



REPUBLIC OF GHANA

2013 ANNUAL REPORT

ON THE

PETROLEUM FUNDS

SUBMITTED TO

PARLIAMENT

BY

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(MINISTER FOR FINANCE)

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AS PART OF THE PRESENTATION OF THE 2014 BUDGET STATEMENT AND ECONOMIC
POLICY AND, IN CONSONANCE WITH SECTION 48 OF THE PETROLEUM REVENUE

MANAGEMENT ACT, 2011 (ACT 815)

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ACRONYMS

ABFA	Annual Budget Funding Amount
Bcf	Billion Cubic Feet
BOG	Bank of Ghana
Bopd	Barrels of Oil per Day
CDB	Chinese Development Bank
FPSO	Floating Production Storage and Offloading
GAS	Ghana Audit Service
GHF	Ghana Heritage Fund
GIP	Gas Infrastructure Project
GNGC	Ghana National Gas Company Limited
GNPC	Ghana National Petroleum Corporation
GOG	Government of Ghana
GPFs	Ghana Petroleum Funds
GSF	Ghana Stabilisation Fund
LPG	Liquefied Petroleum Gas
Mmbbls	Million Barrels
MmBtu	Million British Thermal Units
Mmscf/d	Million Standard Cubic Feet per Day
NOC	National Oil Company
PHF	Petroleum Holding Fund
PoD	Plan of Development
PRMA	Petroleum Revenue Management Act, 2011 (Act 815)
TEN	Tweneboa-Enyenra-Ntomme
WCGIDP	Western Corridor Gas Infrastructure Development Project

PREFACE

This report, the second of its kind, is prepared in fulfillment of Section 48 of the Petroleum Revenue Management Act, 2011 (Act 815, PRMA).

The PRMA requires the Minister responsible for Finance to submit an annual report on the Petroleum Funds as part of the annual presentation of the Budget Statement and Economic Policy to Parliament. This Interim Annual Report presents developments in the upstream petroleum sector and reports on the collection and utilisation of petroleum receipts in the first nine months of 2013, in consonance with Section 48 of the PRMA. The report largely covers production in the Jubilee and Saltpond Fields. It also summarizes activities leading to the lifting of gas from the Jubilee Field, production from the Tweneboa-Enyenra-Ntomme (TEN) as well as the Sankofa-Gye Nyame projects.

Government has implemented the PRMA for over two-and-a-half (2½) years, and is committed to ensuring that the collection and utilisation of petroleum revenues are optimized for the benefit of Ghanaians. This report is aimed at providing adequate information to the public within the spirit of transparent and accountable governance and management of our oil and gas resources.

The Ministry of Finance has been consistent with the quarterly publication of petroleum receipts in the Gazette, and in at least, two state-owned daily newspapers as required by Section 8 of the PRMA. The Bank of Ghana has also been publishing quarterly and semi-annual reports on the Petroleum Holding Fund (PHF) in accordance with Section 28 of the PRMA.

After two-and-a-half years of implementation of the PRMA, MOF and stakeholders have identified some inconsistencies, as well as operational and administrative challenges of the Act. The Ministry of Finance has, therefore, started the process of reviewing some sections in the Act to ensure its smooth implementation. Advertisements have been placed in the print media to solicit for input from the public to make the review as encompassing as possible. Electronic advertisements are set to follow soon. The resultant proposed review will be submitted to Parliament by Cabinet for consideration and passage.

Government will continue to pursue programmes and activities consistent with the PRMA to ensure that the citizens of Ghana get value for money for the use of the nation's petroleum receipts.

We are urging all stakeholders to take a critical look at this report and provide the necessary feedback to the Ministry of Finance to enable us improve on our services to the general public on petroleum revenue management. We thank all those who have contributed to the preparation of this Annual Report.

**SETH E. TERKPER
MINISTER FOR FINANCE**

SECTION ONE: INTRODUCTION

1. Section 48 of the Petroleum Revenue Management Act, 2011 (Act 815, PRMA) requires the Minister responsible for Finance to submit an annual report on the Petroleum Funds, as part of the presentation of the annual Budget Statement and Economic Policy, to Parliament.
2. The 2013 Annual Report on the Petroleum Funds has been written in conformity with Section 48 of the PRMA and includes the following:
 - Receipts and transfers to and from the Petroleum Holding Fund (PHF);
 - Deposits into the Ghana Petroleum Funds (GPFs) namely, the Ghana Stabilisation Fund (GSF) and the Ghana Heritage Fund (GHF); and
 - A balance sheet, including a note listing the qualifying instruments of the GPFs.
3. The 2013 Annual Report on the Petroleum Funds presents relevant information on the Petroleum Funds from **January to September 2013**, consistent with the reporting period of the current year's review in the 2014 Budget. The report covers only nine months of 2013 because the 2014 National Budget will be presented to Parliament before end-December 2013. Since the report is required to go with the Annual Budget to Parliament, the most recent available data was used. The 2013 full year report on the Petroleum Funds will, thus, be presented to Parliament as part of the mid-year review of the 2014 Budget.
4. This report comprises seven sections. The first section is the introduction, while section two reports on developments in the upstream petroleum sector in January-September 2013. Section three provides a brief on the performance of petroleum receipts and their utilization, section four presents the performance of the GPFs with section five giving an update on the audited financial statements of the Petroleum Funds. Section six is the way forward while section seven concludes the report.

SECTION TWO: DEVELOPMENTS IN THE UPSTREAM PETROLEUM SECTOR IN 2013

5. The upstream petroleum industry achieved significant successes in boosting the country's credentials as an oil producer. The Tweneboa-Enyera-Ntomme (TEN) plan of development (PoD) was approved, thus, paving the way for the development of a second production field. Most importantly, two (2) new discoveries (Cob and PN-1) were made during the early part of 2013.

2.1 Developments in the Structure of the Upstream Petroleum Sector in 2013

6. The main organisations in the petroleum sector are the:
 - Petroleum Commission;
 - Ghana National Petroleum Corporation (GNPC); and
 - Ghana National Gas Company Limited (GNGC).

