

REPUBLIC OF KENYA



*Paper Laid  
By Com P. Hon. D. D. D.  
on 20/2/2018 at  
the Table*



OFFICE OF THE AUDITOR-GENERAL



**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
NATIONAL OIL CORPORATION OF KENYA  
LIMITED**

**FOR THE YEAR ENDED  
30 JUNE 2017**

**NATIONAL OIL CORPORATION  
OF KENYA LIMITED**

**ANNUAL REPORT AND  
FINANCIAL STATEMENTS**

**30 JUNE 2017**

**NATIONAL OIL CORPORATION OF KENYA LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**

<b>CONTENTS</b>	<b>PAGE</b>
<b>Corporate Information</b>	<b>2</b>
<b>Report of the Directors</b>	<b>3 - 5</b>
<b>Statement of Directors' Responsibilities</b>	<b>6</b>
<b>Independent Auditors' Report</b>	<b>7 - 9</b>
<b>Financial Statements:</b>	
<b>Statement of Profit or Loss and Other Comprehensive Income</b>	<b>10</b>
<b>Statement of Financial Position</b>	<b>11</b>
<b>Statement of Changes in Equity</b>	<b>12</b>
<b>Statement of Cash Flows</b>	<b>13</b>
<b>Notes to the Financial Statements</b>	<b>14 - 50</b>



# NATIONAL OIL CORPORATION OF KENYA LIMITED

## REPORT OF THE DIRECTORS

The Directors present their report together with the audited financial statements of National Oil Corporation of Kenya Limited (the "Corporation") for the year ended 30 June 2017 which show the state of the Corporation's affairs.

### PRINCIPAL ACTIVITIES

The core business of the Corporation continues to be 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.

### RESULTS FOR THE YEAR

	2017 Shs'000	2016 Shs'000
Loss before taxation	(126,526)	(628,761)
Taxation credit/(charge)	64,071	(179,407)
	<hr/>	<hr/>
Loss for the year transferred to retained earnings	<u>(62,455)</u>	<u>(808,168)</u>

### DIVIDENDS

The directors do not recommend payment of dividend in respect of the current financial year (2016: nil).

### DIRECTORS

The current Board of Directors are as shown on page 2. Mr. Daniel Wamahiu resigned from the Board of Directors on 7 February 2017.

### DIRECTORS' STATEMENT AS TO INFORMATION GIVEN TO AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Corporation's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Corporation's auditors are aware of that information.

### BUSINESS REVIEW

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 114 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.

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.

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## REPORT OF THE DIRECTORS (Continued)

### BUSINESS REVIEW (Continued)

#### *Financial Key performance indicators*

The revenues for the Corporation increased from Shs 30 billion for the year ended 30 June 2016 to Shs 31 billion for the year ended 30 June 2017 which is a modest 3% increase. This increase was achieved despite a concerted effort to focus on channels that are more profitable. The gross profit also increased from Shs 1.3 billion to Shs 1.9 billion which is a 50% increase. This saw the gross margin increase from 4.2% to 6.2%. Operating profit increased from Shs 19 million to Shs 563 million. During the year, the Corporation's loss before tax reduced from Shs 629 million to Shs 127 million showing that the turnaround strategies employed by the Company have started bearing fruits.

Operating expenses despite their increase from Shs 881 million to Shs 971 million were contained within management expectations. Net financing costs increased in the period from Shs 665 million to Shs 709 million. This was as a result of increased borrowings to cater for the increase in volumes sold in the period, compounded by a loan of Shs 1 billion that came about due to loss of stocks held by Kenya Petroleum Refineries Limited (KPRL). The Corporation has however began negotiations with the lenders with a view to restructure the existing loan facilities in order to reduce financing costs.

In the Open Tender System (OTS), the Corporation participated, won, and supplied four consignments of Jet A1. At the same time the Corporation increased the traded volume from 260.4 million litres for the year ended 30 June 2016 to 278.5 million litres for the year ended 30 June 2017.

#### *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) *Low world crude price:* - The international crude prices have been slowly increasing from USD 45.5 per barrel in September 2016 to USD 47.3 per barrel in June 2017. This low price is not attractive to businesses particularly in the exploration sector, as it does not attract exploration activities. This led to the decrease in multi data sales from Shs 28 million in prior year to Shs 7 million in the current year. If this trend continues, the number of exploration activities taking place will reduce significantly and as such minimize the chances of oil discovery in the country.
- 3) *Political risks:* - Because the current year was an electioneering year, many businesses have adopted a wait and see attitude resulting in reduction in of the projected consumption volumes. This affected the Corporations growth projections negatively.
- 4) *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.
- 5) *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.
- 6) *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.
- 7) *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.
- 8) *Border dispute with Somali:* - If the dispute the country has with Somalia continues then the exploration of hydrocarbons off the coast would stall which will then lead to reduced multi- client data sales for the Corporation.

NATIONAL OIL CORPORATION OF KENYA LIMITED

REPORT OF THE DIRECTORS (Continued)

BUSINESS REVIEW (Continued)

**Important Milestones**

- 1) During the year, the Corporation hired IT specialists in oracle to do a systems audit and ensure that the system produces timely, accurate and relevant information. The specialists also trained the Corporations' staff and create in-house system champions.
- 2) In March 2017, the Corporation started Seismic Data acquisition in Block 14T in the Magadi area. This saw the investment in the Block increase from Shs 820 million in prior year to Shs 921 million in the current year.
- 3) In December 2016, the Corporation moved from its rented offices in Aon Minet Building to its current location in the multi-million ultra-modern Kawi House in South C. The Corporation expects to house its upstream laboratory in the same building.

**Social responsibility**

The Corporation continued to sponsor the Malkia striker's volleyball team in the year.

**Employees Matters**

The Corporation has directly employed 223 employees and hundreds others through its retail networks. In addition, the Corporation also hires management trainees' in line with the government policy.

**AUDITORS**

The Auditor General is responsible for the statutory audit of the Corporation's books of account in accordance with Section 35 of the Public Audit Act, 2015. Section 23(1) of the Act empowers the Auditor General to appoint other auditors to carry out the audit on his behalf.

Accordingly, Deloitte & Touche were appointed to carry out the audit for the year ended 30 June 2017 and report to the Auditor General.

BY ORDER OF THE BOARD

  
**Pauline Kimotho**  
**Company Secretary**

Nairobi

5 December 2017



# NATIONAL OIL CORPORATION OF KENYA LIMITED

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

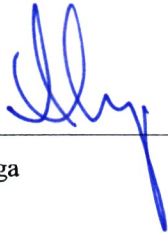
The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Corporation as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Corporation maintains proper accounting records that are sufficient to show and explain the transactions of the Corporation and disclose, with reasonable accuracy, the financial position of the Corporation. The directors are also responsible for safeguarding the assets of the Corporation, and for taking reasonable steps for the prevention and detection of fraud and error.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with the International Financial Reporting Standards ("IFRS") and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

- (i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- (ii) selecting suitable accounting policies and applying them consistently; and
- (iii) making accounting estimates and judgements that are reasonable in the circumstances.

The directors are aware of the going concern issue as disclosed in note 8 to the financial statements. The directors acknowledge that the continued existence of the Corporation as a going concern depends on continued support from the Government of Kenya and the measures that the directors will put in place to return the Corporation to profitable operations. The directors are therefore of the view that the Corporation will remain a going concern for at least the next twelve months from the date of this report.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.



Dr. Sam Gakunga  
Director



Ms. MaryJane Mwangi  
Director

5 December 2017

# INDEPENDENT AUDITORS' REPORT TO THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF NATIONAL OIL CORPORATION OF KENYA LIMITED (Continued)

## **Responsibilities of Directors and those charged with governance for the financial statements**

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are 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 the Directors either intend to liquidate the Corporation or to cease operations, or have no realistic alternative but to do so. The directors and those charged with governance are responsible for overseeing the Corporation's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We 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 our 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's 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.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITORS' REPORT TO THE AUDITOR GENERAL ON THE  
FINANCIAL STATEMENTS OF NATIONAL OIL CORPORATION OF KENYA LIMITED  
(Continued)

**Report on other matters prescribed by the Kenyan Companies Act, 2015**

The Companies Act, 2015 requires us to carry out investigations as will enable us to form an opinion on whether:

- a) the company has kept adequate accounting records, and returns adequate for the audit have been received from the branches not visited by us; and
- b) the company's individual financial statements are in agreement with its accounting records and returns;

We have nothing to report in this regard.

In our opinion, the information given in the Report of the Directors on pages 3 to 5 is consistent with the financial statements.

*The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Freda Mitambo - P/No 2174.*

*Deloitte & Touche*

**Certified Public Accountants (Kenya)**

**Nairobi, Kenya**

*5 December* 2017

# REPUBLIC OF KENYA

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NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON NATIONAL OIL CORPORATION OF KENYA LIMITED FOR THE YEAR ENDED 30 JUNE 2017

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#### REPORT ON THE FINANCIAL STATEMENTS

#### Opinion

The accompanying financial statements of National Oil Corporation of Kenya Limited set out on pages 10 to 50, which comprise the statement of financial position as at 30 June 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Deloitte and Touche, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of National Oil Corporation of Kenya Limited as at 30 June 2017, 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 Companies Act, 2015.

