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List of Abbreviations/Acronyms

EITI	Extractive Industries Transparency Initiative
ENH	Empresa Nacional de Hidrocarbonetos
GOM	Government of Mozambique
INP	Instituto Nacional de Petróleo
MEITI	Mozambique Extractive Industries Transparency Initiative
MMR	Ministry of Mineral Resources
MF	Ministry of Finance
MGC	Matola Gas Company
MRA	Mozambique Revenue Authority
PPA	Petroleum Production Agreement.
SPT	Sasol Petroleum Temane Ltd.

EXECUTIVE SUMMARY

Introduction

The Extractive Industries Transparency Initiative (EITI) seeks to improve upon development outcomes from payments made by Extractive Industries to governments.

The above objectives are achieved by enhancing transparency around the generation, payment and receipts of these payments.

The government of Mozambique has associated itself with the EITI. The initiative requires regular publication of extractive industry payments and government receipts.

To this end the Mozambique Extractive Industries' Transparency Initiative (MEITI) engaged Messrs Boas & Associates to produce the first EITI report by reconciling company payments and government receipts from the extractive industries for the year 2008.

This report is a submission of the 2008 aggregation and reconciliation of extractive industries payments and government receipts.

Approach & Methodology:

The methodologies used for executing the assignment were defined under three phases comprising Inception, Aggregation/Reconciliation and Validation/Framework development Phases.

Inception Phase:

This was the stage where preliminary information was gathered to amongst others;

- i) Gain a better understanding of the operations of the various stakeholders;
- ii) Conduct a situational analysis to put the assignment into the right perspective.

Aggregation and Reconciliation Phase:

This phase is the main thrust of the assignment. The activities undertaken at this phase included.

- Document Review
- Collecting, collating and analyzing data from extractive sector payments and government receipts.
- Data Aggregation and Reconciliation.

Validation and Feedback phase:

Some of the activities under this phase include:

- Recommendations made in the final report.
- Comments and questions at the validation seminar which have been incorporated in the report.
- Dissemination of report to the general public.

Report on the Preparation and Reconciliation of First EITI Report

Relevant Payments:

The relevant payments for the assignment were; i) Licence/Concession fees; ii) Surface tax; iii) Royalty
iv) Taxation on Profit and v) Dividend.

Materiality: Any extractive industry entity with relevant payments amounting to 1,500,000.00MT in 2008 .

Selected companies: Kenmare Moma Mauritius; Sasol Petroleum Temane; HAMC (Highland African Mining Company; Vale Mozambique; Rio Tinto Ltd; Companhia Moçambicana de Hidrocarbonetos

Results of Aggregation/Reconciliation;

Extractive Company Payments.

TAX ID no.	RECONCILIATION OF EXTRACTIVE INDUSTRIES PAYMENTS/RECEIPTS MOZAMBIQUE-2008						
COMPANY PAYMENTS-ALL AMOUNTS IN METICAIS.							
	Company	Licence Fees	Surface Tax	Royalties	Profit Tax(IRPC)	Dividend	Total
400134081	VALE MOÇAMBIQUE	1,330,000.00	4,889,700.00			0	6,219,700.00
400095914	HAMC (Highland African Mining Co.)		278,549.00	1,151,372.00	100,000.00	0	1,529,921.00
400079781	RIO TINTO		723,962.00			0	723,962.00
400099812	KENMARIE MOMA MAURITIUS	325,576.00	795,385.00	6,649,864.00		0	7,770,825.00
400102961	COMPANHIA MOÇ HIDROC ARBONETOS				72,055,606.00	0	72,055,606.00
400077142	SASOL PETROLEUM TEMANE LTD			115,575,210.00	100,000.00	-	115,675,210.00
						0	
	Total	1,655,576.00	6,687,596.00	123,376,446.00	72,255,606.00	0	203,975,224.00

* The royalty payment for Sasol Petroleum Temane Ltd indicated above is only the royalty paid with cash. Sasol Petroleum Temane Ltd also paid royalty in kind totaling **2,528,854GJ** of Natural Gas in 2008.

Government Receipts:

TAX ID no.	RECONCILIATION OF EXTRACTIVE INDUSTRIES PAYMENTS/RECEIPTS MOZAMBIQUE-2008						
GOVERNMENT RECEIPTS-ALL AMOUNTS IN METICAIS.							
	Company	Licence Fee	Surface Tax	Royalties	Profit Tax(IRPC)	Dividends	Total
400134081	VALE MOÇAMBIQUE	0	0	0	0	0	-
400095914	HAMC (Highland African Mining Co.)	0	0	0	0	0	-
400079781	RIO TINTO		1,661,662.00				1,661,662.00
400090688	KENMARIE MOMA MAURITIUS	0	0	0	0	0	-
400102961	COMPANHIA MOÇ HIDROCARBONETOS	0	0	0	0	0	-
400077142	SASOL PETROLEUM TEMANE LTD	0	0	90,638,006.00	0	0	90,638,006.00
	Total		1,661,662.00	90,638,006.00	-	-	92,299,668.00

* **BENEFIT IN KIND:** The royalty received from Sasol Petroleum Temane Ltd indicated above is only the royalty paid with cash. The government received 2,528,854GJ of Natural Gas in 2008 as royalty in kind from Sasol Petroleum Temane Ltd

Key Findings.

1) Valuation of Minerals (Hedging):

➤ **Finding:** The valuation of minerals won, is based on

i) Sale value for minerals sold

ii) For minerals not sold in the month, the valuation is based on the price of the last sale held by the tax payer.

iii) The market price is used where no sale is made. There is no mention of a situation where the company has hedged (or sold in advance) its mineral products.

The price to use when the hedged price is lower than the market price should be clearly espoused (see Article 7 Law No.11/2007 of June 27th)

Recommendations:

To ensure transparency in the valuation of minerals it is prudent that the issue of hedging is fully addressed.

2.Capital gains tax:

One of the benefits to be obtained from the extractive industries is capital gains from the transfer of concessions.

It was observed that although there had been transfer of ownership of prospecting and mining concessions there was no evidence of payment of capital gains tax.

Recommendations:

In order to improve upon the revenue streams from the extractive sector, capital gains tax on transfer of concessions should be considered.

3. Capital allowances/depreciation

➤ **Finding:**

Pre-production costs which are costs incurred during exploration and development are capitalized and amortized when the extractive company commences production.

However the manner in which the depreciation or capital allowances are granted are not transparently spelt out. Capital allowance schedule is granted on contract to contract basis.

Recommendation.

To ensure transparency, the capital allowance regime should be specified in the law and applied generally.

4. Discrepancy

There was a discrepancy of 111,675,556.00MT between Company payments and Government receipts.

Recommendation: Further investigation of discrepancy by the Coordinating Committee is recommended.

1.0 BACKGROUND.

The extractive industries (mining, oil and natural gas) in Mozambique, contribute a significant and growing proportion to Government revenues for development. In the light of this, the Government of Mozambique has fully engaged in the Extractive Industries Transparency Initiative (EITI) to ensure that payments and receipts related to extractive industry sector are published in a transparent manner.

Mozambique became an EITI candidate country on the 15th of May 2009.

The Extractive Industries Transparency Initiative (EITI) was launched at the World Summit on Sustainable Development in Johannesburg, in September, 2002.

The main objective of the Initiative is to enhance transparency around the generation and spending of revenues from the extractive sector.

This objective primarily aims to improve development outcomes from the extractive industries' revenues, reduce the potential for corruption or large-scale embezzlement of these funds by host governments; and to stimulate debate about the uses to which these revenues are put.

The Initiative encourages governments, extractive companies (publicly and privately owned), International Agencies and NGOs to work together to develop a framework to promote transparency in payments in the extractive industries.

The initiative requires the regular publication of extractive industry payments and government receipts.

To this end, Messrs Boas & Associates was engaged by The Republic of Mozambique Extractive Industries' Transparency Initiative (MEITI) to undertake the aggregation/reconciliation of the extractive sector payments and government receipts for the year 2008 i.e. the first EITI report.

This report is the submission of the details of the aggregation and reconciliation of extractive industry payments and government receipts for the year 2008.

