

REPUBLIC OF KENYA



Enhancing Accountability

THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 29 SEP 2020	DAY: TUESDAY
TABLED BY:	MAJORITY LEADER
THE TABLE:	<i>[Signature]</i>

REPORT

OF

THE AUDITOR-GENERAL

ON

**NATIONAL OIL CORPORATION OF KENYA
LIMITED**

**FOR THE YEAR ENDED
30 JUNE, 2019**

**NATIONAL OIL CORPORATION
OF KENYA LIMITED**

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

30 JUNE 2019

NATIONAL OIL CORPORATION OF KENYA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

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NATIONAL OIL CORPORATION OF KENYA LIMITED

CORPORATE INFORMATION

DIRECTORS

Mr. Kibuga Kariithi
Dr. Julius Muia

- Chairman
- Principal Secretary, National Treasury. Appointed 2 October 2019
- Principal Secretary, Ministry of Energy & Petroleum

Mr. Andrew Kamau

Ms. Margaret Saitoti
Dr. Samuel Gakunga
Mr. Peter Ekuleu
Mr. Hillary Sigei
Mr. Daniel Mutiso
Mrs. Emily Kiparki
Ms. Lilian Matagaro
Mr. Gideon Leparan Morintat
Mr. Michael Rubia
Mr. Edward Wamweya

- Appointed 8 February 2019
- Appointed 16 August 2018
- Appointed 20 February 2020
- Appointed 6 November 2019
- Alternate Director to Principal Secretary, National Treasury. Appointed 30 September 2019
- Alternate to Principal Secretary Ministry of Energy & Petroleum. Appointed 2 October 2019

Ms. Electine Nanzala

- Alternate Director to Principal Secretary, National Treasury. Resigned 30 September 2019
- Resigned on 9 October 2019
- Resigned on 18 October 2018
- Resigned on 14 April 2020
- Resigned on 6 November 2019

Eng. Stanley Kamau

Ms. MaryJane Mwangi
Ms. Christine Mutinda
Mr. Caroli Omondi
Mr. Tom Macharia

SECRETARY

Gladys Koletit
Certified Public Secretary (Kenya)
P O Box 58567 – 00200
Nairobi

- Resigned on 16 March 2020

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

KCB Bank Kenya Limited
P O Box 30081 – 00100
Nairobi

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

Stanbic Bank Limited
P O Box 72833 – 00200
Nairobi

Equity Bank Kenya Limited
P O Box 78569 – 00507
Nairobi

NATIONAL OIL CORPORATION OF KENYA LIMITED

CORPORATE INFORMATION (Continued)

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 2019 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

	2019	2018
	Shs'000	Shs'000
Loss before taxation	(398,844)	(320,806)
Taxation credit	46,352	95,466
	-----	-----
Loss for the year transferred to retained earnings	(352,492)	(225,340)
	=====	=====

DIVIDENDS

The Directors do not recommend payment of dividend in respect of the current financial year (2018: nil).

DIRECTORS

The current Board of Directors are as shown on page 2 to 3.

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

There was a 6% increase in revenues from Shs 29.9 billion for the year ended 30 June 2018 to Shs 31.6 billion for the year ended 30 June 2019. However, there was a 0.8% decrease in gross profit from Shs 1.47 billion to Shs 1.46 billion. Operating profit however increased from Shs 204 million to Shs 293 million while the Corporation's loss before tax increased from Shs 321 million to Shs 399 million.

Operating expenses reduced from Shs 853 million to Shs 715 million to be in line with the level of business. Net financing costs increased in the year from Shs 524 million to Shs 692 million as a result of increase in borrowings.

NATIONAL OIL CORPORATION OF KENYA LIMITED

REPORT OF THE DIRECTORS (Continued)

BUSINESS REVIEW (Continued)

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.

Social responsibility

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

Employees Matters

The Corporation has directly employed 219 employees and hundreds others through its retail networks.

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:

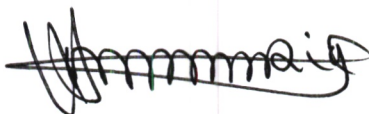
- so far as the Director is aware, there is no relevant audit information of which the Corporation's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish 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 2019 and report to the Auditor General.

BY ORDER OF THE BOARD



Hillary Sigei
Director/Company Secretary

Nairobi

10 June 2020

NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

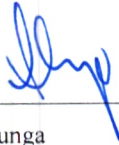
The Kenyan Companies Act, 2015 requires the Directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Corporation as at the end of the financial year and of its profit or loss for that year. It also requires the Directors to ensure 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 except for the uncertainty associated with the global COVID 19 pandemic as disclosed in note 45.

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



Dr. Sam Gakunga
Director



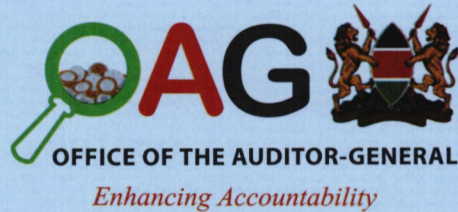
Mr. Gideon Leperan Morintat
Director

10 June

2020

REPUBLIC OF KENYA

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HEADQUARTERS
Anniversary Towers
Monrovia Street
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON NATIONAL OIL CORPORATION OF KENYA LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

The accompanying financial statements of National Oil Corporation of Kenya Limited set out on pages 10 to 53, which comprise the statement of financial position as at 30 June, 2019, 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, 2019, 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 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

Unaccounted for Petroleum Products

As reported in my report for 2017/2018, the statement of financial position reflects inventories valued at Kshs.831,802,000 held by the Corporation. As disclosed under Note 23 to the financial statements, a provision for impairment of inventories valued at Kshs.2, 422,102,000 (2018: Kshs.2,104,335,000) was made in the year under review. As similarly reported in my report for 2017/2018, the provision was in respect of unreconciled stock variances.

Further, the Management 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 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 value of Kshs.18,814,400.

According to reports by 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.2,270,337,573 in aggregate based on the pump prices at the time of audit in December, 2018, could not be accounted for.

The scope of the special audits by the Consultancies covered the period between July, 2017 and December, 2018. The audit reports attributed the variances to systemic weaknesses characterized by inadequate record keeping and failure to adhere to Company policies governing order processing. Other internal control weaknesses reported included failure to schedule vehicles transporting petroleum products and to undertake daily and monthly stock reconciliations. Instances of malpractices were, in addition, identified in generation and processing of unauthorized credit notes, illegal diversion of product consignments and dispatches not supported by transporter documentation or not delivered to intended sites.

In the circumstances, I am unable to confirm the existence of control measures put in place by Management to safeguard public resources.

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

Emphasis of Matter

Going Concern Status

The Management made a disclosure under Note 8 to the financial statements, which indicates that the Corporation incurred a loss of Kshs.352,492,000 (2018: Kshs.225,340,000) during the year under review and thus raised its accumulated losses from Kshs.2,035,131,000 in 2018 to Kshs.2,560,934,000 as at 30 June, 2019. As a result, the Corporation's current liabilities exceeded its current assets by Kshs.3,797,210,000 (2018: Kshs.2,581,506,000). These events or conditions, along with other matters set forth in the note indicate that there exists material uncertainty regarding the Corporation's ability to continue as a going concern.

However, The National Treasury has issued the Corporation 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. There were no key audit matters to report in the year under review.

Other Matter

Accounting for Mwananchi Gas Project

As similarly reported in my report for 2017/2018, the State Department for Petroleum in 2018 delegated to the Corporation the responsibility of implementing 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 to low-income households. In addition to offering storage facilities of the cylinders, the Corporation was expected to fill the gas cylinders and supply the households with cooking gas at subsidized prices.

Records made available by the Corporation indicated that a total of 144,092 six-kilogramme (6kgs) gas cylinders, 357,360 cylinder grills and 357,336 gas burners valued at Kshs.539,741,103 were received from the State Department for Petroleum. Of these quantities, the Corporation jointly with the State Department for Petroleum inspected and certified for use 45,797 (6kg) cylinders, 40,484 gas burners and 114,680 grills with an aggregate value of Kshs.56,419,124

The remainder of the items had not been included in the Agency's financial statements and the Management has attributed the omission to lack of formal authority from the State Department for Petroleum to transfer ownership of the items to the Corporation.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

Unclaimed Financial Assets

The Corporation as at 30 June, 2019 held financial assets amounting to Kshs.21,159,895 disclosed as part of prepayments in Note 24 to the financial statements. These were customer bank deposits dating from 2011 to 2015, that ought to have been reported and submitted to the Unclaimed Financial Assets Authority (UFAA), as required by the Unclaimed Financial Assets Act, 2011. According to the

Act, failure to comply attracts a penalty of 25% of the value of assets withheld, in addition to interest at the Central Bank Rate (CBR) prevailing at 30 September of the relevant year plus 1% (CBR + 1%). Failure to report and submit the assets to the Authority could attract interest and penalties to the Corporation by the Unclaimed Financial Assets Authority.

Consequently, the Management is in breach of the law.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the effects on the matter 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 internal controls, risk management and overall governance were not effective.

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 Company's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and Board of Directors

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

In preparing the financial statements, Management is 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 Management is aware of the intention to liquidate the Company or to cease operations.

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

In addition to the responsibility for 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.

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

Auditor-General's Responsibilities for the Audit

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

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

Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the 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 2019

	Notes	2019 Shs'000	2018 Shs'000
Revenue	9	31,648,797	29,893,656
Cost of sales	10	(30,190,769)	(28,424,281)
GROSS PROFIT		1,458,028	1,469,375
Other operating income	11	72,859	72,480
Oil exploration grant	29	274,729	335,308
Release of deferred income in respect of depreciation of grant assets	29	13,248	13,247
		1,818,864	1,890,410
EXPENDITURE			
Staff costs	13	(536,515)	(497,986)
Operating expenses		(714,854)	(853,480)
Exploration costs		(274,729)	(335,308)
		(1,526,098)	(1,686,774)
OPERATING PROFIT		292,766	203,636
Interest income	14(a)	34,354	80,475
Finance costs	14(b)	(725,964)	(604,917)
		(691,610)	(524,442)
LOSS BEFORE TAXATION		(398,844)	(320,806)
Taxation credit	15	46,352	95,466
LOSS FOR THE YEAR		(352,492)	(225,340)
Loss per share:			
Basic	16	<u>(13.56)</u>	<u>(8.47)</u>

NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

ASSETS	Notes	2019 Shs'000	2018 Shs'000
Non-current assets			
Property, plant and equipment	17	6,131,232	6,238,284
Investment property	18	10,575	10,810
Prepaid operating leases	19	158,393	188,874
Intangible assets	20	121,936	69,036
Exploration expenditure- Block 14T	21(a)	2,398,670	1,993,189
Deferred tax asset	22	116,794	40,474
		<u>8,937,600</u>	<u>8,540,667</u>
Current assets			
Inventories	23	831,802	1,420,979
Trade and other receivables	24	2,267,392	1,963,935
Current tax recoverable	15(c)	65,543	88,631
Call deposits	25	765,000	790,000
Cash and bank balances		319,438	675,550
		<u>4,249,175</u>	<u>4,939,095</u>
TOTAL ASSETS		<u><u>13,186,775</u></u>	<u><u>13,479,762</u></u>
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
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		(2,560,934)	(2,035,131)
Shareholders' equity		<u>1,621,063</u>	<u>2,146,866</u>
Non-current liabilities			
Block 14T fund	21(b)	1,133,389	1,133,389
Deferred income	29	1,627,660	1,635,637
Borrowings	32	741,386	1,034,320
Gratuity Provision	31	16,892	8,949
		<u>3,519,327</u>	<u>3,812,295</u>
Current liabilities			
Trade and other payables	30	2,742,643	1,960,305
Gratuity provision	31	5,569	-
Borrowings	32	4,171,024	3,247,981
Structured trade finance facility	33	575,121	1,736,370
Ministry of Energy and Petroleum Headquarters Construction Fund	34	2,481	13,112
Single Buoy Mooring (SBM) Jetty Fund	35	11,443	11,443
Corporate Social Responsibility (CSR) projects Fund	36	39,669	43,639
Exploration and Production Capacity Building Fund	37	72,955	80,851
Laboratory Equipment Fund	38	425,480	426,900
		<u>8,046,385</u>	<u>7,520,601</u>
TOTAL EQUITY AND LIABILITIES		<u><u>13,186,775</u></u>	<u><u>13,479,762</u></u>