Further, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

#### Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Oil Corporation of Kenya Limited in accordance with ISSAI 30 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 opinion.

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*Report of the Auditor-General on the Financial Statements of National Oil Corporation of Kenya Limited for the year ended 30 June 2017*

## **Emphasis of Matter**

### **Going Concern**

I draw attention to Note 8 to the financial statements which describes the rationale upon which the directors have prepared the financial statements on a going concern basis.

The Corporation incurred a loss of Kshs.62,455,000 (2015/2016 Kshs.808,168,000) during the year and had accumulated losses of Kshs.1,283,690,000 as at 30 June 2017 (2016 Kshs.1,221,235,000). In addition, the Corporation is in a net current liability position of Kshs.844,814,000 (2016 Kshs.955,806,000). These conditions, alongside other matters set out in note 8, indicate the existence of a material uncertainty which may cast significant doubt on the Corporation's ability to continue as a going concern.

### **Key Audit Matters**

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

### **Other Matter**

#### **1. Provision for Inventories**

The financial statements reflect provisions for inventory totalling Kshs.969,965,000 (2015/2016 Kshs.882,289,000), as disclosed in note 23. The provisions relate to book values of inventory held at Kenya Petroleum Refineries Limited (KPRL), inventory losses at Kenya Ports Authority (KPA) and Kenya Pipeline Company (KPC), and other inventory reconciling items. Although full provision has been made in the financial statements, and management has indicated that a revenue consultant has been engaged to review the long outstanding reconciling items, these long outstanding items are yet to be cleared from the books.

#### **2. Trade and Other Receivables**

The net trade and other receivables reflects a balance of Kshs.1,516,716,000 (2015/2016 Kshs.1,041,827,000), as disclosed in note 24. Included in this balance is Kshs.52,587,560 relating to customs duty on products sold to Defence Forces Cooperative (DEFECO) and other customers, which is recoverable from Kenya Revenue Authority (KRA) and KPC tariffs charged on shippers. As reported previously, the duty which arose in 2013/2014 financial year, and which according to management has been provided for fully in the financial statements, has not been reconciled to the various inventory deliveries to facilitate recovery.

### **3. Allotment of Shares**

The financial statements of the Corporation reflect funds awaiting allotment of shares amounting to Kshs.500,000,000, as disclosed in Note 27. As pointed out in 2015/2016 audit report, these are funds received from the Government of Kenya in 2009 as share capital injection. As at the time of concluding this audit, the process of increasing the share capital had not been finalized, despite significant duration having lapsed since injection of the funds.

### **Other Information Included in the Annual Report**

The directors are responsible for the other information, which comprises the report of directors as required by the Kenyan Companies Act, 2015. 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 thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are 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. The directors are responsible for overseeing the Corporation's financial reporting process.

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

Those charged with governance are also responsible for overseeing the Corporation's financial reporting process.

## **Auditor-General's Responsibilities for the Audit of the Financial Statements**

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 of Kenya. 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 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.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' 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 of the entities or business activities to express an opinion on the financial statements.

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

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

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015 I report based on the 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;
- (iii) The Corporation's financial statements are in agreement with the accounting records; and
- (iv) In my opinion, the information given in the report of the directors is consistent with the financial statements.



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**09 January 2018**

NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 Shs'000	2016 Shs'000
Revenue	9	31,030,439	30,030,328
Cost of sales	10	(29,122,582)	(28,760,098)
GROSS PROFIT		1,907,857	1,270,230
Other operating income	11	80,858	98,699
Oil exploration grant	29	253,811	183,999
Release of deferred income in respect of depreciation of grant assets	29	13,248	13,248
		2,255,774	1,566,176
EXPENDITURE			
Administrative expenses		(467,038)	(482,436)
Operating expenses		(971,434)	(881,022)
Exploration cost		(253,811)	(183,999)
		(1,692,283)	(1,547,457)
OPERATING PROFIT		563,491	18,719
Interest income	14(a)	19,295	17,578
Finance costs	14(b)	(709,312)	(665,058)
		(690,017)	(647,480)
LOSS BEFORE TAXATION		(126,526)	(628,761)
Taxation credit/(charge)	15	64,071	(179,407)
LOSS FOR THE YEAR		(62,455)	(808,168)
OTHER COMPREHENSIVE LOSS			
Revaluation deficit arising from impairment of assets	17	(100,252)	-
Deferred tax on revaluation deficit of impaired assets	22(b)	30,076	-
Other comprehensive loss for the year, net of income tax		(70,176)	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(132,631)	(808,168)
Loss per share:			
Basic	16	(2.35)	(30.38)
Diluted	16	(1.21)	(15.66)

NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2017

ASSETS	Notes	2017 Shs'000	2016 Shs'000
<b>Non-current assets</b>			
Property, plant and equipment	17	6,352,310	6,653,850
Investment property	18	11,045	11,279
Prepaid operating leases	19	154,072	190,323
Intangible assets	20	111,605	156,134
Exploration expenditure- Block 14T	21(a)	921,489	820,667
		<u>7,550,521</u>	<u>7,832,253</u>
<b>Current assets</b>			
Inventories	23	1,933,877	2,281,580
Trade and other receivables	24	1,492,616	1,041,827
Current tax recoverable	15(c)	112,199	128,427
Call deposits	25	648,234	109,537
Cash and bank balances		562,615	523,036
		<u>4,749,541</u>	<u>4,084,407</u>
<b>TOTAL ASSETS</b>		<u>12,300,062</u>	<u>11,916,660</u>
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Share capital	26	532,000	532,000
Share premium	26	1,183,000	1,183,000
Funds awaiting allotment of shares	27	500,000	500,000
Revaluation reserve		1,966,997	2,037,173
Accumulated deficit		(1,283,690)	(1,221,235)
<b>Shareholders' equity</b>		<u>2,898,307</u>	<u>3,030,938</u>
<b>Non-current liabilities</b>			
Block 14T fund	21(b)	569,672	528,427
Deferred tax liability	22	318,945	432,809
Deferred income	29	1,204,192	1,061,839
Borrowings	32	1,714,591	1,822,434
		<u>3,807,400</u>	<u>3,845,509</u>
<b>Current liabilities</b>			
Trade and other payables	30	1,365,087	1,211,201
Gratuity provision	31	5,555	7,573
Borrowings	32	2,821,008	2,371,546
Structured trade finance facility	33	760,900	740,929
Ministry of Energy and Petroleum Headquarters Construction Fund	34	57,275	223,843
Single Buoy Mooring (SBM) jetty fund	35	11,443	11,443
Corporate Social Responsibility (CSR) projects fund	36	39,256	39,256
Exploration and Production Capacity Building fund	37	105,764	134,422
Laboratory Equipment fund	38	428,067	300,000
		<u>5,594,355</u>	<u>5,040,213</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>12,300,062</u>	<u>11,916,660</u>

The financial statements on pages 10 to 50 were approved and authorised for issue by the board of directors on 5 December 2017 and were signed on its behalf by:

Dr. Sam Gakunga  
Director

Ms. MaryJane Mwangi  
Director

NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2017

	Share capital Shs'000	Share premium Shs '000	Funds awaiting allotment of shares Shs'000	Revaluation reserve Shs'000	Accumulated deficit Shs'000	Total Shs'000
At 1 July 2015	532,000	1,183,000	500,000	2,037,453	(413,347)	3,839,106
Total comprehensive loss for the year	-	-	-	-	(808,168)	(808,168)
Revaluation surplus realised on disposal of property, plant and equipment	-	-	-	(280)	280	-
At 30 June 2016	532,000	1,183,000	500,000	2,037,173	(1,221,235)	3,030,938
At 1 July 2016	532,000	1,183,000	500,000	2,037,173	(1,221,235)	3,030,938
Total comprehensive loss for the year	-	-	-	(70,176)	(62,455)	(132,631)
At 30 June 2017	532,000	1,183,000	500,000	1,966,997	(1,283,690)	2,898,307

NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2017 Shs'000	2016 Shs'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	40(a)	805,039	233,763
Interest paid		(669,082)	(614,175)
Interest received		19,295	17,578
Taxation paid	15(c)	(3,489)	-
<b>Net cash generated from/(used in) operating activities</b>		<u>151,763</u>	<u>(366,495)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	17	(214,147)	(549,309)
Proceeds on disposal of property, plant and equipment		186	1,550
Acquisition of leasehold land	19	(41,349)	(77,249)
Purchase of intangible assets	20	(43,464)	(95,709)
Purchase of exploration assets	21(a)	(100,822)	(41,867)
<b>Net cash used in investing activities</b>		<u>(399,596)</u>	<u>(762,584)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase in Block 14T fund	21(b)	41,245	18,466
Government grants received – proceeds from sale of geological maps	29	-	176
Government grants received – upstream	29	409,412	325,000
Borrowings received	32	31,579,939	19,588,337
Borrowings repaid	32	(31,252,577)	(18,019,498)
<b>Net cash generated from financing activities</b>		<u>778,019</u>	<u>1,912,481</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<u>530,186</u>	<u>783,402</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<u>(1,175,195)</u>	<u>(1,958,597)</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	40(b)	<u><u>(645,009)</u></u>	<u><u>(1,175,195)</u></u>

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 1. REPORTING ENTITY

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. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

#### i) *Relevant new standards and amendments to published standards effective for the year ended 30 June 2017*

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IAS 12  
Recognition of Deferred  
Tax Assets for Unrealised  
Losses

The amendments to IAS 12 Income Taxes clarify the following aspects:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The amendments to the standard has had no impact on the Corporation’s financial statements.