1.1 BRIEF ON THE EXTRACTIVE INDUSTRY IN MOZAMBIQUE.

Mozambique is a country which is endowed with large natural resource wealth including coal, natural gas, mineral sands and potential for oil reserves. (see Appendix 1)

The diverse geology of Mozambique offers a range of minerals and metals including gold, uranium, titanium, coal and bauxite. The Manica belt spanning western Mozambique is the primary source for the country's gold, copper, iron ore, bauxite and lead resources.

The natural gas reserves of the Pande/Temane fields in the Inhambane province are estimated to consist of more than 5 million TJ. Total coal reserves are estimated to amount to at least 6 billion tonnes, including the Moatize and Mucanha-Vuzi coal mines in Tete province (see Appendix 1).

The majority of Mozambique's natural resources are still not exploited. Since 2003, the extractive industry of Mozambique has attracted increased attention from the private sector. Capital inflows have surged and a number of companies from countries such as South Africa, Russia, Brazil and India are buying stakes in mines throughout the country, signifying the emerging importance of Mozambique's mining industry in its economy. Some US\$217m was invested in the country's mining sector in 2007, up from US\$169m in 2005.

Exploitation will become increasingly important in the near future when several large projects begin to show results in production and exports. Thus, the implementation of EITI might be an important tool in ensuring that the benefits from exploitation are utilized for the benefit of the country.

Minerals that are currently being exploited include titanium, tantalum, marble, gold, coal, bauxite, granite, limestone and gemstones. There are also known deposits of pegmatite, platinoids, uranium, bentonite, iron, cobalt, chromium, nickel, copper, granite, fluorite, diatomite, emeralds, tourmaline and apatite.

The extractive sector has the potential to contribute more towards the economy than it is currently, as it has already attracted large investments.

In 2006, the sector contributed 1.6% of GDP but is projected to increase to 5% in 2011.

2.0 OBJECTIVES OF THE REPORT.

The main objectives of this assignment are:

- To aggregate/reconcile submissions of significant payments by extractive companies to those received by the Government of Mozambique; and
- To utilize lessons learnt from the reconciliation/aggregation to enhance transparency in the payments and receipts of extractive benefits.

3.0 SCOPE OF WORK.

3.1 Accounting:

The cash basis of accounting is used for the reconciliation. Thus only amounts actually paid by extractive industry companies and received by the government in the period, January to December 2008 were considered.

3.2 Currency: The reporting currency for the assignment is the Mozambican currency the **Meticais**-(MT).

3.3 Materiality/Basis for Participation:

Any extractive industry entity with total relevant payments of at least one million and five hundred thousand Meticais (1,500,000MT) in 2008 was required to report and submit a template for reconciliation.

3.4 List of Extractive companies: The following extractive companies participated in the EITI reconciliation assignment : (see Table 1)

Table 1: List of companies covered in the Reconciliation for the year 2008 (First EITI Report)

Name of Company	Mineral/Commodity	Location of operations	Remarks
Vale Mozambique Ltd	Coal	Tete	Feasibility report stage
HAMC (Highland African Mining Co.)	Tantalum	Zambezia	Production
Rio Tinto Mining and Exploration Mozambique Ltd	Titanium Minerals	Inhambane	Exploration
Kenmarie Moma Mining (Mauritius) Ltd	Mineral sand	Nampula	Engaged in production
Companhia Moçambicana de Hidro-carbonetos. SA	Gas	Inhambane	Participation in Sasol Petroleum.
Sasol Petroleum Temane Ltd	Gas	Inhambane	Production

3.5 Brief on selected companies for EITI Aggregation and Reconciliation.

3.5.1 Vale Mozambique

Vale Mozambique Ltd is owned by a Brazilian mining group, Vale, (formerly, Cia Vale do Rio Doce). The mine is situated in Moatize in the Tete Province. The Moatize deposit is one of the largest known resources of coking coal left in Africa and is the only known high-grade coking coal deposit in Africa.

The Brazilian mining giant Vale was awarded the Moatize mining concession, covering 250 square kilometres in 2004. The construction works on the mine started in March 2009. Coal exports from the mine is expected to commence in 2011.

The company targets to produce 11 million tons of coking coal from 2011. It is estimated that 8.5 million tons of the targeted production will be metallurgical coal and 2.5 million as thermal coal. Metallurgical coal is used for the production of steel and thermal coal for the generation of electricity.

3.5.2 Highland African Mining Company

The Highland African Mining Company (HAMC) produces tantalum at Marropino in Ile district of Central Zambezia province in Mozambique. The company is owned by Noventa Ltd with a 100 per cent shareholding. HAMC started production in 2003 but shut down operations in 2009. It resumed operation in April 2010.

The company operates the redeveloped Marropino tantalite mine in Mozambique, currently the only industrial-scale tantalite mining operation in the country. It is also

well advanced with plans to build a second mine, Morrua just 40 km to the north of Marropino.

Tantalum is used widely in the consumer electronic industry.

3.5.3 Rio Tinto Mining and Exploration Mozambique Ltd.

Rio Tinto Mozambique Ltd which is 100% owned by Rio Tinto PLC is involved in exploring heavy mineral sands in Mozambique.

The company has carried out extensive drilling, sampling and testing programmes on several blocks along the coast between Inhambane and Xai Xai.

However, Rio Tinto has not yet reached the stage of a feasibility study, which means that production may take a little while.

3.5.4 Kenmare Moma Mining (Mauritius) Limited.

Kenmare Moma Mining (Mauritius) Limited is a company which is 100% owned by Kenmare Resources PLC (Irish)

Kenmare has its titanium mining project at Moma in Nampula province, located on the coast of north-eastern Mozambique. The deposit covers three (3) coastal mineralized zones: Moma, Congolone and Quinga.

The Moma Titanium Minerals Project comprises a large deposit of the titanium minerals, ilmenite and rutile as well as the zirconian mineral, zircon (a high-value co-product of titanium minerals mining).

The Moma plant started operation in 2007 .

Titanium dioxide pigment is used in protective coatings such as car and house paints, sunscreens, plastics, paper and textiles as well as a growing number of foodstuffs and cosmetics.

Zircon is used in the manufacture of opacifiers for ceramic tile production and for refractory products used in the steel and foundry industries.

3.5.5 Companhia Moçambicana de Hidrocarbonetos,SARL (CMH)

Companhia Moçambicana de Hidrocarbonetos,SARL (CMH),which is a subsidiary of Empresa Nacional de Hidrocarbonetos Company (ENH) was incorporated on October 20, 2000 in Maputo.

The company's shareholding structure comprises 70% to ENH, 20% to the Government of Mozambique and 10% owned by corporate bodies and individuals.

CMH represents ENH interest in its joint venture operations with Sasol Company in the

Pande-Temane gas exploitation with a 25% shareholding.

The company class C shares belonging to corporate bodies and individuals are quoted on the Mozambican Stock Exchange (BMV).

3.5.6 Sasol Petroleum Temane Ltd

Sasol Petroleum, a South African Energy Company, currently operates the Pande and Temane Natural Gas Fields in Inhambane Province with CMH and IFC. Sasol Petroleum is the majority shareholder with 70% shares, with CMH having 25% and IFC with 5% share interest.

The Pande-Temane gas project includes a gas pipeline, completed in 2004, stretching over 865 km between Temane and a Sasol gas processing petrochemical complex in Secunda, South Africa.

The completion of the project enabled Mozambique to produce, export and market about 85m gigajoules of gas in 2004/05. This was projected to increase to 120m gigajoules in 2008.

3.6 Minerals Explored/Mined by Participating Companies

3.6.1 Coal

Coal is a combustible organic rock composed primarily of carbon, hydrogen, and oxygen. Coal comes from ancient plants buried over millions of years in earth's crust, its outermost layer. As more and more layers of sediment formed over this decomposed plant material, the overburden exerted increased heat and weight on the organic matter.

Coal mining is the removal of coal from the ground. The mining method employed to extract the coal depends on the following criteria:

- (1) seam thickness,
- (2) the overburden thickness,
- (3) the ease of removal of the overburden,
- (4) the ease with which a shaft can be sunk to reach the coal seam,
- (5) the amount of coal extracted relative to the amount that cannot be removed, and

(6) the market demand for the coal.

