

REPUBLIC OF KENYA



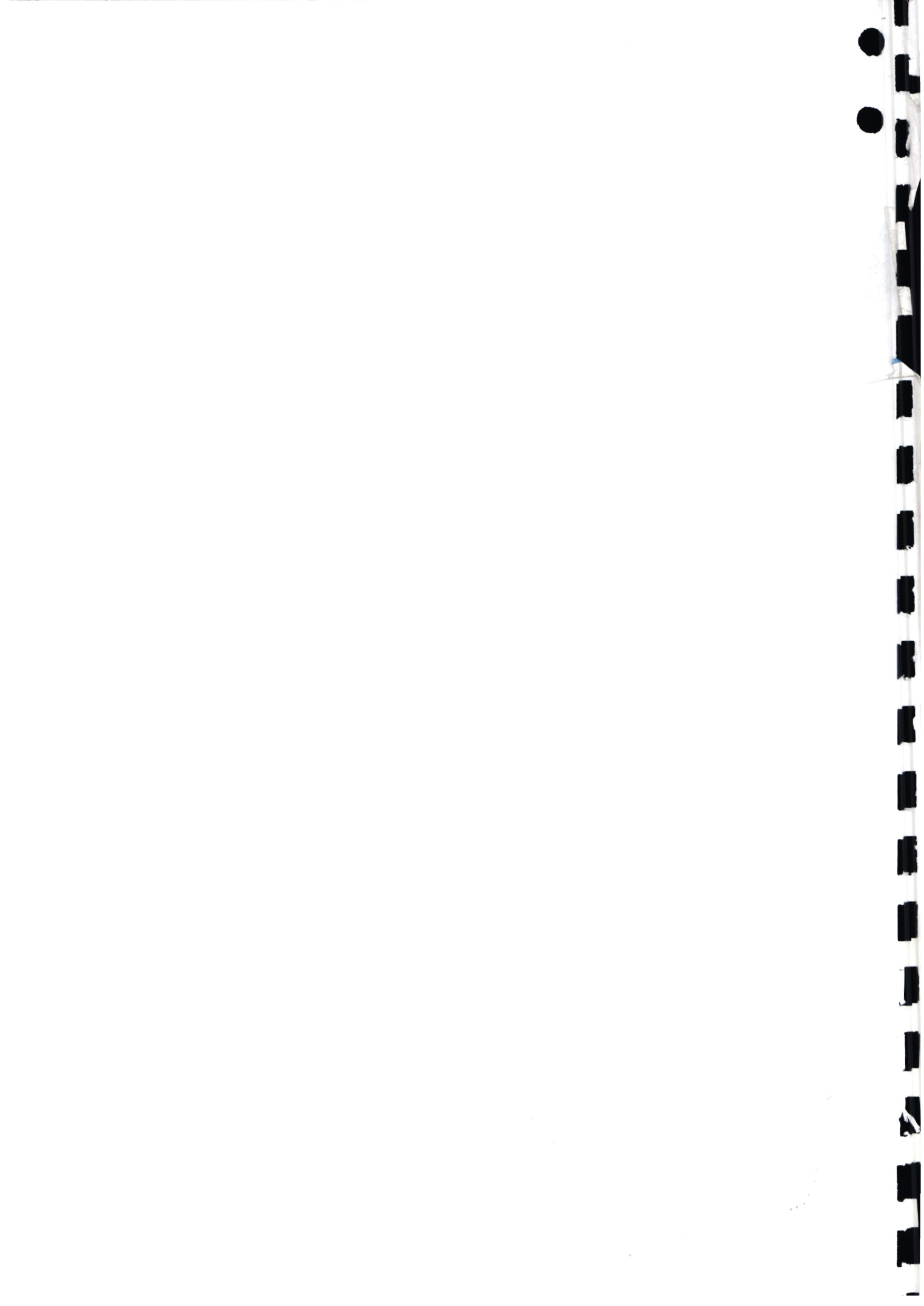
*Paper laid
By the Hon. Aden Duale,
E64, MP, leader of
the Majority Party,
on Tue, 25/3/13
at 2:30p*

KENYA NATIONAL AUDIT OFFICE



Vol 6

**REPORT
OF
THE AUDITOR-GENERAL
ON
THE FINANCIAL STATEMENTS OF
NATIONAL OIL CORPORATION OF KENYA
LIMITED
FOR THE YEAR ENDED
30 JUNE 2013**



