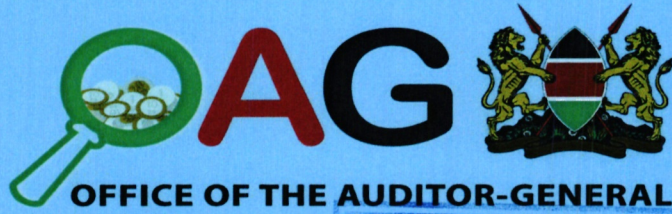


REPUBLIC OF KENYA



*Enhancing Accountability*

THE NATIONAL ASSEMBLY  
PAPERS LAID

**REPORT**

DATE: 29 SEP 2020

DAY:  
TUESDAY

TABLED  
BY:

MAJORITY LEADER

OF  
THE TABLE:

**THE AUDITOR-GENERAL**

**ON**

**NATIONAL OIL CORPORATION OF KENYA  
LIMITED**

**FOR THE YEAR ENDED  
30 JUNE, 2018**

**NATIONAL OIL CORPORATION  
OF KENYA LIMITED**

**ANNUAL REPORT AND  
FINANCIAL STATEMENTS**

**30 JUNE 2018**

NATIONAL OIL CORPORATION OF KENYA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

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# NATIONAL OIL CORPORATION OF KENYA LIMITED

## CORPORATE INFORMATION

DIRECTORS	Mr. Kibuga Kariithi Dr. Julius Muia Mr. Andrew Kamau	- Chairman - Principal Secretary, National Treasury - Principal Secretary, Ministry of Petroleum and Mining
	Ms. Margaret Saitoti Dr. Samuel Gakunga Mr. Peter Ekuleu Mr. Tom Macharia Mr. Hillary Sigei Mr. Daniel Mutiso Mr. Caroli Omondi Ms. Lilian Matagaro Ms. MaryJane Mwangi Dr. Joseph Rotumoi Mr Benard Kitur Rono Ms. Christine Mutinda Eng. Stanley Kamau	- Appointed on 6 June 2018 - Appointed on 6 June 2018 - Appointed on 6 June 2018 - Appointed on 16 August 2018 - Resigned 9 October 2019 - Term expired on 16 April 2018 - Term expired on 16 April 2018 - Term expired on 18 December 2018 - Alternate Director to Principal Secretary, National Treasury - Alternate to Principal Secretary Ministry of Petroleum and Mining
	Ms. Electine Nanzala	
SECRETARY	Gladys Koletit Certified Public Secretary (Kenya) P O Box 58567 – 00200 Nairobi	
REGISTERED OFFICE	Kawi Complex, Popo Lane Off Red Cross Road, South C P O Box 58567 – 00200 Nairobi	
BANKERS	Standard Chartered Bank Kenya Limited P O Box 30003 – 00100 Nairobi	Stanbic Bank Limited P O Box 72833 – 00200 Nairobi
	KCB Bank Kenya Limited P O Box 30081 – 00100 Nairobi	Equity Bank Kenya Limited P O Box 78569 – 00507 Nairobi
	The Co-operative Bank of Kenya Limited P O Box 67881 – 00200 Nairobi	
PRINCIPAL AUDITOR	The Auditor General Anniversary Towers P O Box 30084 – 00100 Nairobi	
DELEGATED AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place, Waiyaki way, Muthangari P O Box 40092 – 00100 Nairobi	
PRINCIPAL LEGAL ADVISERS	The Attorney General Office of the Auditor General and Department of Justice Sheria House, Harambee Avenue P O Box 40112 – 00100 Nairobi	

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## REPORT OF THE DIRECTORS

The Directors present their annual report together with the audited financial statements of National Oil Corporation of Kenya Limited (the "Corporation") for the year ended 30 June 2018 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

	2018 Shs'000	2017 (Restated) Shs'000
Loss before taxation	(320,806)	(878,098)
Taxation credit	95,466	289,542
	<hr/>	<hr/>
Loss for the year transferred to retained earnings	<u>(225,340)</u>	<u>(588,556)</u>

### DIVIDENDS

The Directors do not recommend payment of dividend in respect of the current financial year (2017: nil).

### DIRECTORS

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

### 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 145 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.

#### *Financial Key performance indicators*

The revenues for the Corporation declined from Shs 31 billion for the year ended 30 June 2017 to Shs 29.8 billion for the year ended 30 June 2018 which is a modest 3.7% decrease. This decrease is due to the Corporation slowing down operations in non-profitable channels. The gross profit increased from Shs 1.16 billion to Shs 1.47 billion which is a 27% increase. Operating profit increased from a loss of Shs 188 million to a profit of Shs 204 million. During the year, the Corporation's loss before tax decreased from a restated amount of Shs 878 million to Shs 321 million to mainly due to reversal of KPRL provision of Shs 285 million.

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## REPORT OF THE DIRECTORS (Continued)

### BUSINESS REVIEW (Continued)

#### *Financial Key performance indicators (Continued)*

Operating expenses were reduced from Shs 971 million to Shs 853 million to be in line with the level of business. Net financing costs decreased in the period from Shs 690 million to Shs 524 million. This was as a result of decreased borrowings cost arising from interest rate capping enacted where interest rates are controlled by the central bank.

#### *Principal risks and uncertainties facing the Corporation*

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

#### *Important Milestones*

##### Block 14T-Exploration work

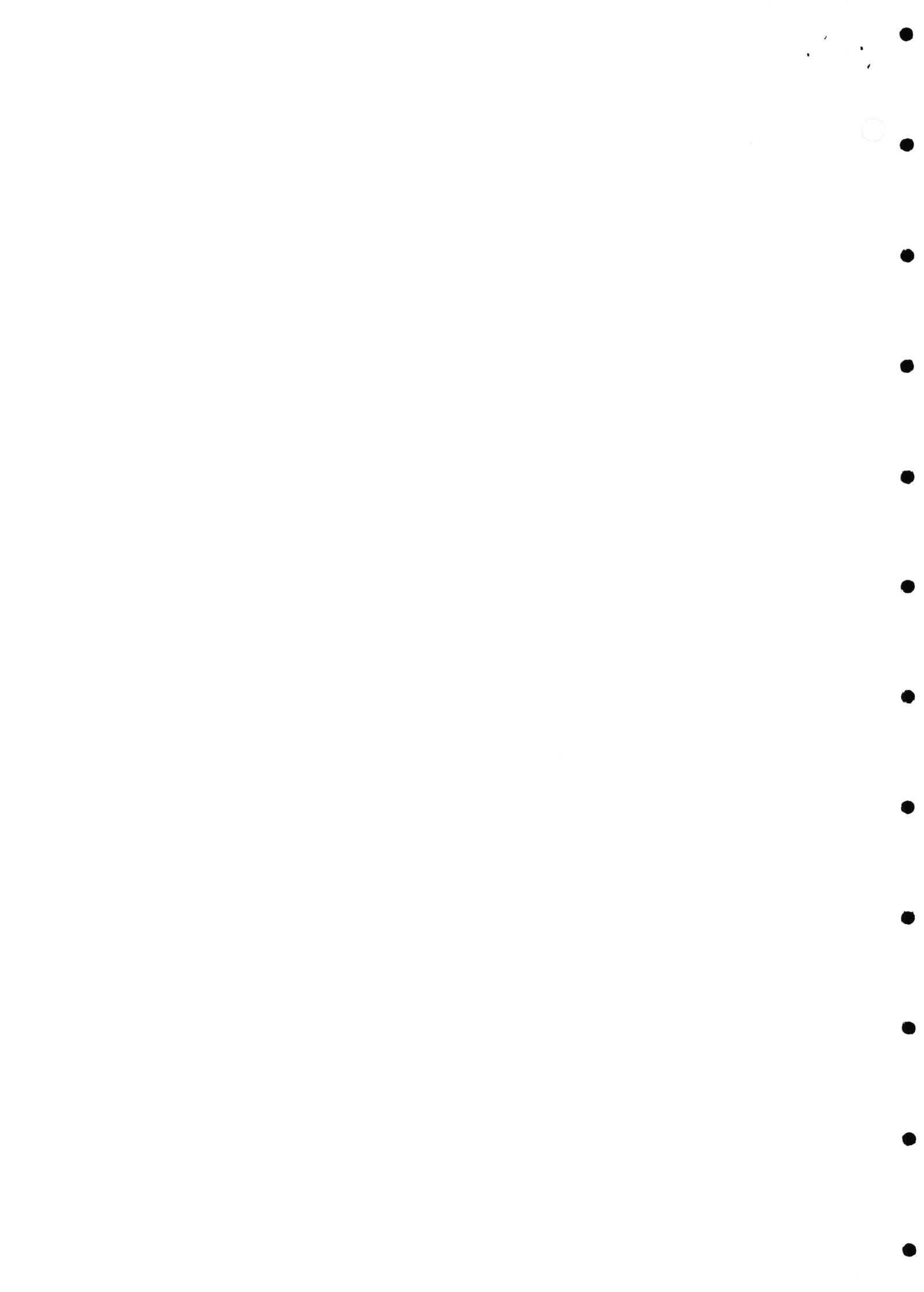
A total of 215 km of 2D seismic data was acquired over the southern part of the block. This was done using a combination of conventional cable system and wireless nodes. Data acquisition run from July 2017 through October 2017. The data was acquired at a cost of Shs 10.9 million with a further Shs 24.4 million spent on Quality Control and Data Processing in the 2017/2018 financial year. A further Shs 78 million was spent on drilling and coring of two stratigraphic wells that were later converted into boreholes to serve the local communities. The activities undertaken in 2017/2018 have seen the investment in the Block 14T asset rise from Shs 921 million to Shs 2 billion and have resulted in the identification of a drillable structure.

#### *Social responsibility*

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

#### *Employees Matters*

The Corporation has directly employed 226 employees and hundreds others through its retail networks. In addition, the Corporation also hires management trainees' in line with the government policy.



NATIONAL OIL CORPORATION OF KENYA LIMITED

REPORT OF THE DIRECTORS (Continued)

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.

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 2018 and report to the Auditor General.