The financial statements on pages 10 to 53 were approved and authorised for issue by the Board of Directors on 10 June 2020 and were signed on its behalf by:

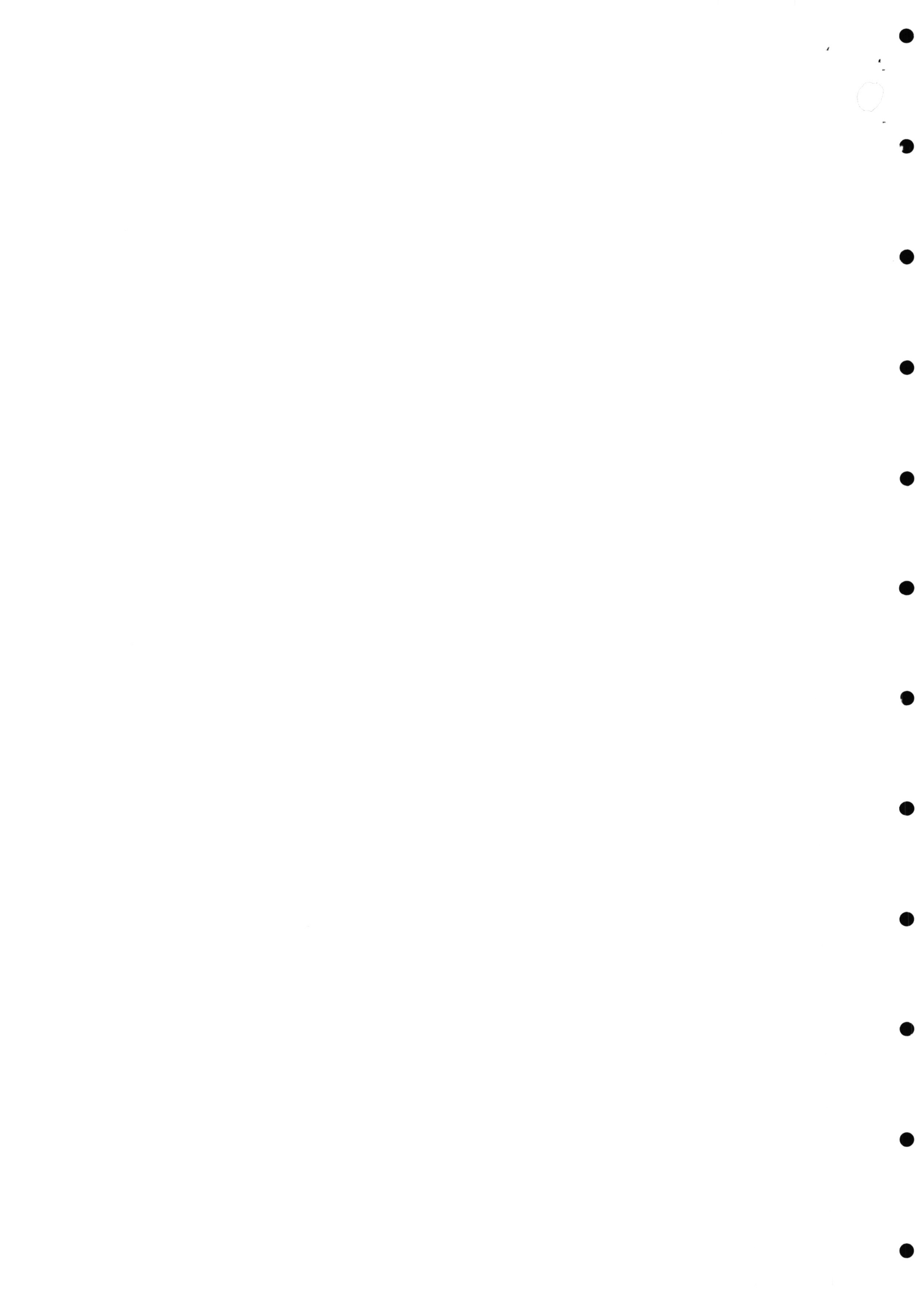
Dr. Sam Gakunga
Director

Mr. Gideon Leparan Morintat
Director

NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019

	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 2017	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	<u>532,000</u>	<u>1,183,000</u>	<u>500,000</u>	<u>1,966,997</u>	<u>(2,035,131)</u>	<u>2,146,866</u>
At 1 July 2018 – As previously reported	532,000	1,183,000	500,000	1,966,997	(2,035,131)	2,146,866
Effect of adoption of IFRS 9 in the current year	-	-	-	-	(173,311)	(173,311)
At 1 July 2018 - restated	<u>532,000</u>	<u>1,183,000</u>	<u>500,000</u>	<u>1,966,997</u>	<u>(2,208,442)</u>	<u>1,973,555</u>
Total comprehensive loss for the year	-	-	-	-	(352,492)	(352,492)
As at 30 June 2019	<u>532,000</u>	<u>1,183,000</u>	<u>500,000</u>	<u>1,966,997</u>	<u>(2,560,934)</u>	<u>1,621,063</u>



NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 Shs'000	2018 Shs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	40(a)	1,238,271	88,315
Interest paid		(693,252)	(629,661)
Interest received		34,354	80,475
Taxation paid	15(c)	(6,880)	(14,914)
Net cash generated from/ (used in) operating activities		<u>572,493</u>	<u>(475,785)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	17	(152,550)	(133,461)
Proceeds on disposal of property, plant and equipment		960	-
Acquisition of leasehold land	19	(34,035)	(109,833)
Purchase of intangible assets	20	(120,798)	(44,284)
Purchase of exploration assets	21(a)	(405,481)	(1,071,700)
Net cash used in investing activities		<u>(711,904)</u>	<u>(1,359,278)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in Block 14T fund	21(b)	-	563,717
Government grants received – Oil exploration	29	280,000	780,000
Borrowings received - Term loan	32	24,458,671	31,971,272
Borrowings received - Structured trade	33	23,027,383	20,184,725
Borrowings repaid - Term loan	32	(24,893,109)	(31,116,777)
Borrowings repaid - Structured trade	33	(24,182,888)	(19,200,416)
Net cash (used in)/ generated from financing activities		<u>(1,309,943)</u>	<u>3,182,521</u>
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		<u>(1,449,354)</u>	<u>1,347,458</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>698,556</u>	<u>(645,009)</u>
EFFECT OF EXCHANGE RATE DIFFERENCES ON CASH AND CASH EQUIVALENTS IN A FOREIGN CURRENCY		<u>(781)</u>	<u>(3,893)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	40(b)	<u><u>(751,579)</u></u>	<u><u>698,556</u></u>



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

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

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

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

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019

The following revised IFRSs were effective in the current period and the nature and the impact of the relevant amendments are described below.

Impact of initial application of IFRS 15 Revenue from Contracts with Customers

In the current year, National Oil Corporation of Kenya Limited has applied IFRS 15 Revenue from Contracts with Customers which is effective for an annual period that begins on or after 1 January 2018. The standard establishes a five step model that applies to revenue arising from contracts with customers. Revenue is recognised at an amount that reflects a consideration to which the entity expects to be entitled in exchange for goods and services at the point at when performance obligations associated with these goods and services have been satisfied.

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

The Corporation has not identified any change to its revenue recognition policy. The Corporation has applied the standard on a modified retrospective basis of IFRS 15, and the application of the standard did not have a significant impact except for the additional disclosures on the Corporation's financial statements. Consequently, the day 1 adjustment was considered immaterial for any of the financial statement line items as a result of application of IFRS 15.

Impact of initial application of IFRS 9 Financial Instrument

The Corporation has adopted IFRS 9 'Financial Instruments' from 1 January 2018. The standard amends the classification and measurement models for financial assets and adds new requirements to address the impairment of financial assets. It also introduces a new hedge accounting model to more closely align hedge accounting with risk management strategies and objectives.

The transition provision of IFRS 9 allow an entity not to restate comparatives consequently, the Corporation has elected not to restate comparatives. Therefore, the comparative information for 2018 is reported under IAS 39 and is not comparable to the information presented for 2019. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 July 2018 and are disclosed in the Statement of Changes in Equity.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019 (Continued)

a) Classification and measurement of financial assets

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost;
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition;
- Equity instruments at FVOCI, with no recycling of gains or losses or profit or loss on derecognition; and
- Financial assets FVPL.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

The Corporation's balance sheet only contains the following financial assets:

- Trade receivables; and
- Cash and bank balances

There has been no change in the measurement criteria for any of the Corporation's financial assets on adoption of IFRS 9 after the consideration of the business model and cash flow characteristics. Specifically, the trade receivables typically 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 amount outstanding, are measured subsequently at amortised cost and are subject to impairment.

b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Corporation to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Specifically, IFRS 9 requires the Corporation to recognise a loss allowance for expected credit losses on:

- Trade receivables; and
- Bank balances

In particular, IFRS 9 requires the Corporation to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), National Oil Corporation of Kenya Limited is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables.



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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

i) *Relevant new standards and amendments to published standards effective for the year ended 30 June 2019 (Continued)*

b) *Impairment of financial assets (Continued)*

The Corporation has applied the standard on a modified retrospective basis of IFRS 9, and the application of the standard had the following impact on the Corporation's financial statements.

Items existing as at 1 July 2018 that are subject to impairment provision of IFRS 9	Credit risk attributes at 1 July 2018	Cumulative additional allowance recognized on 1 July 2018
		Shs' 000
Trade receivables	For trade receivables, the Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables.	173,311
Bank balances	All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable international banking institutions.	-
Total		173,311

The additional credit loss allowance of Shs 173,311,000 as at 1 July 2018 for the Corporation has been recognised against retained earnings. The additional loss allowance is charged against the respective assets.

The reconciliation between the ending provision for impairment in accordance with IAS 39 to the opening loss allowance determined in accordance with IFRS 9 for the above financial instruments on 1 July 2018 has been disclosed in note 24.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability. (e.g. a non-refundable deposit or deferred revenue).

The interpretation specifies that the date of transactions is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The application of the amendments did not have an impact on the company financial statements as the Company already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2. APPLICATION OF NEW AND REVISED 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 2019*

New standards and Amendments to standards	Effective for annual periods beginning on or after
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019
IFRS 9 Amendments to IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2020

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 recognized 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 Corporation is assessing the potential impact on the financial statements resulting from the application of these changes.

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

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2. APPLICATION OF NEW AND REVISED 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 2019* (Continued)

Annual Improvements to IFRS Standards 2015-2017 Cycle

The Annual Improvements to IFRS Standards 2015-2017 cycle makes amendments to the following standards:

- IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 - The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

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

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI. The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment; and
- or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

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 2019

Basis of preparation

(a) Statement of compliance

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

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES

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. The Corporation recognises revenue for goods for which it has transferred control to a customer when satisfying a performance obligation.

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

Oil exploration grants

These are funds received from the Government for exploration activities.

Government grants for upstream activities, for example research, facilitation of geo-scientific studies, maintaining the national seismic data archive etc, are recognised as revenue over the period necessary to match them with related costs which they are intended to compensate, on a systematic basis.

Training fund grants

These are funds received from oil exploration companies as part of the contractual commitments between the oil exploration companies and the government. Withdrawals from this fund are utilised only for training staff involved in exploration activities.

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

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government downstream grants

These are funds received from the Government for the expansion of downstream distribution assets.

Government grants relating to downstream assets, including non-monetary grants, are presented in the financial statements as a deferred income and are recognized in profit or loss on a systematic basis over the useful life of the assets. Grants relating to income are recognised in profit or loss in the year in which they have been granted.

Leases

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

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)

Financial assets

(i) Classification

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. The Corporation classifies financial assets into three categories as described below.