7. Following a review of the industry, Government is taking steps to strengthen the management of oil and gas in Ghana. To this end, the following measures have been put in place to ensure the efficient management of the industry:
 - The Local Content and Local Participation Regulations underwent further consultations, a thorough review and, was re-laid before Parliament, after it failed to achieve the minimum days requirement in the previous Parliament;
 - Work on the review of the Petroleum Exploration and Production Law, 1984 (PNDC Law 84) began in 2012 and, is expected to be sent to Parliament for consideration and approval following industry-wide consultations;
 - The Model Petroleum Agreement has been reviewed in line with the changing dynamics of Ghana's industry;
 - The GNPC Oil and Gas Learning Foundation was launched in 2013 as a company limited by guarantee, to serve as the vehicle to build the nation's capacity in Oil and Gas. The Foundation has been set up to sponsor Ghanaians at the tertiary level and has a seed money of US\$3.0 million; and
 - An Enterprise Development Centre was established in 2013 under the aegis of the Ministries of Energy and Petroleum and Trade and Industry, with the primary objective of enhancing the capacities of Ghanaian enterprises to fully participate in the industry.
8. The GNPC has the over-arching goal of becoming an efficient world class operator within fifteen (15) years. In pursuit of this goal, GNPC has adopted an accelerated growth strategy anchored on four (4) key pillars:
 - Building capacity and expanding activities;
 - Replacing and growing reserves;
 - Efficient capitalisation and optimum participation; and
 - Catalysing local content development.
9. GNPC has adopted a phased approach to achieving full operatorship. The first phase involves entering into joint venture/joint operator arrangements with world class operators to achieve rapid transfer of operating capabilities. Thereafter, GNPC will systematically assume full operatorship based on well-defined risk and opportunity assessments. Participation and commercial interests in incorporated joint ventures will be done through incorporated subsidiaries of GNPC.

10. GNPC is currently in the first phase and, the strategy has resulted in the establishment of GNPC-Technip joint venture – a venture between GNPC and Technip, a world-class Exploration and Production Engineering company. The partnership will help build GNPC’s capabilities in engineering services and project management, both offshore and onshore. Discussions concerning upstream activities are presented below.

Jubilee Field

11. Jubilee Field production averaged 71,997 barrels of oil per day (bopd) in 2012, yielding a total production of 26,351,278 barrels. For the period January-September 2013, however, the Field averaged 102,503 bopd, resulting in a total production of 27,060,737 barrels. The 2013 Budget estimated a total production of 30,419,465 (i.e. 83,341 bopd), which was based on the PRMA provisions. It is projected that the Jubilee Field will produce not less than 35,466,029 barrels by the end of 2013.

12. The Jubilee Field is currently in its second phase of development – the Phase 1A. Work done so far in this phase has helped to increase production to the current (i.e. October 2013) average level of around 107,000 bopd.

Tweneboa-Enyenra-Ntomme Project

13. The TEN project is Ghana’s next upcoming producing field. The field has estimated recoverable reserves of 245 million barrels (mmbbls) of oil and 365 billion cubic feet (bcf) of gas. The PoD was approved on 30th May, 2013, and the first oil from the field is expected in the second quarter of 2016. Production levels are expected to peak at 76,000 bopd.

Sankofa-Gye Nyame Project

14. The third major upstream asset in Ghana is the upcoming Sankofa-Gye Nyame complex. This is made up of a number of discoveries estimated to hold 116 mmbbls of oil and 1,110 bcf of gas. With appraisal work completed, the development plan concept is being discussed. First oil is expected in the latter part of 2016 or early 2017.

Western Corridor Gas Infrastructure Development Project

15. The GNGC continued with the implementation of the early phase of the Western Corridor Gas Infrastructure Development Project (WCGIDP). This Early Phase of the project involves the installation of a 45km Shallow Water Pipeline, 111km Onshore Pipeline and a 150 million standard cubic feet per day (mmscf/d) J-T gas processing plant, including an Liquefied Petroleum Gas (LPG) and condensate loading gantry near Atuabo in the Ellembelle District of the Western Region.

16. As at end-September 2013, GNGC had:

- completed the laying of the 20” 111km Onshore Pipeline from Atuabo to Aboadze;
- completed the laying of the 12” 45km Shallow Water Offshore Pipeline and tied-in to the Deep Water Pipeline;

- begun contract negotiations with Tullow Ghana Limited for Tie-in of Offshore Pipeline to the Jubilee Floating Production Storage and Offloading (FPSO);
- completed foundation works for the Gas Processing Plant; and
- started installation of the Gas Processing Plant equipment and fabrication of LPG and Condensate holding tanks.

17. When the project is completed, GNGC will initially supply up to 120 million British thermal units (mmBtu) of lean gas per day to the Volta River Authority (VRA) to fuel the thermal plants at Aboadze.

18. The estimated project cost is US\$1 billion and it is being funded with an US\$850 million loan from the China Development Bank (CDB) and US\$150 million counterpart funding by the Government of Ghana (GOG) under the US\$3 billion CDB Master Facility Agreement with GOG. To date, a total of US\$598.95 million has been disbursed to the project, as shown in Table 1. Included in this amount is US\$372.25 million disbursed between January and September 2013.

Table 1: CDB and GOG Disbursement to GIP as at September 30, 2013

Item	Request Issued (US\$)	CDB (US\$)-85%	GOG (US\$)-15%	Payment Date	Total Paid (US\$)
Disbursement Request No 1	226,700,000.00	192,695,000.00	34,005,000.00	14-Nov-12	226,700,000.00
Disbursement Request No 2	116,794,125.00	99,275,006.25	17,519,118.75	10-Jul-13	116,794,125.00
Disbursement Request No 3	81,477,003.88	69,255,453.30	12,221,550.58	10-Jul-13	81,477,003.88
Disbursement Request No 4	29,984,778.83	25,487,062.01	4,497,716.82	10-Jul-13	29,984,778.83
Disbursement Request No 5	23,667,205.08	20,117,124.32	3,550,080.76	10-Jul-13	23,667,205.08
Disbursement Request No 6	120,322,350.46	102,273,997.89	18,048,352.57	30-Aug-13	120,322,350.46
Disbursement to Sinopec	598,945,463.25	509,103,643.77	89,841,819.48		598,945,463.25

Source: GNGC

19. The Ministry of Finance has begun negotiations with GNGC to on-lend to it the CDB loan and the GOG counterpart funding of the project. A draft on-lending agreement to this effect is currently being reviewed by the parties.

