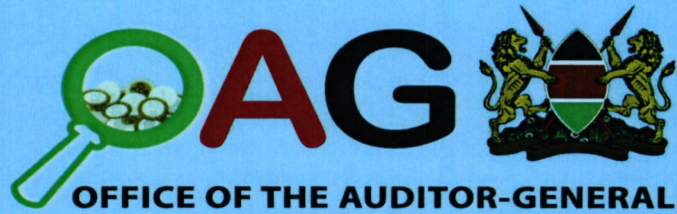


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ON

**NATIONAL OIL CORPORATION OF
KENYA**

**FOR THE YEAR ENDED
30 JUNE, 2021**



NATIONAL OIL CORPORATION OF KENYA LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2021

**Prepared in accordance with the Accrual Basis of Accounting Method under the International
Financial Reporting Standards (IFRS)**

**National Oil Corporation of Kenya
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I. KEY ENTITY INFORMATION

Background information

National Oil Corporation of Kenya Limited is State Corporation registered under Cap 486 of the Laws of Kenya wholly owned by Government with two shareholders being; the National Treasury & Planning and the Ministry of Petroleum and Mining (MoPM). As a State Corporation, we are committed to promote compliance to corporate governance, laws and guidelines in the exercise of our mandate. We strive to employ concerted efforts towards inculcation of the same in our day to day activities to ensure marked improvement over time.

Our Vision

To be a fully integrated world class oil and gas company.

Our Mission

Providing security of supply of petroleum product in the country.

Living our values, growing a sustainable, responsible and profitable company that contributes to national development.

Exploring, developing and producing oil and gas resources for the benefit of the Kenyan people.

Principal Activities

The principal activity of the Corporation as stipulated in the Memorandum and Articles of Association is trading in refined petroleum products and participation in related petroleum business such as refining, distribution and marketing; provision of related services such as hospitality, storage, transport, product receipt and loading; oil and gas exploration; and promotion activities and participation in energy sector activities as directed by the Government from time to time

Directors

The Directors who served the entity during the year/period were as follows:

- | | |
|-------------------------------|--------------------------------------|
| 1. Dr. Julius Muia, CBS | PS, National Treasury and Planning |
| 2. Mr. Andrew Kamau, CBS | PS, Ministry of Petroleum and Mining |
| 3. Mr. Peter Ekuleu | |
| 4. Mrs. Emily Mataany Kiparki | |
| 5. Mr. Michael Rubia | |

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6. Ms. Lilian Matagaro	Representative, Attorney General
7. Mr. Leparan Gideon Morintat	Chief Executive Officer
8. Mr. Edward Wamweya	Alternate to PS, National Treasury & Planning
9. Ms. Electine M Nanzala	Alternate to PS, Ministry of Petroleum & Mining
10. Mr. Kibuga Kariithi	Exited 27 th May 2021
11. Mrs. Margaret Saitoti	Exited 27 th May 2021
12. Mr. Sam Gakunga	Exited 27 th May 2021
13. Mr. Hilary Sigei	Exited 27 th May 2021
14. Mr. Daniel Mutiso	Exited 27 th May 2021

Corporate Secretary

Leparan Gideon ole Morintat
Chief Executive Officer
P O Box 58567 – 00200
Nairobi

Registered Office

Kawi Complex, Popo Lane
Off Red Cross Road, South C
P O Box 58567 – 00200
Nairobi

Corporate Headquarters

Kawi Complex, Popo Lane
Off Red Cross Road, South C
P O Box 58567 – 00200
Nairobi

Corporate Contacts

Telephone: (254) -20-6952000
E-mail: ceo@nockenya.co.ke
Website: www.nationaloil.co.ke

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Corporate Bankers

Standard Chartered Bank Kenya Limited
P O Box 30003 – 00100
Nairobi

Stanbic Bank Limited
P O Box 72833 – 00200
Nairobi

KCB Bank Kenya Limited
P O Box 30081 – 00100
Nairobi

Equity Bank Kenya Limited
P O Box 78569 – 00507
Nairobi

The Co-operative Bank of Kenya Limited
P O Box 67881 – 00200
Nairobi

Independent Auditors

Auditor General

The Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084

GPO 00100

Nairobi, Kenya

Principal Legal Advisers

The Attorney General

State Law Office

Harambee Avenue

P.O. Box 40112

City Square 00200



Nairobi, Kenya

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II. THE BOARD OF DIRECTORS

Directors	Details
 <p>Dr. Julius Muia PhD., CBS PS, National Treasury & Planning PhD in Finance, CPA(K),CPS(K)</p>	<p>He is a self-driven finance professional with 30 years proven track record of achieving superior and quantifiable results in various leadership roles at all levels of management. He have a wealth of experience in delivering on complex assignments in the public and private sector while working with different cultures.</p> <p>He is a non-independent director</p>
 <p>Mr. Andrew Kamau, CBS PS, State Department of Petroleum and Mining, Ministry of Petroleum & Mining BSc. Chemistry</p>	<p>Andrew Kamau is the Principal Secretary for the State Department of Petroleum and Mining, Ministry of Petroleum & Mining. Prior to this appointment, Eng. Kamau served as Principal Secretary for the State Department of Petroleum under the Ministry of Energy & Petroleum. His wealth of experience in the energy and mining sector spans over twenty-five (25) years, gained after lengthy engagements with both the Public and Private Sectors, Development Partners and Non-Governmental Organizations in Africa.</p> <p>He is a non-independent director</p>
 <p>Leparan Gideon Morintat Chief Executive Officer MBA in Strategic Management</p>	<p>Born 1979, Leparan joined the Corporation in February 2020. Prior to joining the National Oil Corporation of Kenya, he was d.light SOLAR's Country Manager for Ethiopia & Horn of Africa.</p> <p>He has over 18 years of leadership and management experience gained in the Oil & Gas, Energy, Infrastructure development, and ICT sectors in leading multinational companies among them Multi Choice Africa, Mitsui & Co. Ltd, Royal Dutch Shell Group and Equity Bank Group.</p>


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	<p>He is a member of the Petroleum Institute of East Africa (PIEA), Kenya Institute of Management (KIM), Marketing Society of Kenya (MSK), Kenya Institute of Supplies Management (KISM) and Kenya Oil & Gas Association (KOGA).</p> <p>He is an executive director.</p>
 <p>Mr. Ekuleu Ngala Peter BSc. Public Health</p>	<p>Born 1972, Director Ngala Holds a B.Sc. in Public Health, with over 20 years' experience in planning, structuring, leading and executing community based health and development projects. He is also skilled in creating major platforms for social and community development. He has proven to be effective in organizing and coordinating Community based Health projects with the aim of motivating and empowering individuals and communities to proactively take charge of their own health needs and interventions.</p> <p>He is an independent director.</p>
 <p>Mrs. Emily Kiparki - Director MBA in Strategic Management</p>	<p>Born 1973, Emily holds a Master's in Business Administration-Strategic Management and has previously held various portfolios in Accounting with 10 years experience.</p> <p>She is an independent director.</p>

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 <p>Mr. Michael Rubia - Director Master of Business and Public Administration</p>	<p>Born 1951, Michael has vast experience in International Sales and Marketing with expertise in the retail Industry.</p> <p>He is an independent director</p>
 <p>Ms. Lilian Matagaro Alt. Attorney General M.A. in International Studies; LLB; Dip in Law (KSL).</p>	<p>Born in 1976, Lilian is the Chief State Counsel and Parliamentary Liaison Officer at the Office of the Attorney General and Department of Justice. She has vast experience in policy development, public sector negotiation and drafting of legal and legislative instruments. She has consistently proffered legal advice for over 16 years to Government Ministries and Agencies on diverse aspects. In addition to being a Board Member in NOCK, she is currently a member of the Registration Committee, Institute of Human Resources Management and the Financial Law Review Panel (Capital Markets).</p> <p>She is a non-independent director.</p>
 <p>Mr. Edward Wamweya Alt. PS. The National Treasury and Planning MBA Finance; B.Com (Finance); CPA (K); CIFA (K)</p>	<p>CPA, FA. Edward Wamweya was born in 1984. He is the Alternate Director to the Cabinet Secretary National Treasury & Planning. He holds a Master of Business Administration (-Finance) degree, Bachelor of Commerce (-Finance) degree, Certified Public Accountant of Kenya (CPA-K) and Certified Investment and Financial Analyst (CIFA-K). He is a professional accountant and financial analyst who is a member in good standing of both ICPAK and ICIFA. He has served in several Boards of State Corporations as Alternate Director. Currently, he is a Principal Investment Officer in The National Treasury with vast experience in public financial management and State Corporations sector. He is a non-independent director.</p>



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 <p>Ms. Electine M. Nanzala Alt. PS. Ministry of Petroleum and Mining M.A. in Economics</p>	<p>Born 1971, Electine brings with her years of experience and knowledge in Public Policy and Analysis; leadership; Public Sector Reforms including Results Based Management and expertise in the Petroleum industry.</p> <p>She is an independent director.</p>
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(a) Board Committees

No.	COMMITTEE	MEMBERS
1.	Strategy and Business Committee	1. Mr. Sam Gakunga – Chairperson 2. Ms. Electine M. Nanzala 3. Mr. Edward Wamweya 4. Mrs. Emily Kiparki 5. Mr. Peter Ngala
2.	Finance Committee	1. Mr. Michael Rubia – Chairperson 2. Mr. Edward Wamweya 3. Ms. Electine Nanzala 4. Mr. Sam Gakunga 5. Mr. Peter Ngala
2.	Audit Board Committee	1. Mr. Hilary Sigei – Chairperson 2. Mr. Edward Wamweya 3. Ms. Lilian Matagaro 4. Mr. Daniel Mutiso 5. Mrs. Margaret Saitoti
3.	Human Resources Committee	1. Mrs. Margaret Saitoti – Chairperson 2. Ms. Lilian Matagaro 3. Mr. Hillary Sigei 4. Mrs. Emily Kiparki 5. Mr. Daniel Mutiso 6. Mr. Michael Rubia




III. MANAGEMENT TEAM

 <p>Leparan Gideon Morintat Chief Executive Officer MBA in Strategic Management; B.Com Accounting</p>	<p>Born 1979, Leparan is the CEO of the National Oil Corporation of Kenya. Prior to joining the Corporation, he was d.light SOLAR’s Country Manager for Ethiopia & Horn of Africa. Leparan has over 18 years of leadership and management experience gained in the Oil & Gas, Energy, Infrastructure development, and ICT sectors in leading multinational companies among them Multi Choice Africa, Mitsui & Co. Ltd, Royal Dutch Shell Group and Equity Bank Group. He is a member of the Petroleum Institute of East Africa (PIEA), Kenya Institute of Management (KIM), Marketing Society of Kenya (MSK), Kenya Institute of Supplies Management (KISM) and Kenya Oil & Gas Association (KOGA).</p>
 <p>Alex Magu General Manager, Finance, Treasury & ICT MBA in Strategic Management; CPA (K)</p>	<p>Alex held various senior positions in the financial sector including Chief Transformation Officer at Family Bank, Founder -Credit Sawa Limited and the Head of Finance at Kenya Orient Insurance Limited. He has over 18 years of experience in Financial and Treasury management of enterprises in different markets.</p>

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 <p>Benson Theuri Ag. General Manager-Downstream Operations MBA, Strategic Management; B.Com.</p>	<p>Benson is a petroleum enthusiast, proven sales leader, with 20+ years of leadership and management acumen in the FMCG and Oil and Gas.</p> <p>Has held senior leadership roles at Unilever and Shell for over 20 years and has extensive experience in leading sales teams, turnaround efforts, product launches, strategy development and implementation, project management among other key skills.</p> <p>During his short spell at National Oil, he has helped craft the retail and commercial strategy and is leading the team in the implementation and the corporation's turnaround effort with outstanding success to date.</p>
 <p>Scoline Ojunga Manager, Internal Audit MBA in Finance; B.Com, Finance; CPA (K)</p>	<p>Scoline joined the Corporation in 2020 and is responsible for internal audit including developing and implementing an annual risk-based audit plan as well as enterprise risk management planning, execution, monitoring, evaluation and consolidation of the Company's Risk Management matrices.</p>
 <p>Alex Musungu Manager, Procurement MSc. Procurement and Logistics; BSc.; MCIPS of Chartered Institute of Purchasing and Supply; (CIPS-UK); Membership with (KISM)</p>	<p>He joined the Corporation in 2017 and is responsible for optimal and cost effective procurement of goods, works and services through the development and implementation of appropriate procurement strategies. Prior to joining the Corporation, Alex held various positions in different companies including Unclaimed Financial Assets Authority, Kenya Forest Service, Nairobi Hospital and Kenya Agricultural Research Organization.</p>

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 <p>Duncan Waziri Manager, Supply and Trading MSc. Project Management; B.A. Building Economics</p>	<p>Duncan is a seasoned business management professional with significant experience in oil & gas and logistics sectors. His work experience includes Business Analyst and Sales Manager at Kenya Shell, Consumer Manager at TOTAL Kenya and Director of Courier at G4S. He is a past recipient of The British Chevening Scholarship Award for postgraduate study in the UK from where he graduated with a distinction.</p>
 <p>Mr. John Ego Manager, Exploration MSc. Petroleum & Geology; BSc (Hons) in Geology</p>	<p>John joined the Corporation in 1988 and has wealth of experience spanning over 30 years in Geology and Petroleum Exploration. He is responsible for the overall technical evaluation of Kenyan Basins and active promotion of petroleum potential of Kenyan Basins at International levels.</p>
 <p>Susan Karimi Ag. Manager Human Resources Bachelor of Arts; Post Graduate Diploma in HRM; Higher Diploma in Psychological Counselling</p>	<p>Susan is currently acting as the Manager, Human Resources & Administration and is responsible for attracting, developing and retaining skilled and motivated employee base that will drive the business to achieve its strategic objectives, while enhancing employee development through performance management, learning and development.</p> <p>Susan has 19 years' experience in Human Resource Management and prior to joining National Oil, she has held various senior positions with companies in different industries. These include; KEPHIS, Sarova Panafric and Simbisa Kenya.</p>

IV. CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of National Oil Corporation of Kenya ("National Oil" or the "Corporation"), I am pleased to present the Annual Report and Financial Statements of the Corporation for the Fiscal Year ended 30th June 2021. During the year under review, National Oil continued with its transformation journey to profitability and consequently provider of strategic petroleum reserves in Kenya as envisioned in Vision 2030. This shall be achieved through operational excellence, market leadership, cost efficiency and strategic partnerships.

Operating Environment

The Kenyan economy was greatly impacted by the covid-19 pandemic in the year under review resulting in significant reduction in sales owing to travel restrictions and a depressed economy. During the period, international oil prices have been on the rise leading to increased fuel prices in the market as well as working capital requirement. The upstream business has witnessed enhanced activity following the extension of Block 14T's Production Sharing Contract (PSC) for a further 2 years thereby cementing our credentials in the upstream sector. More significantly, the Corporation is in the process of constructing a state-of-the art geochemical and petro physical laboratory that will also be availed to other international oil companies to analyse oil and gas samples.

The Transformation Plan

The Corporation has embarked on a 15-year transformation plan to return it to sustainable profitability and deliver on its mandate as the provider of strategic reserves of petroleum products in the country. Cost efficiency, operational excellence and revenue growth driven by people with the right skill set will be key in delivering the plan. The Corporation has retained the services of a consultant to guide this process and also recruited experienced industry professionals in key management positions to drive the initiative. We are optimistic that this initiative will be key to the success of the turnaround plan. Plans to commercialize the upstream business will complement the downstream revenue and hence put in good stead the Corporation's growth ambitions in its support of the Big 4 Agenda.

Future Outlook

The economic environment remains challenging owing to the adverse impact of covid-19 pandemic and the high international oil prices. The high debt burden occasioned by non-performing bank loans weighing down on the corporation's profitability is of particular concern. A working group has been formed under the chairmanship of The Principal Secretary, The National Treasury to address the debt issue. We are in continuous engagement with our bankers and shareholders on crafting attainable solution to our non-performing loan portfolio. The Board and Management have also taken measures to pursue profitable growth businesses and we are optimistic that these long term strategies focused on capturing growth opportunities will bear positive results in the long term.

Appreciation

I wish to thank the various stakeholders including our shareholders; the Ministry of Petroleum and Mining and the National Treasury & Planning, The Board of Directors, Management, Staff and our customers and suppliers and service providers for their loyalty and commitment. We appreciate!



Patrick Obath

BOARD CHAIRMAN

V. REPORT OF THE CHIEF EXECUTIVE OFFICER

It is my pleasure to present to you the National Oil Corporation of Kenya's Annual Report and Financial Statements for the year ended 30th June 2021. The National Oil Corporation of Kenya began the year with high expectations and a determination to reverse the negative trend in our downstream business and return to 140,000 profitability and to aggressively ramp up our exploration activities in our upstream assets. Our primary focus was and still remains "profitable downstream and more upstream", driven by operational excellence leading to growth in revenues, enhanced controls and efficiency.

Financial Performance

The corporation recorded an increase in gross profit from Kshs 0.43 billion for the year ended 30th June 2020 to Kshs 0.63 billion for the year ended 30th June 2021, representing a 30 % increase. During the year under review, the Corporation's loss before tax decreased from Kshs 1.384 billion in the financial year ended 30th June 2020 to Kshs 1.322 billion aided by a focus on profitable sales channels, proactive cost management and improved efficiency in operations. The reported loss is primarily attributable to the huge bank penalties as a result of non-performing loan portfolio.

Revenue

Throughput revenue reduced by 22.9 % to Kshs.9.33 billion during the year under review from KShs 12.1 billion recorded in FY 2019/20. This was due to deliberate move by management to focus on profitable channels and the adverse effects of Covid -19 pandemic.

Operating Expenditure

Operating expenses decreased to Kshs 581.3 million in the year ended 30 June 2021 compared to Kshs 679.6 million in the year ended 30 June 2020. This was due to decline in depreciation owing to expiry of leases, a decline in asset value after revaluation and proactive cost management measures by management to align the cost structure with the business size. Net financing costs increased from Kshs 867 million in FY2019/2020 to Kshs 941 million in the year under review. This was as a result of higher bank penalties incurred during the year under review on account of non-payment of loans and capitalization of interest.