There are two types of coal mining methods which are surface mining and underground mining. In surface mining the layers of rock or soil overlying a coal seam are first removed after which the coal is extracted from the exposed seam.

Surface mining is used to reach coal reserves that are too shallow to be reached by other mining methods. Types of surface mining include open-pit mining, drift mining, slope mining, contour mining, and auger mining.

In underground mining, a shaft is dug to reach the coal seam. Currently, underground mining accounts for approximately 60 percent of the world recovery of coal.

As-mined coal, also known as run-of-mine coal, it often contains unwanted impurities such as rock and dirt and comes in a mixture of different-sized fragments. Thus, another sequence of processes is necessary to make the coal consistent in quality and suitable for selling. These processes are called coal preparation or coal cleaning.

Coal preparation is the stage in coal production when the run-of-mine coal is processed into a range of clean, graded, and uniform coal products suitable for the commercial market, mostly power plants.

A number of physical separation technologies are used in cleaning and preparing coal. After the raw run-of-mine coal is crushed, it is separated into various-sized fragments for optimum treatment.

Larger material— lumps of coal about 10 to 150 mm (0.4 to 6 in) in length—is usually treated using a technology known as dense-medium separation. The dense medium is usually a liquid with a density just slightly greater than that of the coal. The coal can then be separated from other impurities, such as rock, by being floated in a tank containing the high-density liquid, which is usually a suspension of finely ground magnetite.

The smaller-sized fragments are treated in a variety of ways. In the froth flotation method, coal particles are removed in a froth produced by blowing air into a water bath containing a chemical reagent (substance that takes part in a chemical reaction with another substance). The bubbles attract the coal but not the waste and are skimmed off to recover the smaller-sized fragments.

After treatment, the smaller-sized fragments are screened and either dewatered or dried, and then recombined before going through final sampling and quality control procedures.

Coal is burned to produce energy and is used to manufacture steel. It is also an important source of chemicals used to make medicine, fertilizers, pesticides, and other products.

3.6.2 Tantalum

Tantalum belongs to the group of metals that includes vanadium and niobium. Most tantalum minerals contain some niobium metal, which is separated by solvent extraction or selective-crystallization procedures.

Tantalum is soluble in fused alkalis, insoluble in sulfuric, hydrochloric, and nitric acids, and soluble in hydrofluoric acid. It ignites in air to form tantalum pentoxide (sometimes referred to as tantalum(V) oxide or tantalic acid anhydride)

Tantalum melts at about 3017°C (about 5463°F), boils at about 5458°C (about 9856°F), and has a specific gravity of 16.65. The atomic weight of tantalum is 180.948.

Commercially, tantalum is prepared by the electrolysis of fused potassium tantalifluoride or of tantalum compounds dissolved in dilute sulfuric acid.

Because it is more resistant than platinum to many corrosive agents, tantalum has largely replaced platinum in standard weights and in laboratory ware. The largest use of tantalum is for capacitors in electronic circuits and rectifiers in low-voltage circuits, such as railway-signaling systems. Because of its resistance to attack by acids of the human body and its compatibility with body tissue, it is used to pin together broken bones. Tantalum is also used in surgical and dental instruments and in chemical heat exchangers. The oxide is an ingredient in special optical glass for aerial camera lenses.

3.6.3 Mineral Sand

Mineral sand occurs from the weathering and erosion of certain metamorphic and sedimentary rocks. Out of these fragmented rocks is found ilmenite, rutile and zircon. Ilmenite is an iron titanium oxide and the primary ore of titanium. It is a common accessory mineral in igneous rocks such as gabbro, diorite and anorthosite.

Most of the commercially produced ilmenite, rutile and zircon are recovered from sands that have formed from the weathering of ilmenite-bearing rocks. They can also be found in pegmatites as well as certain metamorphic rocks in the sedimentary rocks that come about from the weathering and the erosion they go through.

The sand containing these metals is recovered by dredging and processing of the alluvial deposits.

Ilmenite, rutile and zircon are used for titanium dioxide and titanium metals utilized to add color to textiles, ink, plastics, rubber, leather, cosmetics, ceramics, and paper. Titanium and titanium compounds are also utilized in electrical components, desalination plants, glass products, jewelry, artificial gemstones, and in some cases as smoke screens.

3.6.4 Natural Gas

Natural gas comes either from exclusive deposits of natural gas, or often present wherever there are natural deposits of oil. However, mines that contain only natural gas are much more beneficial as they tend to have a longer lasting supply of the product.

Natural gas is mined much in the same way as oil is. First a large piece of drilling equipment is used to drill through the soil and rocks to reach the natural gas deposit. There are two different kinds of natural gas deposits: deep and conventional. While conventional gas is usually closer to the surface and easily accessible by conventional drill bits, most deep gas deposits are located deep within the earth's surface. Some of these deposits can range as far as 15,000 feet into the ground. This makes most deep gas deposits more expensive on the market due to the extra work needed to gain access to the deposit.

Once the gas deposit has been reached, the temperature is dropped inside the deposit low enough to turn the natural gas into its liquid state. This is done with liquid nitrogen. The natural gas liquid is then transported to the surface by pumps where it can either be stored in large tanks or transported to wherever it is needed.

Natural gas is used to power homes and businesses. It provides the base ingredients for varied products such as plastic, fertilizer, anti-freeze, fabrics etc.

3.7 OTHER EXTRACTIVE SECTOR COMPANIES:

Other extractive industry companies operating in Mozambique but not covered by the reconciliation exercise include those listed in Table 2 .

Table 2: Extractive companies not covered in the 2008 EITI reconciliation

Name Of Company	Mineral/commodity
Empresa N deHydrocarbonetos	Oil/Gas
Anardarco Mocambique	Oil/Gas
Statoil Ltd	Oil
Buzi-Hydrocarbons	Gas
DNO Asa Mocambique	Oil
Eni East Africa SPA	Oil/Gas
Petronas Carigali Mozambique R.Basin	Oil
Cimentos de Mocambique SARL	Limestone
MIMOC-Minerals Industrials	Bentonite
Minas Moatize	Coal
JSPL Mozambique Minerals, Lda	Coal
Riversdale	Coal

3.8 Auditing:

The companies that participated in the reconciliation process have had their financial statements audited by external auditors.

The receipts by the government Agencies'(mainly Ministry of Finance) are audited by the Mozambican National Auditors' office (Tribunal Administrativo) annually. Audit reports are sent to Parliament. The 2008 figures have already been audited.

3.9 RELEVANT PAYMENTS.

A. MINING SECTOR

The following payments are considered as relevant for the EITI reconciliation assignment within the Mining sector;

- Mineral Royalty (Impostos/Produção/Royalties)
- Surface Tax (Impostos de superficie)
- Tax/Licence on concessions (Taxa de Concessão/Assinatura)
 - Reconnaissance
 - Prospecting and Survey
 - Mining Concession

-Mining certificate.

- Taxation on Profit (IPRC)
- Dividends from government shareholdings.

The details of these payments are discussed below:

3.9.1 ROYALTY:

This is a production based tax which is captured in the Law no. 11/2007.

i) Base:

Production royalty is imposed on the value of the quantity of minerals extracted (the product of price and quantity) from the land.

Valuation/Frequency of Payment.

Royalty payment is based on the gross value (the product of price and quantity) of minerals mined on monthly basis.

-For mineral products sold, the value is based on the sale value declared by the extractive entity.

-In relation to mineral products left unsold at the end of the month, the valuation is based on the price of the last sale made by the extractive entity.

-If no sales are made in the month, the valuation is based on the market price of the mineral product.

-The law allows for the correction of the valuation figures of minerals,

i) If documentation on sales does not allow the direct verification and accurate quantification of essential elements in determining the value of minerals;

ii) If sales or other disposition were made at a value less than that of the market or without commercial considerations.

ii) Practice:

Although the law specifies that royalty payment is dependent on minerals extracted from the land and independent of sales, in practice most companies have negotiated with the government to pay royalties after sales have been made.

Again some companies have negotiated, due to cash flow challenges to pay royalties on quarterly basis (ie on a 3 months cycle).