BY ORDER OF THE BOARD



Gladys Koletit  
Company Secretary

Nairobi

15 November 2019



# NATIONAL OIL CORPORATION OF KENYA LIMITED

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

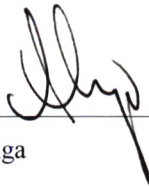
The Kenyan Companies Act, 2015 requires the Directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Corporation as at the end of the financial year and of its profit or loss for that year. It also requires the Directors to ensure 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:

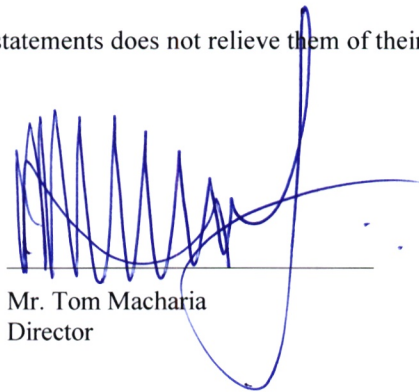
- (i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- (ii) selecting suitable accounting policies and applying them consistently; and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

The Directors are aware of the negative working capital and the recurring losses 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



Mr. Tom Macharia  
Director

15 November 2019

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

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the accompanying financial statements of National Oil Corporation of Kenya Limited, set out on pages 10 to 52, which comprise the statement of financial position as at 30 June 2018, 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Corporation as at 30 June 2018 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and the requirements of the Kenyan Companies Act, 2015.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Material uncertainty regarding going concern

We draw your attention to the disclosure in note 8 in the financial statements, which indicates that the Corporation incurred a loss of Shs 225,340,000 (2017: Shs 588,556,000) during the year and, as of that date, the Corporation current liabilities exceeded its current assets by Shs 2,590,455,000 (2017: Shs 1,596,386,000). As stated in note 8, these events or conditions, along with other matters set forth in note 8, indicate that a material uncertainty exists that may cast significant doubt on the Corporation's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

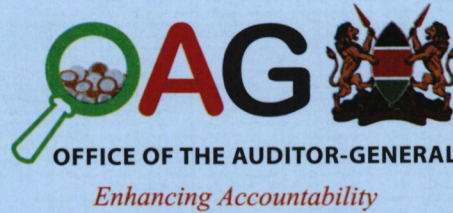
#### Other Information

The Directors are responsible for the other information, which comprises the Report of Directors which was obtained prior to the date of the auditors' report. The other information does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke  
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**HEADQUARTERS**  
Anniversary Towers  
Monrovia Street  
P.O. Box 30084-00100  
NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON NATIONAL OIL CORPORATION OF KENYA LIMITED FOR THE YEAR ENDED 30 JUNE, 2018**

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### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

The accompanying financial statements of National Oil Corporation of Kenya Limited set out on pages 10 to 52, which comprise the statement of financial position as at 30 June, 2018, 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, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of National Oil Corporation of Kenya Limited as at 30 June, 2018, 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.

#### **Basis for Qualified Opinion**

##### **Unaccounted for Petroleum Products**

As disclosed in Note 23 to the financial statements, the statement of financial position reflects inventories valued at Kshs.1,420,979,000 held by the Corporation as at 30 June, 2018. During the year under review, a provision for impairment of inventories valued at Kshs.2,104,335,000 (2017: Kshs.1,721,537,000) was made in respect of unreconciled stock variances.

The Management having noted the alarming trend in stock variances had separately contracted three Consulting firms namely KPMG Limited, Ernest and Young and Geomatrix Consulting Limited for a contract sum of Kshs.3,366,000, Kshs.11,398,400 and Kshs.4,050,000 respectively, to investigate the stock variances covering the period

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*Report of the Auditor-General on National Oil Corporation of Kenya Limited for the year ended 30 June, 2018.*

between July, 2017 and December, 2018. The scope of the investigations by the three firms is largely similar and were to run within the same period thereby casting doubt on the value for money for the total contacts value of Kshs.18,814,400. According to interim reports by the three Consultants, at least 2,280,017 litres of Automotive Gas Oil (Diesel) and 230,458 litres of Premium Motor Spirit (Super Petrol) valued at Kshs.2,270,338,000 in aggregate based on the pump prices at the time of audit in December, 2018, could not be accounted for.

The inventory variances were attributed to systemic weaknesses characterized by inadequate record keeping and failure to adhere to the Company's policies governing order processing. Other internal control weaknesses noted in the audits included failure to schedule vehicles transporting petroleum products and failure to undertake daily and monthly stock reconciliations. In addition, instances of malpractices were identified in generation and processing of unauthorized credit notes, illegal diversion of product consignments, dispatches not supported by transporter documentation or not delivered to intended sites.

In view of the foregoing malpractices and illegal diversion of product consignments, the accuracy of inventories could not be verified.

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 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Emphasis of Matter**

#### **Going Concern Status**

I draw your attention to the disclosure in Note 8 to the financial statements, which indicates that the Corporation incurred a loss of Kshs.225,340,000 (2017: Kshs.588,556,000) during the year under review. As at 30 June, 2018, the Corporation's current liabilities exceeded its current assets by Kshs.2,590,455,000 (2017: Kshs.1,596,386,000).

Management attributes this state of affairs to accumulated losses and reclassification of a long-term loan as current liability in 2018. The change was made to conform to the loan's covenant after the Corporation's current liabilities exceeded its current assets.

As stated in Note 8 to the financial statements, this state of affairs, along with other matters set forth in the note, indicates that a material uncertainty exists that may cast significant doubt on the Corporation's ability to continue as a going concern. However, The National Treasury has issued the management with a letter of comfort and committed to support the Corporation achieve its mandate.

My opinion is not modified in respect of these matters.

## **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. I have determined that there are no other key audit matters to communicate in my report.

## **Other Matter**

### **Accounting for Mwananchi Gas Project**

During the year under review, the State Department for Petroleum reported that it had delegated to the Corporation responsibility for the implementation of Mwananchi Gas Project. The project was intended to promote the use of modern cooking fuels among low income households. It entailed distribution of subsidized Liquefied Petroleum Gas (LPG) cylinders, grills and burners purchased by the State Department for Petroleum to household consumers. In addition to offering storage facilities, the Corporation was expected to fill the gas cylinders and supply the gas to the households at subsidized prices.

Records made available by the State Department for Petroleum as at 30 June, 2018 indicated that the items procured and handed over to the Corporation comprised of 150,768 6kg LPG gas cylinders, 272,567 cylinder-grills and 357,355 gas-burners with an aggregate value of Kshs.533,551,869. Records at the Corporation indicate that additional receipts of gas burners and gas grills were made thereafter.

At the close of the financial year, the Corporation together with the State Department for Petroleum had inspected and certified 40,484 gas burners, 45,797 (6kg) cylinders and 114,680 grills with an aggregate value of Kshs.56,419,124 for use. The Agency management have indicated that the State Department for Petroleum had not granted formal authority for transfer of ownership of the whole stock of equipment to the Corporation as at 30 June, 2018. As a result, the remainder were not included in the Corporation's financial statements during the year under review. Further, a court case filed in relation to the project by a civil society organization has since stalled the execution of the project.

### **Other Information**

The Directors are responsible for the other information, which comprises the statement of corporate governance, directors' report and the statement of directors' responsibilities. The other information does not include the financial statements and my auditor's report thereon.

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

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Conclusion**

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

### **Basis for Conclusion**

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

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

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

### **Basis for Conclusion**

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

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

## **Responsibilities of Management and those Charged with Governance**

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

In preparing the financial statements, the directors are responsible for assessing the Company'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 are aware of the intention to liquidate the Company or to cease operations .

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

In addition to the responsibility for preparing and presenting the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements comply with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

## **Auditor-General's Responsibilities for the Audit**

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**24 September, 2020**

NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 Shs'000	2017 (Restated) Shs'000
Revenue	9	29,893,656	31,030,439
Cost of sales	10	(28,424,281)	(29,874,154)
<b>GROSS PROFIT</b>		<b>1,469,375</b>	<b>1,156,285</b>
Other operating income	11	72,480	80,858
Oil exploration grant	29	335,308	253,811
Release of deferred income in respect of depreciation of grant assets	29	13,247	13,248
		<b>1,890,410</b>	<b>1,504,202</b>
<b>EXPENDITURE</b>			
Administrative expenses		(497,986)	(467,038)
Operating expenses		(853,480)	(971,434)
Exploration cost		(335,308)	(253,811)
		<b>(1,686,774)</b>	<b>(1,692,283)</b>
<b>OPERATING PROFIT/(LOSS)</b>		<b>203,636</b>	<b>(188,081)</b>
Interest income	14(a)	80,475	19,295
Finance costs	14(b)	(604,917)	(709,312)
		<b>(524,442)</b>	<b>(690,017)</b>
<b>LOSS BEFORE TAXATION</b>		<b>(320,806)</b>	<b>(878,098)</b>
Taxation credit	15	95,466	289,542
<b>LOSS FOR THE YEAR</b>		<b>(225,340)</b>	<b>(588,556)</b>
<b>OTHER COMPREHENSIVE LOSS</b>			
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)
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(225,340)</b>	<b>(658,732)</b>
<b>Loss per share:</b>			
Basic	16	(8.47)	(22.13)
Diluted	16	(4.37)	(11.41)

NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2018

		2018	2017
	Notes	Shs'000	(Restated) Shs'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	17	6,238,284	6,352,310
Investment property	18	10,810	11,045
Prepaid operating leases	19	188,874	154,072
Intangible assets	20	69,036	111,605
Exploration expenditure- Block 14T	21(a)	1,993,189	921,489
Deferred tax asset	22	40,474	
		<u>8,540,667</u>	<u>7,550,521</u>
<b>Current assets</b>			
Inventories	23	1,420,979	1,182,305
Trade and other receivables	24	1,963,935	1,492,616
Current tax recoverable	15(c)	88,631	112,199
Call deposits	25	790,000	648,234
Cash and bank balances		675,550	562,615
		<u>4,939,095</u>	<u>3,997,969</u>
<b>TOTAL ASSETS</b>		<u>13,479,762</u>	<u>11,548,490</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	1,966,997
Accumulated deficit		(2,035,131)	(1,809,791)
<b>Shareholders' equity</b>		<u>2,146,866</u>	<u>2,372,206</u>
<b>Non-current liabilities</b>			
Block 14T fund	21(b)	1,133,389	569,672
Deferred tax liability	22	-	93,474
Deferred income	29	1,635,637	1,204,192
Borrowings	32	1,034,320	1,714,591
		<u>3,803,346</u>	<u>3,581,929</u>
<b>Current liabilities</b>			
Trade and other payables	30	1,960,305	1,365,087
Gratuity provision	31	8,949	5,555
Borrowings	32	3,247,981	2,821,008
Structured trade finance facility	33	1,736,370	760,900
Ministry of Energy and Petroleum Headquarters Construction Fund	34	13,112	57,275
Single Buoy Mooring (SBM) jetty fund	35	11,443	11,443
Corporate Social Responsibility (CSR) projects fund	36	43,639	39,256
Exploration and Production Capacity Building fund	37	80,851	105,764
Laboratory Equipment fund	38	426,900	428,067
		<u>7,529,550</u>	<u>5,594,355</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>13,479,762</u>	<u>11,548,490</u>

