



Extractive Industries Transparency Initiative in Albania

Summary of Report for years 2013 and 2014

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Deloitte.



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A country's natural resources belong to its citizens. Citizens should have the right to see what their government is receiving from these resources. However, in too many countries this information is not publicly available.

EITI is based on the belief that prudent use of natural resources contributes to economic growth, sustainable development and reduction of poverty in resource-rich countries.

What is EITI?

The Extractive Industries Transparency Initiative (“EITI”) is a voluntary international coalition of governments, extractive industry companies and civil society organizations engaged in management and use of natural resources, such as oil, gas and other minerals. The transparency initiative is regulated through an international standard “EITI Standard”.

EITI’s final aims, is to promote transparency in order to prevent corruption as well as provide citizens with a basis for demanding fair use of revenue.

EITI begins a process whereby citizens can hold their governments to account for the use of those revenues.

Under this standard, companies declare what they pay and governments declare what they receive. These payments shall be reconciled by an independent administrator and are disclosed in an annual EITI Report. Alongside payments, this report shall disclose comprehensive information for use of country’s natural resources and contribution in economy.

EITI in Albania

The Extractive Industries Transparency Initiative in Albania was established in 2009. Albania joined EITI as a candidate in May 2009 and obtained the EITI compliant status in May 2013.

The process is overseen by the Albanian Multi-stakeholder Group (“MSG” or the “Albanian Working Group”), composed of various EITI stakeholders including the Government, extractive companies, civil society etc.

The Albanian Working group is the decision-making body supervising the implementation of EITI in Albania, it is chaired by the Deputy Minister of the Ministry of Energy and Industry. The Albanian MSG is supported in its work by the EITI Albania Secretariat (“ALBEITI”).

Based in the framework of this initiative, on July 14, 2015 the MSG appointed Deloitte Albania Sh.p.k as independent administrator of EITI report for years 2013 and 2014.

In addition to the oil, gas and mining sectors, the MSG decided to include the hydro-energy sector in the cadre of EITI reports for the years 2013 and 2014.

EITI Albania has published five reports for years 2009, 2010, 2011, 2012, 2013 and 2014 respectively.

This publication is a summary of the fifth annual report, covering the years 2013 and 2014 respectively.

For more information about the legal framework, industry activity, the revenue collected by State and the process refer to the full report.

More information about EITI in Albania and the EITI reports can be found in ALBEITI office address Blv. “Zhan D’Ark”, Building no.3 (former ME), 4th floor, Tirana or on the website www.albeiti.org.

Extractive sector in Albania

Extractive sector in Albania is regulated by Ministry of Energy and Industry ("MEI"), which is responsible for establishing energy and resources public policies and monitoring of the implementation of the legislation in this sector.

MEI is responsible for granting exploration and production licenses in the mining sector and for evaluating applications for petroleum agreements in Albania. Proposed petroleum agreements are approved by the Council of Ministers. More information about the plan of development and exploitation of natural resources and licensing procedures can be found on the website of the Ministry: www.energija.gov.al.

The National Agency for Natural resources ("AKBN") and Albanian Geological Service ("AGS") support MEI with the pre and post-licensing procedures, AKBN for production licenses and AGS for exploration licenses, respectively. Pre-licensing procedures include promotion of free sites, instruction of potential operators, technical verification of proposed production plan, and negotiation of investment plan and other terms. Post-licensing procedures include monitoring of licensees activity through periodical reports collected from the licensees and monitoring site visits.

Albpetrol Sh. A. was the only State-owned company engaged in the development, production and trade of crude oil and gas. Under Law No.10490 dated 15 December 2011, the Albanian Parliament decided to privatize Albpetrol.

An overview of the actual situation of licensing and free licensing areas in exploitation and production appears respectively in AKBN website: www.akbn.gov.al and Albpetrol website www.albpetrol.al for licenses administered by thereof.



Exploration, development, and production of oil and gas

Exploration, development, and production of oil and gas in Albania are regulated by Law no.7746 "On Petroleum (Exploration and Production)" dated 28 July 1993, amended ("Law on Petroleum").

Law on Petroleum expressly states that all petroleum deposits existing in their natural condition in strata lying within the jurisdiction of Albania are the exclusive property of the Albanian State.

Based on this law the Ministry of Energy and Industry may enter into a Petroleum Agreement, whereby grants exclusive rights to explore and produce oil and gas for an initial production period no longer than 25 years. This period can be extended further as provided for in the Petroleum Law.

Petroleum agreements have all been developed as Production Sharing Agreements (PSAs), signed by the National Agency of Natural Resources (AKBN) on behalf of the Government of Albania and the licensee. Albpetrol is party to the agreements when PSAs grant oil fields under Albpetrol administration.