The quantity of Mineral Products is checked by the Customs Department of the Revenue Authority.

iii) Rate:

The royalty rates are fixed according to the mineral type:

Diamond-10%

Gold and other precious metals including silver and platinum-10%

Semi Precious Minerals-6%

Basic Minerals-5%

Coal and others-3%

3.9.2 LICENCE FEES.

There are five categories of licences, four of which are liable to the payment of concession taxes and fees.

The four are the Reconnaissance; Prospecting and (Research) Survey; Mining Concession and Mining certificate.

The fifth is known as Mining Pass which is not subject to the payment of concession taxes.

Any national entity, individual or group, national or foreign which intends to undertake the activities permitted by such licences, may hold a licence for reconnaissance or prospecting and survey.

A mining concession holder may be any legally recognized group or society created and registered in Mozambique.

A mining certificate holder may be any legally recognized individual, group or society, national or foreign resident in the country, or any cooperative or family that is capable of undertaking the operations authorized by this certificate.

i) **Reconnaissance licence**

The reconnaissance licence is granted for an area not exceeding 100,000 hectares.

-The licence is for a period of two years and is not renewable.

-The area cannot be expanded after the licence has been granted.

-Excavations are restricted under this licence. In general (specific contracts may indicate otherwise) reconnaissance licence holders are not permitted to ;

a) carry out excavations in excess of 1 meter deep and remove more than 3m³ of material.

b) carry out excavations in excess of 12m³ per hectare.

c) Perform drilling in excess of 102mm in diameter

d) Perform more than 4 drillings per hectare and

e) Drill by employing mechanical probes.

• **Fees/Licence.**

-To apply for a reconnaissance licence requires the payment of two thousand (2,000) Meticaís (MT).

-The fee for the issue of title is 850MT (eight hundred and fifty) Meticaís.

ii) **Prospecting and Exploration Licence:**

This licence is for an initial period of 5 yrs subject to renewal for another 5 yrs. The licence entitles the holder to

-Survey on an exclusive basis the mineral resources covered by the licence and undertake operations or work necessary to achieve this objective.

-Collect, remove and export samples and specimens not exceeding acceptable limits for prospecting and survey purposes as required by law.

-Conduct samplings and trial processing of the minerals, not exceeding acceptable limits, in order to determine the mining potential.

-The area of a prospecting licence shall not exceed 25,000 hectares.

• **Fees/Licence:**

The fee and licence includes:

-Fee for the registration of application- 2,000MT

-Fee for issue of title 850MT

-Fee for renewal 500MT

iii) **Mining Concession:**

This licence is granted to anyone complying with the necessary obligations and paying the requisite taxes and fees.

-A mining concession is granted based on the economic life of the mine or mining operations and is renewable for up to a maximum of twenty-five years.

The licence entitles the holder to;

- a) Use areas of the land as required for agriculture and cattle-raising or livestock farming, for personal consumption
- b) Sell or otherwise dispose of mineral products resulting from mining exploration.

-The holder of a mining concession who sells or otherwise disposes of any mineral produced as indicated in b) above is liable to pay the relevant taxes.

-Before the commencement of development or of any mining activity for which mining concession is granted the holder of the concession shall acquire

- i) An environmental Licence as required by law and
- ii) A land use title.

• **Fees and licence:** (see Appendix 2)

The fees payable for a Mining concession includes ;

-Fees for registration of application-2,000 MT

-Fee for issue of Title-1,200 MT

-Fee for late submission of application for renewal-600MT

-Fee for renewal -850MT

iv) Mining Certificate:

A mining certificate is granted to a person who complies with specified obligations and pays the respective tax.

A mining certificate can only be granted for use in an area covered by a prospecting and survey licence or a mining concession if it is granted to the holder of said licence or concession.

-A mining certificate is issued for a maximum period of two (2) years, renewable for successive periods of not more than two (2) years, for as long as the ongoing mining activities justifies.

The area covered by a mining certificate shall not exceed what is considered an adequate area for small-scale operations, that is not more than five hundred (500) hectares. Each holder may not hold more than four titles in adjoining areas.

There are extraction restrictions for mining certificates in line with its small scale characteristics.

- In the case of extraction of mineral resources from basic alluvial deposits, a maximum annual extraction of 60,000 cubic metres must be observed.

-In case of open cast extraction of mineral resources from non-alluvial deposits an annual extraction of 20,000 cubic metres should not be exceeded.

For extraction from waste dumps and surface production the maximum annual extraction is 10,000 cubic metres.

- **Fees**

The fees charged includes

Fees charged for application of transfer of title-2,500MT

Fees for registration of transfer of titles-250MT

v) Mining Pass

A mining Pass is issued to individuals of Mozambican nationality, is non-transferable and is generally issued to cover areas where the use of sophisticated mining techniques are not appropriate taking into account the nature and characteristics of the area.

For the purposes of EITI reconciliation mining pass is not considered.

3.9.3 SURFACE TAX;

Surface Tax is payable annually by those who hold reconnaissance licences, prospecting and exploration licences, mining concessions or mining certificates and is determined by the area of land covered by the mining title. (see Mining Concessions above)

Surface taxes are based on i) the size of the concession; ii) the type of minerals iii); the nature of concession licence, and iv) the period that the concession has been held.

This information is provided by the Ministry of Mineral Resources (National Directorate of Mines) to the Ministry of Finance (Mozambique Revenue Authority) for the computation of appropriate amounts.

- For a reconnaissance licence holder the **mineral and the size of concession** are the only determinants for surface tax.

As an example a reconnaissance licence holder for diamond would pay 10.00MT for each km² of surface occupied.

- For a prospecting licence the surface tax depends on the **number of years** the holder has been on the concession and the **size of the concession**.
- For mining concessions, **the years the land has been occupied** and **the size** of the licensed area are all taken into consideration in determining the surface tax.
- For mining certificates its simply, **the size of the concession in hectares** that gives rise to the amount of surface rent payable.(see Appendix 3)

In the case of mineral water the tax is based on the type of mining title (see Appendix 3)

Once paid the evidence of payment is sent to the Directorate of Mines.

3.9.4 TAX ON PROFIT (IPRC)

This is tax on profits. The computation of profit tax will involve the consideration of the following, as part of the new mining fiscal regime introduced.

- Capitalization of initial exploration and development cost in the first year of production.
- Standard straight line depreciation.
- Indefinite carry forward of capital allowances
- Carry forward of operational losses for 3 years
- Exemption of import duties taxes and other charges on goods imported for the purposes of exploration, development and mining. Goods must be unavailable in Mozambique to qualify for the exemptions.

i) Payment of Profit Tax:

The selected companies pay profit on tax based on the self assessment scheme. Under this scheme companies produce expected profit and loss accounts for the year.

The expected tax payable is computed and spread for the year. Payment is made every three months-quarterly (with a minimum payment of 30,000 MT).

At the end of the year the actual tax payable is computed and reconciled with the earlier payments. Any outstanding payment is settled.

3.9.5 DIVIDENDS ON GOVERNMENT SHAREHOLDINGS.

Although the fiscal regime does not offer the government any free carried interest in the shareholdings of extractive sector companies, there are instances where the government of Mozambique, out of contract negotiations or by financial contributions owns some shares in some companies.

B. OIL/GAS SECTOR:

The Oil and Gas sector in Mozambique is regulated by the following laws, regulations and Model Agreement.

- The petroleum law N^o.3/2001 of 21st February
- The petroleum regulations: (Decree N^o. 24/2004 of 20th August
- Regulation of Petroleum Production Tax: (Decree N^o.4-2008)
- Fiscal regime of the sector, Law N^o.12/2007 of June 27th.
- Law N^o.13/2007 of June 27th
- The Exploration and Petroleum Concession Contract (Model Agreement)

The relevant payments/revenue streams for the sector for EITI reconciliation are :

❖ **Licence Fees:**

Licences/contracts are obtained through, public tender; simultaneous negotiation or direct negotiation.

There are three types of licences/contracts, for granting rights for petroleum operations.

These are: a) Reconnaissance; b) Exploration and production and c) Oil or Gas Pipeline.