The financial statements on pages 10 to 52 were approved and authorised for issue by the Board of Directors on  
15 November 2019 and were signed on its behalf by:

Dr. Sam Gakunga  
Director

Mp Tom Makenia  
Director

NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2018

	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 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)	(588,556)	(658,732)
At 30 June 2017	532,000	1,183,000	500,000	1,966,997	(1,809,791)	2,372,206
At 1 July 2017						
- As previously reported	532,000	1,183,000	500,000	1,966,997	(1,283,690)	2,898,307
- Prior year adjustment (note 44)	-	-	-	-	(526,101)	(526,101)
At 1 July 2017- restated	532,000	1,183,000	500,000	1,966,997	(1,809,791)	2,372,206
Total comprehensive loss for the year	-	-	-	-	(225,340)	(225,340)
At 30 June 2018	532,000	1,183,000	500,000	1,966,997	(2,035,131)	2,146,866

NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 Shs'000	2017 (Restated) Shs'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	40(a)	84,422	805,039
Interest paid		(629,661)	(669,082)
Interest received		80,475	19,295
Taxation paid	15(c)	(14,914)	(3,489)
<b>Net cash (used in)/generated from operating activities</b>		<b>(479,678)</b>	<b>151,763</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	17	(133,461)	(214,147)
Proceeds on disposal of property, plant and equipment		-	186
Acquisition of leasehold land	19	(109,833)	(41,349)
Purchase of intangible assets	20	(44,284)	(43,464)
Purchase of exploration assets	21(a)	(1,071,700)	(100,822)
<b>Net cash used in investing activities</b>		<b>(1,359,278)</b>	<b>(399,596)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase in Block 14T fund	21(b)	563,717	41,245
Government grants received - upstream	29	780,000	409,412
Borrowings received - Term loan	32	31,971,272	16,713,602
Borrowings received - Structured trade	33	20,184,725	14,866,337
Borrowings repaid - Term loan	32	(31,116,777)	(16,409,276)
Borrowings repaid - Structured trade	33	(19,200,416)	(14,843,301)
<b>Net cash generated from financing activities</b>		<b>3,182,521</b>	<b>778,019</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>1,343,565</b>	<b>530,186</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>(645,009)</b>	<b>(1,175,195)</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	40(b)	<b>698,556</b>	<b>(645,009)</b>

# 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 2018*

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.

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

- 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 Company'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

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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 2018 (Continued)*

Amendments to IAS 7 Disclosure Initiative (Continued)	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.
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The amendments to the standard has had no impact on the Company's financial statements

Annual Improvements to 2014-2016	The annual improvements to IFRSs 2014-2016 cycle include a number of amendments to various IFRSs, which are summarised below:
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The amendments to IFRS 1 delete the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.

The amendments to IFRS 12 clarify that the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The amendments to IAS 28 clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition

ii) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018*

<i>New standards and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2019
Transfers of Investment Property (Amendments to IAS 40)	1 January 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle (Amendments to IFRS 1 and IAS 28)	1 January 2018

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

#### Application of new and amended International Financial Reporting Standards (IFRSs) (Continued)

ii) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018 (Continued)*

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

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement 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. 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) 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 the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk 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.

The Directors of the Company are assessing the impact of the application of IFRS 9 in the future. It is not practical to provide a reasonable estimate of this effect until a detailed review has been completed.

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

In May 2015, 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.

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. The Directors are assessing the potential impact on the Corporation financial statements resulting from the application of these changes.

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

#### ii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2018*

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

IFRS 16 introduces a comprehensive model for identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right of use asset and a corresponding liability be recognised for all lessees (i.e. on balance sheet) except for short term leases and leases of low value assets.

The right of use is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows, whereas under IFRS 16, the lease payments will be split into principal and interest portions which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward lessor accounting treatment in IAS 17 and continues to require a lessor to classify a lease as either an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

The Directors of the Company are assessing the impact of the application of IFRS 16 in the future. It is not practical to provide a reasonable estimate of this effect until a detailed review has been completed.

##### **IFRIC 23 Uncertainty over Income Tax Treatments**

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

The Directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the consolidated and company financial statements.

##### **Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)**

The amendments clarify the following:

- i) In estimating the fair value of a cash settled share based payment, the accounting for the effects of vesting and non vesting conditions should follow the same approach as for equity settled share-based payments.
- ii) Where tax law or regulation require an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

#### ii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2018*

##### **Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) (Continued)**

iii) A modification of share based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

- The original liability is derecognised;
- The equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to modification date; and
- Any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The Directors do not anticipate that the application of the amendments in future will have a significant impact on the Company's financial statements as it does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments.

##### **Transfers of Investment Property (Amendments to IAS 40)**

This amends paragraph 57 of IAS 40 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

The Directors of the Company are assessing the impact of the application of Amendments to IAS 40 in the future. It is not practical to provide a reasonable estimate of this effect until a detailed review has been completed.

##### **Annual Improvements to IFRS Standards 2014–2016 Cycle (Amendments to IFRS 1 and IAS 28)**

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Directors do not anticipate that the application of the amendments in the future will have an impact on the Corporation's financial statements

#### iii) *Early adoption of standards*

The Corporation did not early-adopt any new or amended standards in the year 2017.

##### **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)

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### **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)

### 3. 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 lease.

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.

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

Any payment required to be made to the lessor by way of penalty for termination of lease before the expiry of the lease period, is recognised in the year in which termination takes place.

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

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in the profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings.

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 finance cost irrespective 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	2.0%
Plant, motor vehicles and other equipment	5.0% - 25.0%
Furniture, fittings and office equipment	12.5% - 33.3%

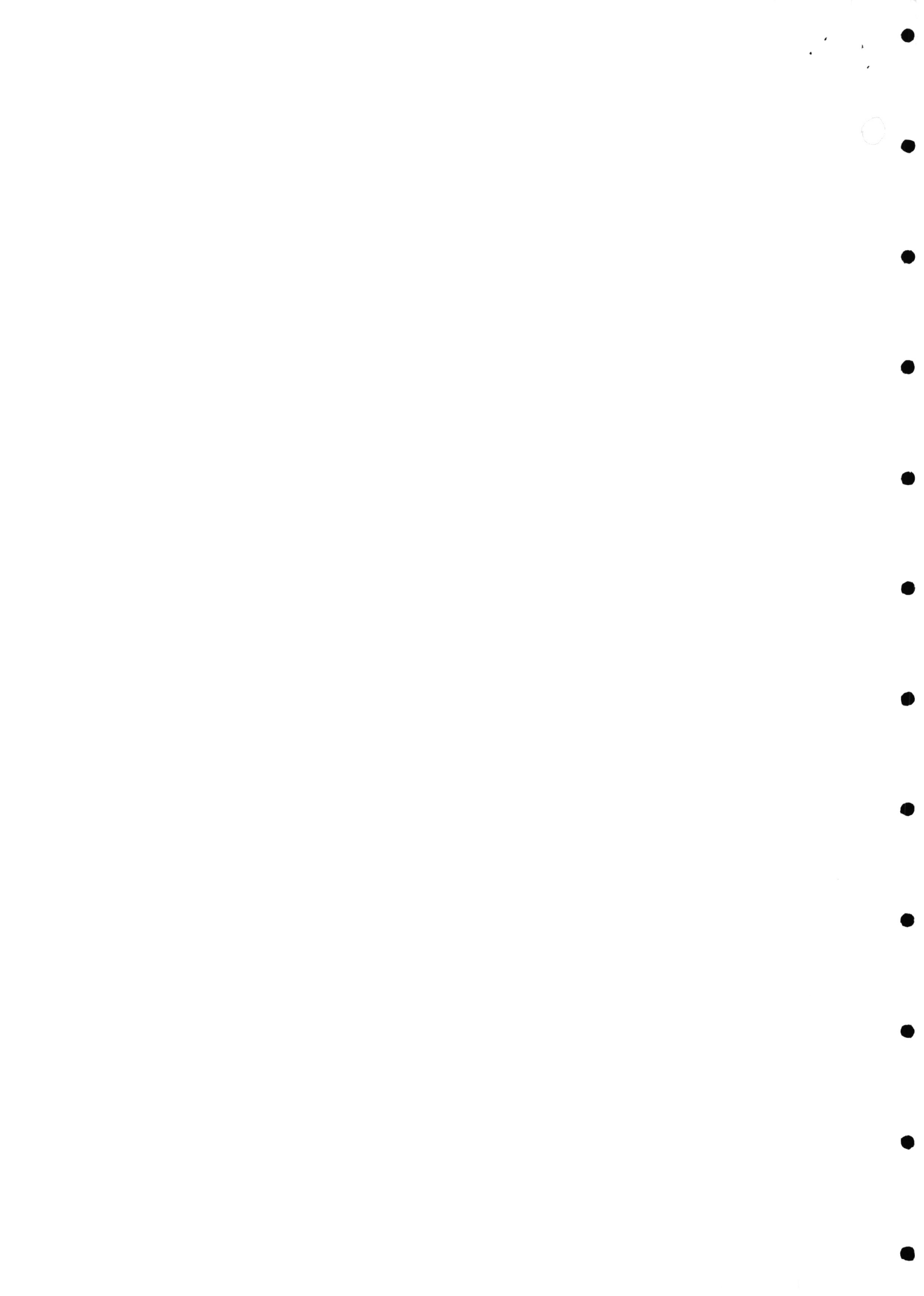
Depreciation methods, useful lives and residual values are reassessed at each financial reporting date and adjusted if appropriate.