Financial assets that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

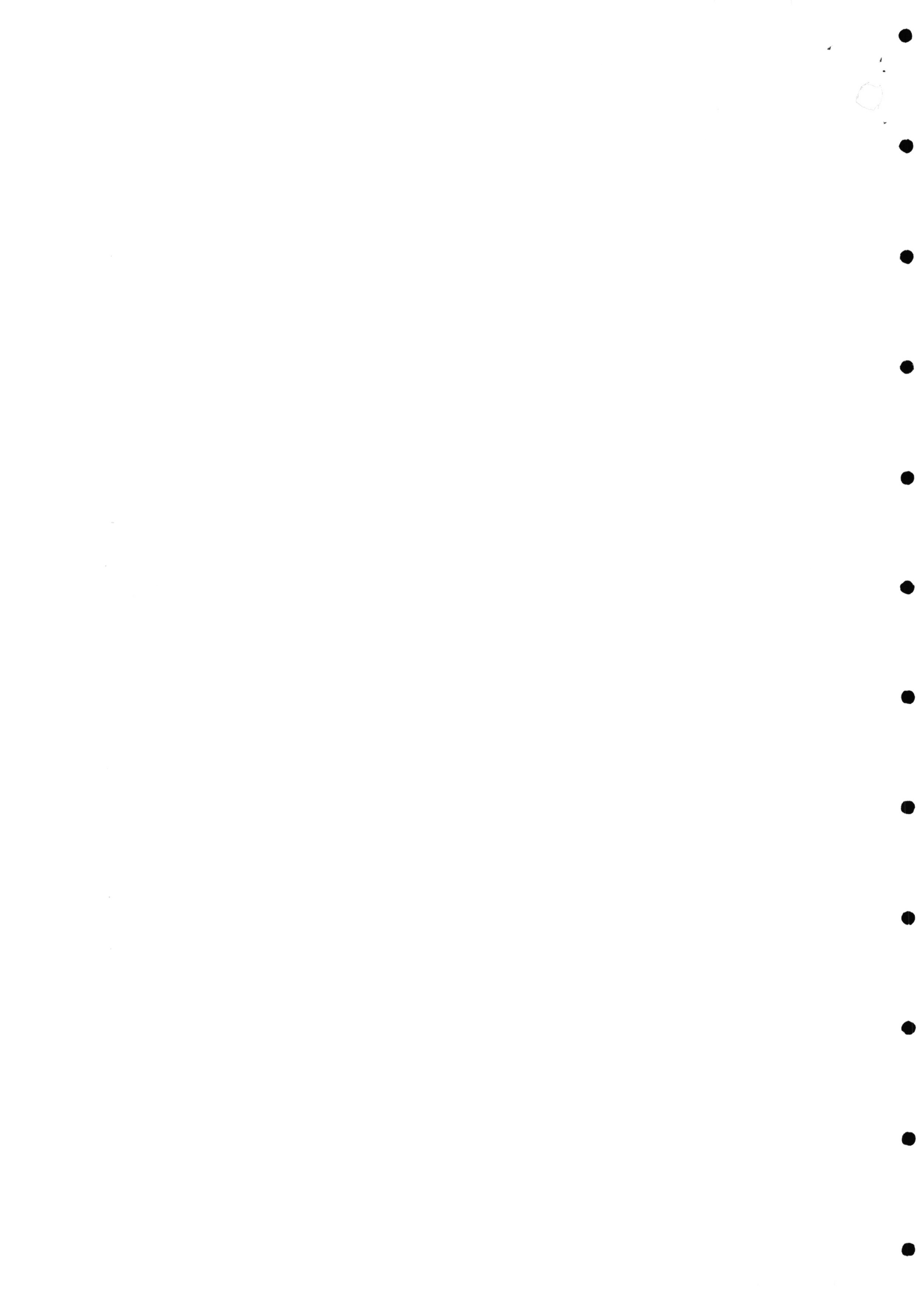
By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL). Despite the foregoing, the Corporation may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Corporation may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Corporation may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(ii) De-recognition

The Corporation derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The Corporation derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Corporation recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Corporation retains substantially all the risks and rewards of ownership of a transferred financial asset, the Corporation continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the assets carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Corporation has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

(iii) Offsetting of financial assets and liabilities

Financial assets and financial 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.

Impairment

(i) Financial assets

The Corporation recognises an allowance for expected credit losses (ECLs) for its Trade receivables and bank balances. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Corporation expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Corporation applies a simplified approach in calculating ECLs. Therefore, the Corporation does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Corporation has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Other assets include cash and bank balances which the Corporation uses counter party external rating equivalent both to determine whether the financial asset has significantly increased in credit risk and to estimate ECLs.

The Corporation considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Corporation may also consider a financial asset to be in default when internal or external information indicates that the Corporation is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Corporation.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets are reviewed at each 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 flows 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 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. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment (continued)

(ii) Non-financial assets (Continued)

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Foreign currencies

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

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

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

Related parties

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

Provisions

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

Employee benefit costs

Short term employee benefits

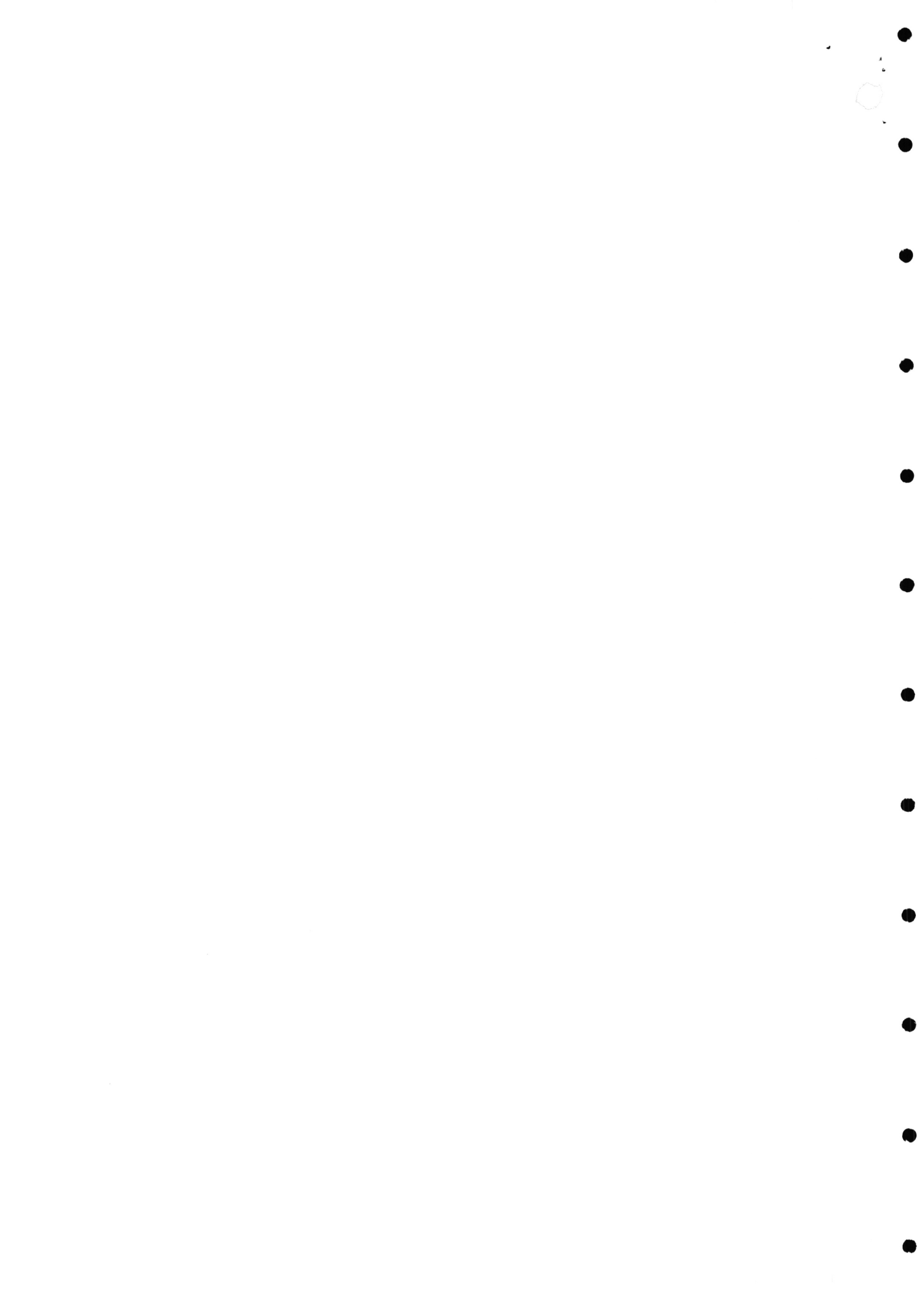
Employees' entitlements to annual leave are charged to the profit or loss as they fall due. A liability is recognised for the amount to be paid for the annual leave days outstanding and short term cash bonus plans if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Employees on contract are entitled to gratuity at the end of the contract or employment, whichever comes earlier. The estimated monetary liability for such entitlement as at the financial reporting date is recognised as an expense accrual.

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

Defined contribution plans

A defined contribution plan is a post employment benefit plan under which the entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as employee benefit expenses in the profit or loss in the period during which the employees have rendered the related services.



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Defined contribution plans (Continued)

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.

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.



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(c) **Property, plant and equipment**

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

(d) **Provisions for pending litigations**

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

(e) **Impairment of assets**

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

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

(f) **Deferred tax asset**

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Details of the carrying value of recognised tax losses at 30 June 2018 are provided in note 22.

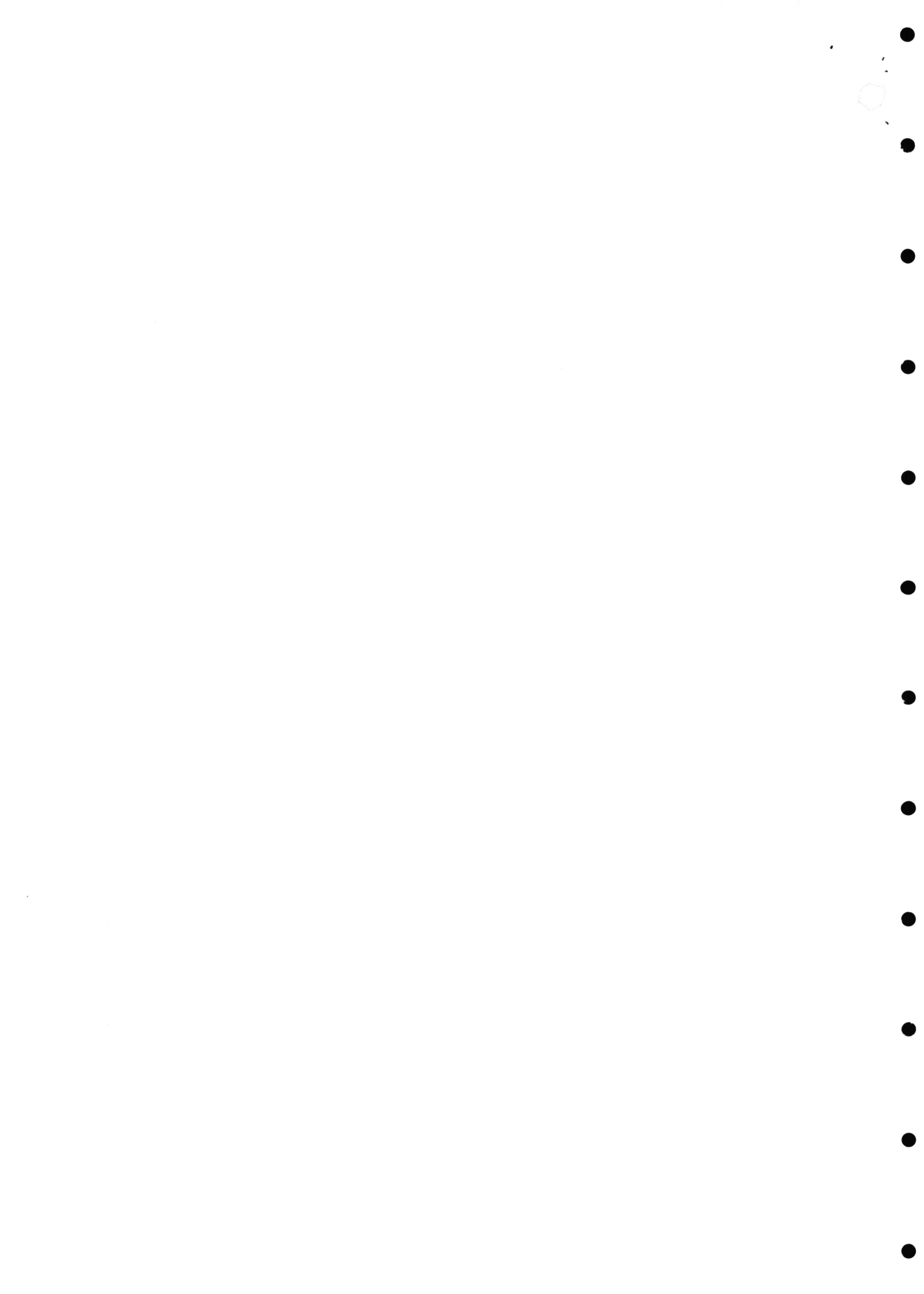
(g) **Classification of leases of land as finance or operating leases**

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

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

(h) **Impairment of financial assets**

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



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)

(h) Impairment of financial assets (Continued)

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

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

- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Historical default and expected loss rates;

The Corporation's criteria for assessing if there has been a significant increase in credit risk; and Development of ECL models, including the various formulas and the choice of inputs.