20. GOG is providing GNGC with an initial set-up capital of GH¢69 million to pay compensations to Project Affected Persons, acquire lands, carry out project enabling works, set up offices and project camps, pay salaries and prepare for commercial operations, among others. So far, a total amount of GH¢40 million has been released to GNGC for this purpose.

21. The project was scheduled to be completed at the end of 2013. However, due to a 9-month delay in the disbursement of funds to the project contractors and loss of some construction materials on the high seas, the project is now scheduled to be completed at the end of April 2014.

Petroleum Commission

22. The Petroleum Commission continued its mandate of regulating, managing and coordinating activities in the upstream petroleum sector, in accordance with the Petroleum Commission Act, 2011 (Act 821). During the period under review, the Commission played an advisory role to the sector Ministry in the review of the TEN and ENI Plans of Development.
23. In September 2013, the Commission received appraisal programmes from Hess on the Deep Water Tano/Cape Three Points Contract Area. A review of the programme is ongoing to ascertain the commercial viability of the discoveries made. Kosmos Energy is also in discussion with the Commission on an impending appraisal programme on the West Cape Three Points Contract Area.
24. These programmes are likely to result in an increase in the discovery of more oil reserves. However, the developments require a good regulatory environment to ensure that the best industry practices are adopted to optimize production of the resources without compromising the laws of the country.

2.2 Developments in Petroleum Production and Prices

25. The Jubilee and Saltpond Fields were the only producing fields in 2013. The total number of barrels produced from the Jubilee Field for the period, January to September 2013, was 27,060,737 barrels, compared with 18,423,621 barrels for the corresponding period in 2012. As already indicated, production forecast for the Jubilee Field, as captured in the 2013 National Budget, was 30,419,465 barrels, based on an average production of 83,341 bopd.
26. The average daily Jubilee production from January to September 2013 was 102,503 bopd and it is expected that the projected production volume for 2013 will be achieved, in spite of the shutdown for planned maintenance of the FPSO that took place from 20th to 28th September, 2013.
27. The main factor that accounted for the increased production in 2013 was the increased number of producing wells on stream in the Jubilee Field, since the number of producing wells commissioned has a direct impact on the production volumes. The producing wells were increased from three (3) in 2010 to twelve (12) in 2013.
28. The total barrels of oil produced from the Saltpond Field for the period January to September 2013, was 78,376 barrels, compared with 77,374 for the full year of 2012.
29. The average achieved Jubilee price for January to September 2013 was US\$107.246 (where achieved price means the price at which the Ghana Group liftings were sold)

against a projected price of US\$94.36 per barrel. This compares favourably with the average Dated Brent price per barrel of US\$106.668 over the same period under review.

2.3 Developments in Exploration and Other Petroleum Activities

30. In 2013, two (2) discoveries were made by GNPC and its partners. The discoveries contain various amounts of oil, gas and condensate. This brings the total discoveries since Jubilee to twenty-three (23), as shown in Table 2.

Table 2: Additional Discoveries Made Since Jubilee

BLOCK/OPERATOR	DISCOVERIES	DISCOVERY PERIOD	HYDROCARBON TYPE	STATUS
GNPC	EBONY	November, 2008	Condensate/Gas	Marginal
DWT/TULLOW OIL	Tweneboa-1	March, 2009	Gas Condensate	PoD
	Tweneboa-2	February, 2010	Oil	PoD
	Owo/Enyenra-1	July, 2010	Oil	PoD
	Ntomme	January, 2011	Oil & Gas	PoD
	Wawa	July, 2012	Oil & Gas	Exploration
WCTP/KOSMOS ENERGY	Odum-1	March, 2008	Heavy Oil	Marginal
	Mahogany-Deep	January, 2009	Light Oil	Appraisal
	Teak-1	February, 2011	Oil & Gas	Appraisal
	Teak-2	March, 2011	Gas	Appraisal
	Banda-1	July, 2011	Oil	Marginal
	Akasa-1	August, 2011	Light Oil & Gas	Appraisal
OCTP/ENI	Sankofa-1	July, 2009	Gas	Appraisal Completed
	Gye Nyame-1	July, 2011	Gas	Appraisal Completed
	Sankofa East	September, 2012	Oil & Gas	Exploration
DWTCTP/HESS	Paradise-1	May, 2011	Oil & Condensate	Exploration
	Hickory North	June, 2012	Oil & Condensate	Exploration
	Beech	September, 2012	Oil	Exploration
	Almond	October, 2012	Oil	Exploration
	Pecan	December, 2012	Oil	Exploration
	Cob	January, 2013	Oil	Exploration
	PN-1	February, 2013	Oil	Exploration
DWCTP/LUKOIL	Dzata-1	February, 2009	Oil & Gas	Appraisal

Source: GNPC Geology Department

SECTION THREE: PETROLEUM RECEIPTS AND UTILIZATION IN 2013

3.1 Analysis of 2013 Petroleum Receipts

31. According to the fiscal regime of the petroleum agreements, Government is entitled to a royalty of 5 percent and 3 percent of the gross production of the Jubilee and Saltpond Fields, respectively. The petroleum agreements also grant a Jubilee Carried and

Participating Interest of approximately 13.64 percent and corporate income tax rate of 35 percent to Government.

32. The receipt of the proceeds from the above and other sources of petroleum revenue is regulated by the Petroleum Revenue Management Act, 2011 (Act 815). The PRMA establishes the PHF as a designated Public Fund Account to receive all petroleum receipts and regulates how the received funds should be allocated.
33. For the period January to September 2013, GNPC lifted crude oil five (5) times on behalf of the State. This involved 4,977,922 barrels of oil which yielded US\$533.86 million (GH¢1,025.05 million) of petroleum revenue to the State, as shown in Table 3.