#### **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.

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.



# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

#### **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.

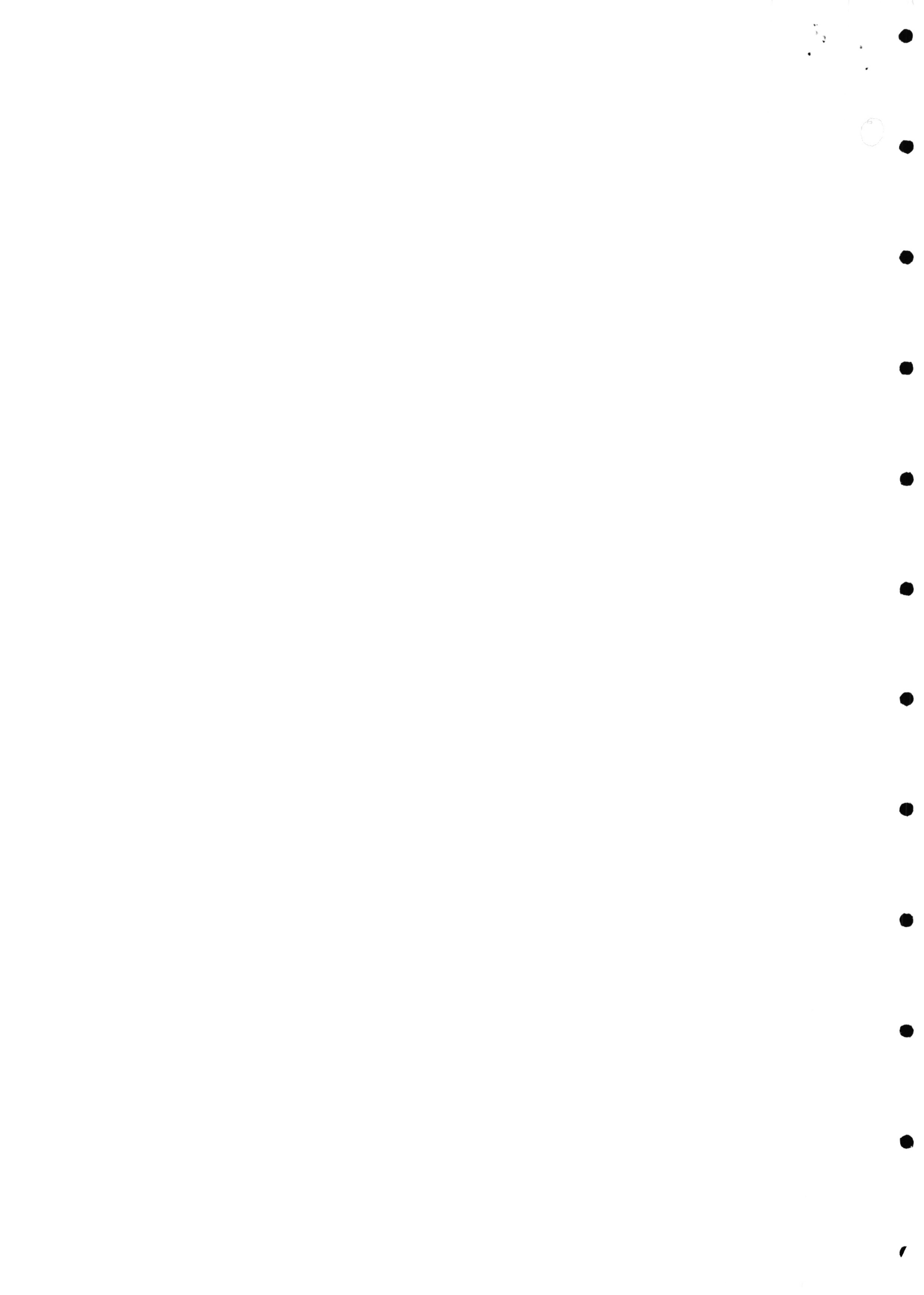
#### *Impairment testing of exploration and evaluation assets*

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.

#### **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.



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**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.

**(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.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**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.

**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.



# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **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.

#### **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 adjusted to conform to changes in presentation in the current year. In particular, the comparative information has been restated as a result of prior year errors as disclosed in note 44.

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 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.

#### **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;

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 (Continued)**

**(f) Classification of leases of land as finance or operating leases (Continued)**

- 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.

**(g) 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

**(h) Provision for Inventory**

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

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.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. FINANCIAL RISK MANAGEMENT (Continued)

(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.

	2018 Sh'000	2017 Sh'000
<b>Assets</b>		
Bank and cash balances	70,325	195,153
Trade and other receivables	31,702	39,844
	<hr/>	<hr/>
	102,027	234,997
	<hr/>	<hr/>
<b>Liabilities</b>		
Trade and other payables	76,810	97,518
Borrowings	321,638	863,993
	<hr/>	<hr/>
	398,448	961,511
	<hr/>	<hr/>

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.

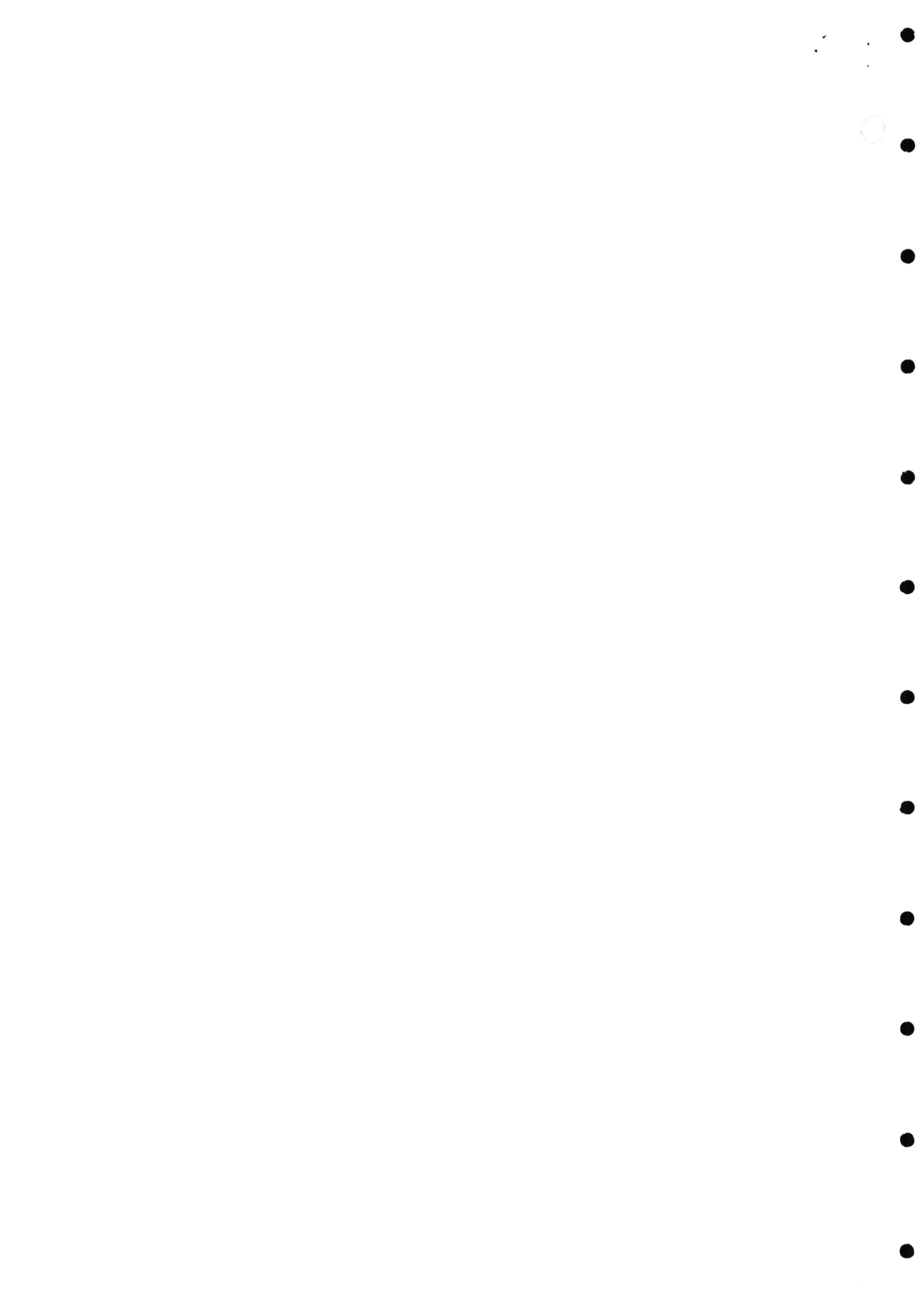
(ii) **Other price risk**

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

(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



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 (Continued)

Exposure to interest rate risk

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

	Nominal amount			
	30 June 2018		30 June 2017	
	Effective interest rate	Sh'000	Effective interest rate	Sh'000
Call deposits	8.00%	790,000	10.60%	648,234
Term loans	13.25%	(3,515,307)	14.00%	(2,679,741)
Bank overdrafts	13.00%	(766,994)	14.00%	(1,855,858)
<b>Total exposure</b>		<b>(4,282,301)</b>		<b>(4,535,599)</b>
		<b>(3,492,301)</b>		<b>(3,887,365)</b>

Sensitivity Analysis

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

	Profit or loss/equity	
	30 June 2018 Sh'000	30 June 2017 Sh'000
1% increase	(3,492)	(3,887)
1% decrease	3,492	3,887

(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.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

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	Past due	Impaired	Total	Provisions	Net exposure
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
<b>30 June 2018</b>						
Trade receivables	987,964	614,230	390,728	1,992,922	(390,728)	1,602,194
Call deposits	790,000	-	-	790,000	-	790,000
Bank balances	675,002	-	-	675,002	-	675,002
	<u>2,452,966</u>	<u>614,230</u>	<u>390,728</u>	<u>3,457,924</u>	<u>(390,728)</u>	<u>3,067,196</u>
	=====	=====	=====	=====	=====	=====
<b>30 June 2017</b>						
Trade receivables	884,188	319,419	396,908	1,600,515	(396,908)	1,203,607
Call deposits	648,234	-	-	648,234	-	648,234
Bank balances	562,294	-	-	562,294	-	562,294
	<u>2,094,716</u>	<u>319,419</u>	<u>396,908</u>	<u>2,811,043</u>	<u>(396,908)</u>	<u>2,414,135</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 Corporation does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics. The Corporation defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of gross monetary assets at any time during the year.