Annual Improvements to  
2010-2012

The annual improvements to IFRSs 2012-2014 cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 5 add specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

The amendments to IFRS 7 add additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

i) *Relevant new standards and amendments to published standards effective for the year ended 30 June 2017 (Continued)*

Annual Improvements to 2010-2012 (Continued) The amendments to IAS 19 clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).

The amendment to IAS 34 clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference.

The application of these amendments has had no material impact on the disclosures or on the amounts recognised in the Corporation's financial statements.

Amendments to IAS 7 Disclosure Initiative

The amendments to IAS 7 Presentation of Financial Statements address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes:

- a) clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to the all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply;
- b) clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements;
- c) clarification that an entity's share of Other Comprehensive Income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss; and
- d) additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

The amendments to the standard has had no impact on the Corporation's financial statements.

ii) *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017*

*New standards and Amendments to standards*

Effective for annual periods beginning on or after

IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
IFRS 16 Leases	1 January 2019
IFRS 17 Insurance Contracts	1 January 2021
Amendments to IFRS 2: Clarification and Measurement of Share Based Payment Transactions	1 January 2018
Amendments to IFRS 4: Applying IFRS 9 with IFRS 4	1 January 2018
Amendments to IAS 40: Transfer of Investment Property	1 January 2018
Amendments to IAS 7: Disclosure Initiative	1 January 2017
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Annual Improvements to 2014-2016 cycle	1 January 2017

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

*iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2017*

#### **IFRS 9 Financial Instruments**

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include:

- a) impairment requirements for financial assets and
- b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

iii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2017 (Continued)*

#### **IFRS 9 Financial Instruments (Continued)**

Based on an analysis of the Corporation's financial assets and financial liabilities as at 31 December 2016 on the basis of the facts and circumstances that exist at that date, the directors of the Company have performed a preliminary assessment of the impact of IFRS 9 to the Corporation's financial statements as follows:

##### *Classification and measurement*

- Loans carried at amortised cost as disclosed in note 23: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9;
- All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.

##### *Impairment*

Financial assets measured at amortised cost, listed redeemable notes that will be carried at FVTOCI under IFRS 9, finance lease receivables, amounts due from customer under construction contracts, and financial guarantee contracts will be subject to the impairment provisions of IFRS 9.

The Corporation expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables, as required or permitted by IFRS 15. The Corporation does not hold any listed redeemable notes, finance lease receivables, amounts due from customer under construction contracts or financial guarantee contracts. In general, the directors anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the financial assets measured at amortised cost and are currently assessing the potential impact.

##### *Hedge accounting*

The new hedge accounting requirements will align more closely with the Corporation's risk management policies, with generally more qualifying hedging instruments and hedged items. The Corporation does not hold any hedging relationships, and therefore the directors do not anticipate that the application of the IFRS 9 hedge accounting requirements will have an impact on the Corporation's financial statements.

It should be noted that this assessment was made based on an analysis of the Corporation's financial assets and financial liabilities as at 30 June 2017 on the basis of the facts and circumstances that existed at that date. As facts and circumstances may change during the period leading up to the initial date of application of IFRS 9, which is expected to be 1 January 2018 as the Corporation does not intend to early apply the standard, the assessment of the potential impact is subject to change.

#### **IFRS 15 Revenue from Contracts with Customers**

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

#### *iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2017 (Continued)*

##### **IFRS 15 Revenue from Contracts with Customers (Continued)**

Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

##### **IFRS 16 Leases**

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The directors of the Corporation do not anticipate that the application of IFRS 16 in the future will have a significant impact on amounts reported in respect of the Corporation's financial assets and financial liabilities. However, it is not practical to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed.

##### **Amendments to IAS 7 Disclosure Initiative**

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific format to disclose financing activities. However, an entity may fulfil the disclosure objective by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with early application permitted. The Directors of the Corporation do not anticipate that the application of these amendments will have a material impact on the consolidated financial statements.

#### *iv) Early adoption of standards*

The Corporation did not early-adopt any new or amended standards in the year 2016.

##### **Basis of preparation**

###### **(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.

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Basis of preparation (Continued)**

(b) 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.

(c) 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).

(d) 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 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

#### **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.

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

#### **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 revenue over the period necessary to match them with related costs which they are intended to compensate, on a systematic basis.

#### **Training fund grants**

These are funds 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 only for training staff involved in exploration activities.

The training grants received are presented in the statement of financial position as a deferred income and are recognised in profit or loss upon training on upstream activities.

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Government downstream 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 recognised in profit or loss in the year in which they have been granted.

#### **Leases**

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

All other leases are classified as operating leases.

#### **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.

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.

#### **Finance income and finance costs**

Finance income comprises interest income on funds invested (including available for sale financial assets) and gains on disposal of available – for - sale financial assets. Interest income is recognised as it accrues in the profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, losses on sale of available for sale financial assets, impairment losses recognised on financial assets (other than trade receivables).

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the profit or loss using the effective interest method.

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

#### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

##### *(i) Current taxation*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Corporation's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

##### *(ii) Deferred taxation*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amounts of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Property, plant and equipment**

##### *(i) Recognition and measurement*

Items of property, plant and equipment are initially recognised and measured 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, the items of property, plant and equipment are revalued to reflect their fair values in the financial statements. Gains or losses on revaluation are recognised in the statement of other comprehensive income and posted to the revaluation reserve. On disposal of a revalued asset, the gain or loss on revaluation is reclassified directly from the revaluation reserve to the retained earnings reserve.

Gains and losses on disposal of an item of property, plant and equipment are calculated by comparing the net proceeds from disposal with the carrying amount of the property, plant and equipment, and are recognised in other income in profit or loss.

##### *(ii) Subsequent costs*

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.

##### *(iii) Depreciation*

Items of property, plant and equipment are depreciated from the date they are available for use. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term. Freehold land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Freehold land	not depreciated
Buildings	2%
Plant, motor vehicles and other equipment	5% - 25%
Furniture, fittings and office equipment	12.5% - 33 1/3%

Depreciation methods, useful lives and residual values are reassessed at each financial reporting date and adjusted if appropriate.

#### **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.

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Investment property (Continued)**

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.

#### **Prepaid operating leases**

Payments to acquire leasehold interest in land are treated as prepaid operating lease rentals and amortised over the period of the lease.

#### **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.

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.

#### **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.

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.

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Inventories**

Inventories are measured at the lower of cost and net realisable value. Cost comprises purchase price and other costs incurred in bringing the inventories to their present location. Inventory cost is determined 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.

#### **Recognition and measurement of financial instruments**

A financial instrument is a contract that gives rise to both a financial asset in one entity and a financial liability in another entity.

##### **(i) Classification, recognition and measurement**

Financial assets and liabilities are recognised on the Corporation's statement of financial position when the Corporation has become a party to the contractual provisions of the instrument.

##### *Trade receivables*

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less allowance made for impairment of these receivables. Allowance for impairment of trade receivables is established when there is objective evidence that the Corporation will not be able to collect all the amounts due according to the original terms of receivables. The amount of the allowance is the difference between the carrying amount and the present value of estimated future cash flows discounted at the effective interest rate. The amount of allowance is recognised in the income statement.

##### *Bank borrowings*

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period they arise. Interest and other finance charges are recognised as an expense in the period in which they are incurred.

##### *Cash and cash equivalents*

Cash equivalents include short term liquid investments which are readily convertible to known amounts of cash and which are within three months of maturity when acquired less bank overdrafts which are repayable on demand and which are utilised by the Corporation to meet its short term cash management needs.

Cash on hand and in banks and short term deposits which are held to maturity are carried at cost plus interest earned but not yet received at the financial reporting date.

##### *Trade payables*

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services received, whether billed or not.

##### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Corporation are recognised at the proceeds received, net of direct issue costs.

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Recognition and measurement of financial instruments (Continued)**

##### **(ii) *Offsetting of financial assets and liabilities***

Financial assets and liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

##### **(iii) *Fair value of financial assets and liabilities***

Fair value of financial assets and financial liabilities is the price that would be received to sell an asset or paid to transfer a liability respectively in an orderly transaction between market participants at the measurement date.

#### **Impairment of assets**

##### **(i) *Impairment of financial assets***

Financial assets are assessed at each financial reporting date to determine whether there is any objective evidence of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that have similar credit risk characteristics.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

##### **(ii) *Impairment of non-financial assets***

The carrying amounts of the Corporation's non-financial assets, other than investment property, deferred tax assets and inventories, are reviewed at each financial reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash inflows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Foreign currencies**

Transactions in foreign currencies are translated into Kenya Shillings at the rates ruling on the transaction dates.