The relevant payments/revenues for the EITI reconciliation are a) and b) above.

-Reconnaissance Licence/contract:

This gives the right to conduct preliminary research work and the assessment of operation in the area subject to the contract through airborne, terrestrial and other surveys, geochemical, paleontological, geological and topographical studies.

The reconnaissance contract is for a maximum period of two (2) years. It allows for drilling of wells to a depth of 100 metres below the surface of the earth or the bottom of the sea.

-Exploration and production:

An exploration and Production contract gives an exclusive right to conduct exploration and production as well as the non-exclusive right to construct and operate oil pipeline or gas pipeline systems, for the purpose of transporting crude oil or natural gas produced from the contract area, except where access to an existing oil pipeline or gas pipeline system is available on reasonable commercial terms.

The exploration and production licence/contract is for a period of eight years except where more time is needed to complete the operations to assess a discovery.

❖ **Royalty.**

Base:

This is based on the value of oil/gas produced. That is petroleum produced including the quantities of petroleum lost as a result of petroleum operation deficiency or negligence.

The value of the produced petroleum is determined on the basis of the average weighted prices at which it has been sold in the month to which the tax (royalty) to be determined corresponds.

Rate:

Applicable rates are 6% for gas and 10% for oil.

Contracts preceding Law no. 12/2007 may have different rates for royalty payment.

❖ ***Production Bonus:***

Operators within the petroleum sector are required to make some payments once a certain production threshold is attained.

The amount payable is indicated in the contracts between the operators and the government.

For the 2008 reconciliation, this revenue stream was not applicable, as there were no producing companies with such contracts

❖ ***Tax on Profit (IPRC)***

This is the tax paid by a company on its upstream petroleum activities.
The current rate is 32%.

❖ ***Dividend***

This is revenue received by the government of Mozambique in situations where the state has equity interest in a company.

c. BENEFIT IN KIND:

This is a revenue stream paid with mineral, oil/gas (instead of cash) which is produced by the extractive company.

This kind of benefit stream is normally made as royalty payment or host government's share of production, as may be stated in the contract.

			as stipulated in contract.
Tax on Profit (IPRC)	Annually (quarterly for self Assessed companies).	Ministry of Finance(MRA)	Based on profit. Minimum payment of 30,000 MT for qualified Self Assessed companies.
Dividends	After company declaration	Ministry of Finance(MRA)	Applicable where the G'ovt has shareholdings in companies.

3.9.7 Other payments:

Other indirect payments made by the selected companies including VAT, Pay As You Earn (IPRS), Customs duties are summarized in section 7.

4.0 Terms of Reference:

The Independent Administrator will carry out the work as per the EITI guidelines, using the methodology set out in the EITI Rules Book.

Carry out reconciliation of payments made by extractive companies against revenues received by the Government.

Specifically the Administrator shall undertake the following activities:

- Reconcile and match revenues received: Royalties, dividends, taxes on profits and other material payments as reported by companies;
- Match payments made with regards to mineral royalties, surface taxes, dividends, taxation on profits and for mineral rights fees;
- Reconcile the data collected to ascertain if there is any material disparity between the Governments reported template and the aggregated companies reporting template; and
- Attend the validation process.

5.0 APPROACH AND METHODOLOGY.

The methodology involved three main phases:

i) Inception Phase

ii) Aggregation and Reconciliation Phase

iii) Validation /Framework development and Feedback phase.

5.1 INCEPTION REPORT.

The inception phase which is the preliminary information gathering stage involved the interaction with key stake holders by the Independent Administrator. An inception report was issued at the end of that phase of the assignment.

5.2 AGGREGATION AND RECONCILIATION PHASE

Under this phase, the following activities were undertaken

- **Review of Documents**
- **Data Collection and Analysis**
- **Data Aggregation and Reconciliation**

5.2.1 DOCUMENTS REVIEW

Reports and documents on Mozambique extractive industry activities, economy, mining/petroleum laws, mining/petroleum fiscal regime and EITI workshop/seminar activities collected at the inception phase and additional documents gathered at the aggregation/reconciliation phase were thoroughly researched and analyzed.

Some of the documents collected, reviewed and analyzed included the following:

- The Mining Law-Lei 14/2002
- Mining Regulations for Lei 14/2002- Decreto 62/2006
- The Fiscal Regime in the mining sector-Lei 11/2007
- The Petroleum Laws of Mozambique including:
 - The petroleum law (N^o.3/2001 of 21st February)
 - The petroleum regulations: (Decree N^o. 24/2004 of 20th August)
 - Fiscal regime of the petroleum sector: (Law N^o.12/2007 of June 27th)
 - The code of Fiscal Benefits –(Law N^o.13/2007 of June 27th)
 - Regulation of Petroleum Production Tax: (Decree N^o.4-2008)

- Reports of seminars and workshops held on the EITI e.g. Mozambique EITI scoping report, reporting guidelines; and other relevant documentations from the World Bank Consultative Group on EITI via the internet.
- Annual reports and audited financial statements of the extractive companies for the year 2008.
- Questionnaire distributed at the inception phase were collected, analysed and interpreted for the project report development.

5.2.2 Data collection and Analysis:

The methods used to review and analyse data and supporting documents collected from the extractive companies and government agencies for aggregation/reconciliation are detailed below as follow:

5.2.3 Licence (Concession Fees) (Taxa de Concession/Assinatura)

In assessing the concessions fees payable:

- a) Details of concession sizes held by the companies and chargeable fees/rate for minerals explored were obtained from the Mines Directorate of the Ministry of Mineral Resources.
- b) The fee/rate applicable for year 2008, together with the sizes of the concessions, the amounts payable was computed.
- c) Extractive companies were required to indicate concession fees payments as well as the relevant taxes on their templates.
- d) Extractive industries were also requested to provide copies of receipts for payments on concessions and taxes paid for year 2008.
- d) Request was made to the Revenue Authority to ascertain the amount paid by the companies in year 2008.

5.2.4 Surface Tax (Impostos de superficie)

To assess the surface tax payable:

- a) Details of concessions held by the extractive companies were obtained from the Directorate of Mines.
- b) The rate of surface tax payment applicable in 2008 for the type of mineral mined/explored (i.e. concession type) were also obtained from the Directorate of Mines.
- c) Together with the sizes of the concessions and amount payable per the type of mineral, the amounts payable were computed.

- d) Request was made to the Revenue Authority to ascertain the amount paid by the companies in year 2008.
- e) Mining companies were also required to indicate surface tax payments on their templates.
- f) The appropriateness of payments were ascertained by comparing c) and e)

5.2.5 Production/mineral royalty payment.

- The companies who reported royalty payments for year 2008 had their payments thoroughly scrutinized for possible underpayments.
- Production figures for the year were obtained from the Directorate of Mines.
- Proceeds from sales declared for royalty payments, where available, were checked to ascertain if freight, insurance, refinery and other charges (if any) were excluded as royalties are paid on gross revenues.
- Payments made were verified to ascertain their conformity to stipulated directives/agreements.
- Based on rate levied for the type of mineral mined (since this varies for mineral mined) and production made, royalty payable for the year 2008 were computed.
- Request was made to the Revenue Authority to ascertain the amount paid by the companies in year 2008.
- Extractive companies were also required to indicate royalty payments on their template.
- Computed royalty payable and actual payment on templates were compared taking into consideration payments that straddled earlier and later years.

5.2.6 Tax on Profit (IPRC)

In assessing the tax on profits for the participating companies the following steps were adopted:

- a) The companies who were in production in year 2008 had their financial reports examined.
- b) Operation costs of these companies for year 2008 were checked as well as various elements constituting these costs. Much effort was concentrated on determining the accuracy of declared operating cost for the year 2008.
- c) Capitalization of pre production costs (exploration and development expenditures up to year 2008) were scrutinized.
- d) Exemptions of duties and taxes on exports of mineral products were examined.
- e) Request was made to the Revenue Authority to ascertain the amount paid by the companies in year 2008.
- f) Extractive companies were also required to indicate tax on profit payments on

their templates.