Detailed terms of signed petroleum agreements are considered confidential and not currently disclosed for public access. Main terms and features of these agreements are listed in the EITI report.

Oil and Gas reserves¹

Oil exploration in Albania began in 1918. Since then, oil bearing fields were discovered in the following 11 onshore areas.

Albanian oil sources, which are distributed in the western and southwestern part of Albania, are mainly in two structures: sandstone and limestone. Currently these sources have considerable reserves but their full potential extraction needs advanced secondary methods.

Based on studies performed by foreign companies and Albpetrol between year 1985 and 1990, petroleum reserves at existing Albanian drill sites totaled about 437.6 million tons, however recoverable stocks according to those estimations amounted to only 81 million tons.

Albania's known natural gas reserves have been estimated at 18,164 million Nm³¹ and lie mainly in the Kuçova and Patos areas. Cumulative gas produced until the end of 2012 amounts to 12,504 million Nm³.

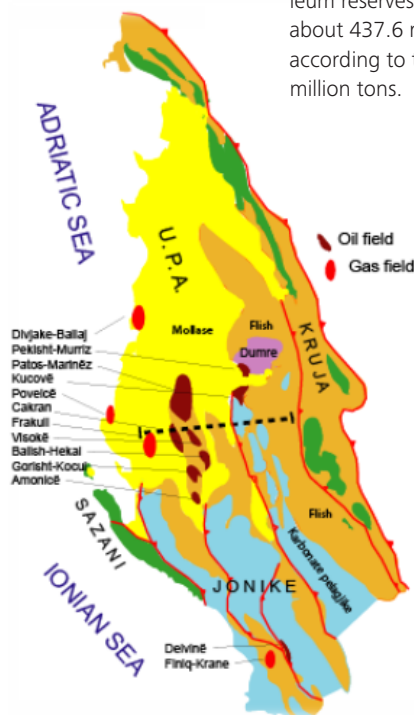


Figure 1 - Oil and gas fields explored in Albania

The table below lists geological and recoverable reserves for the existing oil fields in million tons:

Table 1 - Geological and recoverable oil reserves in million tons

Oil Fields	Reserves in million ton		Cumulative production up to 2014
	Geological	Recovered	
Cakran –Mollaj	16.1	8.1	4.3
Ballsh-Hekal	19.3	6.4	5.1
Gorisht –Kocul	30.5	14.7	12.0
Amonice	0.4	0.1	0.1
Visoke	2.8	1.5	0.7
Delvine	28.4	6.8	6.2
Finiq –Krane	0.3	0.1	0.0
Drashovica	1.0	0.2	0.0
Total			
Limestone	98.9	37.9	28.4
Marineza	258.4	31.1	25.4
Kucova	78.3	11.8	4.3
Rase-Pekisht	2.0	0.2	0.0
Total			
Sandstone	338.7	43.1	29.7
Total	437.6	81.0	58.1

Estimated geological reserves from sandstone structures comprised 77.4% of total geological reserves, however their recovery was assessed at 13%. Recovery of geological reserves from limestone formations varied from 24% to 53%. Albpetrol reported cumulative crude oil production from both sandstone and limestone formation up to 31 December 2014 was reported at 58 million ton.

1 - Information on reserves and cumulative production is provided by Albpetrol. Aggregated data are disclosed in the following link: <http://www.albpetrol.al/rezervat-gjeologjike/>

Extractive sector in Albania

In 2013, AKBN reported crude oil production at 1,203,637 ton with an estimated worth of USD 530 million. The production in 2014 increased to 1,386,124 ton with an estimated worth of USD 549 million.

Oil and gas production

Crude oil production in Albania began in 1929 with 750 tons of crude oil. After World War II production increased steadily and recorded the highest pick in 1974 with an annual production of 2.25 million tons. In the 80s oil production fell under 1 million tons per year and did not pick up until 2012.

In 2013 and 2014, oil and gas sector counted five companies producing oil and gas in the southern part of Albania and six companies engaged in exploration activities.

Oil produced by private licensees operating in the petroleum sector represented 97% of total oil produced in 2013 and 2014. This production was extracted mainly from the Patos-Marinza oil fields, operated by Bankers Petroleum, respectively 88% of production in 2013 and 87% in 2014.

Albpetrol² reported in 2013 and 2014 the output of gas extracted through petroleum production respectively at 22.5 million Nm³, and 17.7 million Nm³.