Monetary assets and liabilities denominated in foreign currencies are retranslated into Kenya Shillings at the exchange rate ruling at the financial reporting date. Gains and losses on conversion and translation are recognised in the profit or loss.

Non-monetary assets and liabilities denominated in foreign currency are translated using the exchange rate at the date of the transaction.

**Related parties**

The Corporation discloses the nature, volume and amounts outstanding at the end of each financial year from transactions with related parties, which include transactions with the directors, executive officers and related companies. The related party transactions are at arms length.

**Provisions**

A provision is recognised in the statement of financial position when the Corporation has a present legal or constructive obligation as a result of a past event, that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

**Employee benefit costs**

*Short term employee benefits*

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.

The Corporation also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute.

*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.

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Government and other funds**

These arise as a result of the Corporation being the governments arm in exploration and other petroleum projects. As a result the Corporation acts as a custodian for funds meant for various government projects in the oil industry. These include the construction of the Ministry of Energy and Petroleum headquarters and, the construction of the SBM Jetty.

In addition the Corporation also holds Corporate Social Responsibility (CSR) funds on behalf of Anadarko Corporation and utilises the funds in its CSR activities.

These funds are recognised as liabilities until utilised for the various projects.

#### **Comparatives**

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY 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:

#### **(a) 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.

#### **(b) 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.

#### **(c) 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.

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

#### Key sources of estimation uncertainty

##### (d) 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 2017 are provided in note 22.

##### (e) 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.

##### (f) Provision for doubtful debts

The estimated provision for doubtful debts is based on the period for which the debt was outstanding combined with some knowledge of the financial position of the debtor and/or the circumstances surrounding the underlying transaction.

This policy is to ensure that the Corporate regularly evaluates customer debts and their recoverability, maintains timely and appropriate provisions in order to accurately reflect the condition of the statement of financial position. It is also intended to promote well-reasoned, effective work plans for non-performing accounts and effective internal controls to manage the level of such debts. Provisions for impairment are maintained at an amount adequate to cover anticipated credit related losses.

Specific provisions are established where full recovery of the principal is considered doubtful. Specific provisions are made against finalised customer accounts net of deposits. Provisions are determined primarily by reference to historical ratios of write offs to balances in default.

General (portfolio) provisions for bad and doubtful debts are maintained to cover non identified probable losses and latent risks inherent in the overall debt portfolio. The provisions are determined having regard to the general risk profile of the credit portfolio, historical loss experience, economic conditions and a range of other criteria including status of the pending court

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. 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.

(a) **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.

(i) **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 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.

	2017 Sh'000	2016 Sh'000
<b>Assets</b>		
Bank and cash balances	195,153	86,689
Trade and other receivables	39,844	141,398
	<u>234,997</u>	<u>228,087</u>
<b>Liabilities</b>		
Trade and other payables	97,518	101,591
Borrowings	863,993	782,499
	<u>961,511</u>	<u>884,090</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.

(ii) **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.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (Continued)

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

(b) 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.

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 amount that best represents the Corporation's maximum exposure to credit risk as at the end of the reporting period is as follows:

	Fully performing Shs'000	Past due Shs'000	Impaired Shs'000	Total Shs'000	Provisions Shs'000	Net exposure Shs'000
<b>30 June 2017</b>						
Trade receivables	1,173,197	319,419	396,908	1,889,524	(396,908)	1,492,616
Call deposits	648,234	-	-	648,234	-	648,234
Bank balances	562,294	-	-	562,294	-	562,294
	<u>2,383,725</u>	<u>319,419</u>	<u>396,908</u>	<u>3,100,052</u>	<u>(396,908)</u>	<u>2,703,144</u>
<b>30 June 2016</b>						
Trade receivables	848,395	68,371	353,860	1,270,626	(353,860)	916,766
Call deposits	109,537	-	-	109,537	-	109,537
Bank balances	522,907	-	-	522,907	-	522,907
	<u>1,480,839</u>	<u>68,371</u>	<u>358,860</u>	<u>1,903,070</u>	<u>(353,860)</u>	<u>1,549,210</u>

The customers under the fully performing category are paying their debts as they continue trading. The debts that are overdue and are not impaired continue to be paid. Management is actively following up on these debts. The debts that are impaired have been fully provided for. However, management continues to follow up on these impaired debts.

Call deposits and bank and cash balances are fully performing.

*Concentration risk*

The Company does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics. The Company 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.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk

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 Corporation's liquidity risk is addressed through the following measures:

- The Corporation has arranged for standby overdraft facilities with a limit of Shs 1,000,000,000 with KCB Bank Kenya Limited (KCB) and Shs 1,000,000,000 with Stanbic Bank Limited (Stanbic);
- The Corporation has a structured trade finance facility with a limit of USD 20,000,000 with KCB and advised Trade finance facility of USD 15,000,000 with Stanbic;
- The Corporation has other short term loans with KCB and Stanbic.

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
<b>At 30 June 2017:</b>				
Ministry of Energy and Petroleum				
Headquarters construction fund	-	57,275	-	57,275
SBM Jetty fund	-	11,443	-	11,443
CSR Funds	-	39,256	-	39,256
Exploration and Production				
Capacity Building fund	-	105,764	-	105,764
Laboratory equipment fund	-	428,067	-	428,067
Trade payables	197,151	193,208	-	390,359
Borrowings	2,821,008	-	1,714,591	4,535,599
Structured trade financing	760,900	-	-	760,900
	<u>3,754,361</u>	<u>835,013</u>	<u>1,714,591</u>	<u>6,328,663</u>
<b>At 30 June 2016:</b>				
Ministry of Energy and Petroleum				
Headquarters construction fund	-	223,843	-	223,843
SBM Jetty fund	-	11,443	-	11,443
CSR Funds	-	39,256	-	39,256
Exploration and Production				
Capacity Building fund	-	134,422	-	134,422
Laboratory equipment fund	-	300,000	-	300,000
Trade payables	289,442	248,201	-	537,643
Borrowings	2,371,546	-	1,822,434	4,193,980
Structured trade financing	740,929	-	-	740,929
	<u>3,401,917</u>	<u>957,165</u>	<u>1,822,434</u>	<u>6,181,516</u>

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Fair values

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

	Carrying amount		Fair value	
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
<i>Financial assets</i>				
Trade and other receivables	1,492,616	1,041,827	1,492,616	1,041,827
Call deposits	648,234	109,537	648,234	109,537
Bank and cash balances	562,294	523,036	562,294	523,036
<i>Financial liabilities</i>				
Borrowings	4,535,599	4,193,980	4,535,599	4,193,980
Structured trade finance facility	760,900	740,929	760,900	740,929
Trade and other payables	1,371,646	1,211,201	1,371,646	1,211,201

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 2016, 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.

- (ii) Fair value hierarchy

The Corporation 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;

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

6. 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.

NATIONAL OIL CORPORATION OF KENYA LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. CAPITAL RISK MANAGEMENT (Continued)

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

	2017 Shs'000	2016 Shs'000
Share capital	532,000	532,000
Share premium	1,183,000	1,183,000
Funds awaiting allotment of shares	500,000	500,000
Revaluation surplus	1,966,997	2,037,173
Accumulated deficit	(1,283,690)	(1,221,235)
	<hr/>	<hr/>
Equity	2,898,307	3,030,938
	<hr/>	<hr/>
Borrowings	4,535,599	4,193,980
Structured trade finance facility	760,900	740,929
Less: Cash and cash equivalents (excluding borrowings)	(1,210,849)	(632,573)
	<hr/>	<hr/>
Net debt	4,085,650	4,302,336
	<hr/>	<hr/>
<b>Gearing ratio</b>	<u>Over 100%</u>	<u>Over 100%</u>

7. 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.

8. GOING CONCERN

The Corporation incurred a loss of Shs 132,631,000 (2016 – Shs 808,168,000) during the year and had accumulated losses of Shs 1,283,690,000 as at 30 June 2017 (2016 – Shs 1,221,235,000). In addition, the Corporation is in a net current liability position of Shs 844,814,000 (2015 – Shs 955,806,000). 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. In the current year, the measures put in place by the board and management saw a significant loss reduction from Shs 808 million in prior year to Shs 62 million in the current year. Some of these measures include focusing sales to high margin channels like company owned stations and improved inventory management system to reduce inventory provisions. The Corporation is also looking into debt restructuring with an aim to reduce the finance cost. Finally, the Corporation is also looking into new business like aviation. In addition, the Corporation is lobbying for government bodies to fuel with the Corporation.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Shs'000	2016 Shs'000
9. REVENUE		
White products	29,796,322	29,012,644
Black products	57,953	94,262
Liquefied petroleum gas and lubricants	1,176,164	923,422
	<u>31,030,439</u>	<u>30,030,328</u>
10. COST OF SALES		
Cost of goods sold	28,699,945	28,313,523
Other direct costs	422,637	446,575
	<u>29,122,582</u>	<u>28,760,098</u>
11. OPERATING INCOME		
Multi - client data	7,741	28,892
Rental income (subletting)	46,427	32,925
Throughput fees	7,030	29,201
Sundry income	15,306	3,971
Bad debts written off recovered	2,000	-
LPG plant through put fees	2,242	2,687
Gain on disposal of property, plant and equipment	102	1,023
Other income	10	-
	<u>80,858</u>	<u>98,699</u>
12. LOSS BEFORE TAXATION		
The loss before taxation is arrived at after charging:		
Staff costs (note 13)	490,753	477,231
Depreciation on property, plant and equipment (note 17)	299,757	299,731
Depreciation of investment property (note 18)	234	235
Amortisation of prepaid operating leases (note 19)	75,834	99,941
Amortisation of intangible assets (note 20)	87,993	62,864
Inventory provisions (note 23)	87,676	87,630
Provision for bad debts (note 24)	43,048	15,703
Directors' emoluments - fees	4,620	4,620
- Other emoluments	16,124	16,035
Auditor's emoluments	5,800	5,550
	<u>1,107,537</u>	<u>1,080,510</u>
13. STAFF COSTS		
Salaries and wages	434,142	436,318
Pension costs - defined contribution plan	30,523	30,254
Leave pay allowance	3,351	4,662
Gratuity	6,102	5,187
National Social security Fund costs (NSSF)	594	810
	<u>474,712</u>	<u>477,231</u>