- g) Capital allowance computations were checked against Fixed Asset Schedules in the financial statement to ensure that appropriate rates have been applied for the different classes of Assets.
- h) The rates for capital allowances applied for computers, plant and machinery and mining assets were scrutinized to ensure they conform to the schedules provided in the Mining Fiscal Regime.
- i) Were applicable operational losses carried forward were scrutinized to ascertain conformity with the 3-year carry forward provision.

5.2.7 Dividend.

The shareholding structures of the companies were obtained from the extractive companies, with particular reference to government shareholding if any.

These share holdings were confirmed with the Ministry of Mineral Resources and the Ministry of Finance.

5.2.8 State Agencies receipts.

- i) Licence/Concession fees receipts by the Government Agency were compared with payments made by the extractive companies.
- ii) Surface tax receipts of the Tax authorities were compared with payments made by extractive companies.
- iii) Mineral Royalty receipts by the Revenue Authority were compared to royalty payments made by the extractive companies
- iv) Taxes on Profit (IPRC) received by the Tax Authorities (including nil returns) were compared to the payments made by the companies.

6.0 AGGREGATION/RECONCILIATION

- a) Composite Mining Companies Template was prepared from individual templates submitted by mining companies (see Table 4)
- b) Composite Oil and gas template was prepared from the individual templates submitted by oil and gas companies.(see Table 5)
- c) A consolidated template involving all the extractive companies was prepared from a) and b) (see Table 6)
- d) An Aggregated Government Template was also prepared from data provided by the Mozambique Revenue Authority for the various benefit streams (see Table 7)

The two aggregated templates, the Composite Extractive Industries Template (c) and the Government Template(d) were reconciled.

Table 4: MINING COMPANIES PAYMENTS-2008

TAX ID no. MINING COMPANIES PAYMENTS (2008)-ALL AMOUNTS IN METICAIS.						
Company	Licence Fees	Surface Tax	Royalties	Profit Tax(IRPC)	Dividends	Total
400134081 VALE MOÇAMBIQUE	1,330,000.00	4,889,700.00			0	6,219,700.00
400095914 HAMC (Highland African Mining Co.)		278,549.00	1,151,372.00	100,000.00	0	1,529,921.00
400079781 RIO TINTO		723,962.00			0	723,962.00
400099812 KENMARIE MOMA MAURITIUS	325,576.00	795,385.00	6,649,864.00		0	7,770,825.00
Total	1,655,576.00	6,687,596.00	7,801,236.00	100,000.00	0	16,244,408.00

Table 5: OIL AND GAS COMPANIES' PAYMENTS -2008

TAX ID	Company	Licence Fees	*Royalties	Profit Tax(IRPC)	Dividends	Total
400102961	COMPANHIA MOÇAMBICANA DE HIDRO-CARBONETOS SA	0	0	72,055,606.00		72,055,606.00
400077142	SASOL PETROLEUM TEMANE LTD	0	115,575,210.00	100,000.00		115,675,210.00
	Total	0	115,575,210.00	72,155,606.00	0	187,730,816.00

***BENEFIT IN KIND:** The royalty payment for Sasol Petroleum Temane Ltd indicated above is only the royalty paid with cash.

Sasol Petroleum Temane Ltd also paid royalty in kind totaling **2,528,854GJ** of Natural Gas in 2008.

Table 6: ALL EXTRACTIVE COMPANIES AGGREGATED TEMPLATE;

ALL EXTRACTIVE COMPANIES' PAYMENTS 2008 ALL AMOUNTS IN METICAIS (MT)							
TAX ID no.	Company	Licence Fees	Surface Tax	Royalty	Profit Tax(IRPC)	Dividend	Total
400134081	VALE MOÇAMBIQUE	1,330,000.00	4,889,700.00				6,219,700.00
400095914	HAMC (Highland African Mining Co.)		278,549.00	1,151,372.00	100,000.00		1,529,921.00
400079781	RIO TINTO		723,962.00				723,962.00
400099812	KENMARIE MOMA MAURITIUS	325,576.00	795,385.00	6,649,864.00			7,770,825.00
400102961	COMPANHIA MOÇ HIDROC ARBONETOS				72,055,606.00		72,055,606.00
400077142	SASOL PETROLEUM TEMANE LTD			115,575,210.00	100,000.00		115,675,210.00
	Total	1,655,576.00	6,687,596.00	123,376,446.00	72,255,606.00		203,975,224.00

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TABLE 7: GOVERNMENT RECEIPTS

RECONCILIATION OF EXTRACTIVE INDUSTRIES PAYMENTS/RECEIPTS MOZAMBIQUE-2008							
GOVERNMENT RECEIPTS-ALL AMOUNTS IN METICAIS.							
TAX ID	Company	Licence Fees	Surface Tax	Profit Tax			Total
				*Royalties	IPRC	Dividend	
400134081	VALE MOÇAMBIQUE	0	0	0	0	0	0
4000095914	HAMC (Highland African Mining Co.)	0	0	0	0	0	0
400079781	RIO TINTO	0	1661662	0	0	0	1661662
400090688	KENMARIE MOMA MAURITIUS	0	0	0	0	0	0
400102961	COMPANHIA MOÇ HIDROCARBONETOS	0	0	0	0	0	0
400077142	SASOL PETROLEUM TEMANE LTD	0	0	90638006	0	0	90638006
	Total	0	1661662	90638006	0	0	92299668

* **BENEFIT IN KIND:** The royalty received from Sasol Petroleum Temane Ltd indicated above is only the royalty paid with cash.

The government received **2,528,854GJ** of Natural Gas in 2008 as royalty in kind from Sasol Petroleum Temane Ltd

Table 8: **RECONCILIATION OF EXTRACTIVE COMPANIES PAYMENTS AND GOVERNMENT RECEIPTS-2008.**

ALL AMOUNTS IN METICAIS (MT)

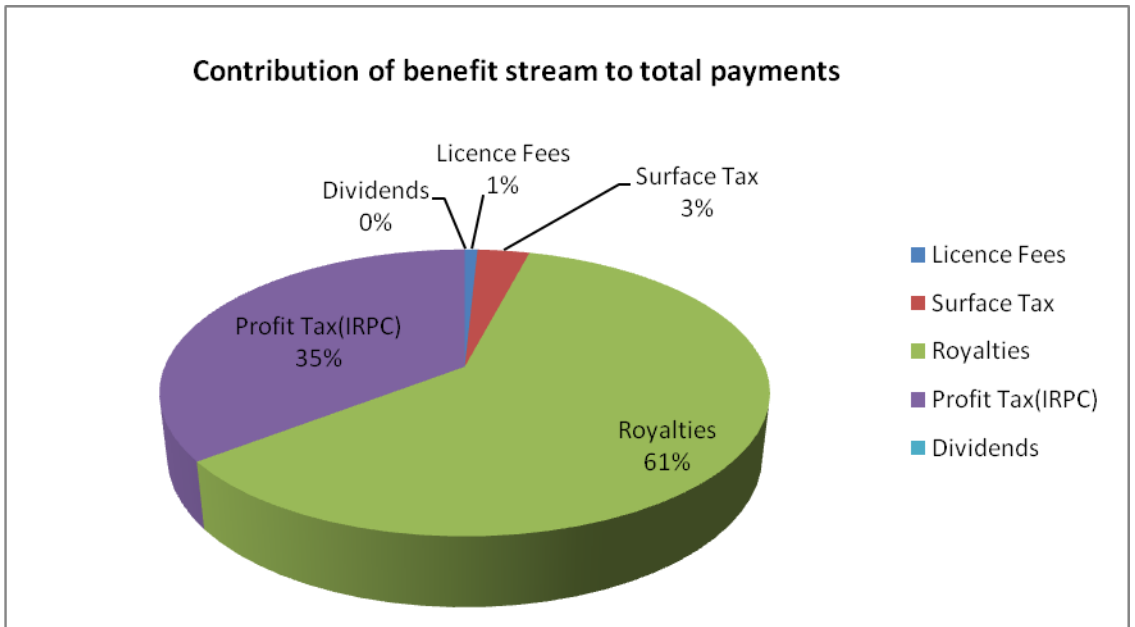
Benefit Stream	Companies' Payments (A)	Government Receipts (B)	Deviation (A-B)
Licence Fees	1,655,576.00	0.00	1,655,576.00
Surface Tax	6,687,596.00	1,661,662.00	5,025,934.00
Royalty	123,376,446.00	90,638,006.00	32,738,440.00
Profit Tax (IPRC)	72,255,606.00	0.00	72,255,606.00
Dividend	0.00	0.00	0.00
Total	203,975,224.00	92,299,668.00	111,675,556.00