Table 3: Details of January-September 2013 Ghana Group Crude Oil Liftings

Item	Unit	1st Qtr		2nd Qtr		3rd Qtr	Total
		10th Lifting	11th Lifting	12th Lifting	13th Lifting	14th Lifting	
Date of Lifting	dd/mm/yy	4-Jan-13	1-Mar-13	21-Apr-13	23-Jun-13	11-Aug-13	
Volume of Lift	barrels	995,550	996,201	995,520	995,685	994,966	4,977,922
Selling Price	US\$	113.171	108.620	99.038	103.744	111.656	
Value of Lift	US\$	112,667,389	108,207,353	98,594,310	103,296,345	111,093,924	533,859,320
	GH¢	212,118,893	205,604,791	188,768,665	201,272,928	217,288,605	1,025,053,882

Source: Ministry of Finance

34. Total petroleum receipts (i.e. proceeds from Jubilee liftings and other petroleum receipts) as at the end of the third quarter of 2013 was US\$707.28 million (GH¢1,358.18 million). This compares with a total 2013 Budget estimate of US\$581.72 million (GH¢1,122.72 million), as shown in Table 4. The main reasons for the positive variation in 2013 were the realization of more corporate income tax than projected on one hand, and increased production, on the other.

Table 4: Sources of January-September 2013 Petroleum Receipts

Item	Unit	1st Qtr		2nd Qtr		3rd Qtr	Total
		4-Jan-13	1-Mar-13	21-Apr-13	23-Jun-13	11-Aug-13	
Date of Lifting	dd/mm/yy	10th Lifting	11th Lifting	12th Lifting	13th Lifting	14th Lifting	
Jubilee Royalties	US\$	31,368,307	30,126,566	27,450,149	28,759,267	30,930,231	148,634,519
Carried and Participating Interest	US\$	81,299,082	78,080,787	71,144,161	74,537,078	80,163,693	385,224,801
Surface Rentals	US\$	121,914	80,821	466,409	128,634	-	797,777
Royalties from SOPCL	US\$	232,236	16,985	44,056	-	110,554	403,831
Corporate Income Tax	US\$	40,210,100	-	78,854,807	53,152,025	-	172,216,932
Total Petroleum Receipts	US\$	153,231,638	108,305,158	177,959,582	156,577,003	111,204,478	707,277,859
	GH¢	288,484,068	205,788,971	341,264,642	305,139,768	217,504,772	1,358,182,220

Source: Ministry of Finance

35. In spite of the fact that the actual data on petroleum receipts and production are up to end-September 2013, the 2013 petroleum receipts show a positive variance of approximately US\$125.56 million (GH¢235.40 million) over the 2013 Budget estimate, as shown in Table 5.

Table 5: Analysis of January-September 2013 Petroleum Receipts (US\$)

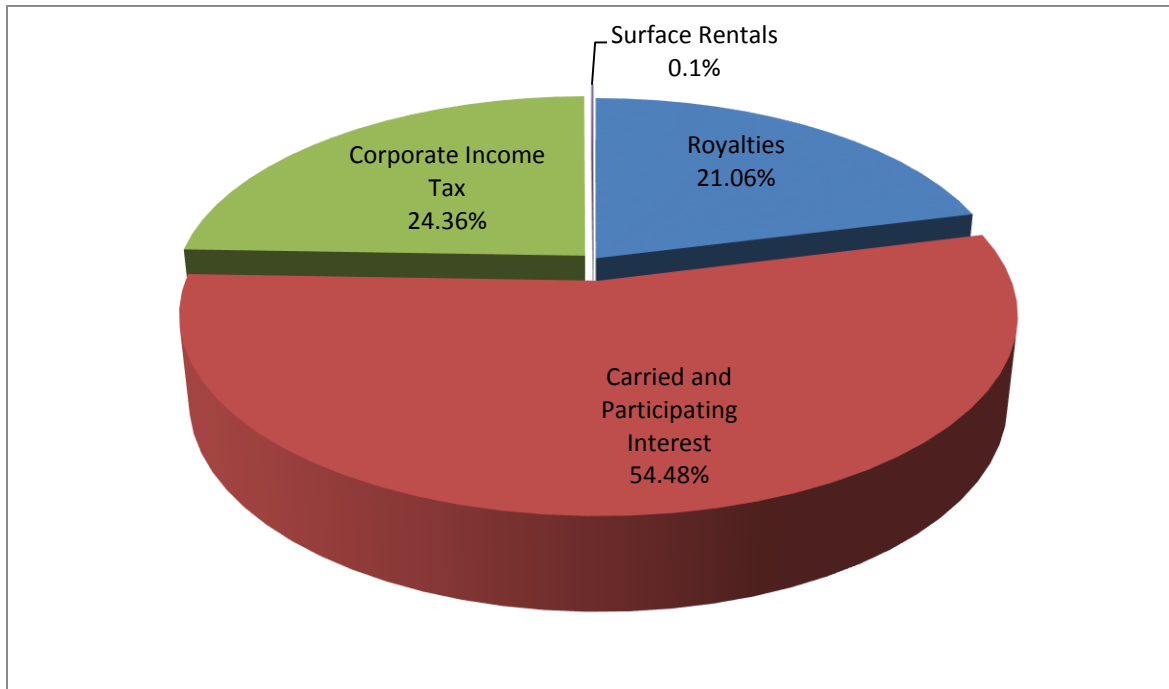
ITEM	Budget	Actual	Variance
	Jan-Dec 2013	Jan-Sept 2013	
Royalties	143,719,814	149,038,350	5,318,536
o/w Jubilee royalties	143,516,001	148,634,519	5,118,518
o/w Saltpond	203,812	403,831	200,019
Carried and Participating Interest	371,958,838	385,224,801	13,265,963
Corporate Income Tax	55,861,240	172,216,932	116,355,692
Surface Rentals	421,799	797,777	375,978
Gas Receipt	9,760,000	-	(9,760,000)
Total	581,721,691	707,277,859	125,556,169

Source: Ministry of Finance

36. All the sources of petroleum receipts had outperformed their targets by end-September 2013, except gas receipts which were not realised. Corporate Income Tax received amounted to US\$172.22 million (GH¢330.83 million) as at end-September 2013. This included a receipt of US\$40.2 million (GH¢75.70 million) which was 2012 corporate tax assessment paid in the first quarter of 2013. The corporate income tax received as at end-September 2013 exceeded the annual budgeted amount of US\$55.86 million (GH¢107.81 million).