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Shs'000	2016 Shs'000
14. (a) INTEREST INCOME		
Interest income	19,295	17,578
(b) FINANCE COSTS		
Interest expense	(669,082)	(614,175)
Net foreign exchange loss	(40,230)	(50,883)
	<u>(709,312)</u>	<u>(665,058)</u>
<b>Net finance cost</b>	<u><u>(690,017)</u></u>	<u><u>(647,480)</u></u>
15. INCOME TAX CHARGE		
(a) <b>Taxation (credit)/charge</b>		
Tax recognised in profit or loss		
Current tax based on adjusted profit at 30%	19,717	15,151
Deferred tax charge/(credit) (note 22(b))	41,057	(131,354)
Under provision of deferred tax asset		
in the prior year (note 22(b))	1,578	59,659
Deferred tax on tax losses, (utilised)/derecognised (note 22(b))	(126,423)	235,951
	<u>(64,071)</u>	<u>179,407</u>
(b) <b>Reconciliation of tax based on accounting profit to tax charge</b>		
Accounting loss before taxation	<u>(126,778)</u>	<u>(628,761)</u>
Current tax at 30%	(37,958)	(188,628)
Tax effect of expenses not deductible for tax	98,732	72,425
Under provision of deferred taxation		
asset in the prior year (note 22(b))	1,578	59,659
Deferred tax on tax losses, (utilised)/derecognised (note 22(b))	(126,423)	235,951
	<u>(64,071)</u>	<u>179,407</u>
(c) <b>Current tax asset</b>		
At beginning of the year	128,427	143,578
Current tax expense (note 15(a))	(19,717)	(15,151)
Income tax paid	3,489	-
	<u>112,199</u>	<u>128,427</u>

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Shs'000	2016 Shs'000
16. LOSS PER SHARE		
Loss attributable to ordinary shareholders	(62,455)	(808,168)
<b>Basic loss per share</b>		
Weighted average number of ordinary shares used in the calculation of basic loss per share ('000)	26,600	26,600
<b>Basic loss per share (Shs)</b>	(2.35)	(30.38)
<b>Diluted loss per share</b>		
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
<b>Diluted loss per share (Shs)</b>	(1.21)	(15.66)

NATIONAL OIL CORPORATION OF KENYA LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. PROPERTY, PLANT AND EQUIPMENT

	Freehold land Shs'000	Leasehold land Shs'000	Buildings Shs'000	Plant, machinery, computers, furniture, fittings and equipment Shs'000	Motor vehicles Shs'000	Capital work in progress Shs'000	Total Shs'000
<b>Cost or valuation:</b>							
At 1 July 2015	658,948	2,528,711	1,515,788	1,885,661	14,731	529,840	7,133,679
Additions	-	-	252,455	143,803	-	153,051	549,309
Disposals	-	-	-	(222)	(400)	-	(622)
Impairment*	-	-	-	-	-	(1,561)	(1,561)
Reclassification to prepaid operating leases	-	(13,035)	-	-	-	-	(13,035)
Transfers in/(out)	-	250	298,022	10,496	-	(308,768)	-
Transfers to intangible assets	-	-	-	-	-	(52,856)	(52,856)
Transfers to prepaid operating leases	-	-	-	-	-	(232)	(232)
At 30 June 2016	658,948	2,515,926	2,066,265	2,039,738	14,331	319,474	7,614,682
At 1 July 2016	658,948	2,515,926	2,066,265	2,039,738	14,331	319,474	7,614,682
Additions	-	351	64,802	51,319	-	97,675	214,147
Disposals	-	-	-	(806)	-	-	(806)
Impairment**	-	-	(175,645)	(2,782)	-	(53,931)	(232,358)
Transfers in/(out)	1,018	-	48,849	17,395	-	(67,262)	-
At 30 June 2017	659,966	2,516,277	2,004,271	2,104,864	14,331	295,956	7,595,665

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Freehold Land Shs'000	Leasehold land Shs'000	Buildings Shs'000	Plant, machinery, computers, furniture, fittings and equipment Shs'000	Motor vehicles Shs'000	Capital work in progress Shs'000	Total Shs'000
<b>Depreciation</b>							
At 1 July 2015	-	9,442	334	664,107	-	-	673,883
Charge for the year	-	68,279	56,105	167,934	7,413	-	299,731
Reclassification to prepaid operating leases	-	(12,687)	-	-	-	-	(12,687)
Disposals	-	-	-	(95)	-	-	(95)
At 30 June 2016	-	65,034	56,439	831,946	7,413	-	960,832
At 1 July 2016	-	65,034	56,439	831,946	7,413	-	960,832
Charge for the year	-	68,312	60,486	166,139	4,820	-	299,757
Eliminated on disposal	-	-	-	(722)	-	-	(722)
Eliminated on impairment	-	-	(16,164)	(348)	-	-	(16,512)
At 30 June 2017	-	133,346	100,761	997,015	12,233	-	1,243,355
<b>Net book value on valuation basis:</b>							
At 30 June 2017	659,966	2,382,931	1,903,510	1,107,849	2,098	295,956	6,352,310
At 30 June 2016	658,948	2,450,892	2,009,825	1,207,792	6,918	319,475	6,653,850
<b>Net book value on cost basis:</b>							
At 30 June 2017	275,071	600,181	1,568,166	1,107,849	1,858	295,956	3,849,081
At 30 June 2016	274,053	618,850	1,564,166	1,207,792	5,364	319,475	3,990,338

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

\* The impairment relates to a feasibility study done for the construction of a petrol station which was later abandoned.

\*\* The impairment relates to company's buildings and equipment situated at properties whose leases were terminated during the period as per note 19. The impairment on capital work in progress relates to projects that have been abandoned.

Property, plant and equipment were last revalued on 30 June 2015, by Swatz Developers Limited, Registered Valuers and Estate Agents who are independent of the Corporation. Swatz Developers Limited, Registered Valuers and Estate Agents are members of the Institute of Valuers of Kenya, and they have appropriate qualifications and recent experience in the fair value measurement of properties in the relevant locations

Leasehold land and freehold land were valued on the basis of comparable sales while buildings and motor vehicles were valued on a depreciated replacement cost basis.

There was no valuation carried out during the year.

Property, plant and equipment with a net book value of Sh 1,996,535,000 (2014 – Sh 2,026,300,000) have been charged to secure banking facilities granted to the Corporation as disclosed in note 32.

Details of the fair value hierarchy for the Corporation's property plant and equipment carried at fair value as at 30 June 2016 and as at 30 June 2017 are as follows:

	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
<b>30 June 2017</b>				
Freehold land	-	384,895	-	384,895
Leasehold land	-	1,782,750	-	1,782,750
Buildings	-	335,344	-	335,344
Motor vehicles	-	241	-	241
	-	2,503,230	-	2,503,230
<b>30 June 2016</b>				
Freehold land	-	384,895	-	384,895
Leasehold land	-	1,832,041	-	1,832,041
Buildings	-	445,022	-	445,022
Motor vehicles	-	1,554	-	1,554
	-	2,663,512	-	2,663,512

There were no transfers between levels 1, 2 and 3 in the period.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Shs'000	2016 Shs'000
18. INVESTMENT PROPERTY		
<b>Cost</b>		
At 1 July and 30 June	13,531	13,531
	-----	-----
<b>Depreciation</b>		
At 1 July	2,252	2,017
Charge for the year	234	235
	-----	-----
At 30 June	2,486	2,252
	-----	-----
<b>Net book value</b>		
At 30 June	11,045	11,279
	=====	=====

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 (2016: Shs 172,500,000).