6.1 RESULTS OF AGGREGATION/RECONCILIATION:

6.1.1 AGGREGATION:

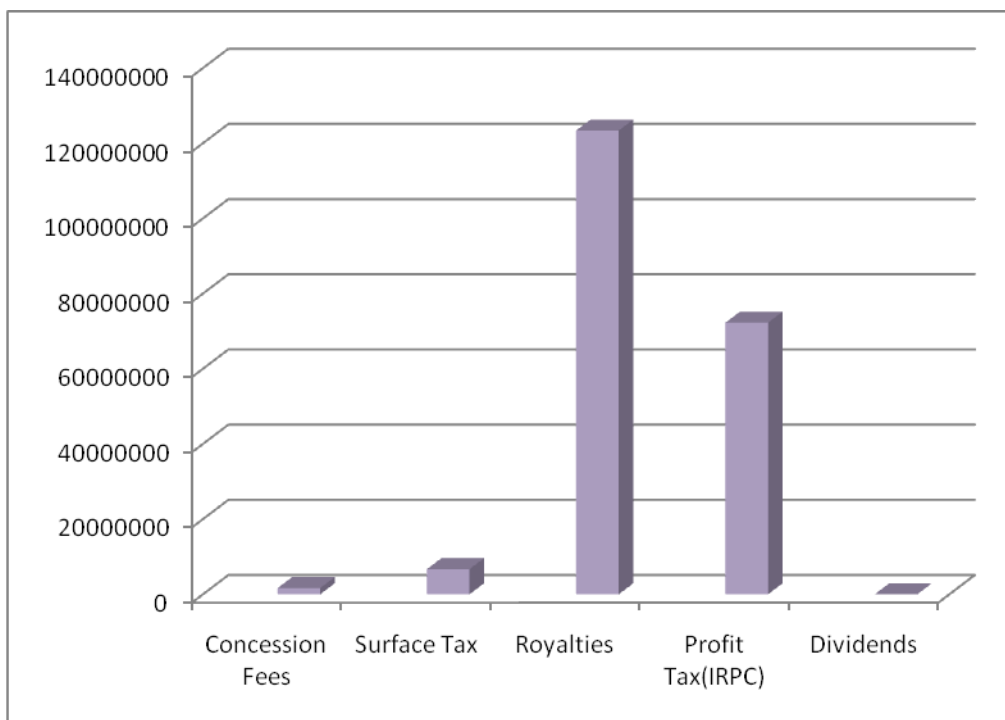
The total amount of relevant payments made by extractive companies in the year 2008 amounted to Two hundred and three million, nine hundred and seventy five thousand two hundred and twenty four Meticaís (203,975,224.00 MT). The proportion of each payment type to the total payment is indicated below;

Fig 1 : Percentage contributions of benefit streams.



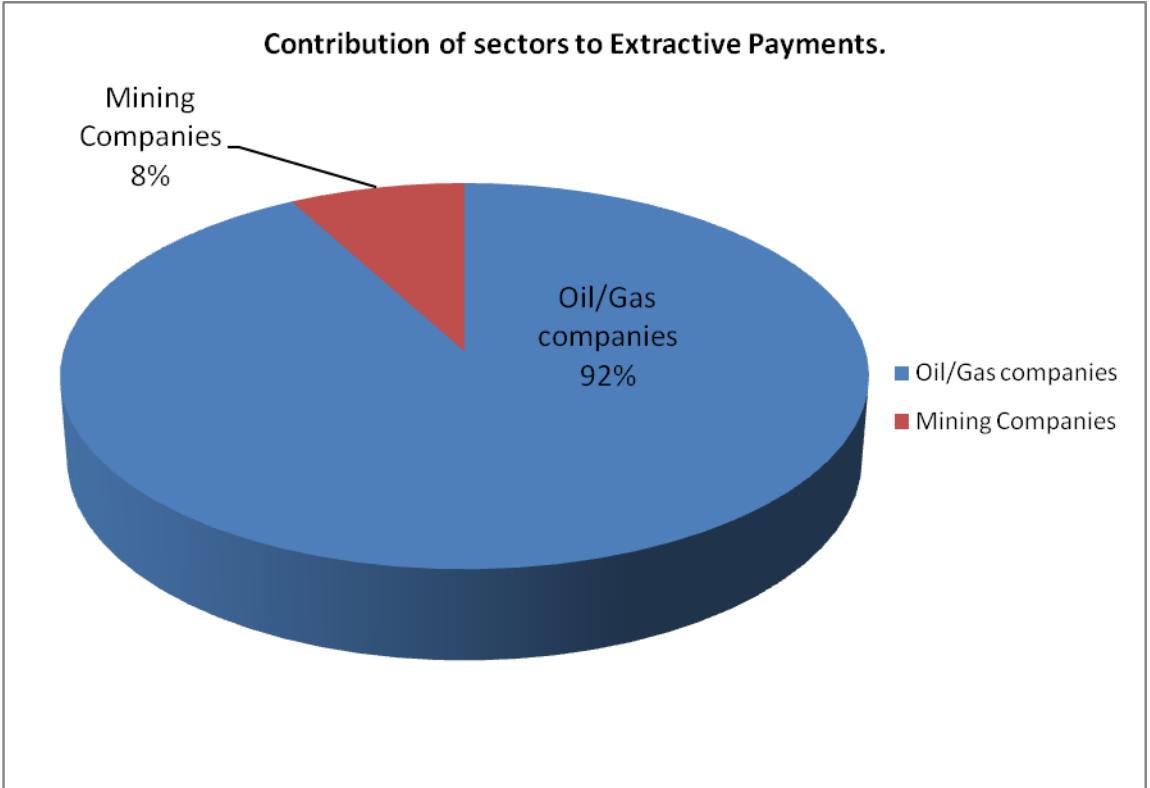
See also Fig 2

FIG 2 :Benefits paid by Extractive companies in 2008



ii) The contribution of the extractive activity type to total payments from the extractive companies is shown in Fig 3 below.

Fig 3 : Contribution by sectors to extractive industry payments-2008



Of the total contribution of 203,975,224 MT payments from extractive companies, entities engaged/or associated with gas production paid an amount of 187,730,816.00 MT representing 92% of total payments.

iii) Total Government receipts amounted to **92,299,668.00 MT**

iv) **Concession Fees/Licence.**

Two companies namely Vale Mozambique and Kenmarie Moma Ltd paid concession fees.

Kenmarie Moma Ltd payment was for mining concession whilst that of Vale Mozambique Ltd was for Prospecting and Exploration.

v) **Surface Tax:**

All the mining companies paid some amount of surface tax. (see Table 4)

vi) **Royalty:**

Royalty payment was the highest of the benefits paid by extractive companies. It contributed 61% of total cash payments by the companies covered under the reconciliation exercise.

Total cash payment for royalty amounted to 123,376,446MT out of which Sasol Petroleum Temane Ltd paid 115,575,210MT.

An amount of 2,528,854GJ of Natural gas was provided by Sasol as royalty payment in-kind. (see Appendix 6)

Records for the year 2008 at the Instituto Nacional de Petróleo(INP) indicated the receipt of the same quantity of gas as royalty payment in kind by the government.

This payment of royalty in kind is a requirement in the Petroleum Production Agreement(PPA) of unincorporated joint venture in which Sasol Petroleum Temane Ltd is the operator and having a 70% participating interest with partners, Companhia Moçambicana de Hidrocarbonetos SA (CMH), and International Finance Corporation(IFC) having 25% and 5% participating interest respectively.

Kenmarie Moma (Mining) Mauritius and Highland African Mining Company (HAMC), were the other companies within the six selected that paid royalties in 2008.

