22,829)	2,419,078	2,419,078	-
	Total	181,104,926	186,062,996	(4,958,069)	(13,512,202)	(14,945,903)	167,592,725	171,117,093	(3,524,368)
The net difference above includes Amounts reported by government which were greater than amounts reported by companies on the same Amounts reported by companies which were greater than amounts reported by government on the same									

Table 8.2

Third Yemen EITI Reconciliation (2011)

2011 financial flows for all blocks aggregated by company were reported as shown in the tables below.

1. Companies in production

No. Company	Block	2011 Template originally lodged			Adjustments		2011 Final reconciliation		
		Government	Companies	Difference	Government	Companies	Government	Companies	Difference
		US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars
1 Safer	Block 18	8,901,471	8,796,777	104,694	45,045	-	8,946,515	8,796,777	149,738
2 Petro Masila	Block 14	-	-	-	-	-	-	-	-
3 YICOM	Block 4	-	-	-	-	-	-	-	-
4 KNOC	Block 4	5,302,061	4,938,686	363,374	(4,238,269)	265,027	1,063,791	5,203,713	(4,139,922)
5 Total	Block 10	25,316,008	24,859,302	456,706	(499,261)	(60,140)	24,816,747	24,799,162	17,585
6 DNO Yemen	Block 32	10,778,777	11,323,183	(544,405)	643,750	94,569	11,422,527	11,417,752	4,776
7 DNO Yemen	Block 43	2,055,418	2,028,447	26,971	(14,590)	-	2,040,828	2,028,447	12,381
8 DNO Yemen	Block 47	1,282,114	1,283,581	(1,467)	-	-	1,282,114	1,283,581	(1,467)
9 Dove Energy Yemen Limited	Block 53	15,237,127	16,324,469	(1,087,342)	1,342,288	-	16,579,416	16,324,469	254,947
10 Jannah Hunt	Block 5	23,969,391	18,988,247	4,981,144	(4,908,356)	-	19,061,035	18,988,247	72,788
11 Canadian Nexen Petroleum Yemen	Block 14	35,776,294	36,349,736	(573,442)	160,280	-	35,936,574	36,349,736	(413,162)
12 Canadian Nexen Petroleum East Al Hajr Ltd	Block 51	5,934,938	6,154,831	(219,893)	148,644	-	6,083,582	6,154,831	(71,249)
13 Occidental of Yemen (Block S-1 Inc)	Block S-1	13,230,973	14,612,249	(1,381,276)	1,343,311	(37,823)	14,574,284	14,574,426	(141)
14 Calvalley Petroleum (Cyprus) Ltd	Block 9	2,409,205	2,221,318	187,888	(170,135)	-	2,239,070	2,221,318	17,752
15 OMV (Yemen Block S2) Exploration GMBH	Block S-2	19,936,800	9,582,230	10,354,570	(7,423,785)	2,933,577	12,513,015	12,515,807	(2,792)
Sub total - producing blocks		170,130,577	157,463,055	12,667,522	(13,571,079)	3,195,209	156,559,498	160,658,265	(4,098,766)

Table 8.3

Third Yemen EITI Reconciliation (2011)