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Upstream Operations

During the year under review, National Oil successfully applied for and obtained the extension of Block 14T's Production Sharing Contract (PSC) for a further 2-year period. The corporation embarked on undertaking further geophysical studies and data acquisition which when completed will be packaged to aid in marketing the block to prospective farm-in partners. The corporation has also been working closely with other licensed exploration and production companies in the other exploration blocks in the pursuit of making Kenya an oil and gas producer.

The Transformation Plan

The Corporation has embarked on a 15-year transformational plan that seeks to return its downstream business to profitability. Further, the implementation of the transformation plan will enable the Corporation to play its pivotal role in the growth of Kenya's Oil and Gas sector. A transformed National Oil Corporation of Kenya will be a key contributor to the country's economic development as envisioned in both the BIG 4 agenda and Vision 2030.

Our Transformation Plan is centred on people, product, processes and profit (4 Ps). Its High Level Implementation Plan focuses on commercialization of the upstream business, leadership in LPG business, profitable growth of the retail segment, profitable commercial business, oil trading in midstream and being the aggregator of Natural Gas Imports. The plan also seeks to transform NOC and make it the custodian of the country's strategic petroleum reserves – a critical component of our national security as a country. This will be achieved by having on board the right people with the right skills & competencies in the right jobs, enhancing controls and hinged upon the on boarding the right strategic partner. Leveraging on the potential strategic partner's skills base and capital, the future NOC will fulfil its legal mandate of importing 30 percent import quota of industry's petroleum requirements.

In our quest to achieve a sustainable working capital & liquidity position, we have and will continue to engage with our bankers and the shareholder. These engagements are at an advanced stage and will bear fruits in the coming financial year.

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Appreciation

In conclusion, I take this opportunity to express my sincere appreciation to all our stakeholders led by our shareholders; The National Treasury & Planning and the Ministry of Petroleum & Mining for their significant contribution through both policy and budgetary support to the Corporation.

On my own behalf and that of the Executive Management team, I also thank the Chairman and the Board of Directors for the support that they have continued support, steadfast leadership, and guidance throughout the financial year. I would also like to most sincerely appreciate the stakeholders that give us a reason to be – our customers without whom we would not have downstream business - for continuing to support us and for believing in our products. I also thank in a special way, our suppliers, service providers, partners and bankers for their invaluable support during the financial year.

Last but not least, on behalf of the Board of Directors and Management, I congratulate our staff for their continued commitment and wish to commend them for their resilience which has yielded these results and urge them to redouble their efforts as we all strive to return the National Oil Corporation of Kenya back to profitability in the very near future.


Leparan Gideon Morintat
Chief Executive Officer

Date 7/9/2022

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VI. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2020/2021

The corporation recorded an increase in gross profit from Kshs 0.43 billion for the year ended 30th June 2020 to Kshs 0.63 billion for the year ended 30th June 2021, representing a 47 % increase. During the year under review, the Corporation's loss before tax decreased from Kshs 1.384 billion in the financial year, ended 30th June 2020 to Kshs 1.322 billion aided by a focus on profitable sales channels, proactive cost management and improved efficiency in operations.

Strategic Pillar/Theme/Issues	Objective	Key Performance Indicators	Activities	Achievements
Pillar/ theme/ issue 1: Obtain working capital	Identify alternative working capital financing	Partner on board	Work in partnership with an oil marketing company to get product	OMC partner on board
Pillar/ theme/ issue 2: Grow profitable sales revenue	Increase sales volumes and margins	Sales volumes Sales margins Non fuel revenue	Develop Detailed plan to grow sales	Retail masterplan developed bottom up, site-by-site. Phased implementation commenced
			Increase non-credit commercial sales	Signed up government agencies willing to prepay
			Increase revenue from convenience retailing	Charging forecourt fees
			Grow LPG sales volumes and margins	Supply to apartments pilot partnership signed with CFAO and NHC
Pillar/ theme/ issue 3: Improve Management Controls	Sort out stock control and stop losses	Product loss	Monitor stock balances closely	Daily stock reconciliations and monthly stock takes ongoing
			Integrate FuelFacs and Oracle systems	Negotiation with Oracle commenced
			Integrate Petrol Plus and Oracle	

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Strategic Pillar/Theme/Issues	Objective	Key Performance Indicators	Activities	Achievements
			Complete disciplinary proceedings	Disciplinary process ongoing
Pillar/ theme/ issue 4: Improve organisational capacity and capability	Strengthen senior management	Management capability gaps	Recruit for vacant positions	Strong, internationally experienced executives in Supply & Trading, Commercial and Upstream hired
	Increase upstream capability	Milestones achieved	Farm out and develop block 14T	Prepared data package for presentation
			Develop upstream support services	Completed physical infrastructure of laboratory

VII. CORPORATE GOVERNANCE STATEMENT

Good corporate governance is integral in enabling the Corporation to interact with both internal and external stakeholders. Corporate governance entails the systems, processes and structures used to direct and manage the affairs of the Corporation and delineate the respective roles of the Board and management and the framework of internal controls. The Board and the Management regard good corporate governance as pivotal to the success of the Corporation and is committed to ensuring there is strict adherence to these processes.

The Corporation achieves good corporate governance by using a risk-based approach to establish a system of internal controls and by reviewing the effectiveness of the system on a regular basis. The Corporation has formulated and implemented sound internal corporate governance guidelines, which spell out the responsibilities of management and the Board.

The Board meets regularly and has a formal schedule of its matters. During the Financial period 2020/2021, the Board total of 12 (twelve) members comprising of non-executive directors and the Chief Executive Officer. The Board meets at least four times a financial year.

The Board has established Committees to assist in the implementation of its policy guidelines and strategy. These Committees meet regularly and are chaired by non-executive Board directors. The

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Committees submit their report to the Board for adoption and approval. All the non-executive Board directors are independent of management and free from any business or other relationship, which may materially interfere with the exercise of their judgment.

(1) Number of Board meetings held

During the period under review, the Board held the following number of meetings. Requisite approvals were obtained to hold the extra number of meetings as per the provisions of section A (1) to (3) of circular Ref. NO:OP/CAB.9/1A on Management of State Corporations.

NO	NAME OF COMMITTEE/BOARD MEETINGS	NUMBER OF MEETINGS
1.	Full Board meetings	7
2.	HR Committee Meetings	9
3.	Strategy & Business Committee Meetings	1
4.	Finance Committee Meeting	4
5.	Audit & Risk Committee Meetings	4
6.	Special Ad-hoc Meetings	2
	TOTAL	27

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The attendance to those meetings by members,

Section 3 of the board charter provides that the quorum for the conduct of business at a meeting of the Board shall be 2/3rd the number of the members of the Board. The details of the members who attended the respective meetings were captured in the respective minutes of meetings held during the year 2020/2021FY.

Succession Plan,

The Corporation has a well-defined Board Succession plan, as it is an important way of maintaining a healthy dynamic. The Board Members have difference appointment dates and hold various professional competencies.

Section 6(1) and (2) of the State Corporations Act, 1986 provides as follows-

“... A Board shall, subject to subsection (4), consist of—

- (a) a chairman appointed by the President who shall be non-executive unless the President otherwise directs;
 - (b) the chief executive;
 - (c) the Permanent Secretary of the parent Ministry;
 - (d) the Permanent Secretary to the Treasury;
 - (da) the Attorney-General or his representative;
 - (e) Not more than eleven other members not being employees of the state corporation, of whom not more than three shall be public officers, appointed by the Minister.
- (2) Every appointment under subsection (1)(a) and (e) shall be by name and by notice in the *Gazette* and shall be for a renewable period of five years or for such shorter period as may be specified in the notice...”

The appointment of the aforementioned members by the Cabinet Secretary has been staggered in order to ensure continuity and smooth transaction of NOCK’s Board’s roles and responsibilities.

Existence of A Board Charter

The NOCK Board approved its board charter during its meeting held on 28th May 2019 in line with the provisions of Mwongozo, Code of Governance for State Corporations.

Process of Appointment and Removal of Directors,

Section 3 of the NOCK Board Charter provides that the relevant appointing authority shall select and appoint the respective directors. Every appointment shall be by name and by notice in the Kenya Gazette or nomination by a body mandated to do so but shall cease if the Board member:

- (i) Serves the appointing authority with written notice of resignation; or
- (ii) Is absent, without the permission of the Chairperson, from three consecutive meetings; or
- (iii) Is convicted of an offence by a court of competent jurisdiction and sentenced to imprisonment for a period exceeding six months without the option of a fine; or
- (iv) Is incapacitated by reason of infirmity of body or mind; or
- (v) Is otherwise unable or unfit to discharge the functions of the Board; or If the member dies.

VIII. MANAGEMENT DISCUSSION AND ANALYSIS

National Oil Corporation of Kenya Limited is a fully integrated State Corporation involved in all aspects of the petroleum value chain covering the upstream oil and gas exploration, midstream petroleum infrastructure development and downstream marketing of petroleum products.

National Oil has an active downstream business segment with a growing retail network of 70 service stations spread across Kenya. The Corporation also serves a cross-section of resellers, industrial, export and government businesses from its modern Nairobi National Terminal.

The Corporation is also actively involved in the upstream activities key among them being analysis and keeping of exploration data in the petroleum sector on behalf of the Government where there is collaboration with other stakeholders.

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During the year, the Corporation has focused more on turn around strategies with a view to competing effectively in the market space to ensure there is a positive trend in the business activities with a view to making a positive return for the shareholders.

Financial Key performance indicators

There was a 22.9% decrease in revenues from Shs 12.1 billion for the year ended 30 June 2020 to Shs 9.3 billion for the year ended 30 June 2021. Gross profit increased to Shs 0.63 billion in the year under review from Shs 0.43 billion which is a 47% increase. The Operating loss for the year under review was Shs 1.322 billion compared to a loss of Shs 1.384 billion in the year ended June 2020.

Operating expenses decreased from Shs 679.5 million to Shs 581.3 million to be in line with the level of business. Net financing costs increased in the year from Shs 867 million to Shs 941million. This was as a result of huge bank penalties incurred during the year under review due to late payment.

Principal risks and uncertainties facing the Corporation

- 1) ***Fluctuations of the local currency against the USD:*** - Petroleum products at the international markets are traded in USD and any appreciation of the USD against the local currency leads to a negative effect to the profitability of the Corporation particularly, the downstream activities.
- 2) ***Lack of Financial muscle:*** - The Corporation is competing in the market place with multinationals who have very strong parent Companies and are able to fund them in the expansion program with low interest funds. The Corporation on the other hand has to borrow from the local banks at high interest. This increases the financing costs and minimizes the returns per litre of oil products sold by the Corporation.
- 3) ***Independent marketers:*** - Quite a number of independent oil marketers are getting into the oil market. These Companies have low operating costs, which enable them to undercut the other oil marketers in the market and eventually eating into their market share.
- 4) ***Bureaucratic Government processes:*** - The Corporation's management are unable to make quick decisions, as they have to consult with the parent ministry, since the Corporation is a government entity. For example where decisions have to be made particularly about getting out of certain markets by disposing of non-performing assets, such decisions have not been approved for over a year now. The Corporation continues to hold assets that are not optimally utilised in its books.
- 5) ***Electric cars manufacturing*** - With the world leaning towards the making of electric cars, this would mean less consumption of petrol and hence creating uncertainties in the sector.

IX. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

i) Sustainability strategy and profile -

The Kenya Government has set an ambitious goal to enhance Liquefied Petroleum Gas (LPG) penetration in the country and ensure universal access of LPG especially in low-income households. The overarching objective is to reduce the use of biomass and kerosene as primary household cooking fuels, which have a negative impact on the environment, respiratory health and sustainable economic development. This will be done using distribution of subsidized gas cylinders to this market. National Oil, on behalf of the Ministry of Petroleum and Mining and with support from the government prepared the Mwananchi Gas Communication and Distribution plans in readiness for the roll out of the program. We are piloting the provision of piped LPG to homes in apartments to increase convenience and safety in partnership with CFAO and the National Housing Corporation.

We engaged with the government, regulators and policymakers to help shape comprehensive policy, legislation and regulation that advocate our positions on matters, which affect us. We engaged in the review and developed of the review of the upstream regulations.

ii) Environmental performance

Under the Environment pillar, the Corporation identified support for the Presidential Directive on tree planting as one of the key agendas. The focus for the Corporation under this pillar is not just on planting trees, but transforming the tree planting agenda into a holistic community empowerment initiative that will not only achieve a survival rate of 95% for the planted seedlings through involvement of the communities in taking care of the trees but also through fusing economic empowerment with the tree planting initiative.

Although Covid-19 outbreak slowed down tree [planting activities, the Corporation in conjunction with NETFUND planted 2,000 indigenous trees at Kaptagat Forest in Elgeyo Marakwet County.

iii) Employee welfare

The Corporation has put in place a Human Resources & procedures manual which stipulates that the Corporation is an equal opportunity employer and shall not in its recruitment and selection process, discriminate on the basis of gender, race, religion, ethnicity or any other form of discrimination. The constitutional requirement on mainstreaming of gender and persons with disabilities as stipulated in Article 232 of the Constitution shall be observed alongside policies issued by any of the relevant Government Institutions. In addition the Corporation has a functional Gender Mainstreaming Policy

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that ensures gender parity is taken into account during hiring The HR Policy Manual is reviewed every 3 years.

There is annual appraisal system out of which areas of staff development are identified and an implementation is put in place.

There is a clear policy on reward and recognition of outstanding performance

iv) Market place practices-

The organisation should outline its efforts to:

a) Responsible competition practice.

Fair Competitor and respect for completion

- ❖ The Corporation achieves this through conducting *price market surveys* in pricing products (white fuels, lpg and lubricants) this will ensure NOC doesn't undercut the market
- ❖ Industry bench marking –the corporation also ensure to embrace industry best practices as it conduct its business operations such practices includes charging throughput fees as opposed to rental based. The fees charged is also within average range of the industry.
- ❖ Below the line and above the line market activities e.g. forecourt discounts and other incentives to the final consumer

Anti-corruption

There is policy in NOC in regards corruption activities and how they are reported

b) Responsible Supply chain and supplier relations

The Corporation has employed the following strategies in its supply chain management function;

- Purchase in volume for cost reduction- Common users goods and services are procured on framework contracts basis
- All purchases we use POs or contracts
- We use technology where needed –Purchase requisition and POs plus processing payments

Treats its own suppliers responsibility

- We endeavours to pay suppliers the amount agreed upon and on time
- We communicate regularly with our suppliers hence establishing and maintaining a business connection
- We treat our suppliers not just as vendors business partners

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- Where payments are overdue/ pending we normally enter into a payment agreement which we adhere to

c) Responsible marketing and advertisement

The Corporation achieves this through:

- ❖ Response to customer complains within the SLA
- ❖ Being transparent ie access to information about safety and its effective use
- ❖ NOC websites is also accessible to the public for any information regarding all the activities in upstream and downstream operations
- ❖ Protecting customers data and privacy-NOC ensures confidentiality as far data and other sensitive information are concerned of its entire customer base
- ❖ Maximize benefits and minimize risks-NOC prioritize on safety first and is being driven by a slogan **“if it is not safe it is not worth it”**

d) Product stewardship

The Corporation achieves this through:

- ❖ Ensuring high quality and standard for her products that meets industry and KEBS standard.
- ❖ Timely response to customers complaints
- ❖ Disposing of used oil as per the approved NEMA procedures

Corporate Social Responsibility / Community Engagements

The National Oil Corporation of Kenya gives back to the communities through a hands up approach. This is through key Corporate Social Investment (CSI) programs, projects and activities. Through this approach we seek to engage the community strategically to identify their needs as per their cultural and social perspectives with an aim to create maximum impact and maintain long-term relationships with the communities.

We understand that achieving our long-term goals is reliant on building beneficial relationships with communities in areas we operate in and establishing a balanced flow of mutual benefit.

The 2019/2020 financial year saw the outbreak of Covid-19 pandemic. As such, the Corporation aligned much of its CSR towards support of initiatives to fight Covid-19 pandemic.

The Corporation is guided by a robust Corporate Social Investment (CSI) strategic plan, focused on the following three pillars which are aligned to the Corporation’s business namely:

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Health: Covid 19 Response

During the year under review, a keen focus on support to the fight against Covid-19 was prioritized. The Corporation join hands with other Oil Marketing Companies to support the Government of Kenya's (GOK) response to Covid-19. While OMCs were tasked with blending of ethanol to produce hand sanitizers, the Corporation provided plastic containers to pack the GOK hand sanitizer. A total of 266,666 0.5L HDPE containers with caps were provided to Kenya Pipeline Company to support this noble initiative.

In addition, the Corporation working with other strategic partners provided free surgical 3 ply masks that were distributed to communities. In addition, 100 foot operated hand washing units were issued out to schools, health centers and community markets to encourage hand washing.

Empowerment.

Under this pillar, the Corporation seeks to economically and social empower vulnerable members of the community and special groups namely youth, women and people living with disabilities.

The Corporation is committed to working with communities to improve their living standards, create permanent positive change and impactful social economic transformation. These programs and projects are intended to be the engine room for future community development, outlasting the life of the Corporation. Agricultural and animal husbandry programs play the leading role in realizing this objective

In Kajiado, specifically in Block 14T Magadi sub-basin where the Corporation has been conducting exploration activities, the Corporation started the rehabilitation of Olkiramatian Cattle dip for Olkiramatina Group Ranch. In addition, the Corporation also began the process of constructing a dormitory for Oloika Secondary School in Shompole Group Ranch.

Block 14T Communities.

The Corporation interacts with communities in Block 14T where it has been conducting Upstream exploration activities. These activities are conducted within land and conservancies owned or managed by three communities. In a bid to get the social license from the community to enable the operations run smoothly, the Corporation held extensive community engagements with the communities. The communities are namely Olkiramatian Group Ranch, Shompole Group Ranch and Musenke Community.

The Corporation proposed to give back to the communities through Corporate Social Investment (CSI) projects that the community would come up with, within the budget capability of the Corporation.