Despite increased production, employee number in the sector fell by 23% in the last four years. These changes were due to transfer of production operations from Albpetrol to the private oil companies. Apparently, the private sector could not absorb the employee force made redundant during these transfers. In 2014, the upstream oil and gas sector employed about 3,109 staff contributing with about 0.3% of total registered workforce reported by INSTAT in 2014. Albpetrol was the largest employer in 2014 in the sector with about 2,062 employees, comprising 66% of total employment in the sector.

Chart 1- Oil produced in 2013

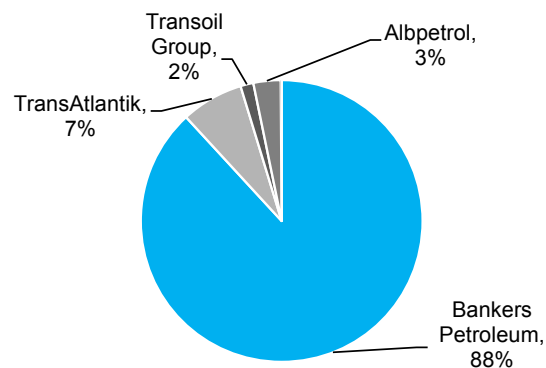
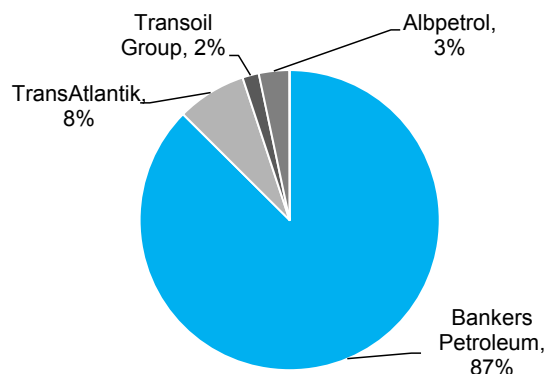


Chart 2- Oil produced in 2014



2 - Information on reserves and cumulative production is provided by Albpetrol. Aggregated data are disclosed in the following link: <http://www.albpetrol.al/rezervat-gjeologjike/>

Exploration, development, and production of mining sector

Albania has a longstanding history in mining with significant mineral deposits of chromium, nickel, copper and limestone.

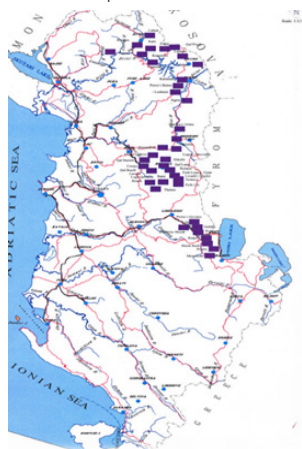
According to the Law on mining, the initial term of a production license shall be for 25 years, subject to renewal for additional 10 years.

As a traditional mining country, Albania contains an increasing number of medium, small-scale mining and quarry companies, and only a couple of large-scale industrial mining companies. In November 2015, AKBN reported 600 mining licenses, whereas 112 licensees were extracting chromium ore in Bulqiza mines.

Chromium ore

Recoverable reserves of chromium (at an average quality 30.8% Cr2O3) are estimated at 10 million ton³, located mainly in the district Bulqiza, Kukes, Has, Mat and Pogradec.

Figure 2 - Chromium ore deposits map



Copper ore

Geological reserves of copper deposits (including Cu 1.3-2.65%, zinc, gold and silver) are estimated at about 50 million tons⁴. However, recoverable reserves are estimated at 27 million ton. Copper deposits are located in six districts: Korça, Mirdita, Puka, Shkodra, Kukes, and Has regions.

Figure 3 - Copper ore deposits map



Iron-Nickel and Nickel-Silicate

Albania's deposits of nickel (Ni 0.85-1.15%) are estimated at 300 million tons⁵ are located near Pogradec, Librazhd, Bilisht, Kukes and Peshkopi.

Non-metal minerals

Geological studies in Albania up to 1995 revealed approximately 32 different kinds of rocks and non-metal industrial minerals, expanded all over the country, including: limestone, sandstones, dolomites, carbonate decorative stones, clay, granites, gypsum etc. These minerals can be extracted throughout our country. They constitute the main raw materials for the construction industry in Albania.

Albanian bitumen and asphalt deposits were located near Selenica and in the Vjosa River valley. Albania also possesses abundant deposits of salt, found near Kavaja and Vlora.

3, 4, 5 - Source CMD no.479, dated 29 June 2011 "Approval of the National mining strategy"

Extractive sector in Albania

According to AKBN, mining production was estimated at USD 140.9 million in 2013 and USD 175.5 million in 2014. Chromium contributed at the largest share with about 72% of domestic mining output in 2013. This share increased to 76% of domestic mining output in 2014.