37. Of the total petroleum receipts as at end-September 2013, contribution from Corporate Income Tax was 24.36 percent, compared with 54.48 percent from Carried and Participating Interest, 21.06 percent from Royalties and 0.1 percent from Surface Rentals, as shown in Figure 1.

Figure 1: Composition of January-September 2013 Total Petroleum Receipts



Source: Ministry of Finance

3.2 Allocation of 2013 Petroleum Receipts

38. The allocation of petroleum receipts is guided by the PRMA. Parliament, acting within the confines of the law, approved a 40 percent share of the Carried and Participating Interest, net of Equity Financing Costs, for the National Oil Company (NOC) in 2011, with the rest going to Central Government. Out of Government's net petroleum receipts, 70 percent is designated as the Annual Budget Funding Amount (ABFA) while 30 percent is transferred into the GPFs. By the same arrangement, the GHF and the GSF attract 30 percent and 70 percent, respectively, of the total receipts into the GPFs. The transferred amounts to the various destinations are shown in Table 6.

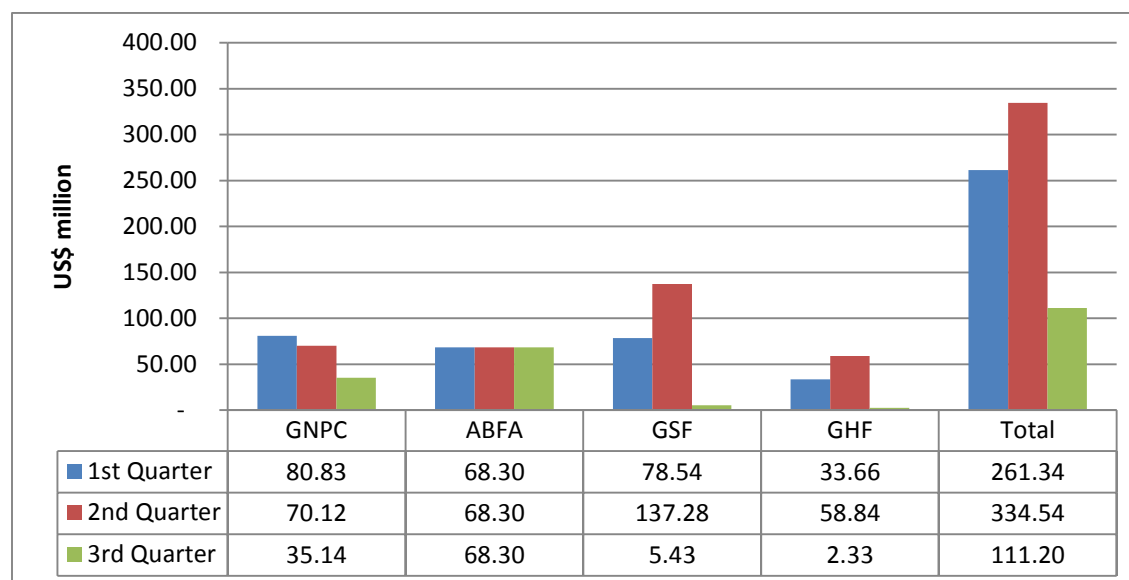
Table 6: Distribution of January-September 2013 Petroleum Receipts (US\$)

Item	1st Qtr		2nd Qtr		3rd Qtr	Total
	10th Lifting	11th Lifting	12th Lifting	13th Lifting	14th Lifting	
Transfer to GNPC	42,342,760	38,487,485	37,432,100	32,687,149	35,141,266	186,090,761
o/w Equity Financing Cost	16,371,879	12,258,684	14,957,392	4,787,197	5,126,315	53,501,467
o/w Net Carried and Participating Interest	25,970,881	26,328,841	22,474,708	27,899,952	30,014,951	132,689,333
o/w Contribution to Min. Bal. on PHF	-	(100,000)	-	-	-	(100,000)
o/w Payment of Net Shortage from 1st and 2nd Liftings	-	(40)	-	-	-	(40)
GOG Net Receipts for Distribution to ABFA and GPFs	110,888,878	69,617,577	140,527,482	123,889,854	76,063,211	520,987,003
o/w ABFA	68,299,392	-	68,299,392	-	68,299,392	204,898,175
o/w GPFs	42,589,487	69,617,577	72,228,090	123,889,854	7,763,820	316,088,828
o/w Ghana Stabilization Fund	29,812,641	48,732,304	50,559,663	86,722,898	5,434,674	221,262,180
o/w Ghana Heritage Fund	12,776,846	20,885,273	21,668,427	37,166,956	2,329,146	94,826,648
o/w Contribution to Min. Bal. on PHF	-	(100,000)	-	-	-	(100,000)
o/w Payment of Net Shortage from 1st and 2nd Liftings	-	(56)	-	-	-	(56)
Total Payments	153,231,638	108,305,158	177,959,582	156,577,003	111,204,478	707,277,859

Source: Ministry of Finance

39. The 2013 petroleum receipts were allocated based on the provisions of the PRMA. Of the total revenue of US\$707.28 million, US\$186.09 million was allocated to GNPC (the NOC) as its share of the Equity Financing Cost (US\$53.50 million) and Net Carried and Participating Interest (US\$132.69 million). The Bank of Ghana (BOG) transferred an amount of US\$100,000 to the Reserve Bank of New York on GNPC's behalf for the payment of its share of the minimum balance on the Petroleum Holding Fund Account. GOG also paid US\$100,000 for the same purpose.
40. The BOG also deducted an amount of US\$56.00 and US\$40.00 from the claims of GOG and GNPC, respectively, in respect of overpayments to them in the first and second liftings in 2011.
41. The ABFA totalled US\$204.90 million from January to September 2013. The quarterly ABFA target was achieved for all the three quarters. The first lifting for each quarter was enough to meet the applicable quarter's ABFA, so the proceeds from GOG's share in the quarter's second lifting was transferred into the GPFs, except in the third quarter where only one lifting was made.
42. In all, a total of US\$316.09 million was transferred into the GPFs in respect of the first nine months of 2013. Out of this amount, the GHF received US\$94.83 million while the GSF received US\$221.26 million. The quarterly allocation of petroleum receipts to the allowable destinations is shown in Figure 2.