(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 500,000,000 with KCB Bank Kenya Limited (KCB) and Shs 300,000,000 with Stanbic Bank Limited (Stanbic);
- The Corporation has a structured trade finance facility with a limit of USD 30,000,000 with KCB and advised Trade finance facility of USD 15,000,000 with Stanbic; and
- The Corporation has other short term loans with KCB and Stanbic.



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

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 2018:</b>				
Ministry of Energy and Petroleum				
Headquarters construction fund	-	13,112	-	13,112
SBM Jetty fund	-	11,443	-	11,443
CSR Funds	-	43,639	-	43,639
Exploration and Production				
Capacity Building fund	-	80,851	-	80,851
Laboratory equipment fund	-	426,900	-	426,900
Trade payables	300,942	143,102	-	444,044
Borrowings	2,980,287	267,694	1,034,320	4,282,301
Structured trade financing	1,736,370	-	-	1,736,370
	<u>5,017,599</u>	<u>986,741</u>	<u>1,034,320</u>	<u>7,038,660</u>

**At 30 June 2017:**

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	197,152	193,208	-	390,360
Borrowings	2,692,036	128,972	1,714,591	4,535,599
Structured trade financing	760,900	-	-	760,900
	<u>3,650,088</u>	<u>963,985</u>	<u>1,714,591</u>	<u>6,328,664</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	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
<i>Financial assets</i>				
Trade and other receivables	1,963,935	1,492,616	1,963,935	1,492,616
Call deposits	790,000	648,234	790,000	648,234
Bank and cash balances	675,550	562,615	675,550	562,615
<i>Financial liabilities</i>				
Borrowings	4,282,301	4,535,599	4,282,301	4,535,599
Structured trade finance facility	1,736,370	760,900	1,736,370	760,900
Trade and other payables	1,960,305	1,365,087	1,960,305	1,365,087

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 2018, 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 non financial 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. Note 8 summarises the procedures the Directors' are putting in place to address the solvency challenges facing the Corporation.

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:

	2018	2017 (Restated)
	Shs'000	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	1,966,997
Accumulated deficit	(2,035,131)	(1,809,791)
	<hr/>	<hr/>
Equity	2,146,866	2,372,206
	<hr/>	<hr/>
Borrowings	4,282,301	4,535,599
Structured trade finance facility	1,736,370	760,900
Less: Cash and cash equivalents (excluding borrowings)	(1,465,550)	(1,210,849)
	<hr/>	<hr/>
Net debt	4,553,121	4,085,650
	<hr/>	<hr/>
<b>Gearing ratio</b>	Over 100%	Over 100%
	=====	=====

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 225,340,000 (2017: Shs 588,557,000) during the year and had accumulated losses of Shs 2,035,131,000 as at 30 June 2018 (2017: Shs 1,809,791,000). In addition, the Corporation is in a net current liability position of Shs 2,590,455,000 (2017: Shs 1,596,386,000). 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. The main reason for the accumulation of losses relates to provision of stocks in the books amounting to Shs 2,104,335,000 as at 30 June 2018.

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

1. The plan to dispose off non-performing assets to raise funds to finance the business operations thus reducing on the reliance of expensive financing facility;

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. GOING CONCERN (Continued)

2. Efficient stock management to avoid holding capital on stocks which increase financing cost, this is line with the business approach of reducing investment on low margin sector of the business like resellers; and
3. The Corporation is also looking into debt restructuring with an aim to reduce the finance cost, discussions are on going with banks to increase the tenure of existing loans to minimise the cash flow burden.

The GoK further committed through a letter of support to continue providing the required support to the Corporation to enable it to implement its turnaround plan and meet its financial obligations as and when they fall due, at least for the next 12 months from the approval of the financial statements for the year ended 30 June 2018.

	2018	2017
	Shs'000	Shs'000
9. REVENUE		
White products	26,996,563	29,801,499
Black products	91,018	57,953
Liquefied petroleum gas and lubricants	2,806,075	1,170,987
	<hr/>	<hr/>
	29,893,656	31,030,439
	=====	=====

	2018	2017
	Shs'000	(Restated) Shs'000
10. COST OF SALES		
Cost of goods sold	27,207,854	28,699,944
Other direct costs	1,216,427	1,174,210
	<hr/>	<hr/>
	28,424,281	29,874,154
	=====	=====

	2018	2017
	Shs'000	Shs'000
11. OPERATING INCOME		
Multi - client data	2,613	7,751
Rental income (subletting)	47,798	46,427
Throughput fees	13,517	7,030
Sundry income	7,966	15,306
Bad debts written off recovered	247	2,000
LPG plant through put fees	339	2,242
Gain on disposal of property, plant and equipment	-	102
	<hr/>	<hr/>
	72,480	80,858
	=====	=====

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2018	2017
	Shs'000	(Restated) Shs'000
12. LOSS BEFORE TAXATION		
The loss before taxation is arrived at after charging:		
Staff costs (note 13)	497,986	474,712
Depreciation on property, plant and equipment (note 17)	247,487	299,757
Depreciation of investment property (note 18)	235	234
Amortisation of prepaid operating leases (note 19)	75,031	75,834
Amortisation of intangible assets (note 20)	86,853	87,993
Inventory provisions (note 23)	382,798	839,248
Provision for bad debts (note 24)	(13,126)	43,048
Directors' emoluments – fees for Non-Executive Directors	4,620	4,620
- Salaries and other emoluments	30,761	24,776
Auditor's emoluments	7,300	5,800
	=====	=====
	2018	2017
	Shs'000	Shs'000
13. STAFF COSTS		
Salaries and wages	462,552	434,142
Pension costs - defined contribution plan	23,925	30,523
Leave pay allowance	4,206	3,351
Gratuity (note 31)	6,896	6,102
National Social security Fund costs (NSSF)	407	594
	-----	-----
	497,986	474,712
	=====	=====
14. (a) INTEREST INCOME		
Interest income	80,475	19,295
(b) FINANCE COSTS		
Interest expense	(629,661)	(669,082)
Net foreign exchange gain/(loss)	24,744	(40,230)
	-----	-----
	(604,917)	(709,312)
	-----	-----
<b>Net finance cost</b>	<b>(524,442)</b>	<b>(690,017)</b>
	=====	=====
	2018	2017
	Shs'000	(Restated) Shs'000
15. INCOME TAX CHARGE		
(a) <b>Taxation credit</b>		
Tax recognised in profit or loss		
Current tax based on adjusted profit at 30%	38,482	19,717
Deferred tax credit (note 22(b))	(118,205)	(184,414)
Under provision of deferred tax asset		
in the prior year (note 22(b))	1,157	1,578
Deferred tax on tax losses utilised (note 22(b))	(16,900)	(126,423)
	-----	-----
Taxation credit	(95,466)	(289,542)
	=====	=====

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2018	2017
	Shs'000	(Restated) Shs'000
15. INCOME TAX CHARGE (Continued)		
<b>(b) Reconciliation of tax based on accounting profit to tax credit</b>		
Accounting loss before taxation	(320,806)	(878,098)
	=====	=====
Current tax at 30%	(9,624)	(26,343)
Tax effect of income not deductible for tax	(70,099)	(138,354)
Under provision of deferred taxation asset in the prior year (note 22(b))	1,157	1,578
Deferred tax on tax losses, utilised (note 22(b))	(16,900)	(126,423)
	-----	-----
Taxation credit	(95,466)	(289,542)
	=====	=====
<b>(c) Current tax asset</b>		
At beginning of the year	112,199	128,427
Current tax expense (note 15(a))	(38,482)	(19,717)
Income tax paid	14,914	3,489
	-----	-----
At end of year	88,631	112,199
	=====	=====
16. LOSS PER SHARE		
Loss attributable to ordinary shareholders	(225,340)	(588,557)
	=====	=====
<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>	(8.47)	(22.13)
	=====	=====
<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>	(4.37)	(11.41)
	=====	=====

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 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
At 1 July 2017	659,966	2,516,277	2,004,271	2,104,864	14,331	295,956	7,595,665
Additions	-	2,931	29,950	74,043	7,659	18,878	133,461
At 30 June 2018	659,966	2,519,208	2,034,221	2,178,907	21,990	314,834	7,729,126

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 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
At 1 July 2017	-	133,346	100,761	997,015	12,233	-	1,243,355
Charge for the year	-	46,609	60,260	137,882	2,736	-	247,487
At 30 June 2018	-	179,955	161,021	1,134,897	14,969	-	1,490,842
Net book value on valuation basis:							
At 30 June 2018	659,966	2,339,253	1,873,200	1,044,010	7,021	314,834	6,238,284
At 30 June 2017	659,966	2,382,931	1,903,510	1,107,849	2,098	295,956	6,352,310
<b>Net book value on cost basis:</b>							
At 30 June 2018	275,071	593,028	1,558,162	1,171,911	5,744	314,834	3,918,750
At 30 June 2017	275,071	600,181	1,568,166	1,107,849	1,858	295,956	3,849,081

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

Leasehold land and freehold land were valued in November 2015 by Swatz Developer Limited on the basis of comparable sales while buildings and motor vehicles are 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 1,848,857,956 (2014: Sh 1,996,535,000) 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 2017 and as at 30 June 2018 are as follows:

	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
<b>30 June 2018</b>				
Freehold land	-	384,895	-	384,895
Leasehold land	-	1,764,923	-	1,764,923
Buildings	-	326,960	-	326,960
Motor vehicles	-	-	-	-
	<u>-</u>	<u>2,476,778</u>	<u>-</u>	<u>2,476,778</u>
	=====	=====	=====	=====
<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
	<u>-</u>	<u>2,503,230</u>	<u>-</u>	<u>2,503,230</u>
	=====	=====	=====	=====

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

	2018 Shs'000	2017 Shs'000
18. INVESTMENT PROPERTY		
<b>Cost</b>		
At 1 July and 30 June	13,531	13,531
	<u>13,531</u>	<u>13,531</u>
<b>Depreciation</b>		
At 1 July	2,486	2,252
Charge for the year	235	234
	<u>2,721</u>	<u>2,486</u>
At 30 June	2,721	2,486
	<u>2,721</u>	<u>2,486</u>
<b>Net book value</b>		
At 30 June	10,810	11,045
	<u>10,810</u>	<u>11,045</u>
	=====	=====

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 (2017: Shs 172,500,000).