Production of chromium ore

AKBN reported chromium production from active license in the sector at 526,230 ton in 2013 and 712,374 ton in 2014. This production was mainly extracted from Bulqiza:

- 45% of total chromium production in 2013, and
- 57% of total chromium production in 2014.

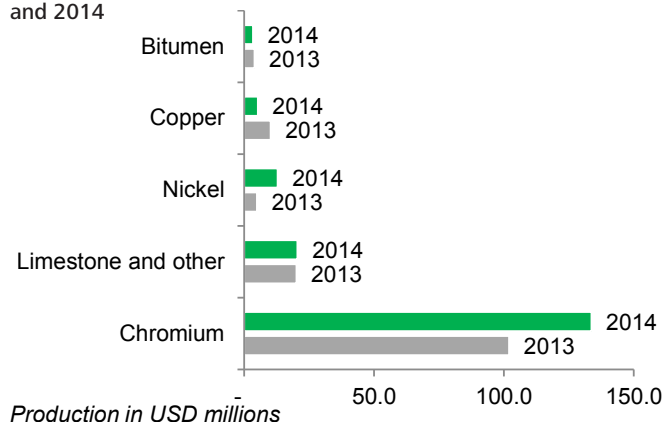
Albchrome (ACR – previously Albanian Chrome), operating the Bulqiza mine, was the largest industrial company extracting chromium in Albania with production counting about 12% of total chromium production in 2013 and 10% in 2014. In the same period the company employed about 600 staff, above 20% of the current workforce employed in the sector. Besides Albchrome, many medium and small-scale companies (more than 280 licenses) have extracting and collecting chromium production in Bulqiza, Tropoja, Has, Kukes, Mat etc

Production of copper ore

Beralb was the only industrial company extracting copper in 2013 and 2014, comprising 100% of copper production value in 2013 and 2014. Beralb holds production licences for the mines of Munelle, Lak Roshi, Karma and Fushe-Arres, all located in the province of Puke.

Chart below presents production value in USD by mineral for years 2013 and 2014:

Chart 3 – Mineral production value in USD in 2013 and 2014



Production of nickel compositions

In 2013, nickel was mostly extracted in the form of iron-nickel and nickel silicate, in the regions of Has 44%, Librazhd 22% and Pogradec 29%. In 2014, 63% of the output was extracted in Librazhd, whilst Kukes and Pogradec generated 12% each. AKBN did not report nickel production in Has in 2014. In both years, production value was generated from medium and small-scale mining companies extracting this mineral, with few licensees collecting production of nickel from the medium and small-scale producers.

Production of limestone and other minerals

A large number of small-scale limestone mining companies operate throughout the country. Antea Cement operating in Kruja district was the largest producer of limestone in 2013 and 2014 contributing respectively with 24% and 20% of total production value.

Hydro-energy sector in Albania

Hydropower opportunities in Albania

The Albanian power system relies practically only on hydropower plants (HPPs) and therefore it is totally dependent on hydrological conditions. According to the National Energy Strategy⁶, total annual potential production from hydropower plants in Albania is estimated at 10,000 GWh. This can be derived from an installed capacity of 3,000 MW. Based on this data, at the end of 2014 exploited opportunities represent 58% of the hydro-power potential with a total installed capacity of 1,725 MW.

Law and regulations for concessions define the principles and procedures for the evaluation and granting of the concession opportunities in the hydropower sector for a period not longer than 35 years. All hydropower concessions are approved by the Council of Ministers. The Ministry responsible for energy acts as the Contracting Authority for all concessions granted in hydropower sector.

Drini crossing north Albania is the largest river in the country. Three largest hydropower plants of Fierza, Koman and Vau i Dejes were built in a cascade form on the Drini River from year 1971 to 1985 with an installed capacity of 1,350 MW. Vjosa and Devoll are the second and third largest rivers in Albania. Studies in these rivers several hydropower opportunities for small and medium HPPs.

Figure 2 - Hydropower potentials in Albania



6 - National Energy Strategy, adopted in July 2003 can be found on the website of AKBN - www.akbn.gov.al.

Hydro-energy sector in Albania

The hydropower production in Albania is dominated by the public sector. At the end of 2014, the State owned and operated the Albanian Electrical Power Corporation (KESH), the Transmission System Operator (OST) and Electricity Power Distribution Operator (OSHEE).