Due to covid-19 outbreak and various governments directives imposed to curb the spread among them cessation and restriction of movement the Corporation pushed several CSR projects to the next financial year 2021/2022.

X. REPORT OF THE DIRECTORS

The Board of Directors present their annual report together with the audited financial statements of National Oil Corporation of Kenya Limited (the “Corporation”) for the year ended 30 June 2021 which show the state of the Corporation’s affairs.

i) Principal activities

The core business of the Corporation as stipulated in the Memorandum and Articles of Association is trading in refined petroleum products and participation in related petroleum business such as refining, distribution and marketing; provision of related services such as hospitality, storage, transport, product receipt and loading; petroleum exploration; and promotion activities and participation in energy sector activities as directed by the Government from time to time.

ii) Results

The results of the entity for the year ended June 30, 2021 are set out on page below. Below is summary of the profit or loss made during the year.

	2021	2020
	Shs’000	Shs’000
Loss before taxation	(1,322,301)	(1,383,558)
Taxation credit	352,503	889,056
	<hr/>	<hr/>
Loss for the year transferred to retained earnings	(969,798)	(494,502)
	<hr/> <hr/>	<hr/> <hr/>

iii) Dividends

- iv) The Directors do not recommend payment of dividend in respect of the current financial year (2021: nil).

v) Directors

The current Board of Directors are as shown on page 2.

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vi) Auditors

The Auditor General is responsible for the statutory audit of the *entity* in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 for the year/period ended June 30, 2021.

By Order of the Board

Name *Lepanen Gideon Marintat*  Signature

Date *7/9/2022*

Corporate Secretary/Secretary to the Board

XI. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and Company Act 2015 require the Directors to prepare financial statements in respect of the Corporation, which give a true and fair view of the state of affairs of the Corporation at the end of the financial year/period and the operating results of the Corporation for that year/period. The Directors are also required to ensure that the Corporation keeps proper accounting records which disclose with reasonable accuracy the financial position of the Corporation. The Directors are also responsible for safeguarding the assets of the Corporation.

The Directors are responsible for the preparation and presentation of the Corporation's financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial year (period) ended on June 30, 2021. This responsibility includes: (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) Safeguarding the assets of the Corporation; (v) selecting and applying appropriate accounting policies; and (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the Company Act 2015.

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STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)

The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of Corporation's transactions during the financial year ended June 30, 2021, and of the Corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the Corporation's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Corporation will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Corporation's financial statements were approved by the Board on 30/9/ 2021 and signed on its behalf by:



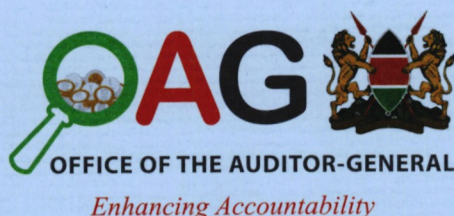
Patrick Obath

Chairperson of the Board

Leparan Gideon Morintat

Accounting officer

REPUBLIC OF KENYA



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HEADQUARTERS
Anniversary Towers
Monrovia Street
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON NATIONAL OIL CORPORATION OF KENYA FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report, which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Oil Corporation of Kenya set out on pages 1 to 88, which comprise of the statement of financial position as at 30 June, 2021, and the statement of profit or loss and other comprehensive income,

Report of the Auditor-General on National Oil Corporation of Kenya for the year ended 30 June, 2021

statement of changes in equity, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of National Oil Corporation of Kenya as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Public Finance Management Act, 2012 and the Companies Act, 2015.

Basis for Qualified Opinion

1. Inaccuracies in Bank and Cash Balances

The statement of financial position and as disclosed in Note 28 to the financial statements reflects bank and cash balances of Kshs.405,017,000. The balance includes an amount of Kshs.257,355,000 in respect of staff car loan and mortgage scheme. However, Management did not prepare separate financial statements for the Corporation's staff car loan and mortgage scheme.

Further, bank reconciliation statements, cash books and certificate of bank balances for bank accounts with total bank balances of Kshs.45,320,000 were not provided for audit.

In the circumstances, the regularity, accuracy and completeness of the bank and cash balances of Kshs.405,017,000 could not be confirmed.

2. Decline in Value of Freehold Land

As reported previously, the statement of financial position reflects property, plant and equipment with a net book value of Kshs.5,783,569,000. The values are based on revaluation of assets that resulted in decline in value of ten (10) parcels of freehold land by an amount of Kshs.145,640,000 or 43%, from a previous value of Kshs.336,140,000 to Kshs.190,500,000. The decline was not justified since it did not result from change in sizes due to alienation of the parcels or any other adverse conditions. Management attributed the decline to premiums paid on acquisition of the parcels. However, the reason could not be justified by the prevailing market conditions and differences in land measurements cited in the valuation reports and those in the title deeds.

In the circumstances, the accuracy and valuation of property, plant and equipment balance of Kshs.5,783,569,000 could not be confirmed.

3. Unsupported Provisions in Inventories Balance

The statement of financial position and as disclosed in Note 24 to the financial statements reflects net inventories valued at Kshs.652,917,000. Inventories with a gross value of Kshs.3,001,637,000 were adjusted for provisions of Kshs.2,348,693,000 which included

an amount of Kshs.31,715,000 relating to full cost provision of the book value on defective gas cylinders.

Further, included in the inventory gross value of Kshs.3,001,637,000 is inventories balance of Kshs.1,494,624,827 written off from the books. This represents the amount carried forward in the books without corresponding physical inventories. The Board of Directors in a meeting held in October, 2016, passed a resolution and approved the write off of inventories totalling to Kshs.1,023,891,492 resulting to an unapproved write off valued at Kshs.470,733,335.

In addition, despite having made provisions of Kshs.2,316,977,535, the historical non-reconciling items continue to be carried in the books against the requirements of Regulation 168(d) of Public Procurement and Asset Disposal Regulations, 2020. Further, Management did not provide an approved policy for the provisions.

In the circumstances, the regularity, accuracy and completeness of the inventories balance of Kshs.652,917,000 could not be confirmed.

4. Inaccuracies in Trade and Other Receivables

The statement of financial position and as disclosed in Note 25 to the financial statements reflects trade and other receivables balance of Kshs.720,336,000. The balance was arrived at by adjusting gross receivables balance of Kshs.1,239,883,000 for provision of bad and doubtful receivables of Kshs.519,547,000. However, there was an unreconciled variance between the ledger and the trial balance of Kshs.13,707,690 made up of Value Added Tax - Output of Kshs.13,291,421 and trade debtors' control account of Kshs.416,269.

In the circumstances, the accuracy and completeness of the trade and other receivables balance of Kshs.720,336,000 could not be confirmed.

5. Unsupported Deferred Income

The statement of financial position and as disclosed in Note 26 to the financial statements reflects deferred income balance of Kshs.1,638,984,000. The balance comprises of training fund grant, oil exploration grants and Government downstream grant of Kshs.10,225,000, Kshs.1,625,659,000 and Kshs.3,100,000 respectively. During the financial year under review, an expenditure of Kshs.217,906,000 was incurred under oil exploration grants component. It was explained that expenditure which is not directly attributable to exploration costs is absorbed into the downstream and upstream operations on 80% and 20% basis. However, the approved policy guidelines were not provided to support the absorption of the indirect costs.

In the circumstances, the accuracy and completeness of the deferred income balance of Kshs.1,638,984,000 could not be confirmed.

6. Inaccuracies in Trade Payables

The statement of financial position and as disclosed in Note 34 to the financial statements reflects trade and other payables balance of Kshs.3,209,825,000. However, the amount differs with the supporting schedules provided totalling to Kshs.954,536,000 resulting in an unexplained variance of Kshs.2,091,877,000.

Further, from a sample of trade payables totalling to Kshs.802,214,962 selected for verification, purchase orders, invoices, supplier invoices and contracts were not provided to support a balance of Kshs.798,304,734.

In addition, the trade creditors balance include creditors with debit balances amounting to Kshs.42,324,706 reflected in the aged creditors listing report.

In the circumstances, the regularity, accuracy and completeness of the trade and other payables balance of Kshs.3,209,825,000 could not be confirmed.

7. Unsupported Funds

The statement of financial position and as disclosed in Notes 40, 42, 43, 44, 45 to the financial statements reflects non-current liabilities in respect of Block 14T Fund balance of Kshs.1,133,769,000, Single Buoy Mooring Jetty Fund balance of Kshs.11,443,000, Corporate Social Responsibility (CSR) Projects Fund balance of Kshs.30,238,000, Exploration and Production Capacity Building Fund balance of Kshs.72,955,000 and Laboratory Equipment Fund balance of Kshs.425,480,000 all totalling to Kshs.1,673,885,000. However, the corresponding cash and bank balances were not provided. Management explained that the Funds were mixed up with the rest of the Corporation's funds.

Further, the Funds relate to activities and projects initiated in partnership with Government agencies and lacked guidelines on utilization and liquidation of balances upon closure of such projects. The Corporation continue to hold funds for projects that are yet to be implemented or surplus funds for completed ones in its books, thereby denying citizens access to services intended or additional services that can be implemented using the idle funds.

In the circumstances, the regularity, accuracy and completeness of the Special Funds Projects balance of Kshs.1,673,884,000 could not be confirmed.

8. Inaccuracies in Staff Costs

The statement of profit or loss and other comprehensive income and as disclosed in Note 12 to the financial statements reflects staff costs of Kshs.504,459,000. Review of records indicated that the costs relate to downstream operations. In addition, Note 14 to the financial statements reflects exploration costs - staff costs of Kshs.129,572,000, bringing the total staff costs to Kshs.634,031,000.

Further, review of staff records revealed variances between the ledger and the payroll details amounting to Kshs.50,731,794.

In the circumstances, the accuracy and completeness of staff costs of Kshs.634,031,000 could not be confirmed.

9. Inaccuracies in Exploration and Operating Expenses

The statement of profit or loss and other comprehensive income and as disclosed in Note 14 to the financial statements reflects exploration costs of Kshs.217,906,000. Further, Note 13 to the financial statements reflects operating expenses of Kshs.581,314,000. The exploration costs comprise of exploration staff costs and other exploration costs of Kshs.129,572,000 and Kshs.88,333,000 respectively.

Management explained that the total costs incurred under each expenditure item are absorbed between downstream and upstream operations on 80% and 20% basis respectively. However, the approved policy was not provided to support the absorption of the costs to either upstream or downstream and the rates applied. Therefore, the basis for the separation of exploration costs from other operating expenses could not be ascertained.

Further, review of the supporting invoices revealed that an expenditure of Kshs.12,757,802 related to 2019/2020 financial year while an amount of Kshs.12,340,903 was not supported by relevant documentation.

In the circumstances, the accuracy and completeness of exploration costs and operating expenses of Kshs.217,906,000 and Kshs.581,314,000 respectively could not be confirmed.

10. Payment of Unspecified Allowances

The ledger and the trial balance provided for audit reflected total payments to staff amounting to Kshs.112,743,168 described as "other allowances." However, the basis of payment of the allowances, and the applicable rates were not provided for audit. In addition, approval from State Corporations Advisory Committee (SCAC) was not provided to support the allowances.

In the circumstances, the accuracy, completeness and regularity of the allowances amounting to Kshs.112,743,168 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Oil Corporation of Kenya Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

Uncertainty in the Corporation's Ability to Continue as a Going Concern

The Corporation recorded a loss of Kshs.969,798,000 during the year under review (2020: Kshs.494,502,000) raising its accumulated losses to Kshs.4,025,234,000 from

Kshs.3,055,436,000 in 2020. In addition, the Corporation's current liabilities balance of Kshs.8,954,268,000 exceeded the current assets balance of Kshs.2,648,708,000 by amount of Kshs.6,305,560,000. These events or conditions, along with other matters set forth in the Note indicate material uncertainty regarding the Corporation's ability to continue as a going concern.

The Corporation is therefore, technically insolvent and its continued existence as a going concern is dependent upon the financial support of the Government, bankers, and its creditors unless Management puts in place measures to improve the performance of the Corporation and to reduce reliance on financial support from the shareholders.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Information

The Directors are responsible for the other information, which comprises, the Chairman's Statement, Managing Directors Statement, a review of Company's Performance, Corporate Governance statement, Management discussion analysis and Corporate Social Responsibility Statement. The other information does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance or conclusion thereon.

Other Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs.26,142,188 and Kshs.9,618,087 respectively, resulting to an under-funding of Kshs.16,524,101 or 63% of the budget. Similarly, the Corporation spent an amount of Kshs.10,941,764 against an approved budget of Kshs.26,041,054 resulting to an under-expenditure of Kshs.15,099,290 or 58% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

2. Unresolved Prior Year Matters

In the audit report of the previous year, several paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved all the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Measurement of the Corporation's Defined Benefit Scheme

Review of records reflected that the Corporation had put in place a defined benefit scheme as part of the employees long-term benefits. However, the Scheme had not been accounted for in line with the provisions of paragraph 50 of IAS 19 which requires an entity to recognise the net defined benefit liability or asset in its statement of financial position.

In the circumstances, it was not possible to ascertain the net defined liability or asset, defined benefit obligation or current service costs and gains or losses on the Scheme.

2. Breach of Repayment Terms on Borrowings

The statement of financial position and as disclosed in Note 31 to the financial statements reflects borrowings of Kshs.5,731,821,000 comprising of non-current and current borrowings of Kshs.5,727,876,000 and Kshs.3,945,000 respectively. However, the Corporation has not been servicing the loan which may further increase the cost of borrowings. Further, records indicated that Management had negotiated with a commercial bank for the restructuring of the outstanding loan and moratorium given.

In addition, as a result of default on loan and interest repayment, a commercial bank confirmed that the Corporation had accrued a penalty of Kshs.198,001,365 for failure to service the loan thereby increasing the Corporation's liabilities.

In the circumstances, the Corporation could potentially be exposed if financiers were to take action on non-compliance with the loan agreements.

3. Payment of Avoidable Penalties

The statement of profit or loss and other comprehensive income and as disclosed in Note 7 to the financial statements reflects cost of sales totalling to Kshs.8,701,777,000. Included in the cost are indirect costs totalling to Kshs.206,893,915 which further includes penalties and fines totalling to Kshs.63,562,520. This amount mainly relates to penalties paid to Commissioner of customs for late payment of duties and penalties paid to Kenya Pipeline. The expenditure of Kshs.63,562,520 increases the Corporation's cost of sales and affects its cash flows negatively.

In the circumstances, efficiency and effectiveness in financial management could not be confirmed.

4. Long Outstanding Payables

The statement of financial position and as disclosed in Note 34 to the financial statements reflects trade payables balance of Kshs.3,209,825,000. Included in the balance is an amount of Kshs.365,855,203 which relates to payments to vendors that are outstanding for more than 360 days. This was contrary to Regulation 139(2) of the Public Procurement and Asset Disposal Regulations, 2020 which provides that a procuring entity shall make prompt and timely payments to a contractor that meets its contractual obligations. Further, Regulation 139(4) requires that unless the contract provides otherwise, a procuring entity shall pay interest on the overdue amounts. Management did not explain the reasons for non-payment of the trade payables.

In the circumstances, Management was in breach of the law.

5. Stalled Liquefied Petroleum Gas (LPG) Project and Uncapitalized Equipment

The statement of financial position reflects property, plant, and equipment net book value of Kshs.5,783,569,000. The balance includes capital work-in-progress balance of Kshs.26,283,750 in respect of construction of LPG Skid at Kipkaren Service Station comprising costs of civil works, two LPG Mini Skids and associated works. However, physical inspection revealed that although the skid foundation had been completed, no other works had been carried out, and the contractor had abandoned the site.

Further, it was established that the skids acquired for the project at a cost of Kshs.20,209,874 inclusive of installation costs were being used at the Corporation's Nairobi Terminal and Kabete Technical Training College resulting into unutilized expenditure of Kshs.6,073,876.

In the circumstances, value for money was not realized on the expenditure of Kshs.6,073,876 spent on civil works at Kipkaren Service Station which remain unutilized.

6. Stalled Single Buoy Mooring Facility Project

As previously reported, included in Note 42 to the financial statements is a Single Buoy Mooring Fund balance of Kshs.11,443,275. The Fund was established in July, 2010 after the Ministry of Energy and Petroleum through the Corporation expressed an interest to construct the facility near Kilindini, Mombasa for offloading crude oil and refined fuel. The Ministry in consultation with the Kenya Ports Authority (KPA) and the Corporation agreed on a suitable location for the facility upon which funds were committed for the feasibility study.

Further, the Corporation tendered for a feasibility study for the construction of a single buoy mooring offshore facility in June, 2011 despite KPA raising concerns about duplication of projects as there existed plans for expansion of port facilities capacity in handling petroleum products. Another feasibility was ordered by the Ministry of Finance in December, 2012 despite a consultant having carried a similar one in the previous year.

In addition, following stakeholder consultative sessions to review the feasibility report in 2013 and 2014, The National Treasury recommended engagement of a Public Private Partnership Advisor. The project was not executed despite expenditure of Kshs.69,556,725 during the preliminary stages. The balance of Kshs.11,443,275 out of an amount of Kshs.81,000,000 received from the Ministry of Energy and Petroleum for the project has been carried in the books of the Corporation as a liability.

In the circumstances, value for money from the project could not be confirmed.

7. Irregular Award of Tender for Supply of Laboratory Equipment

The tender for supply and delivery of laboratory equipment (Geochemical and Petro physical) was awarded to a company at a contract sum of Kshs.405,755,455. Review of procurement records revealed the following anomalies:

- i. Under preliminary evaluation, it was a requirement that all tenders be bound. However, a firm submitted a tender in a box file without bidding. The evaluation committee indicated in the evaluation report that it as minor variation. This was however part of the criteria to be adhered to.
- ii. Under technical evaluation, bidders where required to prove their financial capability as supported by providing audited accounts for the last three (3) years, out of which 10 marks would be awarded for compliance. The firm was awarded 10 marks, yet audited financial statement were not attached.
- iii. Bidders where required to demonstrate maximum accumulated volume handled for the last two (2) years, by proving a gross turnover above an amount of Kshs.3,000,000 as evidenced by audited accounts. The firm was awarded 15 marks, yet audited financial statement were not attached.
- iv. Bidders where required to attach a list and curriculum vitae of four (4) key personnel for purpose of tender if awarded. The firm was awarded the full 8 marks under the criteria, yet as detailed in the curriculum vitae most of the employees were not from the company.
- v. Bidders where required to demonstrate delivery schedule (shipment) in weeks and in weeks/months from receipt of order out of which 5 marks would be awarded under the criteria. The company was awarded 5 marks yet no commitment was made on any delivery schedule. The bidder only indicated that delivery will be as per the terms of the contract.