(i) Impairment of assets – non-financial assets

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

(j) Provision for Inventory

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

5. FINANCIAL RISK MANAGEMENT

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

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

(a) Market risk

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

(i) Currency risk

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

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

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) **Market risk (Continued)**

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 (Continued)**

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.

	2019 Sh'000	2018 Sh'000
Assets		
Bank and cash balances	24,740	70,325
Trade and other receivables	-	31,702
	<hr/>	<hr/>
	24,740	102,027
	=====	=====
Liabilities		
Trade and other payables	1,793	76,810
Borrowings	225,715	321,638
	<hr/>	<hr/>
	227,508	398,448
	=====	=====

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 2019		30 June 2018	
	Effective interest rate	Sh'000	Effective interest rate	Sh'000
Call deposits	3.46%	765,000	8.00%	790,000
Term loans	13.00%	(3,076,393)	13.00%	(3,515,307)
Bank overdrafts	13.5%	(1,836,017)	13.25%	(766,994)
		<u> </u>		<u> </u>
Total exposure		(4,912,410)		(4,282,301)
		<u> </u>		<u> </u>
		(4,147,410)		(3,492,301)
		<u> </u>		<u> </u>

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 2019 Sh'000	30 June 2018 Sh'000
1% increase	(4,147)	(3,492)
1% decrease	4,147	3,492
	<u> </u>	<u> </u>

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

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

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

	External credit rating	Internal credit rating	12 month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
				Sh	Sh	Sh
2019						
Trade receivables	N/A	Doubtful	Lifetime ECL	1,433,322	(234,205)	1,199,117
Bank balances	A, BBB, B+, B-	Performing	12 month ECL	322,708	(3,270)	319,438
Call deposits	AA	Performing	12 month ECL	765,000	-	765,000
				<u>2,521,030</u>	<u>(237,475)</u>	<u>2,283,555</u>
				=====	=====	=====
2018						
Trade receivables	N/A	Doubtful	Lifetime ECL	1,992,923	(390,728)	1,602,195
Bank balances	A, BBB, B+, B-	Performing	12 month ECL	721,175	(45,625)	675,550
Call deposits	AA	Performing	12 month ECL	790,000	-	790,000
				<u>3,504,098</u>	<u>(436,353)</u>	<u>3,067,745</u>
				=====	=====	=====



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Credit risk profile based on provision matrix

30 June 2019	Not Due	< 30 days	31-60 days	61-90 days	91-180 days	181-360 days	Over 361 days	Total
ECL rate Expected	-	1.5%	7.4%	10.3%	30.2%	29.1%	78.5%	
Gross Carrying Amount	763,216	213,577	5,682	28,946	87,587	123,845	210,469	1,433,322
Lifetime ECL	-	(3,140)	(421)	(2,975)	(26,454)	(36,039)	(165,176)	(234,205)
	=====	=====	=====	=====	=====	=====	=====	=====

A reconciliation of the impairment loss accounts

	Trade receivables Shs' 000	Cash and bank Shs' 000	Total Shs' 000
At 1 June 2018	(325,553)	(45,625)	(371,178)
Decrease in loss allowance arising from financial assets recognized in the year	14,976	-	14,976
	-----	-----	-----
At 30 June 2018 under IAS 39	(310,577)	(45,625)	(356,202)
	=====	=====	=====
At 1 July 2018 – as previously reported	(310,577)	(45,625)	(356,202)
Adjustment upon application of IFRS 9	(173,311)	-	(173,311)
	-----	-----	-----
At 1 July 2018 – restated	(483,888)	(45,625)	(529,513)
Decrease in loss allowance arising from financial assets derecognised in the year	249,683	42,355	292,038
	-----	-----	-----
At 30 June 2019 under IFRS 9	(234,205)	(3,270)	(237,475)
	=====	=====	=====

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.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) **Liquidity risk**

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

- The Corporation has arranged for standby overdraft facilities with a limit of Shs 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.

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

	1 – 3 Months Shs'000	3-12 Months Shs'000	Over 12 months Shs'000	Total Shs'000
At 30 June 2019:				
Ministry of Energy and Petroleum				
Headquarters construction fund	-	2,481	-	2,481
SBM Jetty fund	-	11,443	-	11,443
CSR Funds				
Exploration and Production		39,669		39,669
Capacity Building fund	-	72,955	-	72,955
Laboratory equipment fund	-	425,480	-	425,480
Trade payables	439,644	220,982	-	660,626
Borrowings	3,903,331	267,693	741,386	4,912,410
Structured trade financing	575,121	-	-	575,121
	<u>4,918,096</u>	<u>1,040,703</u>	<u>741,386</u>	<u>6,700,185</u>

At 30 June 2018:

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>

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	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
<i>Financial assets</i>				
Trade receivables	1,199,117	1,602,194	1,199,117	1,602,194
Call deposits	765,000	790,000	765,000	790,000
Bank and cash balances	319,438	675,550	319,438	675,550
<i>Financial liabilities</i>				
Borrowings	4,912,410	4,282,301	4,912,410	4,282,301
Structured trade finance facility	575,121	1,736,370	575,121	1,736,370
Trade payables	660,626	444,044	660,626	444,044

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 2019, 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:

	2019 Shs'000	2018 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	(2,560,934)	(2,035,131)
	<hr/>	<hr/>
Equity	1,621,063	2,146,866
	<hr/>	<hr/>
Borrowings	4,912,410	4,282,301
Structured trade finance facility	575,121	1,736,370
Less: Cash and cash equivalents (excluding borrowings)	(1,084,438)	(1,465,550)
	<hr/>	<hr/>
Net debt	4,403,093	4,553,121
	<hr/>	<hr/>
Gearing ratio	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 352,492,000 (2018: Shs 225,339,000) during the year and had accumulated losses of Shs 2,560,934,000 as at 30 June 2019 (2018: Shs 2,035,131,000). In addition, the Corporation is in a net current liability position of Shs 3,797,210,000 (2018: Shs 2,581,506,000). 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.

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 credit sales.
3. The Corporation is also looking into debt restructuring with an aim to reduce the finance cost, discussions are ongoing with banks to increase the tenure of existing loans to minimise the cash flow burden.

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

	2019 Shs'000	2018 Shs'000
9. REVENUE		
Revenues from Sale of products	31,648,797	29,893,656
	<u>=====</u>	<u>=====</u>
10. COST OF SALES		
Cost of goods sold	29,864,197	27,207,854
Other direct costs	326,572	1,216,427
	<u>-----</u>	<u>-----</u>
	30,190,769	28,424,281
	<u>=====</u>	<u>=====</u>
11. OPERATING INCOME		
Multi - client data	-	2,613
Rental income (subletting)	65,538	47,798
Throughput fees	4,025	13,517
Sundry income	564	7,966
Bad debts written off recovered	-	247
LPG plant through put fees	2,693	339
Gain on disposal of property, plant and equipment	39	-
	<u>-----</u>	<u>-----</u>
	72,859	72,480
	<u>=====</u>	<u>=====</u>
12. LOSS BEFORE TAXATION		
The loss before taxation is arrived at after charging:		
Staff costs (note 13)	536,515	497,986
Depreciation on property, plant and equipment (note 17)	258,681	247,487
Depreciation of investment property (note 18)	235	235
Amortisation of prepaid operating leases (note 19)	64,516	75,031
Amortisation of intangible assets (note 20)	67,898	86,853
Inventory provisions (note 23)	317,767	382,798
Provision for bad debts (note 24)	288,088	13,126
Directors' emoluments – fees for Non-Executive Directors	-	4,620
- Salaries and other emoluments	20,044	16,035
Auditor's emoluments	8,995	6,988
	<u>=====</u>	<u>=====</u>

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019 Shs'000	2018 Shs'000
13. STAFF COSTS		
Salaries and wages	491,426	462,552
Pension costs - defined contribution plan	20,222	23,925
Leave pay allowance	11,040	4,206
Gratuity (note 31)	13,279	
National Social security Fund costs (NSSF)	548	407
	<u>536,515</u>	<u>497,986</u>
	=====	=====
14. (a) INTEREST INCOME		
Interest income	34,354	80,475
	<u>34,354</u>	<u>80,475</u>
(b) FINANCE COSTS		
Interest expense	(693,252)	(629,661)
Net foreign exchange gain/(loss)	(32,712)	24,744
	<u>(725,964)</u>	<u>(604,917)</u>
	=====	=====
Net finance cost	(691,610)	(524,442)
	=====	=====
15. INCOME TAX CHARGE		
(a) Taxation credit		
Tax recognised in profit or loss		
Current tax based on adjusted profit at 30%	29,968	38,482
Deferred tax credit (note 22(b))	(142,893)	(118,205)
(Under)/over provision of deferred tax asset		
in the prior year (note 22(b))	(464)	1,157
Deferred tax on tax losses derecognized/		
(utilised) (note 22(b))	67,037	(16,900)
	<u>(46,352)</u>	<u>(95,466)</u>
	=====	=====

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

	2019 Shs'000	2018 Shs'000
15. INCOME TAX CHARGE (Continued)		
(b) Reconciliation of tax based on accounting profit to tax credit		
Accounting loss before taxation	(398,844)	(320,806)
Current tax at 30%	(119,653)	(9,624)
Tax effect of expenses not deductible for tax	140,802	(70,099)
(Under)/over provision of deferred taxation asset in the prior year (note 22(b))	(464)	1,157
Deferred tax on tax losses, utilised (note 22(b))	(67,037)	(16,900)
Taxation credit	(46,352)	(95,466)
(c) Current tax asset		
At beginning of the year	88,631	112,199
Current tax expense (note 15(a))	(29,968)	(38,482)
Income tax paid	6,880	14,914
At end of year	65,543	88,631
16. LOSS PER SHARE		
Loss attributable to ordinary shareholders	(352,492)	(225,340)
Basic loss per share		
Weighted average number of ordinary shares used in the calculation of basic loss per share ('000)	26,600	26,600
Basic loss per share (Shs)	(13.25)	(8.47)
Instruments with an anti-dilutive impact in the period:		
Weighted average number of ordinary shares deemed to be issued in respect of funds awaiting allotment of shares ('000)	25,000	25,000



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. PROPERTY, PLANT AND EQUIPMENT