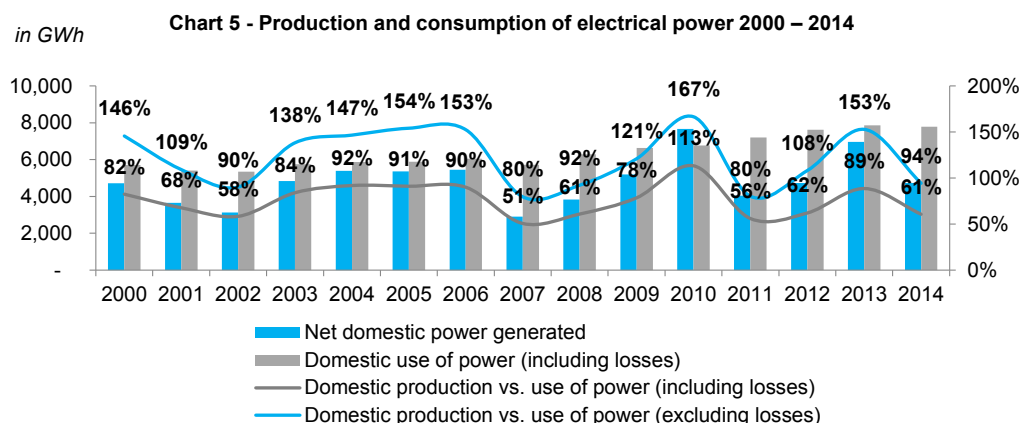
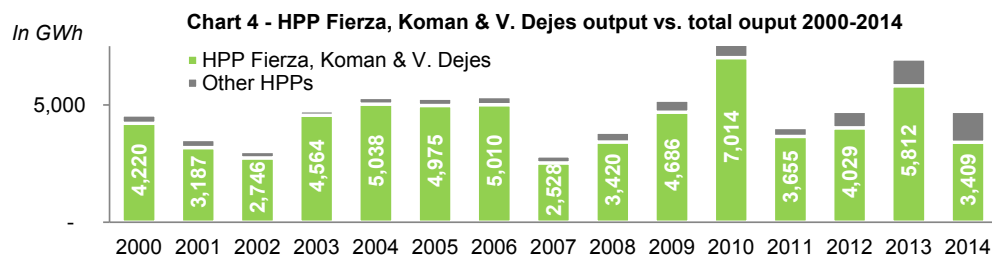
KESH is the largest producer in the country. With an installed capacity of 1,448 MW or 80% of total installed capacity in Albania built in a cascade over Drini River in the north, KESH contributed with 87% of power output in 2013. This ratio fell to 72% in 2014, due to increase activity of private HPPs and HPP under concession in the sector.

Despite its abundant hydropower potentials, Albania has been a net importer of hydropower to compensate for its negative power balance in the last 15 years.

The negative power balance resulted mainly due to high level of losses in the distribution network. Based on the data reported by INSTAT, the annual average power output for the period from year 2000 to year 2014 comprised about 76%⁷ of the domestic annual average of energy needs (including losses).

If assumed that technical and financial losses in the network are completely eliminated, as shown in Chart 5, the energy balance would improve significantly. Based on this scenario the annual average power

output would fulfil at 122%⁸ the annual average of energy needs. Chart 5 shows a positive power balance throughout the period, with the exception of years 2002, 2007, 2008 and 2011 when production could not cover total energy needs. This resulted due to the unfavorable meteorological conditions and underutilization of energy potentials in the country.



7, 8 - Calculated as a simple annual average of the ratio production / usage during years 2000 - 2013. Data sourced from "Power balance, 2000 -2013" - www.instat.gov.al.

ERE reported domestic hydro-power output of 6,956 GWh in 2013 and 4,726 GWh in 2014. However, the sector's known contribution accounted at 0.2% of the total revenue in to the National budget in 2013 and 0.1% in 2014.

The Albanian State subsidizes the power sector through regulation prices of power generation, transmission and distribution. Accordingly, KESH sells its output at regulated price of Lek 1 per KWh (equivalent USD 0.01 per KWh). Because KESH had a dominant position in the sector, total sales from the sector did not exceed Lek 11 billion (equivalent to USD 106 million) in 2013 and Lek 9.6 billion (equivalent to USD 91.5 million) in 2014. If estimated using average export prices, the domestic output would have been reported at Lek 25.5 billion (equivalent to USD 243 million) in 2013 and Lek 24.1 billion (equivalent to USD 229 million) in 2014.

In 2013, 45% of power transmitted was lost in the distribution system because of its poor technical conditions and informal connections to the system. In 2014, the losses dropped to 37.81% of the power transmitted⁹ as a result of combined efforts of the Albanian Government and the power distribution company - OSHEE. Foregone contribution of power losses measured at export prices is estimated to be about Lek 22.3 billion in 2013 (equivalent to USD 212 million) and Lek 19.9 billion in 2014 (equivalent to USD 190 million).