In the circumstances, the propriety and value for money of the contract sum of Kshs.405,755,455 could not be confirmed.

8. Non-remittance of Statutory Deductions

The Corporation has not been paying fringe benefit tax since inception of the car loan and mortgage scheme as required by section 12B of Income Tax Act. This is despite the fact

that the interest charged on car loan and mortgage issued is 3% which was below the prescribed market lending rate of 7%.

Further, review of the corporations' payables ageing analysis revealed that there were long outstanding taxes totalling to Kshs.22,175,274. The amount comprised of custom duty of Kshs.20,797,159 and Value Added Tax (VAT) of Kshs.1,378,115. Some of the taxes had been outstanding since year 2009.

In the circumstances, Management was in breach of the law.

9. Failure to File Annual Returns

The Corporation has not filed annual returns since the year 2018. This was contrary to Sections 705 and 708(1) of Companies Act, 2015, which provides that every company shall submit to the Registrar successive annual returns each of which is made up to a date not later than the date that is from time to time the company's return date.

In the circumstances, Management was in breach of the law.

10. Petroleum Strategic Stock

Regulation 4 of the Energy (Petroleum Strategic Stock) Regulations, 2008 states that, strategic stock shall be maintained in respect of each of the following petroleum products, at a level equivalent to up to ninety (90) days of consumption of each of these products, namely; (a) premium motor spirit; (b) illuminating kerosene; (c) jet fuel (kerosene); (d) automotive gas oil; and (e) liquefied petroleum gas. Further, Regulation 5 stipulates that the strategic stock shall be procured by the National Oil Corporation of Kenya and stored by the Kenya Pipeline Company Limited, and, in case of consumption or draw down, shall be replenished accordingly to its optimal level. However, Management has not been able to meet the provisions of the law. Management attributed the non-compliance to lack of sufficient budgetary allocation. It was further noted that the Corporation's license to import and export Petroleum Products (Except LPG) under EPRA/PET/4048 expired on 28 July, 2021 and has not been renewed.

In the circumstances, Management was in breach of the law.

11. Irregular Procurement

The Corporation purchased 3,549,979 litres of white products valued at Kshs.279,983,104 in the financial year 2020/21 through spot purchase. Although Management explained that they had been exempted by Public Procurement and Review Authority (PPRA) on use of procurement procedures, documents provided for audit revealed that, on 11 July, 2011, NOCK requested from the then PPOA, for approval to use Specially Permitted Procurement Procedure for the purchase of petroleum products but the same was not granted by the Authority as evidenced by response dated 13 September, 2011. In addition, these requests were done under the repealed Public Procurement and Disposal Act, 2005 and therefore the Corporation could not rely on the same.

Further, there was no evidence that the Corporation used one of the methods of procurement prescribed under part IX of Public Procurement and Asset Disposal Act, 2015.

In the circumstances, Management was in breach of the law.

12. Database and ERP Application System

Review of the Corporation's information technology systems revealed that two (2) systems in use were outdated necessitating an upgrade. The use of an outdated system increases vulnerability of losing crucial data and interruption of business operations.

Further, during financial year 2016/2017, the Corporation advertised for tender for the implementation and upgrading. The tender had not been budgeted for during the 2016-2017 budget. A company won the tender at an amount of Kshs.95,624,321 for a period of fifteen (15) months and post-implementation services for a period of three (3) years at a price of Kshs.24,654,456 per annum. A contract was signed on 2 June, 2017 and was valid up to 2 September, 2021. However, a letter dated 10 July, 2020 by the company indicated that Corporation withdrew system access and therefore they were unable to perform as per the contract. Documents presented for audit could not confirm that there was recommendation from Contract Implementation team on termination of the contract as per Section 151(2)(g) of the Public Procurement and Asset Disposal Act, 2015. The company filed a suit in the High Court against the Corporation for non-payment of outstanding invoices totalling Kshs.102,462,096 inclusive of interest.

In addition, the Corporation owed a firm a total of Kshs. 52,729,147 in Annual Software Update and Technical Support fees for the period between 1 June, 2019 and 30 June, 2021. Additionally, the Corporation owed a total of Kshs.37,207,471 in licenses fees for additional licenses purchased. It was also noted that there was continuous billing of unused licenses from the firm due to the incomplete project implementation. There is risk of loss of data and business interruption in the case of a security attack.

In the circumstances, there may have been loss of public funds and value for money was not achieved for the investment in information technology systems.

13. Exploration Expenditure - Block 14T

The statement of financial position and as disclosed in Note 40 to the financial statements reflects an amount of Kshs.2,423,039,000 in respect of exploration expenditure Block 14T. This amount represents the total capitalized exploration expenditure for block 14T as at 30 June, 2021.

Review of records indicated that the Corporation signed production sharing Contract with the Government of Kenya on 15 November, 2010 with effective date of 15 February, 2011. The initial exploration was for a period of three (3) years from effective date which was from 16 February, 2011 to 15 February, 2014 and as per clause 2(6), the contract was to expire automatically except as to any development area. The Management sought

extension of initial exploration period from Cabinet Secretary which was granted from 15 February, 2021 to 14 February, 2023.

However, it was not possible to ascertain if the Corporation had a valid contract to carry out initial exploration for the period between 15 February, 2014 to 14 February, 2021, which could lead to ineligible expenditures. It was also not possible to ascertain if the Corporation had met the criteria for extension of the contract as per clause 2(6) of the production sharing contract. Further, the corporation did not provide Work plans and Progress reports for the exploration activities.

In the circumstances, non-adherence of contractual obligations may lead to ineligible expenditure.

14. Loss on Sale of Products

Review of the Inventory Transaction Report for the year under review showed that the Corporation sold some goods at price less than the cost price resulting to a loss of Kshs.14,740,696. Management explained that the sales related to products held by a commercial bank due to non-payment under Collateral Financing Arrangement (CFA) and which was released for sale after the prices had gone below the cost. However, no evidence was produced to support the explanation.

In the circumstances, the sale did not reflect prudent management of public resources.

15. Long Outstanding Staff Imprests

The trade and other receivables balance includes unsurrendered imprest totalling to Kshs.3,695,700. Some of the imprest were outstanding for more than one financial year. The receivables also include a balance of Kshs.5,163,882 in respect of staff prepayments related to imprests advanced to staff which had not been accounted for. Further, some of the staff members held multiple imprests contrary to the provisions of Public Finance Management (National Government) Regulations, 2015.

In the circumstances, Management was in breach of the law.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my

report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Lack of Strategic Plan

Review of the Corporation's Strategic Plan confirmed that it expired in the year 2020. The Management has not provided the current Strategic Plan contrary to Section 68(2) of Public Finance Management Act, 2012. Therefore, achievement of the Corporation's strategic goal may not be possible.

In the circumstances, the effectiveness and direction of the Corporations' strategy could not be confirmed.

2. Lack of Disaster Recovery Plan

Review of the Corporation's business processes revealed lack of a documented disaster recovery plan which can be implemented in the event of an emergency. In the absence of a disaster recovery plan, personnel affected in case of disaster might not have an awareness of what is expected of them. In addition, a risk matrix developed at the Corporation did not include responses to the risks or potential controls that would be implemented to address identified risks. This implied that risks identified in the control environment may recur.

In the circumstances, existence of effective disaster recovery mechanisms in the Corporation could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Corporation, so far as appears from the examination of those records; and
- iii. The Corporation's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and for its assessment of the effectiveness of internal controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Corporation or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the Corporation's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Corporation's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Corporation to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

28 September, 2022

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**XIII. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR
THE YEAR ENDED 30 JUNE 2021.**

	Note	2020-2021	2019-2020
		Kshs'000	Kshs'000
REVENUES			
Revenue	6	9,334,969	12,100,513
Cost of sales	7	(8,701,777)	(11,667,975)
Gross profit		633,192	432,538
Other Income			
Interest income	9	10,883	93,478
Other operating income	10	60,674	104,369
Oil exploration grants		217,906	212,566
Release of deferred income		-	13,248
TOTAL REVENUES		922,655	856,199
EXPENDITURE			
Exploration costs	14	(217,906)	(212,566)
Staff costs	12	(504,459)	(480,606)
Operating expenses	13	(581,314)	(679,600)
Finance costs	15	(941,277)	(866,986)
TOTAL OPERATING EXPENSES		(2,244,956)	(2,239,758)
PROFIT/(LOSS) BEFORE TAXATION		(1,322,301)	(1,383,558)
INCOME TAX EXPENSE/(CREDIT)	17(a)	352,503	889,056
PROFIT/(LOSS) AFTER TAXATION		(969,798)	(494,502)
Earnings per share – basic and diluted	18	(36.46)	(18.59)
Earnings Per Share-Diluted	18	(18.79)	(9.58)
Dividend per share		-	-
OTHER COMPREHENSIVE INCOME			
Profit/ (Loss) after taxation		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(969,798)	(494,502)

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XIV. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

	Note	2020-2021	2019-2020
		Kshs'000	Kshs'000
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	20	5,783,569	5,979,103
Intangible Assets	21	104,995	111,558
Investment Property	22	10,107	10,340
Right- of -Use Assets	23	281,902	310,502
Exploration Block Assets	39	2,423,039	2,398,670
Deferred Tax Assets	32	1,412,858	1,041,302
Total Non-Current Assets		10,016,470	9,851,475
Current Assets			
Inventories	24	652,917	436,971
Trade and Other Receivables	25	720,336	565,824
Tax Recoverable	17b	34,291	33,663
Short-term /Call deposits	27	836,147	849,157
Bank and Cash Balances	28	405,017	412,894
Total Current Assets		2,648,708	2,298,510
Total Assets		12,665,178	12,149,985
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary Share Capital	29	1,032,000	1,032,000
Share Premium	29	1,183,000	1,183,000
Revaluation Reserves	30	2,016,092	2,016,092
Revenue Reserves	46	(4,025,234)	(3,055,436)

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Capital and Reserves		205,858	1,175,656
Non-Current Liabilities			
Lease Liabilities	33	181,884	177,653
Deferred Income	26	1,638,984	1,541,847
Block 14 Fund	40	1,133,769	1,133,389
MOE HQ Construction Fund	41	-	2,481
Gratuity Provision	35	10,299	13,649
SBM Jetty Fund	42	11,443	11,443
CSR Projects Fund	43	30,238	48,767
E&P Capacity Building Fund	44	72,955	72,955
Laboratory Equipment Fund	45	425,480	425,480
Total Non-Current Liabilities		3,505,052	3,427,664
Current Liabilities			
Borrowings	31	5,731,821	5,040,287
Trade and Other Payables	34	3,209,825	2,493,756
Gratuity Provisions	35	12,622	12,622
Total Current Liabilities		8,954,268	7,546,665
TOTAL EQUITY AND LIABILITIES		12,665,178	12,149,985

The financial statements were approved by the Board on 30/9/2021 and signed on its behalf by:



 Chief Executive Officer

Name: Leparan Gideon Ole Morintat


 Ag. Head of Finance

Name: Andrew Ringera

ICPAK M/NO: 20208


 Chairman of the Board

Name: Patrick Obath

XV. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2021

	note	Ordinary share capital, Kshs'000	Revaluation reserve Kshs'000	Share Premium Kshs'000	Revenue Reserve/(Deficit) Kshs'000	Proposed dividends Kshs'000	Funds Awaiting Allotment Kshs'000	Total Kshs'000
As at July 1, 2019		532,000	1,966,997	1,183,000	(2,560,934)	-	500,000	1,621,063
New capital issued		-						-
Revaluation gain		-	49,096	-	-	-	-	49,096
Allotment of Shares		500,000	-	-	-	-	(500,000)	-
Loss for the year		-	-	-	(494,502)	-	-	(494,502)
Proposed final dividends		-	-	-	-	-	-	-
As at June 30, 2020		1,032,000	2,016,093	1,183,000	(3,055,436)	-	-	1,175,657
As at July 1, 2020		1,032,000	2,016,093	1,183,000	(3,055,436)	-	-	1,175,657
Issue of new share capital		-	-	-	-	-	-	-
Revaluation gain		-	-	-	-	-	-	-
Loss for the year		-	-	-	(969,798)	-	-	(969,798)
Proposed final dividends		-	-	-	-	-	-	-
At June 30, 2021		1,032,000	2,016,093	1,183,000	(4,025,234)	-	-	205,858

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I. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

	Note	2020-2021	2019-2020
		Kshs	Kshs
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH GENERATED FROM/(USED IN) OPERATIONS	36(a)	(25,652)	771,704
Interest received	9	10,883	93,478
Interest paid	15	(920,048)	(828,704)
Taxation paid	17(b)	(19,681)	(3,571)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		(954,497)	32,908
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	20	(18,807)	(67,576)
Purchase of Intangible Assets	21	(9,966)	(32,277)
Acquisition of Leasehold Land	33	(21,793)	(1,836)
PPE Adjustments	20	937	3,546
Intangible Assets Adjustments	21	650	
Revaluation of PPE		-	536,936
Acquisition of Prepaid operating leases		-	11,320
Purchase of exploration assets	40	(24,369)	-
		-	-
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		(73,348)	451,948
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends Paid	-	-	-
Increase in Block 14T Funds	40	380	-
Government Grants received-upstream	8	280,000	140,000
Borrowings Received During the year	31	1,379,015	5,880,234
Borrowings Paid During the year	31	(256,589)	(4,926,299)
Interest received under Deferred Income	26	35,045	-
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		1,437,851	1,093,936
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		410,006	1,578,792

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	Note	2020-2021	2019-2020
		Kshs	Kshs
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		827,213	(751,579)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		1,237,219	827,213

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II. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2021

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	Actual / Final budget
	2020-2021	2020-2021	2020-2021	2020-2021	2020-2021	2020-2021
	Kshs	Kshs	Kshs	Kshs	Kshs	
	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	
Revenue						
Sales Revenue	25,582,801	-	25,582,801	9,328,624	16,254,177	36.5%
Other income	559,387	-	559,387	289,463	269,924	51.75%
Total incomes	26,142,188	-	26,142,188	9,618,087	16,524,101	36.79%
Expenses						
Cost of Sales	23,803,779	-	23,803,779	8,766,590	15,037,189	36.83%
Exploration Cost Reimbursement	474,330	-	474,330	217,906	256,424	45.94%
Finance cost	376,157	-	376,157	941,488	(565,330)	250.29%
Depreciation	321,238	-	321,238	254,747	66,491	79.30%
Facility expenses	132,707	-	132,707	119,156	13,552	89.79%
Other operating expenses	85,244	-	85,244	47,407	37,837	55.61%
Staff Expenses	470,403	-	470,403	489,638	(19,235)	104.09%
Travel and Entertainment	55,090	-	55,090	25,548	29,542	46.38%
Office expenses	23,230	-	23,230	15,318	7,912	65.94%
Corporate Expenses	47,435	-	47,435	10,237	37,198	21.58%
Professional fee	232,286	-	232,286	51,954	180,332	22.37%
Board Expenses	19,153	-	19,153	1,774	17,379	9.27%
Total expenditure	26,041,054	-	26,041,054	10,941,764	15,099,290	42.02%
Surplus (Deficit) for the period	101,134	-	101,134	(1,323,677)	1,424,811	(1408.8%)

Note:

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1. Sales revenue for the year was 36.5% of the budget the low sales was mainly due to deliberate management decision to slow down operations in non-profitable channel & adverse effect of Covid 19.
2. Other income for the year was 51.75% of budget, the low income generated was as a result of pandemic that slows down economic growth.
3. Other operating expenses and professional fee was 55.61% and 22.37% of the budgeted amount respectively the low cost was due to prudent cost management initiated by the corporation during the year.
4. Finance costs was 250.29% of the budget, the increase was due to unanticipated loan fine and penalties and restructuring of KCB long term loan to short term during the year.
5. Exploration Cost Reimbursement was 45.94% of budget, there was slow operations at Block 14T during the year.

III. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

National Oil Corporation of Kenya Limited (“the Corporation”) is incorporated as a limited Corporation in Kenya under the Kenyan Companies Act, and is domiciled in Kenya. The Corporation is involved in both the upstream and downstream activities in the oil industry in Kenya. In the Upstream activities, the Corporation is involved in the exploration of oil in one of the exploration blocks i.e. block 14T in Magadi. In the downstream activities, the Corporation is involved in the purchase and sale of white products, liquefied petroleum gas, lubricants and other by-products of the refining process. The address of its registered office is as follows:

Kawi Complex, Popo Lane
Off Red Cross Road, South C
P O Box 58567 – 00200
Nairobi

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity’s accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in *various notes*.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of National Oil Corporation of Kenya.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. Application of New and Revised International Financial Reporting Standards (IFRS)

i. *New and amended standards and interpretations in issue effective in the year ended 30 June 2021.*

Title	Description	Effective Date
IAS 39-Financial Instruments: Recognition and Measurement	IAS 39 "Financial Instruments: Recognition and Measurement" outlines the requirements for the recognition and measurement of financial assets, financial liabilities, and some contracts to buy or sell non-financial items. Financial instruments are initially recognized when an entity becomes a party to the contractual provisions of the instrument and are classified into various categories depending upon the type of instrument, which then determines the subsequent measurement of the instrument (typically amortized cost or fair value). Special rules apply to embedded derivatives and hedging instruments.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.
IFRS 4- Insurance Contracts (Superseded)	IFRS 4 "Insurance Contracts" applies, with limited exceptions; to all insurance contracts (including reinsurance contracts), that an entity issues and to reinsurance contracts that it holds. In light of the IASB's comprehensive project on insurance contracts, the standard provides a temporary exemption from the requirements of some other IFRSs, including the requirement to consider IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" when selecting accounting policies for insurance contracts.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

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Title	Description	Effective Date
IFRS 7- Financial Instrument Disclosures	IFRS 7 "Financial Instruments: Disclosures" requires disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Specific disclosures are required in relation to transferred financial assets and a number of other matters.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.
IFRS 16- Leases	IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

The Directors have assessed the applicable standards and amendments. Based on their assessment of impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements. Or the following has been assessed to be significant for the company and has been addressed as follows....