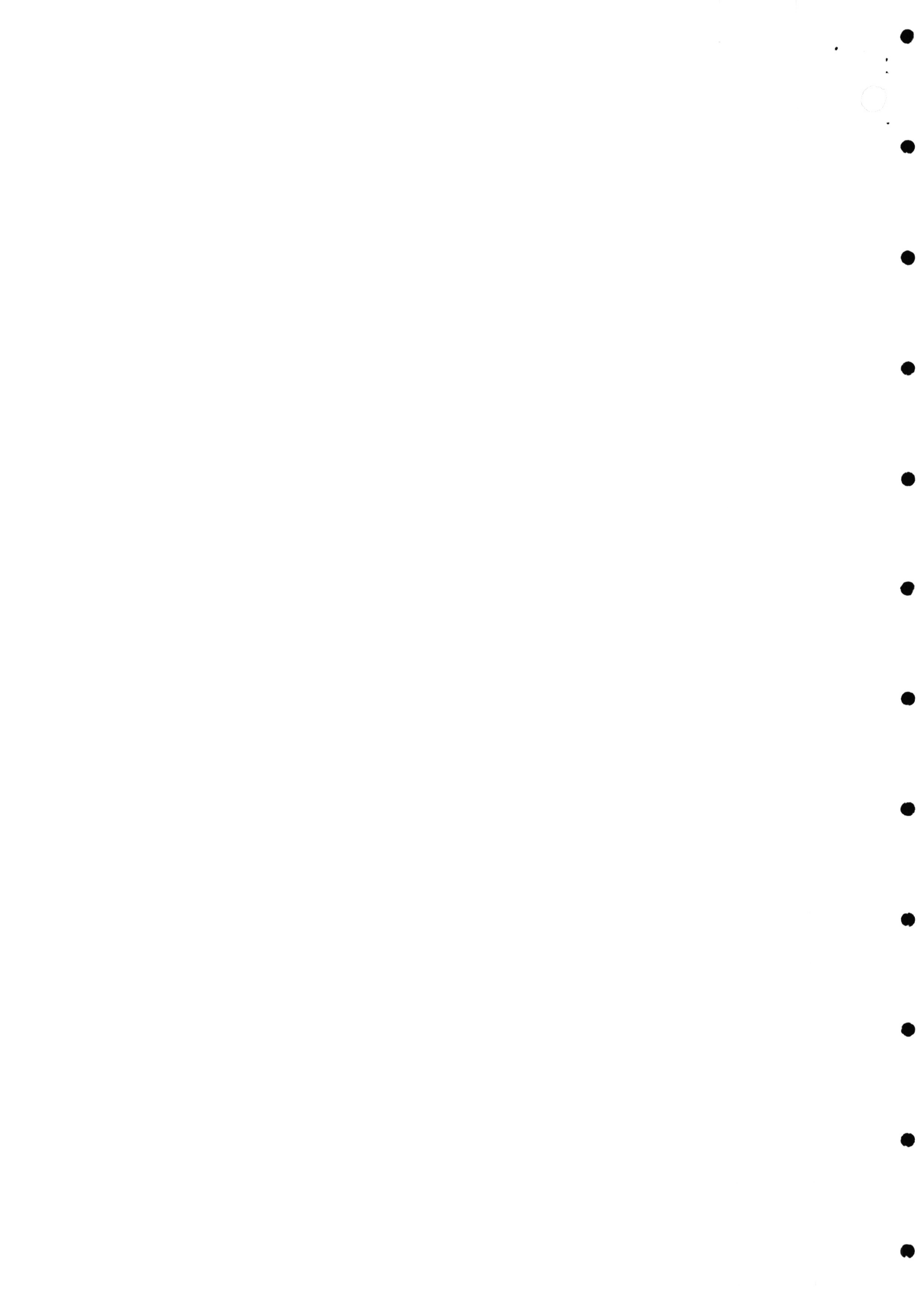
	Freehold land Shs'000	Leasehold land Shs'000	Buildings Shs'000	Plant, machinery, computers, furniture, fittings and equipment Shs'000	Motor vehicles Shs'000	Capital work in progress Shs'000	Total Shs'000
Cost or valuation:							
At 1 July 2017	659,966	2,516,277	2,004,271	2,104,864	14,331	295,956	7,595,665
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
At 1 July 2018	659,966	2,519,208	2,034,221	2,178,907	21,990	314,834	7,729,126
Additions	-	-	43,809	67,164	2,361	39,216	152,550
Disposal	-	-	-	-	(1,078)	-	(1,078)
Transfer to in/out	-	-	137,811	179,773	-	(317,584)	-
At 30 June 2019	659,966	2,519,208	2,215,841	2,425,844	23,273	36,466	7,880,598

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
Depreciation							
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
At 1 July 2018	-	179,955	161,021	1,134,897	14,969	-	1,490,842
Charge for the year	-	46,609	63,533	146,146	2,393	-	258,681
Disposal	-	-	-	-	(157)	-	(157)
At 30 June 2019	-	226,564	224,554	1,281,043	17,205	-	1,749,366
Net book value on valuation basis:							
At 30 June 2019	659,966	2,292,644	1,991,287	1,144,801	6,068	36,466	6,131,232
At 30 June 2018	659,966	2,339,253	1,873,200	1,044,010	7,021	314,834	6,238,284
Net book value on cost basis:							
At 30 June 2019	275,071	587,098	1,701,004	1,144,801	6,068	36,466	3,750,508
At 30 June 2018	275,071	593,028	1,558,162	1,044,010	7,021	314,834	3,792,126



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 2016 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 1,820,431,196 (2018: Sh 1,848,858,000) have been charged to secure banking facilities granted to the Corporation as disclosed in note 32.

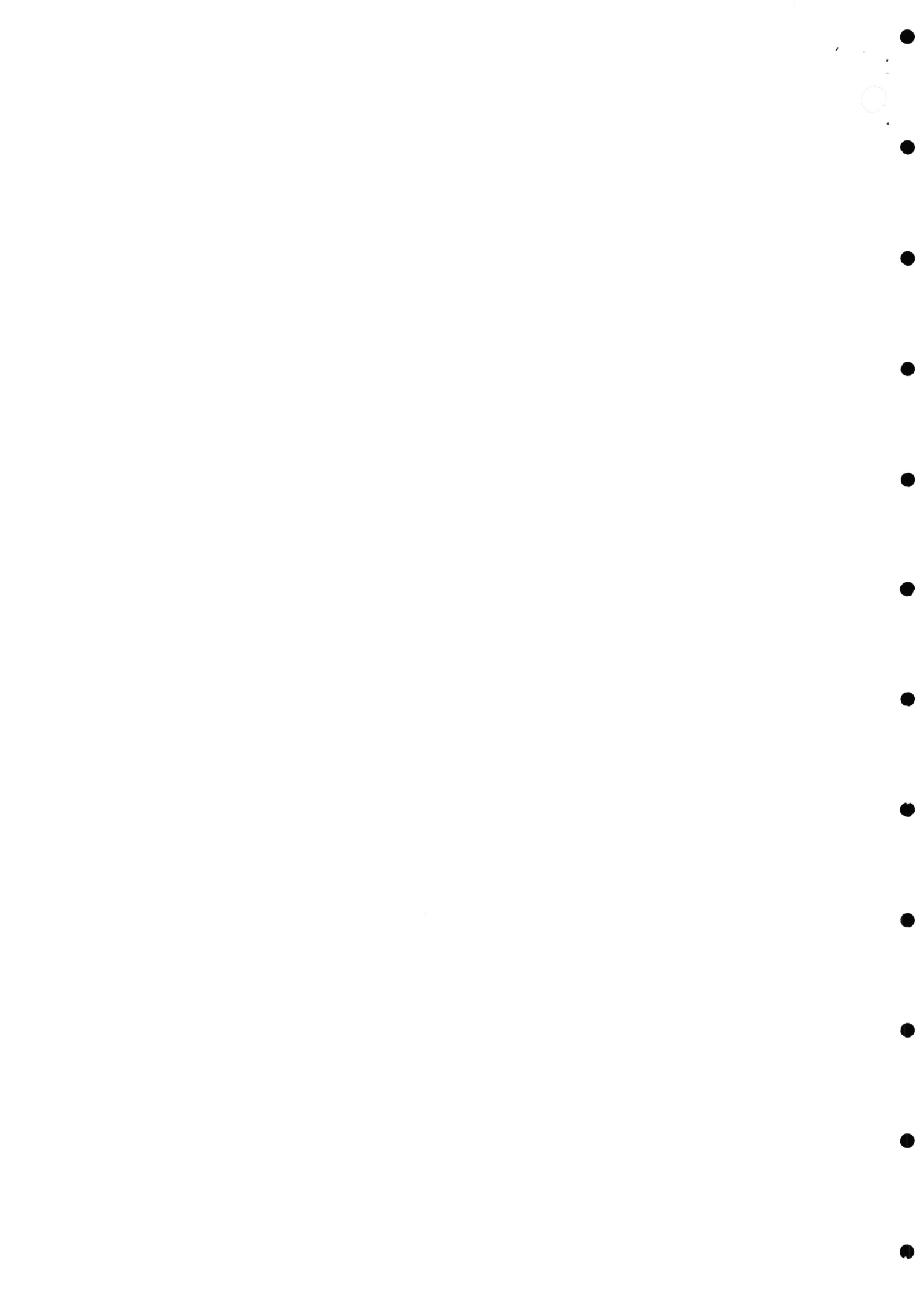
Details of the fair value hierarchy for the Corporation's property plant and equipment carried at fair value as at 30 June 2018 and as at 30 June 2019 are as follows:

	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
30 June 2019				
Freehold land	-	384,895	-	384,895
Leasehold land	-	1,747,274	-	1,747,274
Buildings	-	318,786	-	318,786
		<u>2,450,955</u>		<u>2,450,955</u>
		=====		=====
30 June 2018				
Freehold land	-	384,895	-	384,895
Leasehold land	-	1,764,923	-	1,764,923
Buildings	-	326,960	-	326,960
		<u>2,476,778</u>		<u>2,476,778</u>
		=====		=====

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

	2019 Shs'000	2018 Shs'000
18. INVESTMENT PROPERTY		
Cost		
At 1 July and 30 June	13,531	13,531
	<u> </u>	<u> </u>
Depreciation		
At 1 July	2,721	2,486
Charge for the year	235	235
	<u> </u>	<u> </u>
At 30 June	2,956	2,721
	<u> </u>	<u> </u>
Net book value		
At 30 June	10,575	10,810
	=====	=====

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 (2018: Shs 172,500,000).



NATIONAL OIL CORPORATION OF KENYA LIMITED

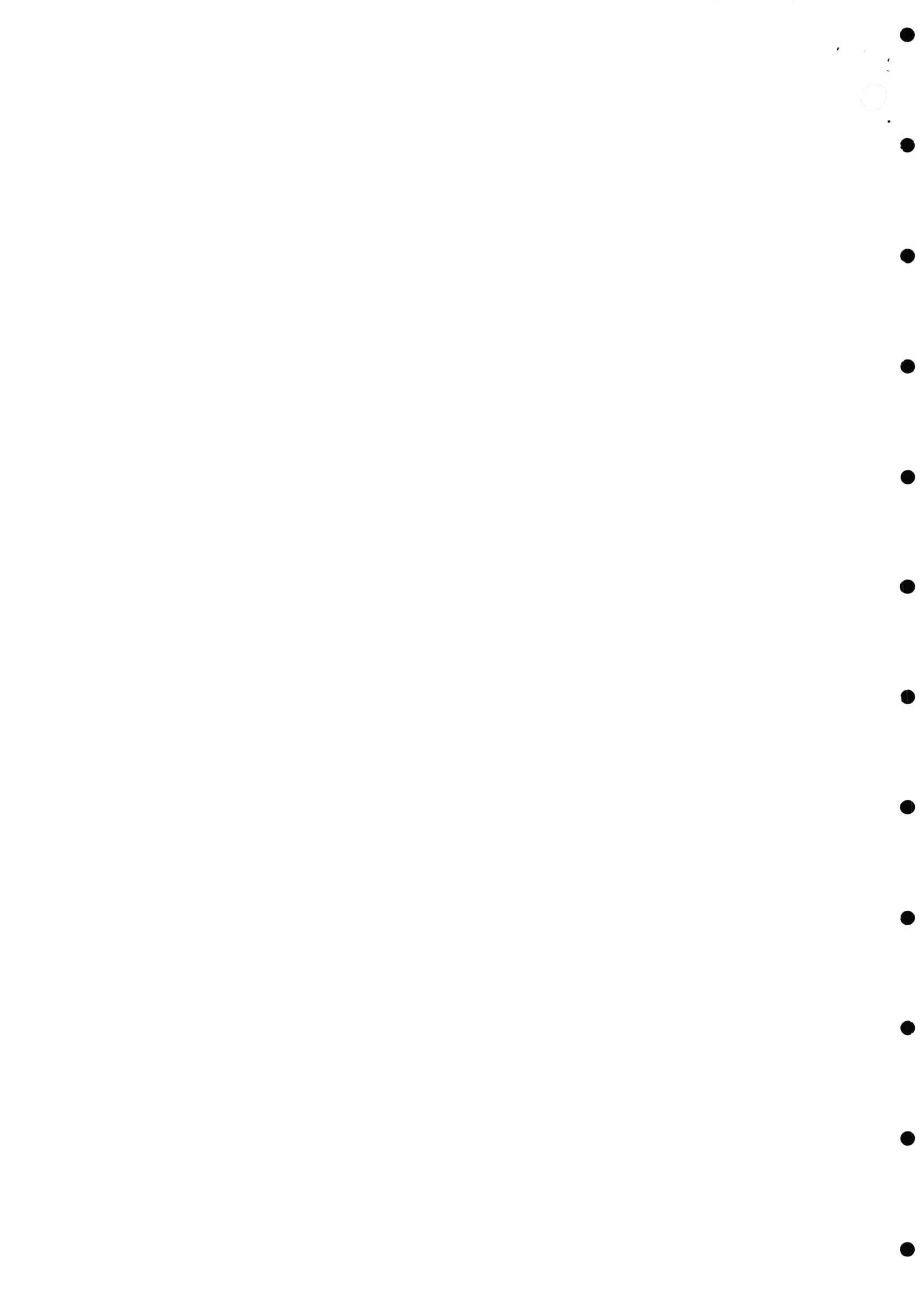
NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019 Shs'000	2018 Shs'000
19. PREPAID OPERATING LEASES		
Cost		
At 1 July	746,080	636,247
Additions	34,035	109,833
	-----	-----
At 30 June	780,115	746,080
	-----	-----
Amortisation		
At 1 July:	557,206	482,175
Amortisation charge for the year:	64,516	75,031
	-----	-----
At 30 June:	621,722	557,206
	-----	-----
Net book value		
At 30 June:	158,393	188,874
	=====	=====