Data reported from AKBN show that a large number of HPP granted on concessions have not yet commenced the construction or are still under construction as at the date of this report, showing delays of two years and above. More specifically, out of 502 HPPs under concession, 308 HPPs with installed capacity of 1,152 MW and forecasted energy at 5,359 GWh have not yet started the construction phase. While, 84 HPPs are in the construction phase. If assumed that all HPPs were completed within two years from the concession date and produced the energy foreseen in the concession contract the concession fee for the year 2013 would be Lek 1.78 billion and increased further to Lek 1.9 billion in 2014, which is more than 10 times larger than the concession fee collected in both years.

9 - Power transmitted includes both domestic power consumption and power losses.

Contribution to the Albanian Economy

Based on preliminary results published by INSTAT¹⁰, the Energy and resources sector accounted for 7% of the gross domestic product in 2013 and 2014. Oil and mining sector together account for a share at 5% of the GDP, while the power sector comprised about 2% of the GDP.

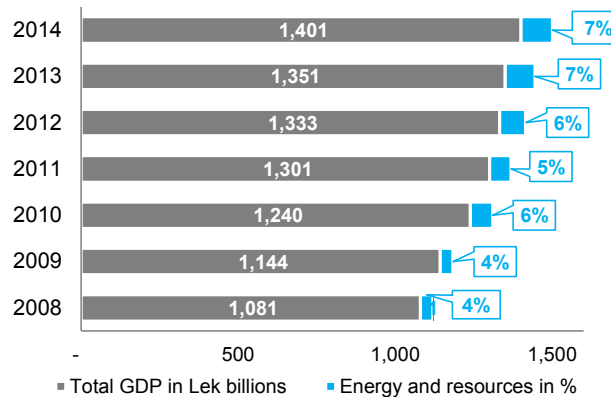
Crude oil comprises the primary source of energy produced in Albania representing 67.7% of primary energy sources produced in 2014 (2013: 59.1%) followed by the power sector with about 20% of primary energy sources produced in 2014 (2013: 29.3%).

Government's statistics do not provide for the exact figure of the total government revenue generated by the extractive sector. However, if we consider revenue generated by main revenue streams (royalties, profit tax, share on oil production, signature bonuses, and other industry related payments) the extractive sector and hydro-energy sector contributed **at minimum an amount of Lek 12.9 billion or 3.9% of total Government's revenue in the National Budget 2013.** In 2014, the extractive sector and the hydro-energy sector contributed **at minimum Lek 12.7 billion**, representing **3.5% of the revenue recorded in the National Budget** (refer to table 2 below).

Payments from extractive industry and hydro-energy sector contributed to 3.5% of the total revenue in the State budget in 2012 (2013: 3.9%).

Contribution of the extractive industry to total employment in the country is almost insignificant. AKBN reports that companies licensed in oil, gas and mining sectors employee collectively less than 1% of total employees in the country.

Chart 6 - Contribution of Energy and resources to GDP (at current prices)



Source: INSTAT-Annual National Accounts (production approach)

10 - Annual National Accounts (Production Approach) 2008-2014 published on www.instat.gov.al.

Table 2 – Statement of Governments revenue from the extractive sector

In Lek million

	2013						2014					
	Albpetrol	AKBN	ERE	KESH	National Budget	Total	Albpetrol	AKBN	ERE	KESH	National Budget	Total
Payments streams (*)												
Share of oil production	4,968	-	-	-	-	4,968	4,354	-	-	-	-	4,354
Bonuses	11	47	-	-	-	58	12	23	-	-	-	35
Concession fee	-	-	-	133	-	133	-	-	-	190	-	190
Regulatory payments	-	-	23	-	-	23	-	-	72	-	-	72
Other	-	-	-	-	-	-	-	633	-	-	-	633
Royalty	-	-	-	-	10,037	10,037	-	-	-	-	9,730	9,730
Profit tax	-	-	-	-	2,885	2,885	-	-	-	-	2,224	2,224
Dividends	-	-	-	-	-	-	-	-	-	-	757	757
	4,979	47	23	133	12,922	18,104	4,366	656	72	190	12,711	17,995
Oil and gas	4,979	47	-	-	9,970	14,996	4,366	656	-	-	9,904	14,926
Mining	-	-	-	-	2,433	2,433	-	-	-	-	2,554	2,554
Hydro-energy	-	-	23	133	520	676	-	-	72	190	253	515

(*) Payment streams listed above include only the significant payments made by the licensees to the State Budget, AKBN, ERE, KESH and Albpetrol which are selected for reconciliation in this Report. The list does not represent a list of all payments streams. Such comprehensive disclosure is not supported by the Government's information systems. Except for royalty, which is disclosed in full by the collecting agents, respectively the General Directorate of Taxes and Albanian Custom Administrative, the other payment streams aggregate payments up to the level reported by licensees and collecting public entities for the purpose of reconciliations included in these reports. Therefore, except for royalty, amounts shown above do not represent a full disclosure of Government's revenue from the revenue streams listed above in the sectors of petroleum, mining and hydro-energy.