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Application of New and Revised International Financial Reporting Standards (IFRS)

ii. *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2021.*

Title	Description	Effective Date
IAS 1 — Presentation of Financial Statements	IAS 1 "Presentation of Financial Statements" sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
IAS 12 — Income Taxes	IAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.	Earlier application is permitted. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.

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Title	Description	Effective Date
IAS 16 — Property, Plant and Equipment	IAS 16 "Property, Plant and Equipment" outlines the accounting treatment for most types of property, plant and equipment. Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, and depreciated so that its depreciable amount is allocated on a systematic basis over its useful life.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IAS 37 — Provisions, Contingent Liabilities and Contingent Assets	IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" outlines the accounting for provisions (liabilities of uncertain timing or amount), together with contingent assets (possible assets) and contingent liabilities (possible obligations and present obligations that are not probable or not reliably measurable).	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IFRS 1 — First-time Adoption of International Financial Reporting Standards	IFRS 1 "First-time Adoption of International Financial Reporting Standards" sets out the procedures that an entity must follow when it adopts IFRS for the first time as the basis for preparing its general purpose financial statements. The IFRS grants limited exemptions from the general requirement to comply with each IFRS effective at the end of its first IFRS reporting period.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IFRS 3 — Business Combinations	IFRS 3 "Business Combinations" outlines the accounting when an acquirer obtains control of a business (e.g. an acquisition or merger). Such business combinations are accounted for using the 'acquisition method', which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references (published together with the

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Title	Description	Effective Date
IFRS 17 — Insurance Contracts	IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.	The IASB tentatively decided to defer the effective date of IFRS 17, Insurance Contracts to annual periods beginning on or after January 1, 2022. [The IASB has also published 'Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)' to defer the fixed expiry date of the amendment also to annual periods beginning on or after January 1, 2023.]

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

iii. Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2020/2021

NOTES TO THE FINANCIAL STATEMENTS (Continues)

4. Summary of Significant Accounting Policies

The principle accounting policies adopted in the preparation of these financial statements are set out below:

a) Statement of compliance

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) and in the manner required by the Kenyan Companies Act. For Kenyan Companies Act reporting purposes in these financial statements, the balance sheet is presented by the statement of financial position and the profit and loss account is presented by the statement of profit or loss and other comprehensive income.

(a) Basis of measurement

The financial statements have been prepared on the historical cost basis except for property, plant and equipment which is measured under the revaluation model.

(b) Functional and presentation currency

The financial statements are presented in Kenya shillings (Shs), which is the Corporation's functional currency. Except as indicated, financial information presented in Kenya shillings has been rounded to the nearest thousand (Shs'000).

(c) Use of estimates and judgements

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. The estimates and assumptions are based on the Directors' best knowledge of current events, actions, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

Carrying values of assets and liabilities are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements is described in note 4 – Critical Accounting Judgements and Key Sources of Estimation

b) Revenue recognition

Revenue, which represents sales to external customers during the year, is recognised upon delivery of products and customer acceptance and is measured net of value added tax, returns and rebates. Revenue consists of sales of white products, black products, lubricants, liquefied petroleum gas and gas cylinders. The Corporation recognises revenue for goods for which it has transferred control to a customer when satisfying a performance obligation.

Through-put fees represent fees charged on the volumes lifted by the various shippers hosted by the Corporation at its depot and are recognized upon the delivery of products

- i) Revenue from the sale of goods and services** is recognised in the year in which the *entity* delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) Oil exploration grants.** These are funds received from the Government for exploration activities. Government grants for upstream activities, for example research, facilitation of geo-scientific studies, maintaining the national seismic data archive etc, are recognised as

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

- iii) revenue over the period necessary to match them with related costs which they are intended to compensate, on a systematic basis.
- iv) **Training fund grants**-These are funds received from oil exploration companies as part of the contractual commitments between the oil exploration companies and the
- v) government. Withdrawals from this fund are utilised only for training staff involved in exploration activities. The training grants received are presented in the statement of
- vi) financial position as a deferred income and are recognised in profit or loss upon training on upstream activities.
- vii) **Grants from National Government** are recognized in the year in which the *entity* actually receives such grants.

These are funds received from the Government for the expansion of downstream distribution assets. Government grants relating to downstream assets, including non-monetary grants, are presented in the financial statements as a deferred income and are recognized in profit or loss on a systematic basis over the useful life of the assets. Grants relating to income are recognized in profit or loss in the year in which they have been granted
- viii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognized in profit or loss on a time proportion basis using the effective interest rate method.
- ix) **Rental income** is recognized in the income statement as it accrues using the effective interest implicit in lease agreements.
- x) **Other income** is recognized as it accrues.

c) In-kind contributions

In-kind contributions are donations that are made to the *entity* in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

reliably determined, the *entity* includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

d) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Periodically and for a period not exceeding five years, Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement. Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

Subsequent expenditure, including the cost of replacing a component of property, plant and equipment is capitalised if it is probable that the future economic benefits associated with the expenditure will flow to the Corporation and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

e) Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the cost of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognized in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

Freehold Land	Nil
Buildings and civil works	25 years or the unexpired lease period
Plant and machinery	12.5 years
Motor vehicles, including motor cycles	4 years
Computers and related equipment	3 years
Office equipment, furniture and fittings	12.5 years

A full year's depreciation charge is recognized both in the year of asset purchase and in the year of asset disposal.

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

f) Intangible assets

Intangible assets represent computer software which is measured at cost less accumulated amortisation. Amortisation is calculated to write off the cost of the assets on a straight line basis over their estimated useful life of 3 years, from the date that they are available for use.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

The amortisation of intangible assets is included in other operating expenses in the statement of profit or loss and other comprehensive income.

g) Amortization and impairment of intangible assets

Amortization is calculated on the straight-line basis over the estimated useful life of the intangible asset. All intangible assets are reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

h) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When an investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting. The investment property comprises of freehold land and buildings. The freehold land is not amortised. The building is depreciated from the date it is available for use and is depreciated on a straight-line basis over its estimated useful life which is at the rate of 2.5% p.a.

i) Right of Use Asset

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Whenever the entity incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the entity expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the lease. All other leases are classified as operating leases.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

Operating leases

Payments made under operating leases are recognised to the profit or loss on a straight line basis over the period of the lease. Payments made in advance to acquire leasehold interest in land are treated as prepaid operating lease rentals and amortised over the period of the lease. Any payment required to be made to the lessor by way of penalty for termination of lease before the expiry of the lease period, is recognised in the year in which termination takes place.

j) Exploration Expenditure - Block 14 T

Exploration for and evaluation of mineral resources is the search for mineral resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource.

Accordingly, exploration and evaluation expenditure are those expenditures incurred by the Corporation in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Accounting for exploration and evaluation expenditure is assessed separately for each 'area of interest'. An 'area of interest' is an individual geological area, which is considered to constitute a favourable environment for the presence of a mineral deposit or has been proved to contain such a deposit.

For each area of interest, the expenditure is recognised as an exploration and evaluation asset when the rights of tenure to that area of interest are current and the expenditure is expected to be recouped through success development and exploitation of an area of interest, or alternatively by its sale, and where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

General and administrative costs are allocated to, and included in, the cost of exploring and evaluation assets only to the extent that those costs can be related directly to operational activities in the area of interest to which the exploration and evaluation assets relate. In all other instance, these costs are expenses as incurred.

Impairment testing of exploration and evaluation assets

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability or facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Accumulated costs in relation to an abandoned area are written off in full to the statement of profit or loss and other comprehensive income in the year in which the decision to abandon the area is made.

k) Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss.

l) Quoted investments

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value.

m) Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities that are not quoted in the Securities Exchange

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

n) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of sale. Specific provision is recognised for obsolete, slow moving and defective inventories.

o) Trade and other receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

p) Taxation

i) Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

q) Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

r) Borrowing costs & Finance cost

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognized in other comprehensive income and reclassified to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalized borrowing costs reflect the hedged interest rate. **Investment income (finance income)** earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as finance cost irrespective whether foreign currency are in a net gain or net loss position.

s) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

Commercial Banks at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

t) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalized as part of the cost of the project.

u) Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortized cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

v) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2020. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The Corporation also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as employee benefit expenses in the profit or loss in the period during which the employees have rendered the related services. The Corporation operates a defined contribution provident fund for its employees. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by payments from both the employees and the Corporation. Benefits are paid to retiring staff in accordance with the scheme's rules. The Corporation also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute.

w) Provision for staff leave pay

Employees' entitlements to annual leave are charged to the profit or loss as they fall due. A liability is recognised for the amount to be paid for the annual leave days outstanding and short term cash bonus plans if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Employees on contract are entitled to gratuity at the end of the contract or employment, whichever comes earlier. The estimated monetary liability for such entitlement as at the financial reporting date is recognised as an expense accrual.

x) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

y) Budget information

The original budget for FY 2020-2021 was approved by the National Treasury on 30th July 2020. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity recorded no additional appropriations of on the 2019-2020 budget following the governing body's approval.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section xxx of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

a) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

b) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2021.

5. Significant Judgments and Sources of Estimation Uncertainty

In the process of applying the Corporation's accounting policies, management makes judgements, estimates and assumptions about the carrying amounts of assets and liabilities within the next financial year. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the financial reporting date that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

a) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur.

b) Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset

c) Property, Plant and Equipment

Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed at the reporting date and may vary depending on a number of factors. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

d) Provisions for pending litigations

The Corporation is currently involved in various legal cases. Management regularly reviews the status of these cases and, in consultation with legal counsel, estimates the probable liabilities that could be incurred in the event that the cases are lost. In determining whether to process the provisions in the financial statements, management critically evaluates the probability of losing these cases and only makes provision for the cases in which it is probable that future outflow of resources will be required to settle the obligations.

e) Impairment of assets

Property and equipment are assessed for impairment if there is a reason to believe that impairment may be necessary. Factors taken into consideration in reaching such a decision include the economic viability of the asset itself and where it is a component of a larger economic unit, the viability of that unit itself.

Future cash flows expected to be generated by the assets are projected, taking into account market conditions and the expected useful lives of the assets. The present value of these cash flows, determined using an appropriate discount rate, is compared to the current net asset value and, if lower, the assets are impaired to the present value.

f) Deferred Tax Asset

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Details of the carrying value of recognised tax losses at 30 June 2021 are provided in note 25.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

g) Classification of leases of land as finance or operating leases

At the inception of each lease of land, the Corporation considers the substance rather than the form of the lease contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

h) Impairment of financial assets

The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The measurement of impairment losses across all categories of financial assets requires judgement and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Corporation's Expected Credit Losses (ECL) calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

Elements of the ECL models that are considered accounting judgements and estimates include:

- The segmentation of financial assets when their ECL is assessed on a collective basis;

NOTES TO THE FINANCIAL STATEMENTS (Continued)

- Historical default and expected loss rates;

The Corporation's criteria for assessing if there has been a significant increase in credit risk; and

Development of ECL models, including the various formulas and the choice of inputs.

i) Impairment of assets – non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount. Non-financial assets that are not subject to amortisation are tested annually for impairment. These calculations require the use of estimates and assumptions such as future expected cash flows and pre-tax discount rate.

j) Provision for Inventory

The Corporation regularly evaluates inventory to ensure the cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The practice of writing inventories down below cost to net realisable value is consistent with the view that assets should not be carried in excess of amounts expected to be realised from their sale.

k) Going Concern

The Corporation incurred a loss of Shs 969,798,000 (2020: Shs 494,502,000) during the year and had accumulated losses of Shs 4,025,234,000 as at 30 June 2021 (2020: Shs 3,055,436,000). In addition, the Corporation is in a net current liability position of Shs 6,285,415,000 (2020: Shs 5,248,155,000). These conditions may indicate the existence of a material uncertainty that may cast significant doubt about the Corporation's ability to continue as a going concern. However, the Directors are putting in place measures to improve the performance of the Corporation and to reduce reliance on financial support from the shareholders.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Management has instituted measures to address the going concern, these measure include;

1. The plan to dispose off non-performing assets to raise funds to finance the business operations thus reducing on the reliance of expensive financing facility;
2. Efficient stock management to avoid holding capital on stocks which increase financing cost, this is line with the business approach of reducing investment on low margin sector of the business like resellers; and credit sales.
3. The Corporation is also looking into debt restructuring with an aim to reduce the finance cost, discussions are ongoing with banks to increase the tenure of existing loans to minimise the cash flow burden.

The Government of Kenya further committed through a letter of support to continue providing the required support to the Corporation to enable it to implement its turnaround plan and meet its Financial obligations as and when they fall due, at least for the next 12 months from the approval of the financial statements for the year ended 30 June 2019.

6. Revenue

	2020/2021	2019/2020
	Kshs.000	Kshs.000
Sale of Goods-White oils	8,642,245	11,283,553
Sale of Goods-LPG	548,197	656,284
Sale of Goods-Lubes	108,671	150,574
Other Sales	35,856	10,102
Total	<u>9,334,969</u>	<u>12,100,513</u>

Sales revenue for the year reduced mainly due to deliberate management decision to slowing down operations in non-profitable channels and adverse effect of Covi-19

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. Cost of Sales

	2020/2021	2019/2020
	Kshs.000	Kshs.000
Cost of sales on goods	8,566,104	11,037,418
Other direct cost	135,673	630,557
Total	<u>8,701,777</u>	<u>11,667,975</u>

8. Grants from National Government

	2020/2021	2019/2020
	Kshs000	Kshs000
Capital Grant Received	280,000	140,000
Capital grants realized	-	-
In Kind contributions/ donations	-	-
Total	<u>280,000</u>	<u>140,000</u>

Name of the Entity sending the grant	Amount recognized in the Statement of Comprehensive Income KShs000	Amount deferred under deferred income KShs000	Amount recognised in capital fund. KShs000	Total grant income during the year KShs	2019-2020 KShs
Ministry/State Department of Petroleum and Mining	-	280,000	-	280,000	140,000
	-	-	-	-	-
Total	-	280,000	-	280,000	140,000

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. Interest Income

	2020/2021	2019/2020
Description	Kshs.000	Kshs.000
Interest from Commercial Banks and Financial institutions	10,883	93,478
Interest on staff loans	-	-
Dividends	-	-
Total	10,883	93,478

10. Other Income

	2020/2021	2019/2020
Description	Kshs.000	Kshs.000
Multi - client data	-	32,215
Throughput fees	3,565	-
Sundry income	(2,132)	20,558
Fines & Penalties	330	-
LPG plant through put fees	509	3,268
Rental income (subletting)	58,402	48,328
Total	60,674	104,369

11. Other Gains and Losses

The Corporation reported Nil other gains and losses.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. Staff Costs

Description	2020/2021	2019/2020
	Kshs.000	Kshs.000
Salaries and Allowances of Permanent Employees	452,539	443,547
Employer's Contributions to NSSF Scheme	405	497
Employer's contributions to pension scheme- Defined Contribution Plan	24,842	24,138
Leave pay	14,855	(1,987)
Gratuity provisions	11,818	14,411
Total	<u>504,459</u>	<u>480,606</u>
The average number of employees at the end of the year was:		
Permanent employees – Management	137	149
Permanent employees – Unionisable	22	23
Temporary and contracted employees	26	26
Total	185	198

13. Operating Expenses

Description	2020/2021	2019/2020
	Kshs000	Kshs000
	236,395	258,447
Maintenance of Equipment	47,287	1,652
Professional Fee	33,622	110,565
Amortization of Prepaid Operating Leases	-	70,591
Travelling and Accommodation	25,548	23,072
Amortization of Intangible Assets	18,353	25,245
Security Charges	20,865	32,032
Advertising and Publicity	7,880	22,844

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Description	2020/2021	2019/2020
	Kshs000	Kshs000
Rent and Rates	31,683	32,120
Hire and Rentals	25,098	15,837
Director Cost and Emoluments	2,818	12,537
Subscriptions and Donations	2,356	1,686
Insurance	6,978	4,657
Printing	3,617	5,033
Telephone and Fax	5,189	6,634
Cleaning	10,324	9,307
Light & Water	8,248	5,071
Audit Fees	10,198	14,230
Groceries and Drinks	5,277	7,134
Office Supply Expenses	304	123
Postage and Courier	415	8,891
Staff Uniforms	194	(346)
Books and Newspapers	538	321
Hospitality	-	(51)
Legal Fees	8,134	11,969
Bad Debts Provision	69,993	-
Total	581,314	679,600

14. Exploration Costs

Description	2020/2021	2019/2020
	Kshs000	Kshs000
Exploration Costs-Staff Costs		
Salaries	89,620	81,357
Staff Housing Allowance	15,520	14,499

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2020/2021	2019/2020
Description	Kshs000	Kshs000
Gratuity	11,212	10,837
Other Staff Cost	13,220	14,013
Total-A	<u>129,572</u>	<u>120,706</u>
Exploration Costs-Other		
Office Supplies and Expenses	25,604	24,561
Rent and Rates	11,560	8,376
Professional Fees	22,287	30,556
Travelling and Accommodation	3,992	4,237
Training and Education	-	(11)
Director Fees and Emolument	3,710	4,430
Audit Fees	2,549	3,757
Printing and Stationery	457	99
Telephone, Telex and Postage	1,095	2,529
Subscriptions and Donations	505	(27)
Groceries and Drinks	1,103	1,264
Advertising and Publicity	337	4,181
Cleaning	3,485	2,572
Security Charges	3,584	(2,648)
Insurance - Office & Other Insurance	4,073	5,838
Motor Running Expenses	874	650
Light and Water	1,259	644
Repairs and Maintenance	1,859	852
Total-B	<u>88,333</u>	<u>91,860</u>
Total-A+B	<u>217,906</u>	<u>212,566</u>

These are costs incurred by the Exploration department of the Corporation, and they relates to exploring for oil and gas.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. Finance Costs

	2020/2021	2019/2020
Description	Kshs.000	Kshs.000
Interest Expense on Loans	920,048	828,704
Net Foreign Exchange gain/(loss)	21,229	38,282
Total	941,277	866,986

Finance costs comprise interest expense on borrowings.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as finance cost irrespective whether foreign currency are in a net gain or net loss position.