NATIONAL OIL CORPORATION OF KENYA LIMITED

REPORT AND FINANCIAL STATEMENTS

AT

30 JUNE 2013

NATIONAL OIL CORPORATION OF KENYA LIMITED

FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2013**

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NATIONAL OIL CORPORATION OF KENYA LIMITED

DIRECTORS, OFFICERS AND ADMINISTRATION

DIRECTORS

Peter Munga	Chairman
Sumayya H. Athmani	Chief Executive Officer
Patrick Nyoike, CBS	Permanent Secretary - Ministry of Energy (Resigned 1 July 2013)
Eng. Joseph Njoroge	Principal Secretary -- Ministry of Energy (Appointed 1 July 2013)
Joseph Kinyua, CBS	Permanent Secretary –Treasury (Resigned 1 July 2013)
Dr. Kamau Thugge	Principal Secretary –Treasury (Appointed 1 July 2013)
Paul Ngatia, MBS	Alternate: Permanent Secretary - Ministry of Energy (Resigned 1 June 2013)
Mr. Timothy Mulaha	Alternate: Principal Secretary -Ministry of Energy (Appointed 1 June 2013)
Eng. Stanley Kamau	Alternate: Principal Secretary -Treasury
Rev. Dr. Jessie Mutura	
Peter Gitonga	
Hon. Jaafar Sheikh	(Appointed 11 January 2013)
Prof. Bernard Njoroge	(Appointed 12 July 2012)
Fatuma Hassan	(Appointed 12 July 2012)
James Gacheru	(Resigned 23 August 2013)
Dr. Ezekiel C Koimett	(Resigned 23 August 2013)
Daniel Apepo	(Resigned 23 August 2012)

SECRETARY

Katherine Kisila
PO Box 58567 – 00200
Nairobi

HEAD OFFICE AND REGISTERED OFFICE

Aon Minet House
Mamlaka Road, off Nyerere Road
PO Box 58567 - 00200
Nairobi

AUDITORS

KPMG Kenya
PO Box 40612 – 00100
Nairobi

On behalf of:

Auditor-General
PO Box 30084 - 00100
Nairobi

BANKERS

Kenya Commercial Bank Limited
PO Box 30081 - 00100
Nairobi

Co-operative Bank of Kenya Limited
PO Box 67881 - 00200
Nairobi

Equity Bank Limited
PO Box 78569 - 00507
Nairobi

Standard Chartered Bank Kenya Limited
PO Box 30003 - 00100
Nairobi

BNP Paribas
Energy and Commodities Departments
16 rue de Hanovre
75002 Paris

CfC Stanbic Bank Limited
PO Box 72833 - 00200
Nairobi

NATIONAL OIL CORPORATION OF KENYA LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2013

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 30 June 2013, which disclose the state of affairs of National Oil Corporation of Kenya Limited ("the Corporation").

1. Principal activities

The principal activities of the Corporation are:

- Trading in refined petroleum products and participation in related petroleum business such as refining, distribution and marketing.
- The provision of related services such as hospitality, storage, transport, product receipt and loading.
- Petroleum exploration and promotion activities.
- Participation in energy sector activities as directed by the Government from time to time.

2. Results

The results for the year set out on page 6.

3. Dividends

The directors recommend payment of a dividend of KShs 55,241,907 (2012 – KShs 78,971,914).

4. Directors

The directors who served during the year are set out on page 1.

5. Auditors

The Auditor-General is responsible for the statutory audit of the Corporation's books of account in accordance with Sections 14 and 39(i) of the Public Audit Act, 2003 which also empowers him to nominate other auditors to carry out the audit on his behalf.

KPMG Kenya were appointed by the Auditor-General to carry out the audit on his behalf for the year ended 30 June 2013.

6. Approval of financial statements

The financial statements were approved at a meeting of the directors held on 18 December 2013.

BY ORDER OF THE BOARD


Director

Date: 18 December 2013

NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the financial statements of National Oil Corporation of Kenya Limited set out on pages 6 to 40 which comprise the statement of financial position as at 30 June 2013, statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, the Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Corporation as at the end of the financial year and of the operating results of the Corporation for that year. It also requires the Directors to ensure the Corporation keeps proper accounting records which disclose with reasonable accuracy the financial position of the Corporation.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Corporation and of its operating results.

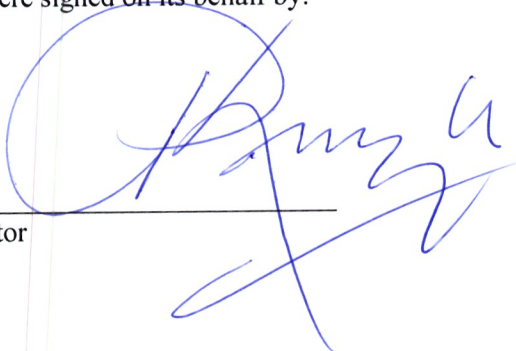
The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the Corporation's ability to continue as a going concern and have no reason to believe the Corporation will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on **18 December 2013** and were signed on its behalf by:

Director



Director



REPUBLIC OF KENYA

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Fax: +254-20-311482
E-Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON NATIONAL OIL CORPORATION OF KENYA LIMITED FOR THE YEAR ENDED 30 JUNE 2013

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of National Oil Corporation of Kenya set out on pages 6 to 40, which comprise the statement of financial position as at 30 June, 2013, statement of 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 KPMG, auditors appointed under Section 39 of the Public Audit Act, 2003. 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.