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2018 Shs'000	2017 Shs'000
19. PREPAID OPERATING LEASES		
<b>Cost</b>		
At 1 July	636,247	631,161
Additions	109,833	41,349
Termination of lease	-	(36,263)
	<hr/>	<hr/>
At 30 June	746,080	636,247
	<hr/>	<hr/>
<b>Amortisation</b>		
At 1 July:	482,175	440,838
Amortisation charge for the year:	75,031	75,834
Termination of lease*	-	(34,497)
	<hr/>	<hr/>
At 30 June:	557,206	482,175
	<hr/>	<hr/>
<b>Net book value</b>		
At 30 June:	188,874	154,072
	<hr/> <hr/>	<hr/> <hr/>

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.

	2018 Shs'000	2017 Shs'000
20. INTANGIBLE ASSETS		
<b>Cost</b>		
At 1 July	489,873	446,409
Additions	44,284	43,464
	<hr/>	<hr/>
At 30 June	534,157	489,873
	<hr/>	<hr/>
<b>Amortisation</b>		
At 1 July	378,268	290,275
Charge for the year	86,853	87,993
	<hr/>	<hr/>
At 30 June	465,121	378,268
	<hr/>	<hr/>
<b>Net book value</b>		
At 30 June	69,036	111,605
	<hr/> <hr/>	<hr/> <hr/>

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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:

	2018 Shs '000	2017 Shs '000
<b>Exploration and Evaluation expenses</b>		
At beginning of year	921,489	820,667
Additions	1,071,700	100,822
	<hr/>	<hr/>
At end of year	1,993,189	921,489
	<hr/> <hr/>	<hr/> <hr/>

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

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

(b) BLOCK 14T Fund

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

	2018 Shs'000	2017 Shs'000
At beginning of year	569,672	528,427
Receipts during the year	563,717	41,245
	<hr/>	<hr/>
At end of year	1,133,389	569,672
	<hr/> <hr/>	<hr/> <hr/>

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. DEFERRED TAXATION

The deferred income tax is calculated using the enacted tax rate of 30% as at 30 June 2018 (2017: 30%).

	2018	2017 (Restated)
	Shs'000	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	782,166	674,115
Tax losses	92,628	109,528
Deferred tax on tax losses derecognised	(92,628)	(109,528)
	<hr/>	<hr/>
Deferred tax asset	782,166	674,115
	<hr/>	<hr/>
<i>Liabilities:</i>		
Unrealised exchange loss	(5,143)	(4,159)
Revaluation surplus	(642,369)	(654,745)
Accelerated capital allowances	(94,180)	(108,685)
	<hr/>	<hr/>
Deferred tax liability	(741,692)	(767,589)
	<hr/>	<hr/>
<b>Net deferred tax asset/(liability)</b>	<b>40,474</b>	<b>(93,474)</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>(b) Reconciliation of deferred asset/(liability)</b>		
At beginning of year – as previously reported	(318,945)	(432,809)
Prior year adjustment (note 44)	225,471	-
	<hr/>	<hr/>
At beginning of the year restated	(93,474)	(432,809)
Deferred tax (credit)/charge (note 15(a))	118,205	184,414
Deferred tax on revaluation deficit of impaired assets	-	30,076
Prior year under provision of deferred tax note (note 15(a))	(1,157)	(1,578)
	<hr/>	<hr/>
	23,574	(219,897)
Deferred tax on tax losses not recognised now utilised	16,900	126,423
	<hr/>	<hr/>
At end of year	40,474	(93,474)
	<hr/> <hr/>	<hr/> <hr/>

23. INVENTORIES

White products	2,907,565	2,190,994
Other products	617,749	712,848
Provision for impairment of inventories	(2,104,335)	(1,721,537)
	<hr/>	<hr/>
	1,420,979	1,182,305
	<hr/> <hr/>	<hr/> <hr/>

The movement for the provision for inventory is as follows:

At beginning of year – as previously reported	(969,965)	(882,289)
Prior year adjustment (note 44)	(751,572)	-
	<hr/>	<hr/>
At beginning of year – restated	(1,721,537)	(882,289)
Increase in provision during the year	(382,798)	(839,248)
	<hr/>	<hr/>
At end of year	(2,104,335)	(1,721,537)
	<hr/> <hr/>	<hr/> <hr/>

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. INVENTORIES (Continued)

Inventories with a value of Shs 164,933,000 (2017: Shs 399,596,000) have been charged to secure banking facilities granted to the Corporation as disclosed in note 33.

	2018 Shs'000	2017 Shs'000
24. TRADE AND OTHER RECEIVABLES		
Trade receivables	1,602,194	1,203,607
Prepayments	798,094	738,488
	<hr/>	<hr/>
Provision for doubtful debts	2,400,288 (436,353)	1,942,095 (449,479)
	<hr/>	<hr/>
	1,963,935	1,492,616
	<hr/> <hr/>	<hr/> <hr/>
The provision for doubtful debts movement is as follows:		
At beginning of year	(449,479)	(406,431)
Decrease/(increase) in provision for doubtful debts during the year	13,126	(43,048)
	<hr/>	<hr/>
At end of year	(436,353)	(449,479)
	<hr/> <hr/>	<hr/> <hr/>

25. CALL DEPOSITS

Deposits with banks	790,000	648,234
	<hr/> <hr/>	<hr/> <hr/>

The weighted average interest rate received on call deposits during the year was 8% (2017: 10.6%).

	2018 Shs'000	2017 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
	<hr/> <hr/>	<hr/> <hr/>

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 2018, this amount has been accounted for as funds awaiting allotment of shares.

	2018 No. of shares '000'	2017 No. of shares '000'
28. SHAREHOLDING STRUCTURE		
National Treasury (99%)	26,334	26,334
Ministry of Energy and Petroleum (1%)	266	266
	<hr/>	<hr/>
	26,600	26,600
	<hr/> <hr/>	<hr/> <hr/>

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 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)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2017	10,225	1,151,124	42,843	1,204,192
	=====	=====	=====	=====
At 1 July 2017	10,225	1,151,124	42,843	1,204,192
Receipts during the year:	-	780,000	-	780,000
Transfer to statement of profit or loss	-	(335,308)	(13,247)	(348,555)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2018	10,225	1,595,816	29,596	1,635,637
	=====	=====	=====	=====

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

*Oil exploration grant* funds are received from the Government for exploration activities (upstream business). Government grants relating to upstream business are also treated as deferred income received. The grants are then released to and presented as a credit in the statement of profit or loss and other comprehensive income under other income as and when the grants are utilised.

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

30. TRADE AND OTHER PAYABLES	2018 Shs'000	2017 Shs'000
Trade payables	444,044	390,360
Leave pay provision	6,776	7,967
Accruals and other payables	1,471,244	917,210
Other accruals*	38,241	49,550
	<hr/>	<hr/>
	1,960,305	1,365,087
	=====	=====

\* 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. 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 38,240,703 (2017: Shs 49,550,000) for the claims. The reduction in provisions is attributed to National Oil settling two major claims in the year.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2018 Shs'000	2017 Shs'000
31.	GRATUITY PROVISION		
	At beginning of year	5,555	7,573
	Additional provision during the year	6,896	6,102
	Payments during the year	(3,502)	(8,120)
		<hr/>	<hr/>
	At end of year	8,949	5,555
		<hr/>	<hr/>
	The amounts are due as follows:		
	Within one year	8,949	5,555
		<hr/>	<hr/>

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

		2018 Shs'000	2017 Shs'000
32.	BORROWINGS		
	<i>Current borrowings</i>		
	Bank overdrafts	766,994	1,855,858
	Term loans	2,480,987	965,150
		<hr/>	<hr/>
		3,247,981	2,821,008
	<i>Non-current borrowings</i>		
	Term loan	1,034,320	1,714,591
		<hr/>	<hr/>
	<b>Total borrowings</b>	4,282,301	4,535,599
		<hr/>	<hr/>
	The borrowings therefore comprise of:		
	Bank overdrafts	766,994	1,855,858
	Term loans	3,515,307	2,679,741
		<hr/>	<hr/>
		4,282,301	4,535,599
		<hr/>	<hr/>

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. BORROWINGS (Continued)

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

Location	Description	Net Book Value
Nakuru	L.R. NO:NAKURU MUN/BLOCK 16/300	20,678,344
Nakuru	RAVINE SERVICE STATION -LR NO:NAKURU MUN BLOCK 21/581	19,646,821
Mombasa	L.R. NO:KWALE/UKUNDA/3061	15,881,250
Nairobi	NAIROBI NATIONAL TERMINAL-L.R NO:209/12298	697,115,386
Nakuru	New Gilgil PSS-LR NO:1317/19/1/11	14,886,364
Eldoret	Highway PSS-L.R. NO:ELD MUN/BLOCK 2/73/1	41,039,120
Eldoret	West Indies PSS-L.R. NO:ELD MUN/BLOCK/5/628	40,767,271
Eldoret	Kipkaren PSS-LR NO:ELD MUN/BLOCK13/417 & 689	76,818,323
Eldoret	LR. NO:Eld Mun Block21/Kingongo/875	14,489,721
Mombasa	Magongo PSS Land-LR NO:MAINLAND NORTH /SECTION VI/2495/2 & 29/1	40,000,000
Kisumu	Magharibi PSS-LR NO:KIS MUN/BLOCK/4/73	112,691,803
Kisumu	Kisumu Market PSS-LR NO:KIS MUN/BLOCK/9/6	101,409,978
Kisumu	Kisumu Family-LR NO:KIS MUN/BLOCK 8/7	68,778,802
Kisumu	Kisumu Lake PSS-LR NO:KISUMU MUN/BLOCK 7/7	41,284,404
Thika	Bidco Thika Station-LR NO:THIKA MUN/BLOCK12/176	6,059,510
Mombasa	Mwembe Tayari PSS Land-LR NO:MOMBASA/BLOCK/XVIII/424	150,000,000
Mombasa	Mackinon PSS Land-LR NO:MOMBASA/BLOCK XVII/390,391 & 629	60,000,000
Mombasa	Ganjoni PSS Land-LR NO:MOMBASA/BLOCK XX11/127	50,000,000
Mombasa	Gulshan Kenyatta Avenue PSS-LR NO:MOMBASA/BLOCK XV1/136	31,470,588
Nairobi	Ngong Road PSS Land-LR NO:209/7753	189,140,271
Nairobi	Tassia Nairobi Vacant Plot-LR NO:NRB/BLOCK/97/59,60,61,62,63 & 64	56,700,000

The term loans facility is offered by KCB Bank Kenya Limited (KCB) and consists of three term loans. The term loan VII (a) which was issued in July 2015 with a limit of Shs 300,000,000 is repayable in 60 months; interest is at CBR plus a variable margin of 4%.