	2017 Shs'000	2016 Shs'000
19. PREPAID OPERATING LEASES		
<b>Cost</b>		
At 1 July	631,161	540,645
Additions	41,349	77,249
Transfer from capital work in progress (note 17)	-	232
Termination of lease	(36,263)	-
Reclassification from property plant and equipment (note 17)	-	13,035
	-----	-----
At 30 June	636,247	631,161
	-----	-----
<b>Amortisation</b>		
At 1 July:	440,838	328,210
Amortisation charge for the year:	75,834	99,941
Reclassification from property plant and equipment (note 17)	-	12,687
Termination of lease	(34,497)	-
	-----	-----
At 30 June:	482,175	440,838
	-----	-----
<b>Net book value</b>		
At 30 June:	154,072	190,323
	=====	=====

This relates to leases on land that is under use by the Corporation countrywide mainly hosting petrol stations. The leases carry different lease periods and lease amounts, depending on when the land was leased.

The terminations relate to lease agreements for several petrol service stations that were cancelled in the year ended 30 June 2017.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Shs'000	2016 Shs'000
20. INTANGIBLE ASSETS		
<b>Cost</b>		
At 1 July	446,409	297,844
Additions	43,464	95,709
Transfers from capital work in progress (note 17)	-	52,856
	<hr/>	<hr/>
At 30 June	489,873	446,409
	<hr/>	<hr/>
<b>Amortisation</b>		
At 1 July	290,275	227,411
Charge for the year	87,993	62,864
	<hr/>	<hr/>
At 30 June	378,268	290,275
	<hr/>	<hr/>
<b>Net book value</b>		
At 30 June	111,605	156,134
	<hr/> <hr/>	<hr/> <hr/>

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

21. 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;
- (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:

	2017 Shs '000	2016 Shs '000
<b>Exploration and Evaluation expenses</b>		
At beginning of year	820,667	778,800
Additions	100,822	41,867
	<hr/>	<hr/>
At end of year	921,489	820,667
	<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.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. EXPLORATION EXPENDITURE – BLOCK 14T (Continued)

(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:

	2017 Shs'000	2016 Shs'000
At beginning of year	528,427	509,961
Receipts during the year	41,245	18,466
	<hr/>	<hr/>
<b>At end of year</b>	<b>569,672</b>	<b>528,427</b>
	<hr/> <hr/>	<hr/> <hr/>

22. DEFERRED TAXATION

The deferred income tax is calculated using the enacted tax rate of 30% as at 30 June 2016 (30% - 2016).

	2017 Shs'000	2016 Shs'000
<b>(a) The net deferred tax liability as at 30 June is attributable to the following items</b>		
<i>Assets:</i>		
Temporary provisions	448,643	406,806
Tax losses	109,528	235,951
Deferred tax on tax losses derecognised	(109,528)	(235,951)
	<hr/>	<hr/>
Deferred tax asset	448,643	406,806
	<hr/>	<hr/>
<i>Liabilities:</i>		
Unrealised exchange loss	(4,159)	(1,397)
Revaluation surplus	(654,744)	(702,830)
Accelerated capital allowances	(108,685)	(135,388)
	<hr/>	<hr/>
Deferred tax liability	(767,588)	(839,615)
	<hr/>	<hr/>
<b>Net deferred tax liability</b>	<b>(318,945)</b>	<b>(432,809)</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>(b) Reconciliation of deferred tax liability</b>		
At beginning of year – as previously reported	(432,809)	(268,553)
Prior year under provision of deferred tax (note 15(a))	(1,578)	(59,659)
Deferred tax (credit)/charge (note 15(a))	(41,057)	131,354
Deferred tax on revaluation deficit of impaired assets	30,076	-
	<hr/>	<hr/>
	(445,368)	(196,858)
Deferred tax on tax losses not recognized	-	(235,951)
Deferred tax on tax losses not recognised now utilised	126,423	-
	<hr/>	<hr/>
<b>At end of year</b>	<b>(318,945)</b>	<b>(432,809)</b>
	<hr/> <hr/>	<hr/> <hr/>

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Shs'000	2016 Shs'000
23. INVENTORIES		
White products	2,190,993	2,512,016
Other products	712,849	651,853
Provision for inventories	(969,965)	(882,289)
	<u>1,933,877</u>	<u>2,281,580</u>

The movement for the provision for inventory is as follows:

At beginning of year	(882,289)	(847,230)
Reclassification to provision for doubtful debts* (note 24)	-	52,571
Increase in inventory provision during the year	(87,676)	(87,630)
	<u>(969,965)</u>	<u>(882,289)</u>

Inventories with a value of Shs 399,595,542 (2016: Shs 283,204,000) have been charged to secure banking facilities granted to the Corporation as disclosed in note 33.

\*The reclassification to provision for doubtful debts relate to Kenya Petroleum Refinery Limited duties provided for under inventory but have been recorded under prepayments.

	2017 Shs'000	2016 Shs'000
24. TRADE AND OTHER RECEIVABLES		
Trade receivables	1,227,707	1,270,626
Prepayments	738,488	177,632
	<u>1,966,195</u>	<u>1,448,258</u>
Provision for doubtful debts	(449,479)	(406,431)
	<u>1,516,716</u>	<u>1,041,827</u>

The provision for doubtful debts movement is as follows:

At 1 July	(406,431)	(338,157)
Additional provisions	(43,048)	(15,703)
Reclassification from provision for inventory (note 23)	-	(52,571)
	<u>(449,479)</u>	<u>(406,431)</u>

25. CALL DEPOSITS		
Deposits with banks	648,234	109,537

The weighted average interest rate received on call deposits during the year was 10.6% (2016: 13.67%).

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Shs'000	2015 Shs'000
26. SHARE CAPITAL		
<b>Authorised, issued and fully paid</b>		
26,600,000 Ordinary shares of Shs 20 each	532,000	532,000

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.

27. FUNDS AWAITING ALLOTMENT OF SHARES

The Corporation received Shs 500 million in the financial year ended 30 June 2009 from the Government of Kenya towards subscription of shares. The increase in share capital has not yet been formalized. As at 30 June 2017, this amount has been accounted for as funds awaiting allotment of shares.

	2016 No. of shares '000'	2015 No. of shares '000'
28. SHAREHOLDING STRUCTURE		
National Treasury (99%)	26,334	26,334
Ministry of Energy and Petroleum (1%)	266	266
	<u>26,600</u>	<u>26,600</u>

29. DEFERRED INCOME

	Training fund grant Shs'000	Oil exploration grants Shs'000	Government downstream grant Shs'000	Total deferred income Shs'000
At 1 July 2015	10,225	854,346	69,339	933,910
Receipts during the year:	-	325,000	-	325,000
Proceeds from sale of geological maps	-	176	-	176
Transfer to statement of profit or loss	-	(183,999)	(13,248)	(197,247)
	<u>10,225</u>	<u>995,523</u>	<u>56,091</u>	<u>1,061,839</u>
At 30 June 2016	10,225	995,523	56,091	1,061,839
At 1 July 2016	10,225	995,523	56,091	1,061,839
Receipts during the year:	-	409,412	-	409,412
Transfer to statement of profit or loss	-	(253,811)	(13,248)	(267,059)
	<u>10,225</u>	<u>1,151,124</u>	<u>42,843</u>	<u>1,204,192</u>
At 30 June 2017	10,225	1,151,124	42,843	1,204,192

*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.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 DEFERRED INCOME (Continued)

*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 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.

*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.

	2017 Shs'000	2016 Shs'000
30. TRADE AND OTHER PAYABLES		
Trade payables	390,359	537,643
Leave pay provision	7,967	9,574
Accruals and other payables	923,770	613,830
Other accruals*	49,550	50,154
	<u>1,371,646</u>	<u>1,211,201</u>

\* 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 on going and the likely outcome is unknown. In addition, the Corporation is regularly subject to an evaluation by the tax authorities of its direct and indirect tax affairs and in connection with such reviews, pending cases can arise with the tax authorities over the interpretation or application of certain tax rules applicable to the Corporation's business.

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 49,550,000 (2016: Shs 50,154,000) for the claims.

	2017 Shs'000	2016 Shs'000
31. GRATUITY PROVISION		
At beginning of year	7,573	8,803
Additional provision during the year	6,102	5,187
Payments during the year	(8,120)	(6,417)
	<u>5,555</u>	<u>7,573</u>
At end of year	5,555	7,573
The amounts are due as follows:		
Within one year	<u>5,555</u>	<u>7,573</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.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Shs'000	2016 Shs'000
32. BORROWINGS		
<i>Current borrowings</i>		
Bank overdrafts	1,855,858	1,807,768
Term loans	965,150	563,778
	<hr/>	<hr/>
	2,821,008	2,371,546
<i>Non-current borrowings</i>		
Term loan	1,714,591	1,822,434
	<hr/>	<hr/>
<b>Total borrowings</b>	<b>4,535,599</b>	<b>4,193,980</b>
	<hr/> <hr/>	<hr/> <hr/>
The borrowings therefore comprise of:		
Bank overdrafts	1,855,858	1,807,768
Term loans	2,679,741	2,386,212
	<hr/>	<hr/>
	<b>4,535,599</b>	<b>4,193,980</b>
	<hr/> <hr/>	<hr/> <hr/>