Figure 2: Quarterly Distribution of January-September 2013 Petroleum Receipts



Source: Ministry of Finance

43. Analysis of the allocation of ABFA in the first three quarters of 2013 shows that a total amount of US\$204.90 million (GH¢392.94 million) was allocated in accordance with the PRMA. The actual ABFA allocation in US dollars was equivalent to the 2013 Budget estimate but lower in cedi terms due to exchange rate differentials, as shown in Table 7¹.

Table 7: January-September 2013 ABFA Allocation and Variance Analysis

Period	GH¢			US\$		
	Budget	Actual	Variance*	Budget	Actual	Variance
Qtr 1	131,817,826	128,587,265	(3,230,561)	68,299,392	68,299,392	-
Qtr 2	131,817,826	130,766,015	(1,051,811)	68,299,392	68,299,392	-
Qtr 3	131,817,826	133,586,780	1,768,954	68,299,392	68,299,392	-
Total	395,453,478	392,940,060	(2,513,418)	204,898,176	204,898,176	-

Source: Ministry of Finance

*Variance due to exchange rate differences

44. The allocation of the ABFA in 2013 shows an improvement in allocations of the ABFA over that of 2012, which fell short by US\$96.96 million. The shortfall in the 2012 ABFA was due to shortfalls in production targets as well as the non-realization of corporate income tax. However, in 2013, the revenue targets were met for the period under review, due to more liftings and the realisation of corporate income tax receipts, as already indicated.

¹ The actual dollar receipts are converted into Ghana Cedis at the prevailing rate of the value date

3.3 Utilisation of the 2013 Annual Budget Funding Amount

45. To ensure proper accounting, monitoring and reporting of the ABFA, a separate sub-consolidated account was opened in 2013 at the BOG for its lodgement and disbursement.
46. Of the total ABFA of GH¢392.94 million (US\$204.90 million) received in the first three quarters of 2013, an amount of GH¢299.41 million, representing 76.2 percent, was disbursed to the four priority areas. Out of the total amount disbursed, GH¢142.34 million, representing 47.5 percent, was spent on Road and Other Infrastructure, while GH¢32.58 million, representing 10.9 percent, was spent on Capacity Building. Expenditure and Amortization of Loans for Oil and Gas Infrastructure received GH¢119.88 million or 40.0 percent, while Agriculture Modernization received GH¢4.60 million or 1.5 percent, as shown in Table 8. Thus, by the end of September 2013, approximately 93.8 percent of the ABFA had been expended on assets, with the rest going to goods and services.

Table 8: Expenditure of January-September 2013 ABFA on the Four Priority Areas

Priority Areas	Amount Spent (GH¢)		
	Goods and Services	Assets	Total
Expenditure & Amortization of Loans for Oil and Gas Infrastructure	-	119,878,695	119,878,695
Road and Other Infrastructure	-	142,344,388	142,344,388
Agriculture Modernization	-	4,599,688	4,599,688
Capacity Building (Including Oil and Gas)	18,490,817	14,092,236	32,583,053
Total	18,490,817	280,915,007	299,405,824

Source: Ministry of Finance

47. The 2013 fiscal year is the third year of applying the ABFA to the approved four priority areas outlined above, as stipulated in Section 21(6) of the PRMA. This implies that the priority areas are due for review for the 2014-2016 fiscal years.

3.4 Utilisation of 2013 GNPC Allocations

48. Of the amount of US\$186.09 million received by GNPC, an amount of US\$84.24 million had been disbursed by end-September 2013, leaving a balance of US\$101.95 million, as shown in Table 9. When added to the cash-on-hand at the beginning of 2013 of US\$61.67 million, this results in cash available as at end-September 2013 of US\$163.63 million.

Table 9: Utilization of GNPC's Share of Jubilee Petroleum Revenue: January-September 2013

SRN	RECEIPTS FROM JUBILEE PROCEEDS	AMOUNT (US\$)	EXPENDITURE AS
			% OF RECEIPTS
1	Level A Receipts (Equity Financing)	53,501,467	28.7%
2	Level B Receipts (40% of Net Proceeds)	132,689,333	71.3%
3	Total Amount Received:- (A)	186,190,801	100.0%
SRN	USES OF AMOUNTS ALLOCATED:-		
4	Jubilee Equity Financing Cost	60,890,000	32.7%
5	Petroleum Projects Other than Jubilee, TEN & Sankofa Gye Nyame project	6,702,378	3.6%
6	Staff Cost	8,745,531	4.7%
7	Admin. Capital expenditure	1,210,568	0.7%
8	General Operational Expenditure	4,728,309	2.5%
9	Amount Appropriated by Bank of Ghana as charges	1,960,961	1.1%
10	Total Expenditure:- (B)	84,237,746	45.2%
11	Cash-yet-to-spend:- (C = A - B)	101,953,055	54.8%
12	Add: Cash B/Fwd (01.01.2013) (D)	61,674,215	
13	Total Cash-Available:- (E = C + D)	163,627,270	

Source: GNPC

Note: Total amount received (Srn 3) includes the PHF minimum balance (US\$100,000) and the payment of net shortage from 1st and 2nd liftings (US\$40.00). These have been incorporated in Srn. 9

49. The details of GNPC's expenditure on other petroleum projects are presented in Table 10.

Table 10: GNPC's Expenditure of Petroleum Receipts on other Petroleum Projects

Project	US\$
South Deepwater Tano	1,534,546
Voltaian Basin Project	829,463
North & South Tano	801,264
Hess Block	2,017,787
Ultra Deep Water Keta	136,247
Reservoir Characterisation	96,611
ICT Upgrade & Expansion	50,130
Research and Technology Centre	40,619
Organisational Development Project	44,880
Petroleum Project Consultancy	328,245
Maritime Boundary Special Project	822,586
Total	6,702,378

Source: GNPC

50. Below are some of the reasons leading to the non-exhaustion of GNPC's 2013 petroleum revenue allocation.

Jubilee Field

51. Expenditure on the Jubilee Field as at September 2013 was US\$60.98 million, made up of US\$14.13 million, US\$40.18 million, US\$0.76 million and US\$5.91 million for development, production, lifting costs and in-house costs, respectively. The total end year expenditure forecast has been revised downwards to US\$83.82 million, from the initial budget of US\$97.91 million. The main reason for the variance is the continuous injection of gas into the MH4 reservoir unit, resulting in excessive high reservoir pressure and consequent postponement of certain work programmes to 2014.