16. Operating profit/ (loss)

	2020/2021	2019/2020
	Kshs000	Kshs000
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff costs (note 12)	504,459	480,606
Depreciation of property, plant and equipment	260,712	258,681
Depreciation of investment property	235	235
Amortisation of intangible assets	25,398	33,136
Inventory provisions	31,715	317,766
Provision for bad debts	69,993	284,818
Directors' emoluments – fees	-	-
- other	6,528	20,044
Auditors' remuneration - current year fees	10,198	8,995
Totals	<u>909,238</u>	<u>1,404,281</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. Income Tax Expense/(Credit)

(a) Current taxation

	2020/2021	2019/2020
	Kshs.000	Kshs.000
Current taxation based on the adjusted profit for the year at 30%	(396,690)	(415,067)
Tax effect of expenses not deductible for tax	42,453	265,800
Effect of change in Tax rate	1,734	7,090
Under/(over) provision of deferred taxation asset in the prior year	-	(201,098)
Deferred tax on losses, utilized	-	(545,780)
Total	<u>(352,503)</u>	<u>(889,056)</u>

(b) Current Tax Assets

	2020/2021	2019/2020
	Kshs.000	Kshs.000
At the beginning	33,663	65,543
Current tax expense	(19,053)	(35,451)
Income tax paid	19,681	3,571
Total	34,291	33,663

18. Earnings/Loss Per Share

The earnings per share is calculated by dividing the profit /loss after tax of Kshs.969,797,000 (2020/2021: by the average number of ordinary shares in issue during the year of 26,600,000 (2019-2020:). There were not dilutive or potentially dilutive ordinary share as at the reporting date.

	2021	2020
	Shs'000	Shs'000
Loss attributable to ordinary shareholders	(969,797)	(494,502)
	=====	=====

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Basic loss per share

Weighted average number of ordinary shares used in the calculation of basic loss per share ('000)	26,600	26,600
	=====	=====

Basic loss per share (Shs)	(36.46)	(18.59)
	=====	=====

Diluted loss per share

Weighted average number of ordinary shares used in the calculation of basic loss per share ('000)	26,600	26,600
---	--------	--------

Weighted average number of ordinary shares deemed to be issued in respect of funds awaiting allotment of shares ('000)	25,000	25,000
	-----	-----

Weighted average number of ordinary shares used in the calculation of diluted loss per share ('000)	51,600	51,600
	=====	=====

Diluted loss per share (Shs)	(18.79)	(9.58)
	=====	=====

19. Dividend Per Share

No dividends were declared in the year under review.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. Property, Plant and Equipment

2021	Freehold land	Leasehold Land	Building	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
COST OR VALUATION	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
As at 1 July 2019	659,966	2,516,276	2,215,841	2,425,844	23,273	39,398	7,880,598
Additions	-	-	20,879	46,696	-	-	67,575
Transfer from WIP	-	-	9,602	-	(9,602)	-	-
Reclassification	(90,000)	90,000	190,447	(190,447)	-	9,521	9,521
Transfer from WIP	-	-	-	-	-	(3,546)	(3,546)
Revaluation Adjustment	(51,768)	396,759	(875,374)	-	(6,552)	-	(536,935)
As at 30th June 2020	<u>518,198</u>	<u>3,003,035</u>	<u>1,561,395</u>	<u>2,282,093</u>	<u>16,721</u>	<u>35,771</u>	<u>7,417,213</u>
At 1 July 2020	<u>518,198</u>	<u>3,003,035</u>	<u>1,561,395</u>	<u>2,282,093</u>	<u>16,721</u>	<u>35,771</u>	<u>7,417,213</u>
Additions			8,533	10,274		(9,521)	18,807
Transfer from WIP							(9,521)
Adjustment	2	(1,039)	1,801	(1,733)	(1)	33	(937)
At 30 June 2021	<u>518,200</u>	<u>3,001,996</u>	<u>1,571,729</u>	<u>2,290,634</u>	<u>16,720</u>	<u>26,283</u>	<u>7,425,562</u>
DEPRECIATION							
At July 1, 2019	-	226,564	224,554	1,281,043	17,205	-	1,749,366
Charge for the year	-	46,610	67,674	144,193	2,235	-	260,712
Revaluation Adjustment	-	(236,110)	(330,482)	-	(19,439)	-	(586,031)
Reclassification Adjustment	-	14,063	46,280	(46,280)	-	-	14,063

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2021	Freehold land	Leasehold Land	Building	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
At 30 June 2020		<u>51,127</u>	<u>8,026</u>	<u>1,378,956</u>	<u>1</u>	<u>=</u>	<u>1,438,110</u>
At 1 July 2020		<u>51,127</u>	<u>8,026</u>	<u>1,378,956</u>	<u>1</u>	<u>=</u>	<u>1,438,110</u>
Charge for the year		43,542	40,886	109,650	9,805		203,883
At 30 June 2021		94,669	48,912	1,488,606	9,806	=	1,641,993
Net Book Value on valuation basis							
At 30 June 2021	<u>518,200</u>	<u>2,907,327</u>	<u>1,522,817</u>	<u>802,028</u>	<u>6,914</u>	<u>26,283</u>	<u>5,783,569</u>
At 30 June 2020	<u>518,200</u>	<u>2,951,908</u>	<u>1,553,369</u>	<u>903,137</u>	<u>16,720</u>	<u>35,771</u>	<u>5,979,103</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Valuation

Leasehold land and freehold land were valued in December 2019 by Ebony Estates Limited on the basis of comparable sales while buildings and motor vehicles are valued on a depreciated replacement cost basis.

Property, Plant and Equipment with a net book value of Sh 2,024,229,694 (2020: Sh 1,820,431,000) have been charged to secure banking facilities granted to the Corporation as disclosed in note 30.

Details of the fair value hierarchy for the Corporation's property plant and equipment carried at fair value as at 30 June 2018 and as at 30 June 2019 are as follows:

20 (a) Property, Plant and Equipment at Cost

If the freehold land, buildings and other assets were stated on the historical cost basis the amounts would be as follows:

	Cost	Accumulated Depreciation	NBV
	Kshs000	Kshs000	Kshs000
Freehold Land	275,071	-	275,071
Lease hold Land	587,098	-	587,098
Buildings	1,687,233	42,526	1,644,707
Plant and Machinery, Computers, Furniture and Equipment.	2,290,633	1,488,605	802,028
Motor vehicles, including motorcycles	4,551	1,138	3,413
Work in Progress	26,284	-	26,284
	4,870,870	1,532,269	3,338,601

Property Plant and Equipment includes the following assets that are fully depreciated:

	Cost	Normal Annual Depreciation Charge
Plant and Machinery	649,785,384	81,223,173
Intangible Assets	558,687,355	167,606,206
Furniture and Equipment	90,183,536	11,272,942
Computers	168,063,772	56,021,257
Total	1,466,720,047	316,123,579

The Work in Progress includes,

LPG Mini-Filling equipment, LPG skids and civil works for installation of LPG Skid at Kipkaren Service Station in Eldoret.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. Intangible Assets

	2020/2021	2019/2020
	Kshs000	Kshs000
Cost		
At July 1	677,711	654,955
Additions	9,966	32,277
Transfer from WIP	9,521	-
Reclassification	-	(9,521)
Adjustment	(650)	-
Disposals	-	-
At June 30	696,548	677,711
Amortization		
At July 1	566,155	533,019
Charge for the year	25,398	33,136
Disposals	-	-
Impairment loss	-	-
At June 30	591,553	566,155
Net Book Value		
At June 30	104,995	111,556

The intangible assets relate to computer software acquired by the Corporation.

22. Investment Property

	2020/2021	2019/2020
	Kshs000	Kshs000
Costs	13,531	13,531
Movements during the year		
Closing Costs	13,531	13,531
Depreciation		
At July 1	3,190	2,956
Charge for the year	234	234
At June 30	3,424	3,190
Net Book Value		
At June 30	10,107	10,341

Investment property relate to a building held for rental purposes. The building is constructed on freehold land. The Directors estimate the fair value of the investment property to be about Shs 172,500,000 (2020: Shs 172,500,000).

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23. Right-of-Use Assets

	Petrol Stations	Total
	Kshs000	Kshs000
Cost		
As at 1 July 2020	341,037	341,037
Additions	-	-
As at 30 June 2021	<u>341,037</u>	<u>341,037</u>
Accumulated Depreciation		
As at 1 July 2020	30,534	30,534
Charge for the year	28,601	28,601
As at 30 June 2021	<u>59,135</u>	<u>59,135</u>
Carrying Amount		
As at 30 June 2021	<u>281,902</u>	<u>281,902</u>
As at 30 June 2020	<u>310,503</u>	<u>310,503</u>

24. Inventories

(a)

	2020/2021	2019/2020
	Kshs000	Kshs000
White products	1,200,457	952,698
Fuel oil ,LPG ,lubricants and others	1,801,153	1,801,251
Less: Impairment of stocks	(2,348,693)	(2,316,978)
Total	652,917	436,971

24(b). Reconciliation of Impairment Allowance for Inventories

Description	2020-2021	2019-2020
	KShs000	KShs000
At the beginning of the year	(2,316,978)	(2,422,102)
Additional provisions during the year	(31,715)	105,124
At the end of the year	(2,348,693)	(2,316,978)

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

25.) a) Trade and Other Receivables

	2020/2021	2019/2020
	Kshs000	Kshs000
Trade receivables	687,438	625,558
Deposits and prepayments	552,445	389,822
Gross trade and other receivables	1,239,883	1,015,380
Provision for bad and doubtful receivable	(519,547)	(449,555)
Net trade and Other receivables	<u>720,336</u>	<u>565,825</u>

25. (b) Trade Receivables

	2020/2021	2019/2020
	Kshs000	Kshs000
Gross trade receivables	687,438	625,558
Provision for doubtful receivables	(519,547)	(449,555)
Net trade receivables	<u>167,891</u>	<u>176,003</u>
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	154,193	71,262
Between 30 and 60 days	1,125	2,822
Between 61 and 90 days	4,185	8,646
Between 91 and 180 days	3,303	63,589
Over 180 days	524,632	479,239
Total	687,438	625,558

25. (c) Reconciliation of Impairment Allowance for Trade Receivables

Description	2020-2021	2019-2020
	KShs000	KShs000
At the beginning of the year	(449,555)	(321,576)
Additional provisions during the year	(69,993)	(127,979)
At the end of the year	(519,548)	(449,555)

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26. Deferred Income

	Training fund grant Shs'000	Oil Government exploration grants Shs'000	downstream grant Shs'000	Total deferred income Shs'000
At 1 July 2019	10,225	1,601,087	16,348	1,627,660
Receipts during the year:	-	140,000	-	140,000
Exploration expenditure	-	(212,566)	(13,248)	(225,814)
	<u>10,225</u>	<u>1,528,521</u>	<u>3,100</u>	<u>1,541,846</u>
At 30 June 2020	<u>10,225</u>	<u>1,528,521</u>	<u>3,100</u>	<u>1,541,846</u>
At 1 July 2020	10,225	1,528,521	3,100	1,541,846
Receipts during the year:	-	280,000	-	280,000
Interest Income	-	35,044	-	35,044
Exploration expenditure	-	(217,906)	-	(217,906)
At 30 June 2021	<u>10,225</u>	<u>1,625,659</u>	<u>3,100</u>	<u>1,638,984</u>

Training fund grant relates to amounts received from oil exploration companies as part of the contractual commitments between the oil exploration companies and the government. Withdrawals from this fund are utilised for training staff involved in exploration activities.

Oil exploration grant funds are received from the Government for exploration activities (upstream business). Government grants relating to upstream business are also treated as

deferred income received. The grants are then released to and presented as a credit in the statement of profit or loss and other comprehensive income under other income as and when the grants are utilised.

Government downstream grant relates to funds received from the Government for the expansion of downstream distribution assets. Government grants relating to downstream assets, including non-monetary grants, are presented in the financial statements as a deferred income

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liability and are recognised as a credit in the statement of profit or loss and other comprehensive income on a systematic basis over the useful life of the assets. Grants relating to income are presented as a credit in the statement of profit or loss and other comprehensive income in the year in which they have been granted.

27. Short Term Deposits

Bank	2020/2021	2019/2020
	Kshs000	Kshs000
Stanbic Bank	10,400	10,400
KCB Bank Limited	822,247	838,557
Equity Bank Limited	3,500	200
Totals	836,147	849,157

The weighted average interest rate received on call deposits during the year was 6% (2020: 7.88%).

28. Bank and Cash Balances

	2020/2021	2019/2020
	Kshs000	Kshs000
Staff Mortgage and Car Loan Scheme Deposit	257,355	248,570
Cash at Bank	146,244	163,703
Cash in Hand	1,418	621
Totals	405,017	412,894

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(a) Detailed analysis of the Cash and Cash equivalents

Financial institution	Account number	2020/2021 KShs000	2019/2020 KShs000
a) Current account			
KCB Bank Kenya Limited-Kshs.	1107169380	-	28,539
KCB Bank Kenya Limited-USD	1109158068	34	64
Equity Bank of Kenya –Kshs.	560292466991	2,133	35,672
Cooperative Bank of Kenya-Kshs.	1120002167901	12,530	13,326
Cooperative Bank of Kenya-Kshs.	1120002167902	126,197	59,528
Stanbic Bank Kenya Limited –USD.	0100001516447	5	14
NCBA Bank Kenya PLC-Kshs.	8110800013	(848)	5,505
National Bank of Kenya-Kshs.	1020056960000	3,221	597
Standard Chartered Bank-Kshs.	106004961200	2,883	19,699
Stanbic Bank Limited -Kshs	01000004398186	-	671
Stanbic Bank Limited -USD	01000004398194	89	88
Sub- Total		146,244	163,703
b) Staff Car Loan/ Mortgage Scheme			
KCB Staff Mortgage	MM1714569496 /MM1833959258 /1119821548	140,431	139,070
HF Staff Mortgage	2000085373/3000 011572	73,865	66,621
CFC Staff Car Loan	MM1529518225	43,059	42,878
Sub- total		257,355	248,569
c) Others (specify)			
Cash in Hand		708	598
Mpesa		710	23
Sub- total		1,418	621
Grand total		405,017	412,893

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(b) Mortgage Scheme Facility- Housing Finance

	2020/2021
	Kshs000
Opening Balance	66,621
Addition	6,000
Interest earned during the year	1,244
Closing Balance	73,865

Fund summary Mortgage Scheme Facility- Housing Finance

	2020/2021
	Kshs000
Utilised Fund	73,865
Available for lending	-
Total Scheme funds held as at 30.06.2021	73,865

(c) Mortgage Scheme Facility- KCB Kenya Limited

	2020/2021
	Kshs000
Opening Balance	139,070
Addition	-
Interest earned during the year	1,361
Closing Balance	140,431

Fund Summary- KCB Kenya Limited

	2020/2021
	Kshs000
Utilised Fund	111,561
Available for lending	28,871
Total Scheme funds held as at 30.06.2021	140,431

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Fund Summary- CFC Car Loan Facility.

	2020/2021
	Kshs000
Utilised Fund	30,864
Available for lending	11,503
Total Scheme funds held as at 30.06.2021	42,367

29. Ordinary Share Capital

	2020/2021	2019/2020
	Kshs000	Kshs000
Authorized:		
Authorized, issued and fully paid 51,600,000 Ordinary shares of Shs 20 each	1,032,000	1,032,000
Issued and fully paid:		
51,600,000 Ordinary shares of Shs 20 each	1,032,000	1,032,000

On 29 October 2008, the general meeting of shareholders approved the issuance of 9,100,000 ordinary shares at a price of Shs 150 per share resulting in a share premium of Shs 130 per share totalling to a share premium of Shs 1,183,000,000.

SHAREHOLDING STRUCTURE

	2021	2020
	No. of shares	No. of shares
	'000'	'000'
National Treasury (99%)	51,084	26,334
Ministry of Energy and Petroleum (1%)	516	266
	<hr/>	<hr/>
	51,600	26,600

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

30. Revaluation Reserve

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

Description	2020-2021	2019-2020
	KShs000	KShs000
At the beginning of the year	2,016,093	1,966,996
Revaluation gain(loss)	-	49,096
At the end of the year	2,016,093	2,016,093

31. Borrowings

Description	2020-2021	2019-2020
	KShs000	KShs000
a) External Borrowings	n/a	n/a
b) Domestic Borrowings		
Balance at beginning of the year	5,040,287	3,651,513
Stanbic Bank Limited overdraft facility	(434,838)	-
Domestic borrowings during the year	1,379,015	5,880,234
Repayments during the year-Term Loan	(256,589)	(4,345,407)
Repayments during the year-STF	-	(580,892)
Balance at end of the year-Term Loan	5,727,876	4,605,449
Balance at end of the year- Stanbic overdraft	-	434,838
Balance at end of the year- KCB overdraft	3,945	
Balance at end of the period	5,731,821	5,040,287

	2020-2021	2019-2020
	KShs000	KShs 000
Domestic Borrowings		
CFC Stanbic Bank Loan	-	255,917
CFC Short Term Loan	1,459,340	685,411
KCB Term out 2	4,268,536	3,664,121
KCB Bank Kenya Limited overdraft facility	3,945	-
Stanbic Bank Limited overdraft facility	-	434,838
Total balance at end of the year	5,731,821	5,040,287

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Borrowings from KCB Bank Kenya Limited are secured over the following Corporation's land.