The term loan VII (b) which was issued in July 2015 with a limit of Shs 291,000,000 is repayable in 60 months; interest is at CBR plus a variable margin of 4%.

The term loan V which was issued in August 2017 with a limit of Shs 500,000,000 is repayable in 60 months; interest is at CBR plus a variable margin of 4%.

Borrowing from CFC Stanbic are all secured on the Corporation inventories.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. BORROWINGS (Continued)

	2018 Shs'000	2017 Shs'000
KCB Term Loan VII - LPG Plant	263,423	295,565
KCB Term Loan VIII - Station acquisition	332,838	419,026
KCB OTS Finance Loan	249,965	395,392
CfC Stanbic Bank Loan	321,638	103,265
CfC Short Term Loan	737,000	1,000,000
CFC OTS Finance Loan	1,172,384	466,493
KCB Term Loan V- Overdraft Term Out	438,059	-
<b>Total term loan</b>	<b>3,515,307</b>	<b>2,679,741</b>
KCB Bank Kenya Limited overdraft facility (see below)	453,926	915,587
Stanbic Bank Limited overdraft facility (see below)	313,068	940,271
<b>Total borrowings</b>	<b>4,282,301</b>	<b>4,535,599</b>

The Corporation has a composite facility comprising of overdrafts, guarantees and letters of credit with KCB Bank Kenya Limited with a limit of Shs 500,000,000 (2017 : 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 300,000,000 (2017: Shs 1,000,000,000) and a short term financing loan of Shs 751,000,000 (2017: 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	3,440,641	3,127,141
Additional borrowings in the year	52,155,997	31,579,939
Repayments during the year	(50,317,193)	(31,252,577)
Unrealised exchange differences	(27,768)	(13,862)
<b>At end of year</b>	<b>5,251,677</b>	<b>3,440,641</b>

**Interest rates**

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

	2018	2017
Bank overdrafts	13.25%	14.00%
Term loans	13.00%	14.00%

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 30,000,000. 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 15,000,000 with Stanbic Bank as well.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. STRUCTURED TRADE FINANCE FACILITY (Continued)

As at 30 June 2018, the Corporation had utilised the US dollar equivalent of Shs 164,932,000 (2017: Shs 295,809,000) of the structured trade finance facility, Shs 1,571,438,000 (2017: Shs 465,091,000) of KCB Post Import Finance facility, a total Shs 1,736,370,000 (2017: Shs 760,900,000).

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

	2018 Shs'000	2017 Shs'000
At beginning of year	760,900	740,930
Additional borrowings in the year	20,184,725	14,866,337
Repayments during the year	(19,200,416)	(14,843,301)
Unrealised exchange differences	(8,839)	(3,066)
	<u>1,736,370</u>	<u>760,900</u>

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:

	2018 Shs'000	2017 Shs'000
At beginning of year	57,275	223,843
Receipts during the year	-	193,310
Payments made for construction of MOEP HQ	(44,163)	(359,878)
	<u>13,112</u>	<u>57,275</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.

	2018 Shs'000	2017 Shs'000
At beginning and at end of the year	<u>11,443</u>	<u>11,443</u>

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.

	2018 Shs'000	2017 Shs'000
At beginning of year	39,256	39,256
Receipts during the year	12,503	-
Payments made during the year	(8,120)	-
	<u>43,639</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 for training and salaries to these staff.

	2018 Shs'000	2017 Shs'000
At beginning of year	105,764	134,422
Payments made during the year	(24,913)	(28,658)
	<u>          </u>	<u>          </u>
At end of year	<u>80,851</u>	<u>105,764</u>

38. LABORATORY EQUIPMENT FUND

The funds from the Ministry of Energy and Petroleum which are meant for laboratory equipment amounting to Shs 426,900,000 for the energy centre at the new Ministry of Energy and Petroleum.

	2018 Shs'000	2017 Shs'000
At beginning of year	428,067	300,000
Receipts during the year	-	128,067
Payments made during the year	(1,167)	-
	<u>          </u>	<u>          </u>
At end of year	<u>426,900</u>	<u>428,067</u>

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.

	2018 Shs'000	2017 Shs'000
Operating lease rentals are payable as follows:		
Less than one year	5,599	9,306
Between one and five years	113,558	12,336
	<u>          </u>	<u>          </u>
	<u>119,157</u>	<u>21,642</u>



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.

	2018	2017
	Shs'000	(Restated) Shs'000
<b>(a) Reconciliation of loss before tax to cash generated from operating activities</b>		
Loss before taxation	(320,806)	(878,098)
Adjustments for:		
Depreciation of property, plant and equipment (note 17)	247,487	299,757
Depreciation of investment property (note 18)	235	234
Gain on disposal of property, plant and equipment	-	(102)
Amortisation – prepaid operating rentals (note 19)	75,031	75,834
Amortisation – intangible assets (note 20)	86,853	87,993
Impairment loss on property plant and equipment (note 17)	-	115,594
Termination of prepaid operating leases (note 19)	-	1,766
Release of deferred income – upstream (note 29)	(335,308)	(253,811)
Release of deferred income – downstream (note 29)	(13,247)	(13,248)
Interest income recognised in the loss (note 14(a))	(80,475)	(19,295)
Interest expense recognised in the loss (note 14(b))	629,661	669,082
Unrealised exchange difference on borrowings (note 32)	(27,768)	(13,862)
	<hr/>	<hr/>
<b>Operating profit before working capital changes</b>	261,663	71,844
Increase/(decrease) in inventories	(238,674)	1,099,275
Increase in trade and other receivables	(471,319)	(450,789)
Increase in trade and other payables	595,218	153,886
Increase/(decrease) in gratuity provision	3,394	(2,018)
Decrease in Ministry of Energy and Petroleum Headquarters Construction Fund	(44,163)	(166,568)
Increase in corporate social responsibility fund projects fund	4,383	-
Decrease in exploration and production capacity building fund	(24,913)	(28,658)
Decrease/(increase) in laboratory equipment fund	(1,167)	128,067
	<hr/>	<hr/>
<b>Cash generated from operations</b>	84,422	805,039
	=====	=====
<b>(b) Analysis of the balances of cash and cash equivalents</b>		
	2018	2017
	Shs'000	Shs'000
Cash and bank balances	675,550	562,615
Call deposits	790,000	648,234
	<hr/>	<hr/>
Bank overdrafts (note 32)	1,465,550 (766,994)	1,210,849 (1,855,858)
	<hr/>	<hr/>
	698,556	(645,009)
	=====	=====



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 42,347,450 (2017: Shs 166,735,052).

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:

	2018 Shs'000	2017 Shs'000
Authorised but not contracted for	57,500 =====	24,405 =====

43. RELATED PARTIES

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

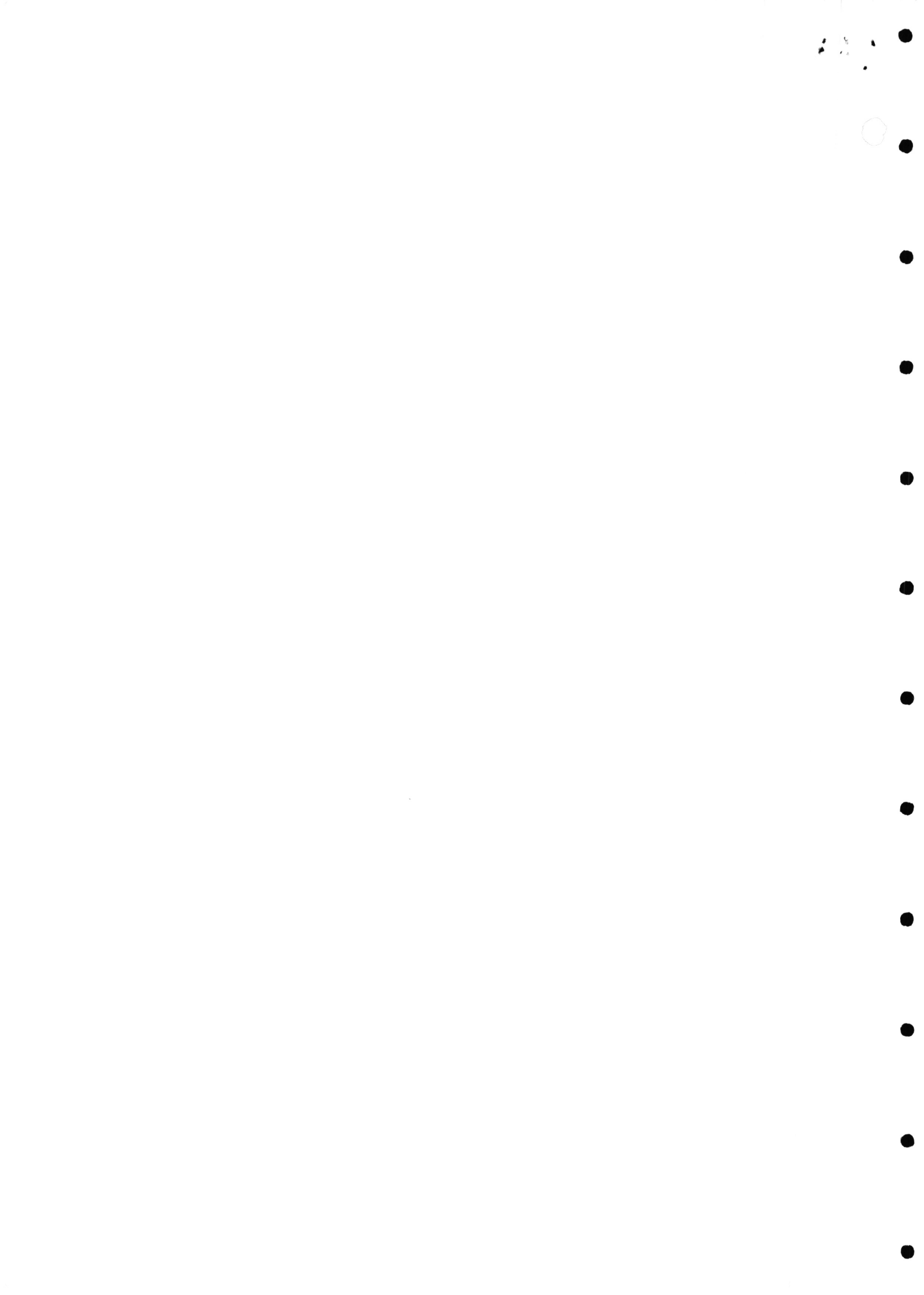
	2018 Shs'000	2017 Shs'000
<b>(a) Key management compensation</b>		
Salaries and other short-term employment benefits	69,258 =====	67,918 =====
<b>(b) Directors' remuneration</b>		
Fees for Non-Executive Directors	4,620	4,620
Salaries and other emoluments	30,761	24,776
	-----	-----
	26,468 =====	29,396 =====