South Deep Water Tano Project

52. The 2013 South Deep Water Tano Project budget was targeted at GNPC's initial interest in the block, which is 24 percent. Negotiations have been concluded with AGM Petroleum Ghana Ltd, a consortium of companies led by AGR Energy and GOG, for exploration and production rights over the block. The Agreement is awaiting Cabinet and Parliamentary approval.

53. Expenditure on the South Deep Water Tano Project as at September 2013, was US\$1.53 million, made up of US\$0.91 million and US\$0.62 million for virtual data room, consultancy and in-house costs, respectively. Estimation for full year 2013 cost is US\$2.48 million, against a budget of US\$8.41 million due to the delay in securing PoD approval.

Voltaian Basin Project

54. Expenditure on the Voltaian Basin Project as at September 2013, was US\$0.83 million. This was in respect of in-house costs in preparation for the project. Estimation for full year 2013 cost is US\$1.44 million, against a budget of US\$4.15 million. The reason for the variance is the change in scope of the project, which meant that six (6) slim holes were to be drilled instead of four (4). The approach to the project itself had to change significantly.

SECTION FOUR: PERFORMANCE OF THE GHANA PETROLEUM FUNDS IN 2013

55. As already indicated, an amount of US\$316.09 million was transferred into the Ghana Petroleum Funds during the first nine months of 2013, compared with US\$24.12 million and US\$69.21 million in 2012 and 2011, respectively, as shown in Table 11. Of this amount, GSF received US\$221.26 million while GHF received US\$94.83 million, based on the formula provided in the PRMA.

Table 11: Allocation to the Ghana Petroleum Funds (January 2011-September 2013)

Liftings	2011			2012			Jan- Sep 2013		
	GSF	GHF	Total	GSF	GHF	Total	GSF	GHF	Total
1st Lifting	18,059,340.64	4,808,131.20	22,867,471.84	-	-	-	-	-	-
2nd Lifting	19,903,267.56	4,805,488.96	24,708,756.52	-	-	-	-	-	-
3rd Lifting	16,842,744.63	4,786,381.49	21,629,126.12	-	-	-	-	-	-
4th Lifting	-	-	-	-	-	-	-	-	-
5th Lifting	-	-	-	-	-	-	-	-	-
6th Lifting	-	-	-	-	-	-	-	-	-
7th Lifting	-	-	-	16,883,547.53	7,235,806.08	24,119,353.61	-	-	-
8th Lifting	-	-	-	-	-	-	-	-	-
9th Lifting	-	-	-	-	-	-	-	-	-
10th Lifting	-	-	-	-	-	-	29,812,640.61	12,776,845.98	42,589,486.59
11th Lifting	-	-	-	-	-	-	48,732,304.09	20,885,273.18	69,617,577.27
12th Lifting	-	-	-	-	-	-	50,559,663.32	21,668,427.14	72,228,090.46
13th Lifting	-	-	-	-	-	-	86,722,897.67	37,166,956.14	123,889,853.81
14th Lifting	-	-	-	-	-	-	5,434,673.82	2,329,145.92	7,763,819.74
Total	54,805,352.83	14,400,001.65	69,205,354.48	16,883,547.53	7,235,806.08	24,119,353.61	221,262,179.51	94,826,648.36	316,088,827.87

Source: Bank of Ghana

56. The time weighted return on the Ghana Petroleum Funds from January to September 2013 was 0.491 percent, compared with 0.28 percent, net of bank charges for 2012. The time weighted return was 0.370 percent for GSF and 0.805 percent for GHF over the period.

57. By the end of the third quarter of 2013, GSF had returned investment income of US\$783,869.51, compared with an income of US\$205,008.40 in 2012. GHF, on the other hand, earned an investment income of US\$658,314.26 (an increment of US\$601,115.54 or 1,050.92 percent over the 2012 position). The return on both the GSF and GHF amounted to US\$1.442 million, compared with US\$ 0.286 million in 2012, as shown in Table 12.

Table 12: Returns on the Ghana Petroleum Funds (January-September 2013)

GHANA STABILIZATION FUND			
	2011	2012	Jan - Sep 2013
	US\$		
Opening book Value	-	54,810,031.75	71,898,587.68
Receipt during the year	54,805,352.83	16,883,547.53	221,262,179.51
Income from Investments	4,679.02	214,049.37	791,229.91
Bank Charges	-	(9,040.97)	(7,360.40)
Closing book Value	54,810,031.85	71,898,587.68	293,944,636.70
GHANA STABILISATION FUND INCOME			
	2011	2012	Jan - Sep 2013
	US\$		
Investment Income	4,679.02	214,049.37	791,229.91
less			
Bank Charges	-	(9,040.97)	(7,360.40)
Net return for the Period	4,679.02	205,008.40	783,869.51
GHANA HERITAGE FUND			
	2011	2012	Jan - Sep 2013
	US\$		
Opening book Value	-	14,401,216.30	21,694,221.10
Receipt during the year	14,400,001.65	7,235,806.08	94,826,648.36
Income from Investments	1,214.68	60,208.75	661,241.65
Bank Charges	-	(3,010.03)	(2,927.39)
Closing book Value	14,401,216.33	21,694,221.10	117,179,183.72
GHANA HERITAGE FUND INCOME			
	2011	2012	Jan - Sep 2013
	US\$		
Investment Income	1,214.68	60,208.75	661,241.65
less			
Bank Charges	-	(3,010.03)	(2,927.39)
Net return for the Period	1,214.68	57,198.72	658,314.26
COMBINED FUNDS			
	2011	2012	Jan - Sep 2013
	US\$		
Opening book Value	-	69,211,248.05	93,592,808.78
Receipt during the year	69,205,354.48	24,119,353.61	316,088,827.87
Income from Investments	5,893.70	274,258.12	1,452,471.56
Bank Charges	-	(12,051.00)	(10,287.79)
Closing book Value	69,211,248.18	93,592,808.78	411,123,820.42
COMBINED FUNDS INCOME			
	2011	2012	Jan - Sep 2013
	US\$		
Investment Income	5,893.70	274,258.12	1,452,471.56
less			
Bank Charges	-	(12,051.00)	(10,287.79)
Net return for the Period	5,893.70	262,207.12	1,442,183.77

Source: Bank of Ghana

Note: The GPFs proceeds from the 14th lifting (US\$7,763,820) was not part of the amount invested over the period

SECTION FIVE: AUDITED FINANCIAL STATEMENTS OF THE PETROLEUM FUNDS

58. At the time of finalising this report, the Ministry of Finance had not received the Audited 2011 and 2012 Financial Statements of the Petroleum Funds from the Ghana Audit Service (GAS). The Financial Statements will be made available upon receipt from GAS.