2. Companies in exploration

No.	Company	Block	2011 Template originally lodged			Adjustments		2011 Final reconciliation		
			Government	Companies	Difference	Government	Companies	Government	Companies	Difference
			US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars	US Dollars
1	Sinopec	Block 1	276,517	275,152	1,364	-	-	276,517	275,152	1,364
2	Sinopec	Block 69	300,000	336,573	(36,573)	-	-	300,000	336,573	(36,573)
3	Sinopec	Block 71	300,000	1,032,243	(732,243)	-	-	300,000	1,032,243	(732,243)
4	OMV	Block 2	350,000	364,403	(14,403)	-	-	350,000	364,403	(14,403)
5	OMV	Block 29	599,151	575,127	24,024	-	-	599,151	575,127	24,024
6	Oil Search	Block 3	501,263	551,315	(50,052)	-	(50,000)	501,263	501,315	(52)
7	Oil Search	Block 71	2,093,332	2,118,382	(25,050)	25,000	-	2,118,332	2,118,382	(50)
8	Gallo Oil	Block 13	-	675,414	(675,414)	-	(675,414)	-	-	-
9	Gallo Oil	Block R-2	627,702	625,323	2,379	-	(25,323)	627,702	600,000	27,702
10	GSPC	Block 19	724,985	-	724,985	-	-	724,985	-	724,985
11	GSPC	Block 28	714,990	-	714,990	-	-	714,990	-	714,990
12	GSPC	Block 57	654,990	-	654,990	-	-	654,990	-	654,990
13	CCC	Block 33	34,915	311,336	(276,421)	-	(11,336)	34,915	300,000	(265,085)
14	CCC	Block 45	-	311,494	(311,494)	-	(11,494)	-	300,000	(300,000)
15	Reliance	Block 34	519,850	364,000	155,850	-	-	519,850	364,000	155,850
16	Reliance	Block 37	519,850	364,000	155,850	-	-	519,850	364,000	155,850
17	Kuwait Energy	Block 49	723,230	451,280	271,949	-	(300,000)	723,230	151,280	571,949
18	Midas	Block 68	179,225	119,184	60,041	-	-	179,225	119,184	60,041
19	Total	Block 70	300,000	300,000	-	-	-	300,000	300,000	-
20	DNO	Block 72	304,351	361,188	(56,837)	33,877	-	338,228	361,188	(22,960)
21	Occidental	Block 75	350,000	361,738	(11,738)	-	-	350,000	361,738	(11,738)
22	Medco	Block 82	900,000	8,038,545	(7,138,545)	-	(7,027,208)	900,000	1,011,337	(111,337)
23	Medco	Block 83	-	11,063,244	(11,063,244)	-	(10,040,338)	-	1,022,906	(1,022,906)
24	Total	Block 72	-	-	-	-	-	-	-	-
Sub total - exploration blocks			10,974,349	28,599,941	(17,625,591)	58,877	(18,141,112)	11,033,226	10,458,828	574,398

Table 8.4

Third Yemen EITI Reconciliation (2011)

8.3 GAS SECTOR

The reconciliation between figures reported by government and by the reporting company is set out in section 6.2.

8.4 GENERAL MATTERS AFFECTING THE RECONCILIATION

8.4.1 UNRESOLVED DIFFERENCES

The Council decided that materiality of inconsistencies or unreconciled items for any payment category is a government reported figure higher or lower by more than 3% as compared to that reported by the company.

Differences remaining which exceed the Council's materiality limit are as follows:-

	Unresolved following reconciliation		
	Government	Companies	Difference
	US Dollars	US Dollars	US Dollars
Oil sector			
Institutional bonus	4,854,855	4,024,000	830,855
Signature bonus	0	4,152,000	-4,152,000
GSR data analysis and studies	0	200,000	-200,000
Tax penalty	17,224	0	17,224

Table 8.5

The companies where these unresolved differences arise are shown in the table below. A negative figure indicates that government reported less than the company, while a positive figure indicates that the government reported more than the company.

US Dollars	GSPC Block 19	GSPC Block 28	GSPC Block 57	Reliance Block 34	Reliance Block 37	Medco Block 82	Medco Block 83	KNOC Block 4	Nexen ¹ Block 14	DNO Block 43	Search Block 7	CCC Block 33	CCC Block 45
Institutional bonus	315,000	315,000	285,000	107,928	107,927	200,000	-300,000					-100,000	-100,000
Signature bonus								4,152,000					
GSR data analysis & studies						-100,000	-100,000						
Tax penalty									15,696	924	508	96	

¹ Full company name - Canadian Nexen Petroleum Yemen

Table 8.6

Third Yemen EITI Reconciliation (2011)

GSPC, Reliance and Medco

Government reported receipts from these companies; in the case of GSPC, the company did not return templates and the difference relates entirely to the receipt reported by government, without any corresponding payment reported by the company. In the case of the other companies, which no longer operate in Yemen, the information was provided at a late stage in the process and this, combined with the termination of the companies' operations, meant that the difference was not resolved.

KNOC

KNOC have disclosed as a payment for signature bonus to government an amount of \$4,152,000 but government has not reported a receipt.

It has been explained to us that this amount represents YICOM's share of operating expenses for fiscal year 2011, which was deducted from the rest of the amounts due to YICOM from KNOC Yemen Ltd, for the YICOM waiver of 50% of its share in West Ayad Block 4.