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

Location	L.R No.	Amount Shs
Kisumu	Kisumu Municipality/Block 8/7	72,926,267
Kisumu	Kisumu Municipality/Block 9/6	107,136,660
Kisumu	Kisumu Municipality/Block 7/7	43,761,468
Kisumu	Kisumu Municipality/Block 4/73	117,963,964
Eldoret	Eldoret Municipality Block 3/39	16,293,750
Eldoret	Eldoret Municipality Block 13/417 & 13/689	117,362,637
Eldoret	Eldoret Municipality Block 5/628	80,134,222
Eldoret	Eldoret Municipality Block 2/73/1	41,922,423
Eldoret	Eldoret Municipality Block 21/Kingongo/875	43,679,707
Thika	Thika Municipality Block 12/176	15,209,136
Mombasa	Mombasa/Block XVII/390,391 & 629	6,218,102
Mombasa	Mombas/Block XXVII/127	60,000,000
Mombasa	Block XVI/136	50,000,000
Mombasa	Section 1474( C.R.12874)	150,000,000
Mombasa	Mainland North/Section VI/2495/2 & 29/1	45,000,000
Nakuru	Nakuru/Block 16/581	40,000,000
Nakuru	Nakuru/Block 21/263	21,226,115
Nairobi	209/12298	20,215,607
Nairobi	209/7753	715,705,129
Nairobi	Nairobi/Block 97/59	196,380,090
Nairobi	Nairobi/Block 97/60	8,850,000
Nairobi	Nairobi/Block 97/61	8,850,000
Nairobi	Nairobi/Block 97/62	8,850,000

The term loans facility is offered by KCB Bank Kenya Limited (KCB) and consists of two term loans. The term loan VII (a) which was issued on July 2015 with a limit of Ksh 300,000,000 is repayable in 60 months; interest is at KBRR plus a variable margin of 6.46% subject to a minimum of 15% p.a.

The term loan VII (b) which was issued on July 2015 with a limit of Ksh 291,000,000 is repayable in 60 months; interest is at KBRR plus a variable margin of 6.46% subject to a minimum of 15% p.a.

However, interest rates have since been capped at 4% above the CBBR through the Banking (Amendment) Act No. 25 of 2016 which came into effect on 14 September 2016. The CBBR is currently at 10.0%.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. BORROWINGS (Continued)

	2017 Shs'000	2016 Shs'000
KCB Term Loan VII - LPG Plant	295,565	357,278
KCB Term Loan VIII - Station acquisition	419,026	465,156
KCB OTS Finance Loan	395,392	315,152
CfC Stanbic Bank Loan	103,265	41,662
CfC Short term Loan	1,000,000	1,000,000
CfC Invoice discounting Loan	-	206,964
CFC OTS Finance Loan	466,493	-
	<hr/>	<hr/>
<b>Total term loan</b>	2,679,741	2,386,212
KCB Bank Kenya Limited overdraft facility (see below)	915,587	855,800
Stanbic Bank Limited overdraft facility (see below)	940,271	951,968
	<hr/>	<hr/>
<b>Total borrowings</b>	4,535,599	4,193,980
	<u>=====</u>	<u>=====</u>

The Corporation has a composite facility comprising of overdrafts, guarantees and letters of credit with KCB Bank Kenya Limited with a limit of Shs 1,000,000,000 (2016 - Shs 1,000,000,000). This facility is utilised for working capital requirements of the Corporation. The Corporation also has an overdraft facility with Stanbic Bank Limited with a limit of Shs 1,000,000,000 (2016 - Shs 1,000,000,000) and a short term financing loan of Shs 1,000,000,000 (2016 - Shs 1,000,000,000).

The movement for borrowings (term loans and structured trade facility) are as follows:

	2017 Shs'000	2016 Shs'000
At beginning of year	3,127,141	1,558,437
Additional borrowings in the year	31,579,939	19,588,337
Repayments during the year	(31,252,577)	(18,019,498)
Unrealised exchange differences	(13,862)	(135)
	<hr/>	<hr/>
<b>At end of year</b>	3,440,641	3,127,141
	<u>=====</u>	<u>=====</u>

**Interest rates**

The weighted average interest rates paid on borrowings during the year were as follows:

	2017	2016
Bank overdrafts	14.00%	16.17%
Term loans	14.00%	17.83%
	<hr/>	<hr/>

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. STRUCTURED TRADE FINANCE FACILITY

During the year, the Corporation maintained the structured trade finance facility with KCB Bank Kenya Limited (the "Bank") at USD 8,000,000. Under this arrangement, the Bank offers import letters of credit and post import financing for acquisition of the Corporation's inventories. The security offered for this facility is the inventories purchased and it is held under lien until the Corporation repays the Bank within 60 days which is the maturity period for the facility. The Corporation has a trust receipt facility of USD 12,000,000 with the Bank as well.

As at 30 June 2017, the Corporation had utilised the US dollar equivalent of Shs 295,809,000 (2016: Shs 241,634,000) of the structured trade finance facility, Shs 465,091,000 (2016 – Shs 499,295,000) of KCB Post Import Finance facility, a total Shs 760,900,000 (2016- Shs 740,929,000).

34. MINISTRY OF ENERGY AND PETROLEUM - HEADQUARTERS (MOEP-HQ) 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:

	2017 Shs'000	2016 Shs'000
At beginning of year	223,843	516,648
Receipts during the year	193,310	-
Payments made for construction of MOEP HQ	(359,878)	(292,805)
	<hr/>	<hr/>
At end of year	<u>57,275</u>	<u>223,843</u>

35. SINGLE BUOY MOORING (SBM) 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.

	2017 Shs'000	2016 Shs'000
At beginning and at end of the year	11,443	11,443
	<hr/>	<hr/>

36. CORPORATE SOCIAL RESPONSIBILITY (CSR) PROJECTS 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 2011/12, 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.

	2016 Shs'000	2015 Shs'000
At beginning of year	39,256	18,114
Receipts during the year	-	24,095
Payments made during the year	-	(2,953)
	<hr/>	<hr/>
At end of year	<u>39,256</u>	<u>39,256</u>

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

37. 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 to train these staff.

	2017 Shs'000	2016 Shs'000
At beginning of year	134,422	184,111
Payments made during the year	(28,658)	(49,689)
	<hr/>	<hr/>
At end of year	105,764	134,422
	<hr/> <hr/>	<hr/> <hr/>

38. LABORATORY EQUIPMENT FUND

The funds from the Ministry of Energy and Petroleum which are meant for laboratory equipment amounting to Shs 300,000,000 for the energy centre at the new Ministry of Energy and Petroleum headquarters were not utilised in the year. However, there was an additional receipt of Shs. 128,067,000 during the year ended 30 June 2017.

	2017 Shs'000	2016 Shs'000
At beginning of year	300,000	300,000
Receipts during the year	128,067	-
	<hr/>	<hr/>
At end of year	428,067	300,000
	<hr/> <hr/>	<hr/> <hr/>

39. OPERATING LEASE COMMITMENTS

The Corporation has leased some of its stations from landowners for a period of 5 years. At the financial reporting date, the Corporation had no outstanding commitments under these operating leases since the leases are prepaid for the five years. The leases are disclosed under prepaid operating leases in note 19.

	2016 Shs'000	2015 Shs'000
Operating lease rentals are payable as follows:		
Less than one year	9,306	24,934
Between one and five years	12,336	16,710
	<hr/>	<hr/>
	21,642	41,644
	<hr/> <hr/>	<hr/> <hr/>

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40. NOTES TO THE CASH FLOW STATEMENT

**Cash and cash equivalents**

For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible to known amounts of cash and which were within three months of maturity when acquired, less bank overdrafts which are repayable on demand and which are utilised by the Corporation to meet its short term cash management needs.

	2017 Shs'000	2016 Shs'000
<b>(a) Reconciliation of loss before tax to cash generated from operating activities</b>		
Loss before taxation	(126,526)	(628,761)
Adjustments for:		
Depreciation of property, plant and equipment (note 17)	299,757	299,731
Depreciation of investment property (note 18)	234	235
Gain on disposal of property, plant and equipment	(102)	(1,023)
Amortisation – prepaid operating rentals (note 19)	75,834	99,941
Amortisation – intangible assets (note 20)	87,993	62,864
Impairment loss on property plant and equipment (note 17)	115,594	1,561
Termination of prepaid operating leases (note 19)	1,766	-
Release of deferred income – upstream (note 29)	(253,811)	(183,999)
Release of deferred income – downstream (note 29)	(13,248)	(13,248)
Interest income recognised in the loss (note 14(a))	(19,295)	(17,578)
Interest expense recognised in the loss (note 14(b))	669,082	614,175
Unrealised exchange difference on borrowings (note 32)	(13,862)	(135)
	<hr/>	<hr/>
<b>Operating profit before working capital changes</b>	<b>823,416</b>	<b>233,763</b>
Increase in inventories	347,703	634,522
(Decrease) /increase in trade and other receivables	(450,789)	35,365
Increase/(decrease) in trade and other payables	153,886	(350,966)
Decrease in gratuity provision	(2,018)	(1,230)
Decrease in Ministry of Energy and Petroleum Headquarters Construction Fund	(166,568)	(292,805)
Increase in corporate social responsibility fund projects fund	-	21,142
Decrease in exploration and production capacity building fund	(28,658)	(49,689)
Increase in laboratory equipment fund	128,067	-
	<hr/>	<hr/>
<b>Cash generated from operations</b>	<b>805,039</b>	<b>230,102</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>(b) Analysis of the balances of cash and cash equivalents</b>		
Cash and bank balances	562,615	523,036
Call deposits	648,234	109,537
Bank overdrafts (note 32)	(1,855,858)	(1,807,768)
	<hr/>	<hr/>
	<b>(645,009)</b>	<b>(1,175,195)</b>
	<hr/> <hr/>	<hr/> <hr/>

41. CONTINGENT LIABILITIES AND GUARANTEES

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 166,735,052 (2015 - Shs 75,215,000).