Royalty comprises the primary revenue stream contributed by the extractive sector of oil, gas and mining to the National budget. Royalty collected in 2014 was 3% lower than royalty collected in 2013. Royalty decreased despite the increase oil and mining production. Such drop in royalty is attributed to the decrease in international prices for oil and mineral ores. **Share of oil production** is the second largest revenue stream collected by the oil sector. Private oil companies entirely paid in kind the share of oil production of 75,825 ton in 2013 and 94,304 ton in 2014. Values shown above for share of oil production were estimated using the annual average sales price applied by Albpetrol in 2013 of USD 441/ton and USD 396/ton in 2014. Amount in USD were converted in Lek with the average rate of the Bank of Albania for the year 2013 and 2014, respectively at 1 USD equal to 105.7 Lek and 1 USD equal to 105.5 Lek.

In 2013, the National Budget collected revenue of Lek 15,439 billion from the privatization of the HPPs of Ulza, Shkopet and Bistrica 1 and 2, which were operating under KESH until mid-2013. Due to its one off nature, this revenue is not included in the table above. Had this amount been included in the revenue shown above, the contribution to the revenue National Budget would be increased from 3.9% to 8.7%.

Contribution to Albanian Economy

Main revenue streams contributed by the upstream extractive sector are described briefly in the following:

Royalties are payments made for the use of natural resources in accordance with Law No. 9975 “On national taxes”, dated 28 July 2008, amended. Royalty for exports is collected by the Albanian Customs Administrative and for domestic sales by the General Tax Directorate. Under this law, royalty tax from sale of petroleum and gas is applied at 10% of taxable value, while for other minerals royalty tax varies from 4 to 7%.

Profit tax is levied from the General Directorate of Taxes as a percentage of each company’s net profit. Up to December 2013, in accordance with “Law on Income tax” No. 8438, dated 28 December 1998, amended, profit tax in Albania was charged at 10% on net profit. Starting from 1 January 2014 profit tax rate increased to 15% of the company’s net profit. Full requirements of this Law apply to the mining sector.

Profit tax on petroleum sector is calculated to 50% flat tax on taxable profit regulated in accordance with Decree no. 782 “On fiscal system in petroleum sector” dated 22 December 1994 (“Law on petroleum taxation”). Under this law, taxable profit is equal to accumulated revenue less accumulated capital and operating expenses as specified in the terms of the Petroleum Agreement.

Signature and training bonuses are typical features of Petroleum agreements. These are determined (based on contract negotiations) upon the granting of exploration permits or production licenses in oil and gas within the context of the specific contractual terms and conditions. Signature bonuses are recovered both by Albpetrol (for the signature of production licenses) or AKBN (for the signature of exploration permits).

Share of oil production - Albpetrol holds share in oil produced by the companies operating in areas under its administration. As such is entitled to a share of production, which is defined contractually, based on deemed production (pre-existing production) and incremental production (production issued from contractor’s investment). The Share of Production allocated to Albpetrol may be paid in cash or in kind.

In compliance with the Petroleum Agreements signed, companies shall transfer to Albpetrol the Pre - Existing Production (‘PEP’ at 65-75%) and Albpetrol’s Share on Production (‘ASP’ at 1-5%). Albpetrol is subject to taxes applicable to oil commercial entities such as profit tax, royalty, VAT etc. The Government is entitled to dividends and revenue from privatization of the company.

Concession fee is paid to the Contracting Authority as a percentage of the value of annual power output generated from the HPP and any other benefit arising from the agreement. This percentage is confidential part of the agreement and differs in various concessions. The fee is calculated as a percentage on each monthly bill for power sold to KESH, and is collected by KESH on behalf of the Contracting Authority, in accordance with Order No. 4 dated January 9, 2012 of the Minister of Economy, Trade and Energy, responsible for the energy sector at that time.

Subnational transfers

Royalty levied from taxable sales of oil, gas, and minerals is recorded in the State Budget. According to Law on National taxes no. 9975, dated 28 July 2008, amended, a portion of royalty tax shall be allocated to each local government unit ("LGU") in proportion with their contribution to the domestic output of oil, gas and mining.