YICOM has not reflected the transaction in its accounts and does not accept that an offset may be made; and also notes that until the expenditure has been audited, the quantum remains in doubt and for this reason any offset could not yet be agreed.

Canadian Nexen Petroleum Yemen

Government reported a tax penalty, the company has reported a nil figure. The amount is not in itself material, but falls outside the definition adopted by the YEITI Council.

8.4.2 COMMENT ON THE RECONCILIATION PROCESS

8.4.2.1 Matters affecting the reconciliation

The process of reconciliation was affected by:-

1. Data from the following entities was not presented in a manner that conformed to the templates approved by the Council and was incomplete:
 - MOF - Tax Authority
 - CBY
2. Data initially provided to us contained numerous differences. We worked with the companies and Government entities to reconcile the differences, which were caused by:-
 - i. Inadequate understanding by some Government departments of the cash basis requirement of completing the templates where some reporting entities used the accruals basis when completing the data templates submitted initially rather than using the cash basis as specified for this reconciliation. This case was noted in:
 - MOF - Tax Authority
 - Safer Exploration and Production Operations (SEPOC)
 - Ministry of Oil and Minerals - Accounting Department

Third Yemen EITI Reconciliation (2011)

- Gallo Oil Yemen Inc
- ii. Misclassification of certain payments within the cash flow streams given in the reporting templates. This was noted in:
 - Ministry of Oil and Minerals - Accounting Department
 - Canadian Nexen
 - Calvalley
- iii. Supporting documents requested but not obtained which are necessary for the reconciliation process from:
 - Yemen Company For Investment In Oil And Minerals
 - Ministry of Oil and Minerals - Accounting Department
 - Yemen Tax Authority
- iv. Slow response to our requests for further information and supporting documents, particularly due to the short time allowed for the reconciliation. This is noted in:
 - The Korea National Oil Corporation (KNOC)
 - OMV

8.4.2.2 The reconciliation process

After identifying the existence of an inconsistency, we followed the process outlined below. Government entities were contacted and visited for the purpose of investigating the differences and requesting the completion of any missing information.

- a. For differences in financial transactions, we obtained supporting documents from both the Government and the related company. In most cases, we found that the differences were caused by both companies and Government reporting entities having used the accruals basis rather than the cash basis when completing the data templates. Other reasons are due to incomplete or misclassification of payments within the cash flow streams of the reporting templates.
- b. In some cases, companies reported flows to government which were not included in the flows determined by the National Council (see further section 8.3.2).
- c. For crude oil differences, we obtained the bills of lading and sales invoices and resolved the differences accordingly.

8.5 FINANCIAL FLOWS NOT INCLUDED IN THE RECONCILIATION

8.5.1 VOLUNTARY UNILATERAL COMPANY DISCLOSURES

Following the guidance in Requirement 4.2, the National Council decided that certain flows should be declared unilaterally by companies, without a corresponding declaration by government. Amounts reported on this basis are included in Appendix G.

8.5.2 OTHER UNRECONCILED FLOWS

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Certain flows were disclosed by government which do not fall into a category which can be reconciled, but which are reported here for the sake of completeness. These were:-

8.5.2.1 Amounts received under letters of credit from companies which have ceased operations

The PSAs provide that companies should commit to certain levels of expenditure during the exploration phase and should support this by giving the government a letter of credit or guarantee, which may be called in the event that the committed expenditure is not incurred. The amounts vary according to the PSA.

If these letters of credit or guarantees are called in by the government, this counts as a receipt for the government, although the company may not be in a position to report a payment, for example because it has handed back its licence and/or is no longer operating in Yemen.

MOM reported receipts of this nature during 2011 as follows:-

Company	Block No.	Amounts received under letters of credit or bank guarantees (USD)
Absalon	41	312,000
Eni Oil	17	8,500,000
Eni Oil	6	3,000,000
Eni Oil	17	350,000

8.5.2.2 Amounts paid by YICOM to MOF

YICOM declared a payment to MOF of \$150 million in 2011. We understand that this was drawn by the MOF from the YICOM account, but the nature of the transfer – whether a dividend or loan or some other type of payment – is not clear.