SECTION SIX: THE WAY FORWARD

59. After implementation of the PRMA for about two-and-a-half years, the Ministry of Finance and other stakeholders have identified a few challenges in the law which need to be addressed. Consequently, the Ministry has placed advertisements in the print media to solicit for the views of Ghanaians and experts on how to improve upon the Law. This would eventually be laid before Parliament for consideration and passage. A couple of the issues that have necessitated the review are outlined below.

- **Petroleum Benchmark Revenue:** The Petroleum Benchmark Revenue formula has consistently led to an underestimation of petroleum prices and volumes, leading to misaligned and inconsistent transfers into the GPFs and the ABFA.
- **PIAC Membership:** Section 54(1) of the PRMA states that the membership of PIAC shall be eleven. However, the same section enumerates thirteen slots to be filled. This contradiction will be corrected during the review of the PRMA.

60. Due to the proposed amendments to the PRMA, the developments bordering on the PRMA Regulations have been put on hold until after the Law has been revised.

61. The Ministry also proposes to place a cap on the GSF, in line with Section 23(4) of the PRMA to create fiscal space for current spending. Below are some of the reasons that have informed the decision to cap the GSF.

- **The spirit of the PRMA** was to transfer 70 percent, 21 percent and 9 percent of the net petroleum receipts to the ABFA, GSF and GHF, respectively. However, as already indicated, the transfers to the GSF alone exceed that of the ABFA in 2013.
- **Return on the GSF:** The investment income on the GSF has been low, compared with our borrowing costs for infrastructure projects. In order to ensure value for money, the excess transfers to the GSF will be used for loan repayment in order to free capital for infrastructure development

62. The decision to cap the GSF is not to deny it of funds. Indeed, we could have made withdrawals from the GSF in 2012 due to the shortfall in petroleum revenues, as provided in the PRMA. However, Government opted against making any withdrawals.

SECTION SEVEN: CONCLUSION

63. The 2013 Annual Report on the Petroleum Funds has been written as one of the transparency requirements of the PRMA. This report is not a full year report since the 2014 Budget was presented to Parliament in November 2013. The full year report will be presented as part of the 2014 Annual Report on the Petroleum Funds. Thus, the reporting period for the 2013 Annual Report on the Petroleum Funds, like that of the 2014 Budget, is based on information from January to September 2013.

64. Over the period, two (2) more oil discoveries were made, bringing the total number of discoveries thus far to twenty-three (23). However, there were only two (2) producing fields – Jubilee and Saltpond – as at end September 2013. While the Jubilee Field produced 27,060,737 barrels over the period, the Saltpond Field produced 78,378 barrels. By end-September 2013, production from both the Jubilee and Saltpond Fields had outstripped their respective full year production in 2012.

65. The report also gives a brief write-up on the status of the TEN and Sankofa-Gye Nyame Projects, as well as the Western Corridor Gas Infrastructure Development Project.

66. By the end of September 2013, GNPC had lifted 4,977,922 barrels on behalf of the State, yielding US\$533.86 million (GH¢1,025.05 million) in petroleum revenue. Jubilee Royalties amounted to US\$148.63 million while Carried and Participating Interest amounted to US\$385.22 million. In addition to Corporate Income Tax (US\$172.22 million), Surface Rentals (US\$797,777) and Saltpond Royalties (US\$403,831), total petroleum receipts amounted to US\$707.28 million. In 2013 total petroleum receipts amounted to US\$707.28 million.

67. The end-September 2013 petroleum receipts include, for the first time, Petroleum Corporate Income Tax. The total receipts are also higher than the 2013 Budget estimate of US\$581.72 million for the whole year due, primarily, to increased production and the realization of more Corporate Income Tax.

68. The higher-than-estimated petroleum revenue inflows have resulted in a situation where the GSF, and the GPFs, have been allocated more funds than the ABFA. By end-September 2013, the GSF had received US\$221.26 million with the ABFA receiving US\$204.90 million.

69. The GPFs earned a net return on income of US\$1.44 million in 2013, bringing the total amount in the two funds to US\$411.12 million, as at end-September 2013.

APPENDIX

A. LIST OF PERSONS HOLDING POSITIONS REQUIRED FOR THE OPERATION AND PERFORMANCE OF THE GHANA STABILISATION AND GHANA HERITAGE FUNDS

The Minister of Finance

Seth E. Terkper

Governor, Bank of Ghana

Dr. H.A.K. Wampah

Members of the Investment Advisory Committee (IAC)

- | | |
|-----------------------------|----------|
| • Mr. Jude Kofi Bucknor | Chairman |
| • Mrs. Marian Barnor | Member |
| • Mrs. Johanna Svanikier | Member |
| • Awulae Agyefi Kwame II | Member |
| • Ms. Abena Amoah | Member |
| • Mr. Alexander Yamoah Kyei | Member |
| • Mr. Adams Nyinaku | Member |

B. LIST OF QUALIFYING INSTRUMENTS FOR THE GHANA PETROLEUM FUNDS

In compliance with Section 61 of the PRMA, the GPFs are invested in the following instruments:

- Overnight and call deposits
- Repo-agreement
- Discount notes
- Treasury bills
- Short-term deposits
- Short-term funds and medium term investment instruments issued by G7 Central Banks and International Institutions such as the United States' Federal Reserve Bank, Bank of England and the World Bank
- Certificates of deposit
- Commercial papers
- Bank for International Settlements money market instrument
- Medium term notes