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.

	2019 Shs'000	2018 Shs'000
20. INTANGIBLE ASSETS		
Cost		
At 1 July	534,157	489,873
Additions	120,798	44,284
	-----	-----
At 30 June	654,955	534,157
	-----	-----
Amortisation		
At 1 July	465,121	378,268
Charge for the year	67,898	86,853
	-----	-----
At 30 June	533,019	465,121
	-----	-----
Net book value		
At 30 June	121,936	69,036
	=====	=====

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



NATIONAL OIL CORPORATION OF KENYA LIMITED

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:

	2019 Shs '000	2018 Shs '000
Exploration and Evaluation expenses		
At beginning of year	1,993,189	921,489
Additions	405,481	1,071,700
	<hr/>	<hr/>
At end of year	2,398,670	1,993,189
	<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:

	2019 Shs'000	2018 Shs'000
At beginning of year	1,133,389	569,672
Receipts during the year	-	563,717
	<hr/>	<hr/>
At end of year	1,133,389	1,133,389
	<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 2019 (2018: 30%).

	2019 Shs'000	2018 Shs'000
(a) The net deferred tax liability as at 30 June is attributable to the following items		
<i>Assets:</i>		
Temporary provisions	845,552	782,166
Tax losses	159,665	92,628
Deferred tax on tax losses derecognised	(159,665)	(92,628)
	<hr/>	<hr/>
Deferred tax asset	845,552	782,166
	<hr/>	<hr/>
<i>Liabilities:</i>		
Unrealised exchange loss	4,987	(5,143)
Revaluation surplus	(642,369)	(642,369)
Accelerated capital allowances	(91,376)	(94,180)
	<hr/>	<hr/>
Deferred tax liability	(728,758)	(741,692)
	<hr/>	<hr/>
Net deferred tax asset	116,794	40,474
	<hr/> <hr/>	<hr/> <hr/>
(b) Reconciliation of deferred asset		
At beginning of the year	40,474	(93,474)
Deferred tax credit (note 15(a))	142,893	118,205
Prior year under/(over) provision of deferred tax note (note 15(a))	464	(1,157)
	<hr/>	<hr/>
	183,831	23,574
Deferred tax on tax losses (derecognized)/ not recognised now utilised	(67,037)	16,900
	<hr/>	<hr/>
At end of year	116,794	40,474
	<hr/> <hr/>	<hr/> <hr/>

23. INVENTORIES

White products	2,636,155	2,907,565
Other products	617,749	617,749
Provision for impairment of inventories	(2,422,102)	(2,104,335)
	<hr/>	<hr/>
	831,802	1,420,979
	<hr/> <hr/>	<hr/> <hr/>

The movement for the provision for inventory is as follows:

At beginning of year	(2,104,335)	(1,721,537)
Increase in provision during the year	(317,767)	(382,798)
	<hr/>	<hr/>
At end of year	(2,422,102)	(2,104,335)
	<hr/> <hr/>	<hr/> <hr/>

Inventories have been charged to secure banking facilities granted to the Corporation.



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019 Shs'000	2018 Shs'000
24. TRADE AND OTHER RECEIVABLES		
Trade receivables	1,433,322	1,602,194
Prepayments	1,155,646	798,094
	<hr/>	<hr/>
Provision for doubtful debts	2,588,968 (321,576)	2,400,288 (436,353)
	<hr/>	<hr/>
	<u>2,267,392</u>	<u>1,963,935</u>

The provision for doubtful debts movement is as follows:

At beginning of year - as previously reported	(436,353)	(449,479)
Effects of adoption of IFRS 9 impairment policy	(173,311)	-
	<hr/>	<hr/>
At beginning of year – restated	(609,664)	(449,479)
Decrease in provision for doubtful debts during the year	288,088	13,126
	<hr/>	<hr/>
At end of year	<u>(321,576)</u>	<u>(436,353)</u>

25. CALL DEPOSITS

Deposits with banks	765,000	790,000
	<hr/>	<hr/>

The weighted average interest rate received on call deposits during the year was 3.46% (2018: 10.6%).

	2019 Shs'000	2018 Shs'000
26. SHARE CAPITAL		
Authorised, issued and fully paid		
26,600,000 Ordinary shares of Shs 20 each	532,000	532,000
	<hr/>	<hr/>

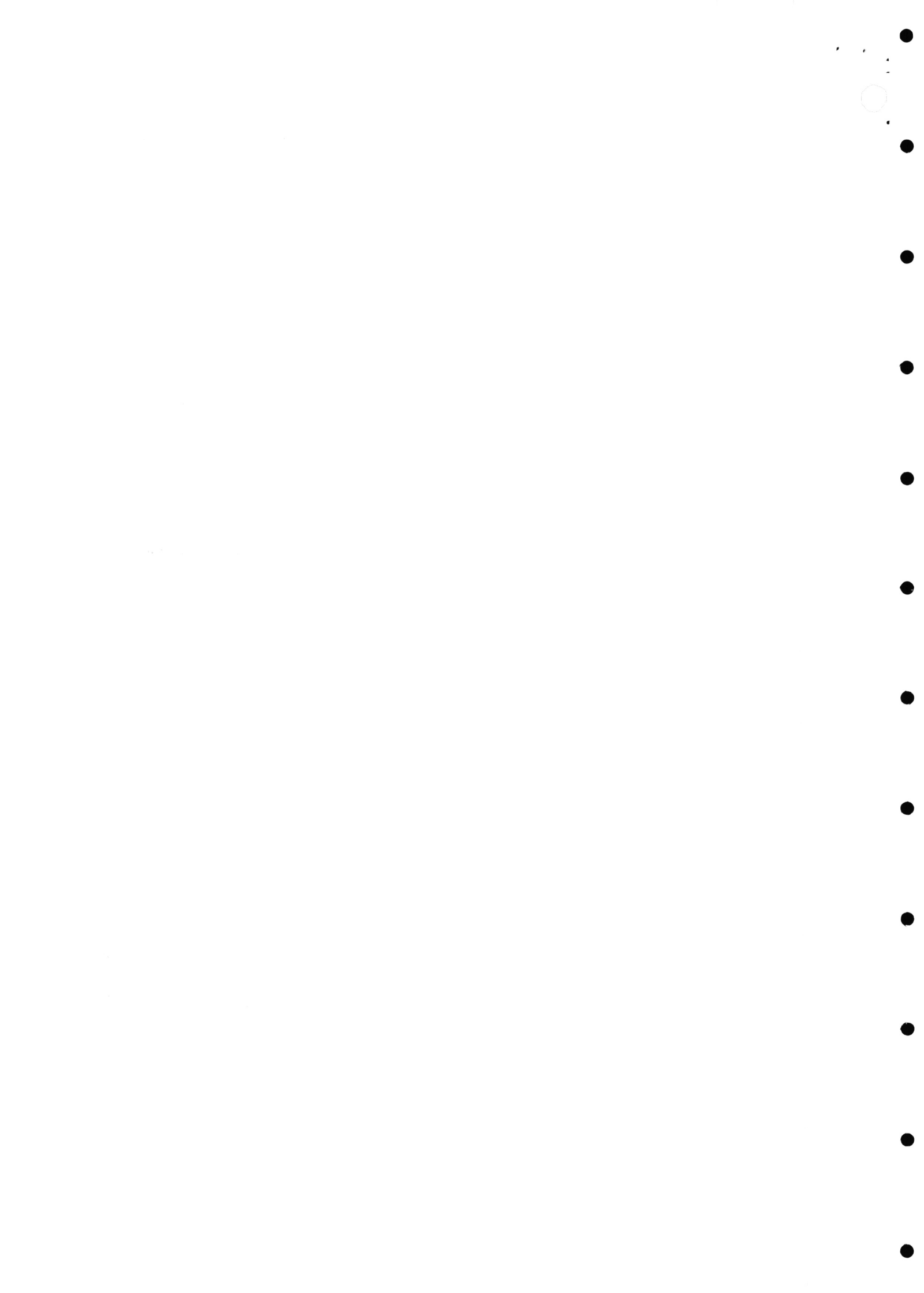
On 29 October 2008, the general meeting of shareholders approved the issuance of 9,100,000 ordinary shares at a price of Shs 150 per share resulting in a share premium of Shs 130 per share totalling to a share premium of Shs 1,183,000,000.

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 2019, this amount has been accounted for as funds awaiting allotment of shares.

28. SHAREHOLDING STRUCTURE

	2019 No. of shares '000'	2018 No. of shares '000'
National Treasury (99%)	26,334	26,334
Ministry of Energy and Petroleum (1%)	266	266
	<hr/>	<hr/>
	<u>26,600</u>	<u>26,600</u>



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 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)
	<u>10,225</u>	<u>1,595,816</u>	<u>29,596</u>	<u>1,635,637</u>
At 30 June 2018	10,225	1,595,816	29,596	1,635,637
Receipts during the year:	-	280,000	-	280,000
Transfer to statement of profit or loss	-	(274,729)	(13,248)	(287,977)
	<u>10,225</u>	<u>1,601,087</u>	<u>16,348</u>	<u>1,627,660</u>
At 30 June 2019	10,225	1,601,087	16,348	1,627,660