**(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.

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.



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

44. PRIOR YEAR ADJUSTMENT

The prior year adjustment relates to the correction of error relating to the provision for impairment of inventories in the year ended 30 June 2017 erroneously credited to the profit and loss account rather than being charged.

a) Restatement of audited statement of financial position for the year ended 30 June 2017

	As at 30 June 2017 (as Previously reported) Shs '000	Adjustment Shs '000	As at 30 June 2017 (as restated) Shs '000
<b>Assets</b>			
Deferred Tax liability	(318,945)	225,471	(93,474)
Inventory	1,933,877	(751,572)	1,182,305
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Net effect on retained earnings	-	(526,101)	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>

b) Restatement of audited statement of profit and loss and other comprehensive income for the year ended 30 June 2017

	As at 30 June 2017 (as Previously reported) Shs '000	Adjustment Shs '000	As at 30 June 2017 (as restated) Shs '000
Loss before taxation	(126,526)	(751,572)	(878,098)
Taxation charge	64,071	225,471	289,542
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Loss after taxation	(62,455 )	(526,101)	(588,556)
	<u>                    </u>	<u>                    </u>	<u>                    </u>

45. FUNCTIONAL AND PRESENTATION CURRENCY

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

46. EVENTS AFTER THE REPORTING PERIOD

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

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## NATIONAL OIL CORPORATION OF KENYA LIMITED

DETAILED EXPENSES  
FOR THE YEAR ENDED 30 JUNE 2018

	2018 Shs'000	2016 Shs'000
<b>EXPLORATION COSTS</b>		
Salaries	70,295	68,431
Other office supplies and expenses	53,733	62,268
Rent and rates	65,636	27,221
Professional fees	28,147	32,045
Travelling and accommodation	38,556	5,219
Staff housing	12,574	12,626
Medical expenses	24,385	8,895
Training and education	4,308	3,444
Director fees and emolument	4,888	5,630
Audit fees	1,560	1,465
Printing and stationery	1,768	678
Telephone, telex and postage	2,514	1,689
Gratuity	7,616	8,781
Subscriptions and donations	1,587	1,098
Groceries and drinks	1,443	1,027
Advertising and publicity	1,665	5,443
Staff welfare expenses	3,010	1,748
Cleaning	2,747	1,502
Security charges	1,602	338
Insurance - Office & other Insurance	1,255	2,201
Motor running expenses	1,126	304
Recruitment costs	3,081	1,102
Light and water	1,398	406
Repairs and maintenance	414	250
	<u>335,308</u>	<u>253,811</u>
	=====	=====
<b>ADMINISTRATIVE EXPENSES</b>		
Salaries	255,612	218,179
Other allowances and compensation	76,018	98,615
House allowance	52,464	54,501
Medical expenses	42,778	38,826
Other pension costs	23,925	26,168
Staff welfare	9,593	8231
Training and education	10,065	12,361
Leave Cost	4,206	3,351
Recruitment costs	11,335	5,177
Gratuity	6,896	(2,679)
Overtime	3,986	3,388
Wages	701	326
National Social Security Fund costs	407	594
	<u>497,986</u>	<u>467,038</u>
	=====	=====

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## NATIONAL OIL CORPORATION OF KENYA LIMITED

DETAILED EXPENSES  
FOR THE YEAR ENDED 30 JUNE 2018 (Continued)

	2018 Shs	2017 Shs
<b>OTHER OPERATING EXPENSES</b>		
Depreciation of property, plant and machinery	247,487	299,757
Maintenance of equipment	98,569	77,914
Professional fees	117,342	107,974
Amortization of prepaid operating leases	75,031	75,834
Travelling and accommodation	59,356	51,841
Amortization of intangible assets	86,853	87,993
Security charges	28,630	40,520
Advertising and publicity	32,626	28,243
Rent and rates	(25,089)	39,220
Hire and rentals	39,267	31,085
Director Cost and Emoluments	26,468	20,745
Subscriptions and donations	4,404	7,887
Insurance	8,689	13,347
Printing	6,604	8,923
Telephone and fax	6,558	8,696
Cleaning	9,002	7,580
Light and water	12,495	9,499
Audit fees	5,740	3,785
Groceries and drinks	5,695	7,146
Office supply and expenses	4,896	14,766
Postage and courier	1,795	1,856
Staff uniforms	485	374
Impairment loss on property, plant and equipment	-	25,466
Books and newspapers	301	749
Depreciation of investment property	235	234
Entertainment	41	-
	<hr/>	<hr/>
	853,480	971,434
	=====	=====

749,28  
900,48  
1,17

## NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
FOR THE YEAR ENDED 30 JUNE 2018

	Original budget 2017-2018 Kshs '000'	Adjustments 2017-2018 Kshs '000'	Final budget 2017-2018 Kshs '000'	Actual on comparable basis 2017-2018 Kshs '000'	Performance difference 2017-2018 Kshs '000'	% Deviation Actual/Budget (%)
<b>Revenue</b>						
Sales revenue	33,288,287	-	33,288,287	29,893,656	3,394,632	-10.20%
Other income	145,984	-	145,984	85,728	60,257	-41.28%
Exploration cost reimbursement	383,776	-	383,776	335,308	48,468	-12.63%
Finance income	-	-	-	80,475	(80,475)	100.00%
<b>Total income</b>	<b>33,818,048</b>	<b>-</b>	<b>33,818,048</b>	<b>30,395,166</b>	<b>3,422,882</b>	<b>-10.12%</b>
<b>Expenses</b>						
Cost of sales	30,887,135	-	30,887,135	28,424,281	2,462,854	-7.97%
Exploration cost reimbursement	383,776	-	383,776	335,308	48,468	-12.63%
Finance cost	382,947	-	382,947	604,917	(221,970)	57.96%
Depreciation charge	384,000	-	384,000	356,006	27,994	-7.29%
Rents & services	37,549	-	37,549	-25,089	62,638	-166.82%
Repairs & maintenance	76,801	-	76,801	98,569	(21,768)	28.34%
Insurance	20,062	-	20,062	13,412	6,650	-33.15%
Security charges	33,115	-	33,115	28,630	4,485	-13.54%
Light & water	12,214	-	12,214	12,494	(280)	2.29%
Cleaning	10,077	-	10,077	9,002	1,075	-10.67%
Software licenses	24,575	-	24,575	89,701	(65,126)	265.01%
Salaries	335,793	-	335,793	342,276	(6,483)	1.93%
Staff housing	62,072	-	62,072	52,464	9,608	-15.48%
Gratuity and pension costs	38,017	-	38,017	29,476	8,541	-22.46%
Medical expenses	43,214	-	43,214	38,056	5,158	-11.94%
Staff welfare expenses	14,194	-	14,194	9,593	4,601	-32.42%
Motor running expenses	2,585	-	2,585	2,760	(175)	6.75%
Travelling and accommodation	49,149	-	49,149	56,596	(7,447)	15.15%
Telephone, telefax and postage	6,358	-	6,358	6,558	(201)	3.16%
Printing and stationary	6,546	-	6,546	6,604	(58)	0.88%
Office expenses	9,538	-	9,538	6,992	2,546	-26.69%
Subscription And donations	22,737	-	22,737	4,404	18,333	-80.63%
Audit fee	11,153	-	11,153	7,300	3,853	-34.55%
Legal fee	25,746	-	25,746	46,477	(20,731)	80.52%
Advertising and public relations	205,579	-	205,579	32,626	172,953	-84.13%
Groceries and drinks	3,631	-	3,631	5,695	(2,064)	56.85%
Board expenses	25,859	-	25,859	26,468	(609)	2.36%
Training and education	32,394	-	32,394	10,064	22,330	-68.93%
Recruitment costs	6,487	-	6,487	11,335	(4,848)	74.73%
Professional fee	52,560	-	52,560	44,671	7,889	-15.01%
Staff uniforms	3,409	-	3,409	485	2,924	-85.78%
Meeting and negotiations	5,601	-	5,601	41	5,560	-99.26%
Tender fee	912	-	912	-	912	-100.00%
Environmental audit	25,620	-	25,620	27,800	(2,180)	8.51%
<b>Total expenditure</b>	<b>33,241,404</b>	<b>-</b>	<b>33,241,404</b>	<b>30,715,972</b>	<b>2,525,432</b>	<b>-7.60%</b>
<b>Surplus for the period</b>	<b>576,644</b>	<b>-</b>	<b>576,644</b>	<b>(320,806)</b>	<b>(898,450)</b>	<b>-155.63%</b>