Whilst this is not a transfer from the private sector to government – since YICOM is government owned – the National Council may wish to clarify the funding relationship between YICOM and other parts of government, and between YICOM and its subsidiaries in line with EITI Requirement 3.

Third Yemen EITI Reconciliation (2011)

9 ISSUES AND RECOMMENDATIONS

Concerning the issues and recommendations from the Second Report:

- the scope of the reconciliation for the oil and gas sector was extended to take account of all payments reported, and to include both producing and exploration companies; and the contribution of the mining sector was reviewed
- reporting of oil volumes by government was improved and CBY provided improved information
- no confusion over company naming was noted during the current reconciliation

Our recommendations from our work for the 2011 reconciliation are as follows.

9.1 MINING SECTOR

Based on information gathered from government, the Council decided that receipts from the mining sector in 2011 were immaterial.

Mining activity in 2011 was low, in part due to events in the country, and may increase in future years. We therefore recommend that the sector be kept under review each year, for inclusion if and when it becomes material.

9.2 MINING CADASTRE

GSMRB is legally responsible for maintaining a record of licensed operators for the mining sector. However, GSMRB said that it does not have a complete mining cadastre.

We recommend that the YEITI Council should examine with GSMRB how this can be rectified.

9.3 GOVERNMENT AUDIT

We requested confirmation that data from Government entities had been audited and a copy of the audited financial statements for each Government reporting entity. Confirmation that the data had been audited was provided for most departments by the government auditor as described in section 5.6, albeit at a late stage in the process.

Details of the audited accounts received for government departments are set out in section 5.6, while a copy of the text of the audit opinion given by COCA on the data submitted by government departments is included in Appendix H. The audit reports contain a number of qualifications covering various issues and suggest that there is room for improvement in government accounting.

We recommend that the Council review this information carefully and examine the requirements of the EITI Standard; and engage with COCA further to improve compliance with the requirements of the EITI Standard.

9.4 TIMELINESS OF REPORTING

Third Yemen EITI Reconciliation (2011)

9.4.1 RECONCILIATION

The current report brings EITI reporting up to the end of 2011.

The EITI Standard requires that implementing countries should produce a reconciliation report annually no later than two years after the end of the year to which it relates.

We recommend that the 2012 reconciliation report is commissioned in good time to be able to complete it prior to the end of 2014.

9.4.2 OTHER REPORTING

In addition, the EITI Standard requires compliant countries to publish annually a public report on the previous year's activities, detailing progress in implementing EITI and any recommendations from the Validator by 1st July for the previous year, and states that if the annual activity report is not published within six months of this deadline, i.e. by 31 December the following year, the country will be suspended until the EITI Board is satisfied that the outstanding activity report has been published.

We recommend that the National Council take all necessary steps to ensure that these reports are published within the required timescales.

9.5 GAS SECTOR

The commercialisation of gas through YLNG was included for the first time in the 2010 report, when the plant came onstream. Some of the agreements governing the activity were not available until the reconciliation was concluded. In order to ensure that the scope of the reconciliation is satisfactorily defined, it would be beneficial for the National Council to review the sector, perhaps through a scoping exercise before commencement of the next reconciliation, to ensure that the list of payments is complete and that arrangements for measurement of gas supplied and product sold³ are understood and taken into account as appropriate.

9.6 COMPLETENESS OF PEPA INFORMATION

We noted gaps in the PEPA published information relating to certain blocks as described below. At the conclusion of the reconciliation, there was no explanation for the apparent omissions.

1. Block 6 (Iryam) was listed as an exploration block in the list of concessions published by PEPA for 2010. However, the block does not appear in the 2011 list.
2. Block 17 (Aden/Abyan) was listed as an exploration block in the list of concessions published by PEPA for 2010. However, the block does not appear in the 2011 list.

We recommend that these be further investigated.

³ Government royalty is calculated on product sold

Third Yemen EITI Reconciliation (2011)

9.7 CONTEXTUAL INFORMATION

In accordance with the terms of reference and agreed methodology, we have included various information in relation to the extractive sector in Yemen.

The National Council may wish to consider extending this area further in future reporting, in which case sufficient allowance should be made for the time and effort involved.