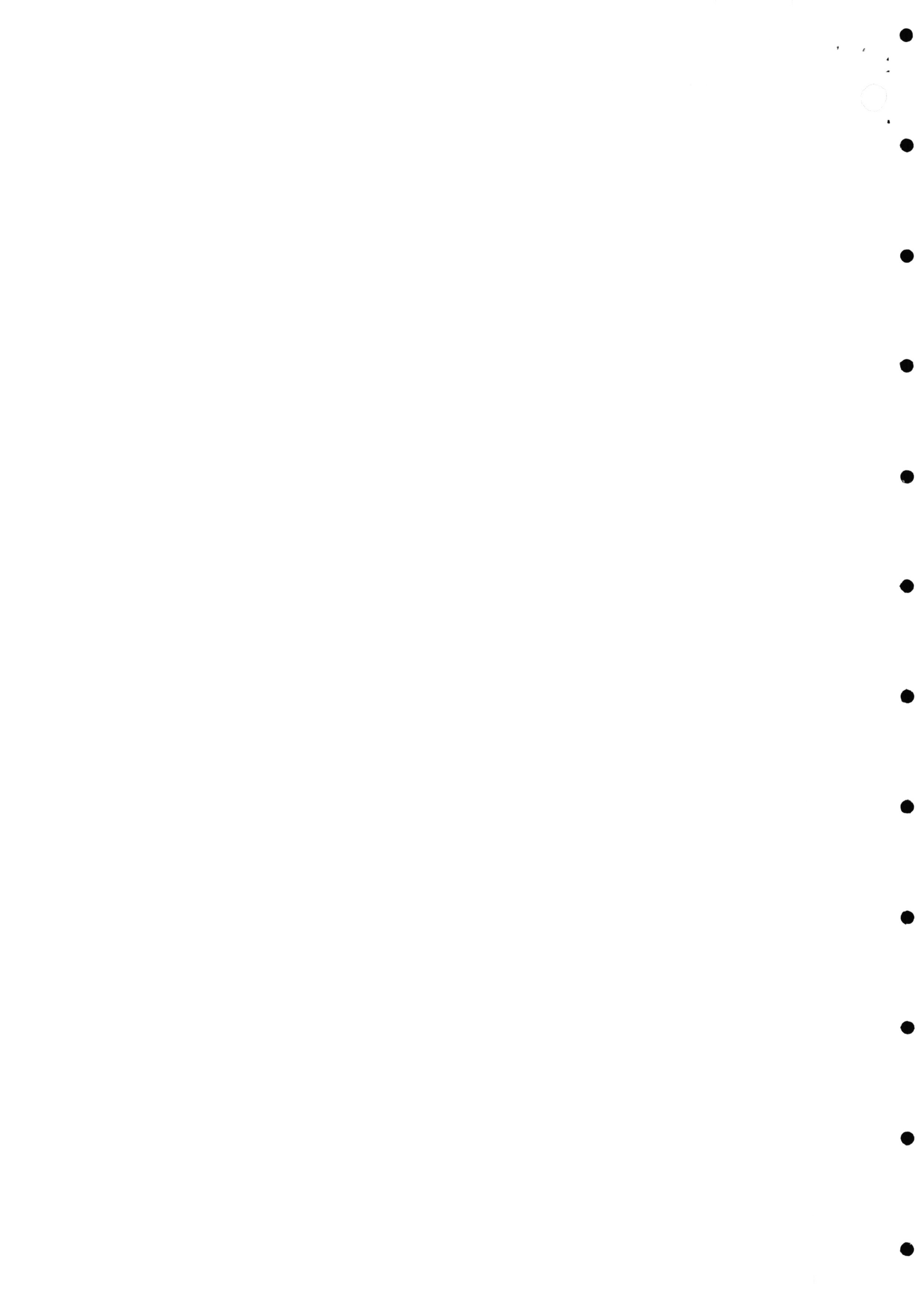
Training fund grant relates to amounts received from oil exploration companies as part of the contractual commitments between the oil exploration companies and the government. Withdrawals from this fund are utilised for training staff involved in exploration activities.

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.

	2019 Shs'000	2018 Shs'000
30. TRADE AND OTHER PAYABLES		
Trade payables	660,626	444,044
Leave pay provision	6,776	6,776
Accruals and other payables	2,036,076	1,471,244
Other provisions*	39,165	38,241
	<u>2,742,643</u>	<u>1,960,305</u>

* Several legal claims have been made against the Corporation. The plaintiffs are suing for various specific and general damages which the Corporation has disputed. The cases are ongoing and the likely outcome is unknown. These pending legal and tax cases may not necessarily be resolved in a manner that is favourable for the Corporation. Additionally the resolution of the disputes could result in obligation for the Corporation. Therefore, based on information currently available, the Directors have made provisions of Shs 39,165,000 (2018: Shs 38,241,000) for the claims.



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019 Shs'000	2018 Shs'000
30. TRADE AND OTHER PAYABLES (Continued)		
The movement in the other provision is as follows:		
At beginning of year	38,241	49,550
Additional provision during the year	3,560	34,580
Payments during the year	(2,636)	(45,889)
	<hr/>	<hr/>
At end of year	39,165	38,241
	=====	=====
31. GRATUITY PROVISION		
At beginning of year	8,949	5,555
Additional provision during the year	16,016	6,896
Payments during the year	(2,504)	(3,502)
	<hr/>	<hr/>
At end of year	22,461	8,949
	=====	=====
The amounts are due as follows:		
Within one year	5,569	-
After one year	16,892	8,949
	<hr/>	<hr/>
At end of year	22,461	8,949
	=====	=====
The gratuity represents the present value of future obligations in respect of government staff sent on secondment to National Oil Corporation of Kenya Limited.		
	2019 Shs'000	2018 Shs'000
32. BORROWINGS		
<i>Current borrowings</i>		
Bank overdrafts	1,836,017	766,994
Term loans	2,335,007	2,480,987
	<hr/>	<hr/>
	4,171,024	3,247,981
<i>Non-current borrowings</i>		
Term loan	741,386	1,034,320
	<hr/>	<hr/>
Total borrowings	4,912,410	4,282,301
	=====	=====
The borrowings therefore comprise of:		
Bank overdrafts	1,836,017	766,994
Term loans	3,076,393	3,515,307
	<hr/>	<hr/>
	4,912,410	4,282,301
	=====	=====

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 16/263	20,404,459
Nakuru	RAVINE SERVICE STATION -LR NO:NAKURU MUN BLOCK 21/581	19,362,428
Mombasa	L.R. NO:KWALE/UKUNDA/3061	15,675,000
Nairobi	NAIROBI NATIONAL TERMINAL-L.R NO:209/12298	687,820,514
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	39,718,827
Eldoret	West Indies PSS-L.R. NO:ELD MUN/BLOCK/5/628	40,189,694
Eldoret	Kipkaren PSS-LR NO:ELD MUN/BLOCK 13/417 & 689	75,160,373
Eldoret	LR. NO:Eld Mun Block21/Kingongo/875	14,298,858
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	110,055,738
Kisumu	Kisumu Market PSS-LR NO:KIS MUN/BLOCK/9/6	98,546,638
Kisumu	Kisumu Family-LR NO:KIS MUN/BLOCK 8/7	66,705,069
Kisumu	Kisumu Lake PSS-LR NO:KISUMU MUN/BLOCK 7/7	40,045,872
Thika	Bidco Thika Station-LR NO:THIKA MUN/BLOCK12/176	5,980,215
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	30,294,118
Nairobi	Ngong Road PSS Land-LR NO:209/7753	185,520,362
Nairobi	Tassia Nairobi Vacant Plot-LR NO:NRB/BLOCK/97/59,60,61 & 62	55,766,667

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 2016 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 2016 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 2018 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 Stanbic Bank are all secured on the Corporation inventories.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. BORROWINGS (Continued)

	Maturities	2019 Avg Int Rates	2019 Shs '000'	2018 Avg Int Rates	2018 Shs '000'
KCB Term Loan VII-LPG Plant	2021	13%	199,628	13%	263,423
KCB Term Loan VIII- Station Acquisition	2020	13%	173,281	13%	332,838
CFC Short Term Loan	2027	13%	1,081,754	13%	1,172,384
KCB Term Loan V- Overdraft Term out	2022	13%	368,477	13%	438,059
KCB OTS Finance Loan		13%	373,570	13%	321,638
CFC Stanbic Bank Loan		13%	652,981	13%	737,000
Total Term Loan			<u>3,076,393</u>		<u>3,515,307</u>
KCB Bank Kenya Limited overdraft facility (see below)			1,536,498		453,926
Stanbic Bank Limited overdraft facility (see below)			299,519		313,068
Total overdraft			<u>1,836,017</u>		<u>766,994</u>

The Corporation has a composite facility comprising of overdrafts, guarantees and letters of credit with KCB Bank Kenya Limited with a limit of Shs 500,000,000 (2018 : Shs 500,000,000). 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 (2018: Shs 300,000,000) and a short term financing loan of Shs 660,000,000 (2018: Shs 751,000,000).

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

	2019 Shs'000	2018 Shs'000
At beginning of year	3,515,307	2,679,741
Additional borrowings in the year	24,458,671	31,971,272
Repayments during the year	(24,893,109)	(31,116,777)
Unrealised exchange differences	(4,476)	(18,929)
At end of year	<u>3,076,393</u>	<u>3,515,307</u>

Interest rates

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

	2019	2018
Bank overdrafts	13.50%	13.25%
Term loans	13.00%	13.00%

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 2019, the Corporation had not utilised the US dollar equivalent of the structured trade finance facility (2018: Shs 164,932,000), Shs 575,121,027 (2018: Shs 1,571,438,000) of KCB Post Import Finance facility, a total Shs 575,121,027 (2018: Shs 1,736,370,000).

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

	2019 Shs'000	2018 Shs'000
At beginning of year	1,736,370	760,900
Additional borrowings in the year	23,027,383	20,184,725
Repayments during the year	(24,182,888)	(19,200,416)
Unrealised exchange differences	(5,744)	(8,839)
	<hr/>	<hr/>
At end of year	575,121	1,736,370
	<u>=====</u>	<u>=====</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:

	2019 Shs'000	2018 Shs'000
At beginning of year	13,112	57,275
Receipts during the year	2,481	-
Payments made for construction of MOEP HQ	(13,112)	(44,163)
	<hr/>	<hr/>
At end of year	2,481	13,112
	<u>=====</u>	<u>=====</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.

	2019 Shs'000	2018 Shs'000
At beginning and at end of the year	11,443	11,443
	<hr/>	<hr/>
	<u>=====</u>	<u>=====</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, 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.

	2019 Shs'000	2018 Shs'000
At beginning of year	43,639	39,256
Receipts during the year	-	12,503
Payments made during the year	(3,970)	(8,120)
	<hr/>	<hr/>
At end of year	39,669	43,639
	<u>=====</u>	<u>=====</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.

	2019 Shs'000	2018 Shs'000
At beginning of year	80,851	105,764
Payments made during the year	(7,896)	(24,913)
	<u>72,955</u>	<u>80,851</u>

38. LABORATORY EQUIPMENT FUND

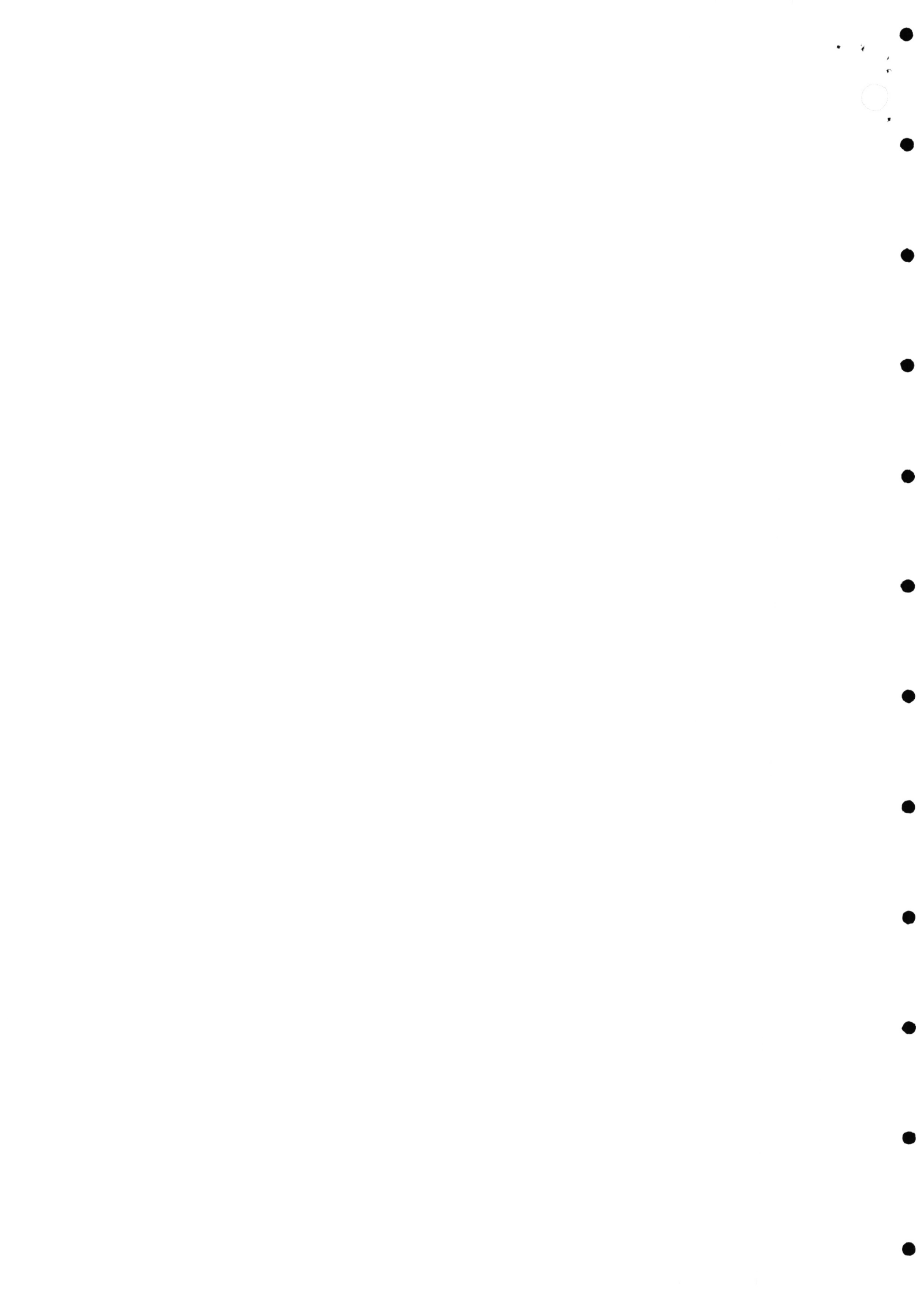
The funds from the Ministry of Energy and Petroleum which are meant for laboratory equipment amounting to Shs 425,480,000 for the energy centre at the new Ministry of Energy and Petroleum.