Location	Description	Net Book Value
Nakuru	L.R. NO:NAKURU MUN/BLOCK 16/263	65,093,822
Nakuru	RAVINE SERVICE STATION -LR NO:NAKURU MUN BLOCK 21/581	39,397,741
Mombasa	L.R. NO:KWALE/UKUNDA/3061	9,865,471
Nairobi	NAIROBI NATIONAL TERMINAL-L.R NO:209/12298	843,179,724
Nakuru	New Gilgil PSS-LR NO:1317/19/1/11	17,000,000
Eldoret	Highway PSS-L.R. NO:ELD MUN/BLOCK 2/73/1	48,240,469
Eldoret	West Indies PSS-L.R. NO:ELD MUN/BLOCK/5/628	44,337,423
Eldoret	Kipkaren PSS-LR NO:ELD MUN/BLOCK13/417 & 689	49,832,061
Eldoret	LR. NO:Eld Mun Block21/Kingongo/875	57,208,191
Mombasa	Magongo PSS Land-LR NO:MAINLAND NORTH /SECTION VI/2495/2 & 29/1	53,500,000
Kisumu	Magharibi PSS-LR NO:KIS MUN/BLOCK/4/73	58,503,119
Kisumu	Kisumu Market PSS-LR NO:KIS MUN/BLOCK/9/6	77,557,252
Kisumu	Kisumu Family-LR NO:KIS MUN/BLOCK 8/7	58,032,787
Kisumu	Kisumu Lake PSS-LR NO:KISUMU MUN/BLOCK 7/7	48,369,565
Thika	Bidco Thika Station-LR NO:THIKA MUN/BLOCK12/176	19,728,814
Mombasa	Mwembe Tayari PSS Land-LR NO:MOMBASA/BLOCK/XVIII/424	70,000,000
Mombasa	Mackinon PSS Land-LR NO:MOMBASA/BLOCK XVII/390,391 & 629	43,800,000
Mombasa	Ganjoni PSS Land-LR NO:MOMBASA/BLOCK XX11/127	35,000,000
Mombasa	Gulshan Kenyatta Avenue PSS-LR NO:MOMBASA/BLOCK XVI/136	35,463,668
Nairobi	Ngong Road PSS Land-LR NO:209/7753	220,462,185
Nairobi	Tassia Nairobi Vacant Plot-LR NO:NRB/BLOCK/97/59,60,61 &62	<u>129,727,403</u>
TOTAL		<u>2,024,299,694</u>

BORROWINGS

	Maturities	2021 Avg Int Rates	2021 Shs '000'	2020 Avg Int Rates	2020 Shs '000'
CFC Stanbic Bank Loan		13%		13%	255,917
CFC Short Term Loan		13%	1,459,340	13%	685,411
KCB Term out 2		13%	4,268,536	-	3,664,121-
Total Term Loan			5,727,876		4,605,449

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The bank Overdraft Balances are as indicated below

	2021 Shs'000	2020 Shs'000
KCB Bank Kenya Limited overdraft facility (see below)	3,945	
Stanbic Bank Limited overdraft facility (see below)		434,838
Total overdraft	<u>3,945</u>	<u>434,838</u>

32. Deferred Tax Asset

Deferred tax is calculated on all temporary differences under the liability method using the enacted tax rate, currently 30%. The net deferred tax liability at year end is attributable to the following items:

	2020/2021	2019/2020
	Kshs000	Kshs000
Assets:		
Temporary provisions	878,840	845,552
Tax losses	818,800	159,665
Deferred tax adjustment on IFRS 16	16,387	(159,665)
Unrealised exchange loss	1,499	-
Deferred tax liability	<u>1,715,526</u>	<u>845,552</u>
Liabilities		
Unrealized exchange gain	-	(2,973)
Revaluation surplus	161,080	161,080
Accelerated capital allowances	(463,750)	(487,288)
Deferred tax liability	<u>(302,670)</u>	<u>(329,181)</u>
Net deferred tax asset	<u>1,412,856</u>	<u>516,371</u>
Reconciliation of deferred asset		
At beginning of the year	1,041,301	116,794
Deferred tax credit	371,557	723,409
Prior year under/(over) provision of deferred tax note	-	201,098
	<u>1,412,858</u>	<u>1,041,301</u>
Deferred tax on tax losses (derecognised)/ not recognised now utilised		
At end of year	<u>1,412,858</u>	<u>1,041,301</u>

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33. Lease Liability

Description	2020/2021	2019/2020
	KShs000	KShs 000
At the beginning of the year	177,653	195,031
Discount interest on lease liability	26,024	25,835
Paid during the year	(21,793)	(43,213)
At end of the year	181,884	177,653

Undiscounted Lease Payments Payable in	Maturity Period Start Date	Maturity Period End Date	Amount Payable Kshs000
Year 1	30-Jun-20	30-Jun-21	17,756,908
Year 2	30-Jun-21	30-Jun-22	49,121,598
Year 3	30-Jun-22	30-Jun-23	105,076,144
Year 4	30-Jun-23	30-Jun-24	40,983,043
Year 5	30-Jun-24	30-Jun-25	22,127,336
6 th year On wards	30-Jun-25	onwards	301,269,946
Totals			536,334,975

34. Trade and Other Payables

	2020/2021	2019/2020
	Kshs000	Kshs000
Trade payables	945,014	609,458
Accrued expenses	2,228,084	1,851,828
Provisions for legal liabilities	36,727	32,470
Total	<u>3,209,825</u>	<u>2,493,756</u>

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35. Gratuity Provisions & Other Provisions

Description	Gratuity	Gratuity	Trade and Other Payables	Trade and Other Payables
	2021	2020	2021	2020
	KShs000	KShs000	KShs000	KShs000
Balance at the beginning of the year	26,271	22,461	32,470	39,165
Additional Provisions	15,900	17,896	4,257	-
Less: Payments during the year	(19,251)	(14,086)	-	(6,695)
Balance at the end of the year	<u>22,921</u>	<u>26,271</u>	<u>36,727</u>	<u>32,470</u>
The amounts are due as Bellow				
Within one year	12,622	12,622		
After one year	10,299	13,649		
At the end	<u>22,921</u>	<u>26,271</u>		

The gratuity represents the present value of future obligations in respect of government staff sent on secondment to National Oil Corporation of Kenya Limited

Several legal claims have been made against the Corporation. The plaintiffs are suing for various specific and general damages which the Corporation has disputed. The cases are ongoing and the likely outcome is unknown. These pending legal and tax cases may not necessarily be resolved in a manner that is favourable for the Corporation. Additionally the resolution of the disputes could result in obligation for the Corporation. Therefore, based on information currently available, the Directors have made provisions of Shs 36,727,000 (2020: Shs 32,470,000) for the claims.

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36. Notes to The Statement of Cash Flows

	2020-2021	2019-2020
	Kshs000	Kshs000
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Profit/ (Loss) before tax	(1,322,301)	(1,383,558)
Adjustments for:		
Depreciation of property, plant and equipment-Note 18	257,503	260,712
Depreciation of investment property-Note 20	234	235
Revaluation adjustments	-	(586,031)
Reclassification Adjustment	-	14,063
Discount Interest on Leases liability	26,024	-
Amortisation for prepaid operating lease adjustments- IFRS 16-Note 21	28,601	14,223
Amortization -intangible assets-Note 19	25,398	33,136
Release of deferred income-upstream-Note 12c	(217,906)	(212,566)
Release of deferred income-downstream	-	(13,248)
Finance income recognized in the profit(loss) for the year-Note 13	(10,883)	(93,478)
Finance cost recognized in the profit(loss) for the year-Note 13	920,048	828,704
Operating profit before working capital changes	(293,282)	(1,137,810)
Decrease /Increase in inventories	(215,946)	394,831
IFRS 9 transition adjustment		
Revaluation adjustments (note 29)	(53,620)	49,095
Decrease/Increase in trade and other receivables	1,378	1,701,568
Increase/(decrease) in trade and other payables	552,657	(248,887)
Increase in gratuity provision	4,172	3,810
Decrease in Ministry of Petroleum and Mining Headquarters constructions	(2,481)	-
Increase in corporate social responsibility fund	(18,530)	9,097
Cash generated from operating activities	(25,652)	771,704
(b) Analysis of changes in loans		
Balance at beginning of the year	4,605,450	3,076,393

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	2020-2021	2019-2020
	Kshs000	Kshs000
Additional borrowings in the year	1,379,015	5,874,463
Repayments during the year	(256,589)	(4,345,407)
Unrealized exchange difference	-	-
Balance at end of the year	<u>5,727,876</u>	<u>4,605,450</u>
(c) Analysis of cash and cash equivalents		
Cash and bank balances	405,017	412,894
bank overdrafts (Note)	(3,945)	(434,838)
Call deposits	836,147	849,157
Balance at end of the year	<u>1,237,219</u>	<u>827,213</u>

37. Related Party Disclosures

The Government of Kenya is the sole shareholder of the Corporation.

The Corporation's sales include sales made to Government agencies, departments and companies.

The amounts due from/(to) related parties have been included in the trade and other receivables and the trade and other payables respectively in the statement of financial position.

Other related parties include:

- i) The Parent Ministry
- ii) County Government of
- iii) Key management
- iv) Board of directors

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Transactions with related parties

	2020-2021	2019-2020
	Kshs000	Kshs000
a) Sales to related parties		
Sales –Fuel Card liftings and Bulk Sales to Govt agencies	612,807	1,990,739
Rent Income from govt. agencies	NA	NA
Water sales to Govt. agencies	NA	NA
Interest income from Govt Commercial Banks	NA	NA
Interest income from Tbills and Bonds	NA	NA
Others (Specify)	NA	NA
Total	612,807	1,990,739
b) Purchases from related parties		
Purchases of electricity from KPLC	8,365	4,793
Purchase of water from govt service providers	1,143	922
Rates and Licenses to county govt	18,376	12,558
Training and conference fees paid to govt. agencies	NA	NA
Bank charges paid to Govt Commercial banks	NA	NA
Interest expense to investments by other govt. entities	NA	NA
Others (specify)	NA	NA
Total	27,884	18,273
b) Grants from the Government		
Government Grants -Upstream	280,000	140,000
Grants from County Government	-	-
Donations in kind	-	-
Total	280,000	140,000
c) Expenses incurred on behalf of related party	NA	NA
Payments of salaries and wages for xxx employees	NA	NA
Payments for goods and services for xxx	NA	NA
Total	NA	NA
d) Key management compensation		
Directors' emoluments	1,774	12,537
Compensation to key management	96,326	94,262
Total	98,100	106,799

NOTES TO THE FINANCIAL STATEMENTS (Continued)

38. Capital Commitments

Capital commitments at the year- end for which no provision has been made in these financial statements are:

	2020-2021	2019-2020
	Kshs0000	Kshs000
Amounts authorised and contracted for	-	-
Amounts authorizes but not contracted for	-	105,779
Less: Amounts included in Work in progress	-	-
	=	<u>105,779</u>

Commitments related to construction work and the purchase of assets at the year-end for which no provision has been made in these financial statements are as stated below

39. Contingent Assets and Liabilities

The Corporation is a defendant in two legal suits in which the claimants are claiming Shs 252 million and Shs 11.5 million. Based on the legal advice and information currently available, the Directors do not expect any significant amounts to crystallize from the assessments and therefore no provision has been made on these financial statements. The Directors have disclosed the general nature of the dispute as they do not want to prejudice the position of the Corporation over these matters that are currently in court.

The Corporation has issued guarantees, bid bonds and security bonds in favour of third parties amounting to Shs 42,347,450 (2020: Shs 42,347,450).

40. Exploration Expenditure – BLOCK 14T

(a) Capitalised exploration expenses

In November 2010, the Corporation entered into an agreement with the Government of Kenya (GoK) giving the Corporation the rights of tenure to an exploration block in Magadi i.e. Block 14T. Under this agreement, the Corporation:

- (a) Is responsible to the GoK for execution of petroleum operations;

NOTES TO THE FINANCIAL STATEMENTS (Continued)

- (b) Will provide all capital, machinery, equipment, technology and personnel necessary for petroleum operations; and
- (c) Will bear all the risks of the petroleum costs required in carrying out petroleum operations and therefore have an economic interest in the development of petroleum deposits in the contract area. Such costs shall be included in petroleum costs recoverable.

The exploration activity began during the year ended 30 June 2012. The exploration and evaluation expenses incurred to date with regards to this block are as follows:

	2021	2020
	Shs '000	Shs '000
Exploration and Evaluation expenses		
At beginning of year	2,398,670	2,398,670
Additions	24,369	-
	<hr/>	<hr/>
At end of year	2,423,039	2,398,670
	<hr/> <hr/>	<hr/> <hr/>

The value of Corporation's interest in exploration expenditure is dependent upon the:

- Continuance of the economic entity rights to tenure of the areas of interest;
- Results of future exploration; and
- Recoupment costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

(b) BLOCK 14T Fund

The Government of Kenya in partnership with Japan Oil Gas and Metals National Company (JOGMEC) has funded the exploration activities through the Block 14T as follows:

	2021	2020
	Shs'000	Shs'000
At beginning of year	1,133,389	1,133,389

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Receipts during the year	380	-
	<u> </u>	<u> </u>
At end of year	1,133,769	1,133,389
	<u> </u>	<u> </u>

41. Ministry Of Energy and Petroleum Headquarter Construction Fund

The Corporation receives funds from the Ministry of Energy and Petroleum (Ministry) for the construction of both headquarters offices and a laboratory for the Ministry. The Corporation holds these funds on behalf of the Ministry. The movement in the funds is as follows:

	2020	2020
	Shs'000	Shs'000
At beginning of year	2,481	2,481
Receipts during the year	-	-
Payments made for construction of MOEP HQ	2,481	-
	<u> </u>	<u> </u>
At end of year	-	2,481
	<u> </u>	<u> </u>

42. Single Buoy Mooring Jetty Fund

The Government has undertaken to put up a floating jetty at the port of Mombasa, with the Corporation being the facilitator of the project. National Oil arranges the operational works with the contractor, and pays the contractors using the funds which the Government has advanced to it and which it maintains in a fiduciary capacity.

	2021	2020
	Shs'000	Shs'000
At beginning and at end of the year	11,443	11,443
	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

43. Corporate Social Responsibility Project Fund

As guided by the Production Sharing Contracts (PSC), Exploration Companies are required to spend a percentage of their funds in CSR projects within the communities where they are carrying out exploration.

In the year 2011, Anadarko, one of the exploration companies in the coast region of Kenya selected the Corporation to be the facilitators in carrying out CSR in their block and have continued to do so into the current year.

	2021	2020
	Shs'000	Shs'000
At beginning of year	48,767	39,669
Receipts during the year	12,960	24,414
Payments made during the year	(31,490)	(15,316)
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At end of year	30,237	48,767
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44. Exploration and Production Capacity Building Fund

The Corporation received funds from the Ministry of Energy and Petroleum which are meant to equip the Exploration department staff with the requisite knowledge. In 2013, the Corporation enhanced the capacity of the Exploration department by among other things recruiting 32 management trainees. The Corporation uses this fund for training and salaries to these staff.

	2021	2020
	Shs'000	Shs'000
At beginning of year	72,955	72,955
	<hr/>	<hr/>
At end of year	72,955	72,955
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45. Laboratory Equipment Fund

The funds from the Ministry of Energy and Petroleum which are meant for laboratory equipment amounting to Shs 425,480,000 for the energy centre at the new Ministry of Energy and Petroleum.

	2021 Shs'000	2020 Shs'000
At beginning of year	425,480	426,900
At end of year	<u>425,480</u>	<u>425,480</u>

46. Revenue Reserve/Deficit

Description	2020-2021 KShs000	2019-2020 KShs000
At the beginning of the year	(3,055,436)	(2,560,934)
Loss for the Year	(969,798)	(494,502)
At the end of the year	(4,025,234)	(3,055,436)

47. Financial Risk Management

The Corporation's activities expose it to a variety of financial risks, including credit risk, liquidity risk and market risk. The Corporation's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Management identifies, evaluates and mitigates the financial risks under general principles for overall risk management.

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(i) Fair values

Comparison by class of the carrying amounts and fair values of the financial instruments is as set out below.

	Carrying amount		Fair value	
	2021	2020	2021	2020
	Shs'000	Shs'000	Shs'000	Shs'000
<i>Financial assets</i>				
Trade receivables	360,094	263,371	360,094	263,371
Call deposits	836,147	849,157	836,147	849,157
Bank and cash				
balances	405,516	412,894	405,516	412,894
	=====	=====	=====	=====
<i>Financial liabilities</i>				
Borrowings	5,727,873	5,011,749	5,727,873	5,011,749
Trade payables	3,087,733	2,493,756	3,087,733	2,493,756
	=====	=====	=====	=====

Trade and other receivables are evaluated regularly to assess the likelihood of impairment. Based on this evaluation, allowances are taken to account for the expected losses on these receivables. As at 30 June 2020, the carrying amounts of such receivables, net of allowances, approximates their fair value.

The fair values of term deposits, bank and cash balances and trade and other payables approximates their carrying amounts largely due to the short term maturities of these instruments.

(i) Fair value hierarchy

The Corporate uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

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Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Disclosures of non-financial assets recorded at fair value by level of the fair value hierarchy have been made under note 17.

(l) Capital Risk Management

The Corporation's objectives when managing capital are to safeguard the Corporation's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Corporation consists of borrowings (net of cash and cash equivalents) and equity attributable to equity holders comprising issued share capital, share premium, shareholders' funds awaiting allotment of shares and revenue reserve.

The Corporation monitors capital adequacy on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. Note 8 summarises the procedures the Directors' are putting in place to address the solvency challenges facing the Corporation.

The composition of capital managed by the Corporation is as shown below:

	2021 Shs'000	2020 Shs'000
Share capital	1,032,000	1,032,000
Share premium	1,183,000	1,183,000
Revaluation surplus	1,962,473	2,016,093
Accumulated deficit	(4,379,112)	(3,055,436)
	<hr/>	<hr/>
Equity	(201,639)	1,175,657
	<hr/>	<hr/>

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Borrowings	5,731,821	5,040,287
Structured trade finance facility	-	-
Less: Cash and cash equivalents (excluding borrowings)	(1,241,665)	(1,262,051)
	<hr/>	<hr/>
Net debt	4,490,156	3,778,236
	<hr/>	<hr/>
Gearing ratio	Over 100%	Over 100%
	<u>=====</u>	<u>=====</u>

(m) Operational Risk Management

Operational risk is the risk of the direct or indirect loss arising from a wide variety of causes associated with the Corporation's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Corporation's operations.