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

42. CAPITAL COMMITMENTS

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:

	2016 Shs'000	2015 Shs'000
Authorised but not contracted for	24,405	74,465
	<u>=====</u>	<u>=====</u>

43. RELATED PARTIES

The remuneration of directors and other members of key management during the year were as follows:

	2017 Shs'000	2016 Shs'000
<b>(a) Key management compensation</b>		
Salaries and other short-term employment benefits	76,570	92,216
	<u>=====</u>	<u>=====</u>
<b>(b) Directors' remuneration</b>		
Fees for service as directors	4,620	4,620
Other emoluments	16,124	16,035
	<u>-----</u>	<u>-----</u>
	20,744	20,655
	<u>=====</u>	<u>=====</u>

**(c) Sales to related parties**

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

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

During the year, sales to the related parties amounted to Shs 2,007,450,941 (2016 – Shs 2,994,650,000).

	2017 Shs'000	2016 Shs'000
<b>(d) Outstanding balances</b>		
The balances outstanding at year end were as follows:		
Due to related parties	355,899	184,248
	<u>=====</u>	<u>=====</u>
Due from related parties	407,215	163,612
	<u>=====</u>	<u>=====</u>

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.

44. FUNCTIONAL AND PRESENTATION CURRENCY

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

45. EVENTS AFTER THE REPORTING PERIOD

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

## NATIONAL OIL CORPORATION OF KENYA LIMITED

DETAILED EXPENSES  
FOR THE YEAR ENDED 30 JUNE 2017

	2017 Shs'000	2016 Shs'000
<b>EXPLORATION COSTS</b>		
Salaries	68,431	45,132
Other office supplies and expenses	62,268	46,245
Rent and rates	27,221	21,433
Professional fees	30,418	19,612
Travelling and accommodation	5,219	11,102
Staff housing	12,626	6,770
Medical expenses	8,895	6,500
Training and education	3,444	5,240
Board expenses	5,630	3,874
Audit fees	3,092	2,252
Printing and stationery	678	1,470
Telephone, telex and postage	1,689	1,677
Gratuity and pension costs	8,781	1,023
Subscriptions and donations	1,098	1,490
Groceries and drinks	1,027	1,074
Advertising and publicity	5,443	4,766
Staff welfare expenses	1,748	1,755
Cleaning	1,502	1,476
Security charges	338	266
Insurance- Office & other Insurance	2,201	226
Motor running expenses	304	361
Recruitment costs	1,102	584
Light and water	406	21
Repairs and maintenance	250	(350)
	<u>253,811</u>	<u>183,999</u>
<b>ADMINISTRATIVE EXPENSES</b>		
Salaries	218,179	272,841
Other allowances and compensation	98,615	73,938
House allowance	54,501	55,522
Medical expenses	38,826	26,109
Other pension costs	26,168	26,706
Staff welfare	8,231	8,914
Training and education	12,361	7,393
Vacation and holiday compensation	3,351	4,209
Recruitment costs	5,177	2,339
Gratuity	(2,679)	2,242
Overtime	3,388	1,282
Wages	323	185
NSSF costs	597	756
	<u>467,038</u>	<u>482,436</u>

## NATIONAL OIL CORPORATION OF KENYA LIMITED

DETAILED EXPENSES  
FOR THE YEAR ENDED 30 JUNE 2017 (Continued)

	2017 Shs	2016 Shs
<b>OTHER OPERATING EXPENSES</b>		
Depreciation of property, plant and machinery	249,045	299,727
Maintenance of equipment	111,464	71,009
Professional fees	65,843	67,299
Amortization of prepaid operating leases	75,834	99,941
Travelling and accommodation	51,841	67,365
Amortization of intangible assets	87,993	62,864
Security charges	40,520	34,377
Advertising and publicity	28,243	34,477
Rent and rates	39,220	18,670
Hire and rentals	31,085	31,406
Board expenses	20,745	16,781
Subscriptions and donations	7,887	15,365
Insurance	13,347	12,554
Printing	8,923	4,100
Telephone and fax	8,696	8,738
Cleaning	7,580	7,595
Light and water	9,499	6,740
Audit fees	12,366	4,736
Groceries and drinks	7,146	6,602
Office supply and expenses	14,766	4,737
Postage and courier	1,856	2,135
Staff uniforms	374	1,191
Impairment loss on property, plant and equipment	76,178	1,561
Books and newspapers	749	751
Depreciation of investment property	234	235
Entertainment	-	66
	<u>971,434</u>	<u>881,022</u>

## NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
FOR THE YEAR ENDED 30 JUNE 2017

	Original budget 2017	Adjustments 2017	Final budget 2017	Actual Performance 2017	Over/Under Utilization 2012
	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'
<b>Revenue</b>					
Sales Revenue	46,594,791	-	46,594,791	31,030,439	15,564,352
Other Income	160,353	-	160,353	73,117	87,236
Multi client Data Sales	-	-	-	7,741	(7,741)
Exploration Cost Reimbursements	368,977	-	368,977	253,811	115,166
Finance Income	-	-	-	19,295	(19,295)
Deferred Income	13,248	-	13,248	13,248	-
<b>Total income</b>	<b>47,137,369</b>	<b>-</b>	<b>47,137,369</b>	<b>31,397,651</b>	<b>15,739,718</b>
<b>Expenses</b>					
Cost Of Sales	44,068,852	-	44,068,852	29,122,582	14,946,270
Exploration Cost Reimbursements	368,977	-	368,977	253,811	115,166
Finance Cost	445,832	-	445,832	709,312	(263,480)
Depreciation Charge	531,795	-	531,795	463,818	67,977
Rents & Services	116,351	-	116,351	66,441	49,910
Repairs & Maintenance	112,081	-	112,081	110,346	1,735
Insurance	6,420	-	6,420	15,548	(9,128)
Security Charges	44,949	-	44,949	40,520	4,429
Light & Water	3,602	-	3,602	9,905	(6,303)
Cleaning	9,162	-	9,162	9,082	80
Software Licenses	54,704	-	54,704	38,596	16,108
Salaries	363,049	-	363,049	319,291	43,758
Staff housing	63,179	-	63,179	67,127	(3,948)
Gratuity and pension costs	33,681	-	33,681	33,988	(307)
Medical expenses	39,007	-	39,007	40,721	(1,714)
Staff Welfare Expenses	14,260	-	14,260	9,979	4,281
Motor running expenses	1,669	-	1,669	4,066	(2,397)
Travelling and accommodation	94,222	-	94,222	58,555	35,667
Telephone, Telex and Postage	10,337	-	10,337	12,241	(1,904)
Printing and stationary	5,121	-	5,121	9,601	(4,480)
Office expenses	8,242	-	8,242	2,340	5,902
Subscription And donations	21,790	-	21,790	22,691	(901)
Audit fee	8,025	-	8,025	15,458	(7,433)
Legal fee	28,086	-	28,086	6,773	21,313
Advertising and Public relations	175,094	-	175,094	33,686	141,408
Groceries and Drinks	7,093	-	7,093	7,146	(53)
Board Expenses	30,147	-	30,147	20,744	9,403
Training and Education	29,863	-	29,863	12,362	17,501
Recruitment costs	5,304	-	5,304	5,177	127
Professional fee	105,239	-	105,239	96,251	8,988
Staff uniforms	2,595	-	2,595	547	2,048
Meeting and negotiations	4,178	-	4,178	211	3,967
Tender Fee	3,065	-	3,065	427	2,638
Environmental audit	30,326	-	30,326	5,086	25,240
<b>Total expenditure</b>	<b>46,846,297</b>	<b>-</b>	<b>46,846,297</b>	<b>31,624,429</b>	<b>15,221,868</b>



**KENYA PIPELINE COMPANY LIMITED  
REPORTS AND FINANCIAL STATEMENTS FOR THE FINANCIAL ENDED 30<sup>TH</sup> JUNE 2017**

**APPENDIX 1: PROJECTS IMPLEMENTED BY KPC**

S/No	Project	Total Project Cost	Total Expended To Date	Completion % To Date	Budget Kshs	Actual Spent Kshs	Sources of Funds
1	Line 5	49,903,797,299	45,720,326,802	95%	49,903,797,299	32,379,967,904	72%- Borrowing 28%- Internal
2	Kisumu Oil Jetty	1,963,050,422	520,000,000	55%	1,963,050,42	560,641,711	Internal
3	Additional Tanks	5,462,410,536	3,526,127,750	97%	5,462,410,536	3,698,289,127	Internal
4	Bottom Loading	351,000,000	351,000,000	100%	351,000,000	104,913,235	Internal