	2019 Shs'000	2018 Shs'000
At beginning of year	426,900	428,067
Payments made during the year	(1,420)	(1,167)
	<u>425,480</u>	<u>426,900</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.

	2019 Shs'000	2018 Shs'000
Operating lease rentals are payable as follows:		
Less than one year	18	5,599
Between one and five years	100,210	113,558
	<u>100,228</u>	<u>119,157</u>



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40. NOTES TO THE CASH FLOW STATEMENT

Cash and cash equivalents

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

	2019 Shs'000	2018 Shs'000
(a) Reconciliation of loss before tax to cash generated from operating activities		
Loss before taxation	(398,844)	(320,806)
Adjustments for:		
Depreciation of property, plant and equipment (note 17)	258,681	247,487
Depreciation of investment property (note 18)	235	235
Gain on disposal of property, plant and equipment	(39)	-
Amortisation – prepaid operating rentals (note 19)	64,516	75,031
Amortisation – intangible assets (note 20)	67,898	86,853
Release of deferred income – upstream (note 29)	(274,729)	(335,308)
Release of deferred income – downstream (note 29)	(13,248)	(13,247)
Interest income recognised in the loss (note 14(a))	(34,354)	(80,475)
Interest expense recognised in the loss (note 14(b))	693,252	629,661
Unrealised exchange difference on borrowings (note 32)	(10,220)	(27,768)
Net exchange losses on foreign currency cash & cash equivalents	781	3,893
	<hr/>	<hr/>
Operating profit before working capital changes	353,929	265,556
Decrease/(Increase) in inventories	589,177	(238,674)
IFRS 9 transition adjustment	(173,311)	-
Increase in trade and other receivables	(303,457)	(471,319)
Increase in trade and other payables	782,338	595,218
Increase/(decrease) in gratuity provision	13,512	3,394
Decrease in Ministry of Energy and Petroleum Headquarters Construction Fund	(10,631)	(44,163)
(Decrease)/Increase in corporate social responsibility fund projects fund	(3,970)	4,383
Decrease in exploration and production capacity building fund	(7,896)	(24,913)
Decrease in laboratory equipment fund	(1,420)	(1,167)
	<hr/>	<hr/>
Cash generated from operations	1,238,271	88,315
	=====	=====
(b) Analysis of the balances of cash and cash equivalents		
	2019 Shs'000	2018 Shs'000
Cash and bank balances	319,438	675,550
Bank Overdrafts (note 32)	(1,836,017)	(766,994)
Call deposits	765,000	790,000
	<hr/>	<hr/>
	(751,579)	698,556
	=====	=====

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 (2018: 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:

	2019 Shs'000	2018 Shs'000
Authorised but not contracted for	6,754	57,500
	<u>=====</u>	<u>=====</u>

43. RELATED PARTIES

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

	2019 Shs'000	2018 Shs'000
(a) Key management compensation		
Salaries and other short-term employment benefits	83,836	69,258
	<u>=====</u>	<u>=====</u>
(b) Directors' remuneration		
Fees for Non-Executive Directors	-	4,620
Salaries and other emoluments	20,044	30,761
	<u>-----</u>	<u>-----</u>
	20,044	26,468
	<u>=====</u>	<u>=====</u>

(c) Sales to related parties

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

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

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

44. FUNCTIONAL AND PRESENTATION CURRENCY

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

45. EVENTS AFTER THE REPORTING PERIOD

Except for the uncertainty associated with the global COVID 19 pandemic, the Directors were not aware of any matter or circumstances arising since the end of the financial year, not otherwise dealt with in the financial statements, which would significantly affect the financial position of the Corporation and results of its operation as laid out in these financial statements. At this point, the Directors are not able to estimate the financial impact of COVID 19 on the Company's operations going forward.

NATIONAL OIL CORPORATION OF KENYA LIMITED

DETAILED EXPENSES
FOR THE YEAR ENDED 30 JUNE 2019

	2019 Shs '000	2018 Shs '000
EXPLORATION COSTS		
Salaries	82,712	70,295
Other office supplies and expenses	48,591	53,733
Rent and rates	20,676	65,636
Professional fees	20,801	28,147
Travelling and accommodation	31,417	38,556
Staff housing	14,191	12,574
Medical expenses	9,774	24,385
Training and education	4,608	4,308
Director fees and emolument	4,938	4,888
Audit fees	1,799	1,560
Printing and stationery	1,014	1,768
Telephone, telex and postage	2,971	2,514
Gratuity	10,374	7,616
Subscriptions and donations	3,155	1,587
Groceries and drinks	891	1,443
Advertising and publicity	2,324	1,665
Staff welfare expenses	1,308	3,010
Cleaning	2,020	2,747
Security charges	2,747	1,602
Insurance - Office & other Insurance	1,932	1,255
Motor running expenses	612	1,126
Recruitment costs	2,399	3,081
Light and water	1,389	1,398
Repairs and maintenance	2,086	414
	<hr/>	<hr/>
	274,729	335,308
	<hr/> <hr/>	<hr/> <hr/>
STAFF COSTS		
Salaries	300,386	255,612
Other allowances and compensation	70,513	76,018
House allowance	49,984	52,464
Medical expenses	40,871	42,778
Other pension costs	20,222	23,925
Staff welfare	5,086	9,593
Training and education	9,118	10,065
Leave pay allowance	11,040	4,206
Recruitment costs	10,489	11,335
Gratuity	13,279	6,896
Overtime	4,488	3,986
Wages	491	701
National Social Security Fund costs	548	407
	<hr/>	<hr/>
	536,515	497,986
	<hr/> <hr/>	<hr/> <hr/>

NATIONAL OIL CORPORATION OF KENYA LIMITED

DETAILED EXPENSES
FOR THE YEAR ENDED 30 JUNE 2019 (Continued)

	2019 Shs '000	2018 Shs '000
OPERATING EXPENSES		
Depreciation of property, plant and machinery	258,681	247,487
Maintenance of equipment	34,186	98,569
Professional fees	57,097	122,230
Amortization of prepaid operating leases	64,516	75,031
Travelling and accommodation	48,634	59,356
Amortization of intangible assets	67,898	86,853
Security charges	12,959	28,630
Advertising and publicity	30,237	32,626
Rent and rates	20,687	(25,089)
Hire and rentals	27,963	39,267
Director Cost and Emoluments	15,106	21,580
Subscriptions and donations	6,574	4,404
Insurance	8,996	8,689
Printing	1,038	6,604
Telephone and fax	7,639	6,558
Cleaning	6,729	9,002
Light and water	9,322	12,495
Audit fees	15,275	5,740
Groceries and drinks	3,983	5,695
Office supply and expenses	2,924	4,896
Postage and courier	13,008	1,795
Staff uniforms	633	485
Books and newspapers	534	301
Depreciation of investment property	235	235
Entertainment	-	41
	<hr/>	<hr/>
	714,854	853,480
	<hr/> <hr/>	<hr/> <hr/>

NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30 JUNE 2019

	Original budget 2018-2019 Kshs '000'	Adjustments 2018-2019 Kshs '000'	Final budget 2018-2019 Kshs '000'	Actual on comparable basis 2018-2019 Kshs '000'	Performance difference 2018-2019 Kshs '000'	% Deviation Actual/Budget (%)
Revenue						
Sales revenue	28,441,497	-	28,441,497	31,648,797	(3,207,299)	11.28
Other income	53,104	-	53,104	86,107	(33,003)	62.15
Exploration cost reimbursement	510,169	-	510,169	274,729	235,440	(46.15)
Finance income	-	-	-	34,354	(34,354)	100
Total income	29,004,770	-	29,004,770	32,043,987	(3,039,217)	10.48
Expenses						
Cost of sales	26,709,002	-	26,709,002	30,190,769	(3,481,767)	13.04
Exploration cost reimbursement	510,169	-	510,169	274,729	235,440	46.15
Finance cost	521,529	-	521,529	725,964	(204,435)	39.20
Depreciation charge	347,870	-	347,870	342,915	4,955	(1.42)
Rents & services	37,549	-	37,549	41,130	(3,581)	9.54
Repairs & maintenance	76,801	-	76,801	31,780	45,021	(58.62)
Insurance	20,062	-	20,062	12,727	7,335	(36.56)
Security charges	33,115	-	33,115	12,959	20,156	(60.87)
Light & water	12,214	-	12,214	9,322	2,892	(23.68)
Cleaning	10,076	-	10,077	6,729	3,348	(33.23)
Software licenses	24,575	-	24,575	46,379	(21,804)	88.72
Salaries	335,793	-	335,793	387,411	(51,618)	15.37
Staff housing	62,072	-	62,072	49,985	12,087	(19.47)
Gratuity and pension costs	38,017	-	38,017	33,501	4,516	(11.88)
Medical expenses	43,214	-	43,214	39,102	4,112	(9.51)
Staff welfare expenses	14,194	-	14,194	5,086	9,108	(64.17)
Motor running expenses	2,585	-	2,585	2,760	(175)	6.75
Travelling and accommodation	49,149	-	49,149	45,874	3,275	(6.66)
Telephone, telefax and postage	6,358	-	6,358	7,639	(1,282)	20.16
Printing and stationary	6,546	-	6,546	1,038	5,509	(84.15)
Office expenses	9,538	-	9,538	16,465	(6,927)	72.63
Subscription And donations	22,737	-	22,737	6,574	16,163	71.09
Audit fee	11,153	-	11,153	13,669	(2,516)	22.56
Legal fee	25,746	-	25,746	8,258	17,488	(67.93)
Advertising and public relations	205,579	-	205,579	40,237	165,343	(80.43)
Groceries and drinks	3,631	-	3,631	3,983	(352)	9.70
Board expenses	25,859	-	25,859	15,106	10,753	(41.58)
Training and education	32,394	-	32,394	9,118	23,276	(71.85)
Recruitment costs	6,487	-	6,487	10,489	(4,002)	61.69
Professional fee	52,560	-	52,560	22,701	29,859	(56.81)
Staff uniforms	3,409	-	3,409	633	2,776	(81.44)
Meeting and negotiations	5,601	-	5,601	-	5,601	100
Tender fee	912	-	912	-	912	100
Environmental audit	25,620	-	25,620	27800	2,180	8.51
Total expenditure	29,292,116	-	29,292,116	32,442,776	(3,150,660)	10.76
Surplus for the period	(287,346)	-	(287,346)	(398,844)	111,498	38.80