Up to November 2014, the Law on National taxes requested 25% of royalty tax to be allocated to each local government unit ("LGU") in proportion with their contribution, however within the terms of the annual budget law.

On 27 November 2014, the Albanian Parliament approved changes to the Law on National taxes. According to the proposed changes, the LGUs will be entitled to receive 5% of the royalty generated from companies operating in their area regardless any transfer foreseen in accordance with the annual budget law.

The Ministry of Finance reported that sub-national royalty payment amounted at Lek 101 million in 2013 and Lek 120 million in 2014. These transfers were made to oil producing districts only, where 35% of total royalty transfers went to Municipality of Patos in both years.

Transfers of royalty made to oil producing LGUs comprised 1.2% of royalty generated by the oil sector in 2013. This ratio increased to 1.5% in 2014. The Ministry of Finance reported no royalty transfers made out of royalty generated by the mining and quarry sector.

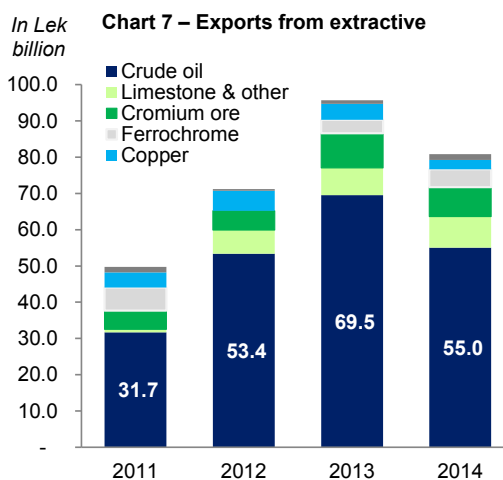
Exports from extractive sector

Exports from the extractive sector have increased substantially by over 100% in the last four years.

In 2013 exports from the extractive sector amounted at Lek 96.7 billion or 39% of total exports. This share dropped in 2014 to 32% of total exports or Lek 82.2 billion.

Such share is attributed to the crude oil exports which accounted from 64% to 75% of total extractive exports in the last four years, as shown chart 7.

Crude oil was mainly exported to Italy, Spain and Malta. While China was the major buyer of the Albanian chromium and copper ore.



Source – Albanian Customs Administrative¹¹

11 - The Albanian Customs Administrative sent this information officially to AlbEITI and the latter shared with for compilation of this Report.

Reconciliation of revenues and payments

Selection of reporting entities for years 2013 and 2014

All companies operating an exploration license in oil, gas, and mining and a production license in oil and gas were required to report under the EITI Standard. Thus, cash flows reconciled for the oil and gas sector represent 100% of cash flows contributed by the sector for the selected revenue streams.

Because of the large number of small-scale producers in the mining and hydro-energy sector, certain materiality criteria based on annual production were applied to select the most significant producers. The selection resulted in:

- 81 mining companies in 2013 (85% of the production value) and
- 99 mining companies in 2014 (87% of the production value).

In the hydro-energy sector, the MSG selected to report the 10 largest producers including KESH (90% of hydro-energy output) and 5 largest investments in hydro-power plants not yet entered the production phase.

Comparison of revenues with payments resulted in some discrepancies. Most of the discrepancies was explained by the work of reconciliation. Explained discrepancies resulted mainly due to amounts initially unreported or errors in reporting.

By the date of this report cash flows were reconciled to 99% of cash flows reported from licensees and the Government or licensees and Albpetrol in the two years

Table 3 Summary of reconciliation of cash flows to the State Budget in 2013 and 2014

Aggregated payments	Adjusted amounts in Lek million year 2013			Adjusted amounts in Lek million year 2014		
	Licensees	Government	Discrepancy	Licensees	Government	Discrepancy
Oil and gas sector	12,307	12,339	(32)	14,396	14,417	(21)
Mining sector	1,325	1,391	(66)	1,493	1,495	(3)
Hydro-energy sector	19,324	19,275	49	1,486	1,486	(0)
Albpetrol	2,543	2,554	(11)	3,556	3,595	(38)
Total	35,499	35,559	(60)	20,931	20,993	(62)

Table 4 Summary of reconciliation of cash flows to Albpetrol for oil production sharing and bonuses under the agreement in 2013 and 2014

Aggregated payments	Adjusted amounts in Lek million year 2013			Adjusted amounts in Lek million year 2014		
	Licensees	Albpetrol	Discrepancy	Licensees	Albpetrol	Discrepancy
Share of oil payments	3,530	3,530	-	3,934	3,942	(8)
Bonuses - Albpetrol	10,695	10,695	-	17	12	(5)
Total	3,540	3,540	-	3,952	3,954	(13)

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