The Corporation's objective is to manage the operational risk so as to balance the avoidance of financial losses and damage to the Corporation's reputation with overall costs effectiveness and to avoid control procedures that restrict initiative and creativity.

The ultimate accountability for operational risk management within the Corporation rests with the Board of Directors. Consequently, the level of risk that the Corporation accepts, together with the basis for managing those risks are assigned to senior management. The responsibility is supported by the development of overall standards for the management of operational risk.

(i) Credit risk

Credit risk refers to the risk that a counter party will default on their contractual obligations resulting in financial loss to the Corporation.

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Credit risk arises from cash and cash equivalents, deposits with banks, as well as trade and other receivables. The Corporation's exposure to credit risk is minimal because the Corporation assesses potential customers' creditworthiness prior to granting credit. In addition the Corporation closely monitors customer's accounts to ensure no exposure exists above the approved credit limits established by credit control.

The Corporation's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognizing expected credit losses
Performing	The counterparty has a low risk of default and does not have any past-due amounts.	12 month ECL
Doubtful	Amount is past due or there has been a significant increase in credit risk since initial recognition.	Lifetime ECL – not credit impaired
In default	Amount is >180 days past due or there is evidence indicating the asset is credit-impaired.	Lifetime ECL – credit impaired
Write off	There is evidence indicating that the debtor is in severe financial difficulty and the Company has no realistic prospect of recovery.	Amount is written off

The tables below detail the credit quality of the Corporation's financial assets as well as the Corporation's maximum exposure to credit risk by credit risk rating grades;

	External credit rating	Internal credit rating	12 month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
2021				Sh	Sh	Sh
Trade receivables	N/A	Doubtful	Lifetime ECL	791,858	(432,180)	359,678
Bank balances	A, BBB, B+, B-	Performing	12 month ECL	405,516	-	405,516
Call deposits	AA	Performing	12 month ECL	836,147	-	836,147
				<u>2,033,521</u>	<u>(432,180)</u>	<u>1,601,341</u>

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	External credit rating	Internal credit rating	12 month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
2020			Sh	Sh	Sh	
Trade receivables	N/A	Doubtful	Lifetime ECL	625,558	(362,188)	263,370
Bank balances	A, BBB, B+, B-	Performing	12 month ECL	412,894	-	412,894
Call deposits	AA	Performing	12 month ECL	849,157	-	849,157
				<u>1,887,609</u>	<u>(362,188)</u>	<u>1,525,421</u>

Credit risk profile based on provision matrix

30 June 2020	Not Due	< 30 days	31-60 days	61-90 days	91-180 days	181-360 days	Over 361 days	Total
ECL rate Expected	-	5%	11%	21%	36%	40%	82%	
Gross Carrying Amount	131,338	18,718	1,125	4,130	2,938	11,596	448,220	618,065
Lifetime ECL	-	(259)	(179)	(930)	(1,318)	(8,242)	(421,252)	(432,180)
	<u>131,338</u>	<u>18,459</u>	<u>946</u>	<u>3,200</u>	<u>1,620</u>	<u>3,354</u>	<u>406,968</u>	<u>175,884</u>
30 June 2020	Not Due	< 30 days	31-60 days	61-90 days	91-180 days	181-360 days	Over 361 days	Total
ECL rate Expected	-	5%	11%	21%	36%	40%	82%	
Gross Carrying Amount	53,012	8,037	2,774	3,219	58,844	89,144	104,271	319,302
Lifetime ECL	-	(187)	(425)	(1,457)	(23,394)	(53,897)	(282,825)	(362,187)
	<u>53,012</u>	<u>7,850</u>	<u>2,349</u>	<u>1,762</u>	<u>35,450</u>	<u>35,247</u>	<u>76,446</u>	<u>157,111</u>

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Concentration risk

The Corporation does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics. The Corporation defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of gross monetary assets at any time during the year

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Corporation's Board of Directors who have built an appropriate liquidity risk management framework for the management of the Corporation's short, medium and long-term funding and liquidity requirements.

The table below analyses the Corporation's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the financial reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	1 – 3 Months Shs'000	3-12 Months Shs'000	Over 12 months Shs'000	Total Shs'000
At 30 June 2021:				
Ministry of Energy and Petroleum				
Headquarters construction fund	-	2,481	-	2,481
SBM Jetty fund	-	11,443	-	11,443
CSR Funds				
Exploration and Production		48,768		48,768
Capacity Building fund	-	72,955	-	72,955
Laboratory equipment fund	-	425,480	-	425,480
Trade payables	109,600	242,774	213,202	565,576
Borrowings	4,772,593	267,694	-	5,040,287
Structured trade financing	-	-	-	-
	4,882,193	1,071,595	213,202	6,166,990

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At 30 June 2020:

Ministry of Energy and Petroleum				
Headquarters construction fund	-	2,481	-	2,481
SBM Jetty fund	-	11,443	-	11,443
CSR Funds				
Exploration and Production		48,768		48,768
Capacity Building fund	-	72,955	-	72,955
Laboratory equipment fund	-	425,480	-	425,480
Trade payables	109,600	242,774	213,202	565,576
Borrowings	4,772,593	267,694	-	5,040,287
Structured trade financing	-	-	-	-
		4,882,193	1,071,595	213,202
		6,166,990		

(iii) Market risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market related factors. Market risk includes currency risk, other price risk and interest rate risk.

(b) Currency risk

The Corporation is exposed to currency risk arising from various currency exposures, primarily with respect to the United States Dollar (US Dollar or USD). Currency risk arises from future commercial transactions, recognised assets and liabilities.

To manage the foreign exchange risk, the Corporation maintains a bank account in US Dollars to facilitate transactions in foreign currency. The Corporation also negotiates with its bankers to get favourable exchange rates when converting foreign currencies to the Kenya shilling.

The Corporation purchases its products in US Dollars and mainly buys US Dollars via spot deals as opposed to forward deals. However, when there is reliable information in

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the market about the anticipated exchange rate movements in the US Dollar to the Kenya Shilling, the Corporation enters into short term forward deals to mitigate foreign exchange risks.

	2021 Sh'000	2020 Sh'000
Assets		
Bank and cash balances	1,037	47
Trade and other receivables	-	-
	<u>1,037</u>	<u>47</u>
Liabilities		
Trade and other payables	46,402	1,793
Borrowings	-	225,715
	<u>46,402</u>	<u>227,508</u>

10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis covers only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

(i) Other price risk

The Corporation does not hold investments that would be subject to market price risk. Therefore, the Corporation is not exposed to this financial risk.

(ii) Interest rate risk

The Corporation holds interest earning assets in form of call deposits. The risk of fluctuation in the interest rates is mitigated by the fact that the interest rates are pre-fixed for the term of the call deposits by the banks prior to the Corporation placing these deposits.

Interest rate risks arise from fluctuations in the bank borrowing rates. The interest rates vary from time to time depending on the prevailing economic circumstances. Since the base rates charged by

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the banks are determined by the market forces, the Corporation negotiates with its bankers to get favourable interest rates

The weighted average interest rate profile of the Corporation's interest bearing financial instruments reported to management of the Corporation is as follows:

	Nominal amount			
	30 June 2021		30 June 2020	
	Effective interest rate	Sh'000	Effective interest rate	Sh'000
Call deposits	7.88%	836,147	7.88%	849,157
Term loans	13.00%	(5,727,876)	13.00%	(4,605,449)
Bank overdrafts	13.00%	(3,945)	13.00%	(434,838)
Total exposure		(5,731,821)		(5,040,287)

Sensitivity Analysis

A 1% increase/decrease in the interest rates at the reporting date would have increased/ decreased profit or loss and equity by the amounts shown below. The analysis assumes that all other variables, in particular, foreign currency rates, remain constant and is applied on interest bearing instruments.

	Profit or Loss/Equity	
	30 June 2021	30 June 2020
	Sh'000	Sh'000
1% increase	(5,731)	(5,040)
1% decrease	5,731	5,040

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The entity manages foreign exchange risk from future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

a) Foreign currency sensitivity analysis

The following table demonstrates the effect on the company's statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

b) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

i) Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

ii) Sensitivity analysis

The entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of KShs 57.3 Million (2020: KShs 50.4 Million). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of KShs 286.6 Million (2020 – KShs 255 Million)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

iii) Fair value of financial assets and liabilities

a) Fair values

Comparison by class of the carrying amounts and fair values of the financial instruments is as set out below.

	Carrying amount		Fair value	
	2021	2020	2021	2020
	Shs'000	Shs'000	Shs'000	Shs'000
<i>Financial assets</i>				
Trade receivables	360,094	263,371	360,094	263,371
Call deposits	836,147	849,157	836,147	849,157
Bank and cash balances	405,516	412,894	405,516	412,894
	=====	=====	=====	=====
<i>Financial liabilities</i>				
Borrowings	5,727,873	5,011,749	5,727,873	5,011,749
Trade payables	3,087,733	2,493,756	3,087,733	2,493,756
	=====	=====	=====	=====

Trade and other receivables are evaluated regularly to assess the likelihood of impairment.

Based on this evaluation, allowances are taken to account for the expected losses on these receivables. As at 30 June 2020, the carrying amounts of such receivables, net of allowances, approximates their fair value.

The fair values of term deposits, bank and cash balances and trade and other payables approximates their carrying amounts largely due to the short term maturities of these instruments.

b) Fair value hierarchy

The Corporate uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Disclosures of non-financial assets recorded at fair value by level of the fair value hierarchy have been made under note 17.

There were no transfers between levels 1, 2 and 3 during the year.

Financial instruments not measured at fair value

Disclosures of fair values of financial instruments not measured at fair value have not been made because the carrying amounts are a reasonable approximation of their fair values.

iv) Capital Risk Management

The Corporation's objectives when managing capital are to safeguard the Corporation's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Corporation consists of borrowings (net of cash and cash equivalents) and equity attributable to equity holders comprising issued share capital, share premium, shareholders' funds awaiting allotment of shares and revenue reserve.

The Corporation monitors capital adequacy on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. Note 8 summarises the procedures the Directors' are putting in place to address the solvency challenges facing the Corporation.

The composition of capital managed by the Corporation is as shown below:

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	2021 Shs'000	2020 Shs'000
Share capital	1,032,000	1,032,000
Share premium	1,183,000	1,183,000
Revaluation surplus	2,016,093	2,016,093
Accumulated deficit	(4,025,234)	(3,055,436)
	<hr/>	<hr/>
Equity	205,859	1,175,657
	<hr/>	<hr/>
Borrowings	5,731,821	5,040,287
Structured trade finance facility	-	-
Less: Cash and cash equivalents (excluding borrowings)	(1,241,665)	(1,262,051)
	<hr/>	<hr/>
Net debt	4,490,156	3,778,236
	<hr/>	<hr/>
Gearing ratio	Over 100%	Over 100%
	=====	=====

48. Incorporation

The entity is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.

49. Events After The Reporting Period

There are no significant events after the reporting period which has been reported in these financial statements

50. Currency

These financial statements are presented in Kenya Shillings thousands (Shs'000), the Corporation's functional currency.

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated timeframe within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.	<p><u>Unjustified Decline in Value of Freehold Land</u></p> <p>The statement of financial position reflect property, plant and equipment with a book value of Kshs.5,979,103,000. The values are based on revaluation of the corporation's assets during the year by a consultancy firm. However, the revaluation resulted in a decline in value of ten (10) parcels of freehold land by Kshs.145,640,000 or 43%, from a previous value</p>	<p>The Asset valuation was carried out by an Independent, professional valuers (Ebony Estates Ltd) who returned the valuation figures based on their expertise.</p>	CEO	Resolved	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>of Kshs.336,140,000 to Kshs.190,500,000. The decline was not justified since it did result from change in sizes due to alienation of the parcels or any other adverse conditions.</p> <p>Management attributed the decline to premiums paid on acquisitions of the parcels. In the circumstances, the accuracy of property, plant and equipment balance of Kshs.5, 979,103,000 could not be confirmed.</p>				

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
2.	<p><u>Unaccounted For Funds for the Special Purpose and Grants</u></p> <p>The statement of financial position reflects current liabilities in respect of Ministry of Energy and Petroleum Headquarters Construction Fund, Laboratory Equipment Fund, Single Buoy Mooring Jetty Fund, and Corporate Social Responsibility (CSR) Projects Fund, all totaling to Kshs.488,171,000. However, the respective funds did not have sufficient cash and bank balances to match the balances reflected in the books. In addition, Management asserted that the funds cash was mixed up with the rest of the organization's funds.</p>	<p>These funds are represented by Assets and Operating expenses</p> <p>The bank balances is not equivalent to the funds balances in the books due to the element of assets that have been purchased using funds. When the Corporation purchase Upstream assets the funds will reduce with a corresponding increase in asset. Thus when reviewing the financial statements the funds accounts need</p>	CEO	Resolved	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
3.	<p>In the absence of sufficient cash balances commensurate to the funds book balances, the accuracy of the Special Funds Projects balances of Kshs.488,171,000 could not be confirmed</p> <p><u>Loss of Products</u></p> <p>The Statements of Financial Position reflects Trade receivables balance of Kshs.565,825,000 and as disclosed under Note 24 to the financial statements. The receivables include provision of doubtful debts for an amount of Kshs.40,000,000 due from a contracted transporter in respect of lost Automotive Gas Oil (AGO) products commonly referred to diesel. An estimated</p>	<p>to be reviewed together with the assets of the Corporation.</p> <p>The Corporation has put several measure in place to mitigate the risk of stock losses; these include.</p> <p>1. For operational efficiency, accurate documentation</p>	CEO	Partially Resolved	30 th June 2023

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>390,000 litres of diesel destined for Geothermal Development Company's Menengai offices were lost while in custody of the transporter. This was disputed by the transporter, and the transportation contract was terminated by the Corporation before the consignment was recovered.</p> <p>Further, as similarly reported in the previous years, the Corporation recorded losses of at least Kes.4,097,221 litres of diesel and 341,063 litres of Super Petrol valued at Kshs.365,957,917 in aggregate between July 2017 and December 2018. The losses were mainly through non-delivery of transporter's consignments to Kenya Ports Authority (KPA) sites. Despite the losses</p>	<p>and order reconciliation at Hospitality Depots, a Dispatch Clerk was engaged at the Mombasa Branch.</p> <p>2. Daily and monthly stock reconciliations are being done and the reports shared</p> <p>3. Enforcement of debits to transporters for losses</p> <p>4. A control in Oracle was also configured. Currently, the transporter's copy of delivery note used to claim for payment can only be</p>			

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>having been a subject of forensic investigations, a further loss 32,000 litres of diesel valued Kshs.3,268,160 was reported in June 2019. According to an incident report on the loss, the products loaded into a transporter's trucks at Kenya Petroleum Refineries Limited (KPRRL) destined to KPA sites were not delivered. Consequently, the accuracy and completeness of the trade and other receivables balances of Kshs.565, 825,000 cannot be confirmed.</p>	<p>issued once the stamped customer's copy of delivery note is returned to the depot as proof of delivery. 5. All staffs adversely mentioned on the loss of product were interdicted. 6. The matters were reported to the DCI for further investigations and prosecution.</p>	CEO	Partially Resolved	30/06/2022

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point Person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
4.	<p>Long Outstanding Non-Reconciling. The statement of financial position reflects inventories valued at Kshs.436,971,000 and as disclosed under note 23 to the financial statements. Included in the inventory gross value is an amount of Kshs.2,316,977,535 is an amount of Kshs.1,494,664,922 relating to the products captured as hived off in the books of the Corporation. The hive-off was approved by the Corporation's Board of Directors in October 2016 and related to historical non-reconciling inventory items dating back to 2009. However, despite there being a provision of Kshs.2, 316,977,535 for the hive off, these historical non-reconciling</p>	<p>The hived off stocks are fully provided for thus they have zero balance in the financials of the Corporation. The Board approval has been obtained for write off.</p>	CEO	Partially Resolved	30/06/2023

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>items continue to be carried in the books of the company, without evidence of physical existence of these inventory products.</p> <p>Consequently, the accuracy and completeness of the inventory balances of Kshs.436,971,000 cannot be confirmed</p>				

Chief Executive Officer

Leperan Gideon ole Morintat

National Oil Corporation of Kenya.

Signature



Date:.....

APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

Projects implemented by the State Corporation/ SAGA Funded by development partners.

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
	1		N/A		N/A	
	2		N/A		N/A	

Status of Projects completion

Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1	N/A	N/A	N/A	N/A		N/A
2	N/A	N/A		N/A		N/A
3	N/A	N/A		N/A		N/A

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APPENDIX III: INTER-ENTITY TRANSFERS

ENTITY NAME:		Ministry of Petroleum and Mining	
Break down of Transfers from the State Department of Petroleum and Mining			
FY 2020/2021			
a. Recurrent Grants	Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
		N/A	
	Total	N/A	
b. Development Grants	Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
	17-Dec-2020	15,000,000	2020/2021
	11-Jan-2021	15,000,000	2020/2021
	24-April-2021	125,000,000	2020/2021
	15-May-2021	125,000,000	2020/2021
	Total	280,000,000	
c. Direct Payments	Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
		N/A	
	Total	N/A	
d. Donor Receipts	Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
		N/A	
	Total	N/A	

The above amounts have been communicated to and reconciled with the Parent Ministry.

Ag. Head of Finance

National Oil Corporation of Kenya

Andrew M. Ringera

Sign



APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount - KES	Where Recorded/reognized						Total Transfers during the Year
				Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others - must be specific		
Ministry of Planning and Devolution	N/A	Recurrent	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Ministry of Planning and Devolution	N/A	Development	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
USAID	N/A	Donor Fund	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Ministry of Planning and Devolution	N/A	Direct Payment	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