The production by selected companies for the year 2008 is shown as follow:

Table 9: Mineral Production in 2008				
Company	Location	Mineral	Unit	Quantity
Kenmare Moma Mining (Mauritius) Ltd	Nampulla	Ilmenite	Ton	140,515.20
		Zircon	Ton	26,346.60
		Rutile	Ton	8,782.20
Sasol Petroleum Temane	Inhambane	Natural gas	Gj	104,519,839.70
		Condensed Gas	Bbj	695,938.00
HAMC (Highland African Mining Company)	Ile/Zambézia	Tantalite		
Vale Moçambique	Moatize/Tete	Coal	Ton	Feasibility Stage
Rio Tinto	Gaza and Inhambane	Heavy sands	Ton	Exploration Licence
Companhia Moç Hidrocarbonetos	Has participation in Sasol			

Source: Directorate of Mines(MMR)

vii) Tax on Profit:

Three companies out of the six selected, paid tax on profit in 2008. HAMC Ltd and Sasol Petroleum Temane Ltd paid the minimum payment of 100,000MT each, whilst Companhia Moçambicana de Hidrocarbonetos paid the highest tax of **72,055,606 MT**

viii) Dividend.

There was no payment of dividend to the government in 2008. The shareholding of the government of Mozambique in the six companies are shown below.

Table 10: **Government shareholding in selected companies**

Company	Government Shareholding
Kenmare Moma Mining (Mauritius) Ltd	Nil
Sasol Petroleum Temane	Nil
HAMC (Highland African Mining Company)	Nil
Vale Moçambique	Nil
Rio Tinto	Nil
Companhia Moc Hidrocarbonetos	20%

6.1.2 DISCREPANCIES:

A discrepancy of 111,675,556 MT (one hundred and eleven million, six hundred and seventy five thousand, five hundred and fifty six Meticais was recorded between extractive company payments and government receipts.

The discrepancy resulted from the following:

➤ **Tax on Profit:**

The total tax on profit paid by Sasol Petroleum Temane Ltd, HAMC Ltd and Companhia Moçambicana de Hidrocarbonetos SA which amounted to **72,255,606 MT** produced a discrepancy of the same amount. (see Table 8.)

This was due to the fact that there was no recording of any receipt of tax on profit by the government agencies in 2008.

➤ **Mineral Royalty:**

The total payment of royalty by the selected extractive companies amounted to 123,376,446 MT, whilst the total collection of royalty by the Government in 2008 stood at 90,638,006.00MT, producing a discrepancy of **32,738,440 MT**

➤ **Surface Tax:**

Surface tax produced a discrepancy of **5,025,934 MT**. The total surface tax payment on the extractive companies composite template amounted to 6,687,596MT, being payments of 4,889,700MT; 278,549MT; 723,962MT and 795,385MT made by Vale Moçambique Ltd; HAMC (Highland African Mining Company); Rio Tinto Ltd and Kenmarie Moma Mining (Mauritius) Ltd respectively.

The government template indicated only the receipt of 1,661,662MT from Rio Tinto Ltd.

➤ **Licence (Concession) Fees.**

There was no government receipt of licence fees from any of the six selected companies.

Two companies ,Vale Mozambique Ltd and Kenmarie Moma Mauritius Ltd however indicated the payment of 1,330,000MT and 325,576MT respectively as concession fees payment for 2008.

A discrepancy of **1,655,576MT** therefore resulted from concession fees payment.

7.0: OTHER PAYMENTS.

Other payments made by the selected extractive companies amounting to 301,345,290.00 which did not form part of the reconciliation process included a) Withholding taxes of 106,493,522 MT; b) IPRS (PAYE) of 153,639,295 MT, c)VAT- 19,059,887.00MT d) Social Security- 15,210,241.00MT and e) Others- 6,942,345.00 MT.

8.0 OBSERVATIONS AND SIGNIFICANT FINDINGS:

Some significant findings and observations made included the following:

8.1 Valuation of Minerals (Hedging):

➤ **Finding:** The valuation of minerals won, is based on

i) Sale value for minerals sold

ii) For minerals not sold in the month, the valuation is based on the price of the last sale held by the tax payer.

iii) The market price is used where no sale is made. There is no mention of a situation where the company has hedged (or sold in advance) its mineral products.

The price to use when the hedged price is lower than the market price should be clearly espoused (see Article 7 Law No.11/2007 of June 27th.)

8.1.2 Recommendations:

To ensure transparency in the valuation of minerals it is prudent that the issue of hedging is fully addressed.

8.2 Determination of quality of Minerals

➤ **Finding:**

The Revenue Authority (Customs Division), is responsible for authenticating the sales of minerals by the extractive entities.

However in situations where the quality affects the value of the mineral/commodity as in the case of coal and mineral sands, the revenue authorities rely on the figures provided by the companies.

There is no independent check on the quality.

8.2.1 Recommendation:

Since the valuation of minerals is affected by their quality the Mines Directorate and the Ministry of Finance should ensure that there is a mechanism of confirming the quality provided by mines.

This may be done by independently checking through random sampling.

8.3 Operation Cost Determination:

The cost of extraction (operations) at the mines is determined solely by the mining companies.

The operation costs of the extractive entities affect the profit to be declared and ultimately tax on profit payable.

8.3.1 Recommendations:

It may be necessary for the Ministries of Finance and Mineral Resources to conduct studies to establish benchmarks for extractive activities. This will assist revenue authorities in the determination of the appropriateness of costs and also improve upon transparency.

8.4 Capital allowances/depreciation

➤ Finding:

Pre-production costs which are costs incurred during exploration and development are capitalized and amortized when the extractive company commences production.

However the manner in which the depreciation or capital allowances are granted are not transparently spelt out.

Capital allowance schedules are granted on contract to contract basis.

8.4.1 Recommendation.

To ensure transparency, the capital allowance regime should be specified in the law and applied generally.

8.5 Intersectoral collaboration:

➤ **Finding:**

The Directorate of Mines and the Revenue Authorities do not collaborate regarding the transfer of concessions.

Some larger concessions, may be brought to the attention of the Revenue Authority, but there is no systematic provision of information on change in the ownership of concessions to the Revenue Authority.

8.5.1 Recommendation:

The revenue authority should be informed of changes in the ownership of concessions, its size and any other peculiarities.

This information could be provided on quarterly basis.

8.6 Capital gains tax:

One of the benefits to be obtained from the extractive industries is capital gains from the transfer of concessions.

It was observed that although there had been transfer of ownership of prospecting and mining concessions there was no evidence of payment of capital gains tax.

8.6 .1 Recommendations:

In order to improve upon the revenue streams from the extractive sector, capital gains tax on transfer of concessions should be considered.

8.7 Data Capture and Publication:

➤ **Finding:** It appears that not enough details of mining activities have been properly captured.

Information such as accumulated pre-production costs for selected companies; sizes of concessions and production for the year 2008, either took too long or could not be provided.

Sufficient and timely supporting documentation for figures provided on templates, could not be obtained from all the six companies.

8.7.1 Recommendation:

Yearly publication of the production details of mining concession owners, payment of royalties; ownership or shareholding of companies would provide ready access to information and enhance transparency.

In the long term this will assist in revenue mobilization.

9.0 CONCLUSIONS:

This report is a presentation of the results of the aggregation and reconciliation of extractive sector payments/receipts (First EITI report) for the year 2008.

- The analysis are based on the figures provided on the reporting templates.
- All the necessary supporting data for figures on the templates could not be obtained.
- The reconciliation recorded a discrepancy of 111,675,556 MT.
- This is a significant amount which represents over 50% of total payments by the extractive companies.
- It is recommended that the coordinating committee investigates further the reported discrepancy.
- Most of Mozambique's extractive sector industries are at the exploration and feasibility phases.
- Extractive sector payments to government, particularly royalty is expected to increase substantially with time, as companies begin production.
- Tax on Profit is also likely to increase in the near future with companies going beyond the initial investment period, and utilizing all the capitalized pre-production costs.

Subsequent aggregation/reconciliation assignments would indicate clearly the growth trend of tax on profit, with particular reference to the effect of pre-production and operating costs.

- There is the need to coordinate extractive industry database at the Ministries of Finance and Mineral Resources.