Management's Responsibility for the Financial Statements

Management of National Oil Corporation of Kenya is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such 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.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 (2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229 (7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation as at 30 June, 2013, 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, Cap 486 of the Laws of Kenya.

Emphasis of matter

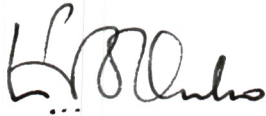
Without qualifying my opinion, I draw attention to Note 21 (b) to these financial statements which indicate the uncertainty related to an ongoing assessment on stock yield losses, dead stocks and line fills in the custody of the Kenya Petroleum Refineries Limited.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 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, proper books of account have been kept by the company, so far as appears from my examination of those books; and,

iii) The Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

6 March 2014



NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2013

	Notes	2013 KShs'000	2012 KShs'000
Revenue	8	25,094,981	28,288,526
Cost of inventory sold		(23,605,641)	(26,805,828)
Gross profit		1,489,340	1,482,698
Other operating income	9	157,704	208,297
Oil exploration grant	27	154,341	155,210
Training fund grant	27	1,663	2,630
Release of deferred income in respect of depreciation of grant assets	27	<u>13,248</u>	<u>13,248</u>
		<u>1,816,296</u>	<u>1,862,083</u>
Expenditure			
Exploration costs	27	(154,341)	(155,210)
Administrative expense	11	(371,597)	(224,446)
Operating expenses		(621,027)	(656,144)
Training Expense	27	(1,663)	(2,630)
Profit from operating activities		<u>667,668</u>	<u>823,653</u>
Finance income	12	20,659	53,359
Finance costs	12	(340,426)	(444,625)
Net finance costs	12	<u>(319,767)</u>	<u>(391,266)</u>
Profit before tax		347,901	432,387
Income tax expense	13	(126,934)	(116,500)
Profit for the year		220,967	315,887
Other comprehensive income: Revaluation of property plant and equipment		<u>-</u>	<u>16,750</u>
Total comprehensive income		<u>220,967</u>	<u>332,637</u>
Earnings per share - basic	14	<u>8.31</u>	<u>11.88</u>
Earnings per share - diluted	14	<u>4.28</u>	<u>6.12</u>

The notes set out on pages 10 to 40 form an integral part of these financial statements.

NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2013

ASSETS	Notes	2013 KShs'000	2012 KShs'000
Non-current assets			
Property, plant and equipment	15	3,127,980	2,811,465
Investment property	16	9,567	9,742
Prepaid operating leases	17	195,877	162,120
Intangible assets	18	51,854	45,440
Exploration expenditure- Block-14T	19	265,479	26,412
Deferred tax asset	20	<u>119,727</u>	<u>92,002</u>
Total non-current assets		<u>3,770,484</u>	<u>3,147,181</u>
Current assets			
Inventories	21	3,052,919	3,662,168
Trade and other receivables	22	1,049,546	991,223
Call deposits	23	633,602	150,934
Cash and bank balances		<u>386,719</u>	<u>149,906</u>
Total current assets		<u>5,122,786</u>	<u>4,954,231</u>
TOTAL ASSETS		<u>8,893,270</u>	<u>8,101,412</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	24	532,000	532,000
Share premium	24	1,183,000	1,183,000
Funds awaiting allotment of shares	25	500,000	500,000
Revenue reserve		269,871	103,524
Proposed dividends		55,242	78,972
Revaluation reserve		<u>740,381</u>	<u>741,002</u>
Shareholders' equity		3,280,494	3,138,498
Non-current liabilities			
Deferred income	27	554,097	450,990
Ministry of Energy and Petroleum Headquarters			
Construction Fund	37	638,031	499,506
SBM Jetty Fund	38	22,970	55,812
CSR Projects Fund	39	21,141	17,937
Gratuity provision – non-current portion	29	-	1,860
Borrowings	30	91,498	195,705
Block 14T fund	19	235,757	-
E & P Capacity building fund	40	<u>437,000</u>	<u>-</u>
Total non-current liabilities		<u>2,000,494</u>	<u>1,221,810</u>



NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF FINANCIAL POSITION (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2013

	Notes	2013 KShs'000	2012 KShs'000
Current liabilities			
Trade and other payables	28	1,219,486	983,759
Gratuity provision – current portion	29	4,763	3,795
Borrowings	30	1,936,051	1,839,340
Structured trade finance facility	31	430,038	847,405
Current tax liability		<u>21,944</u>	<u>66,805</u>
Total current liabilities		3,612,282	3,741,104
Total liabilities		<u>5,612,776</u>	<u>4,962,914</u>
TOTAL EQUITY AND LIABILITIES		<u>8,893,270</u>	<u>8,101,412</u>

The financial statements on pages 6 to 40 were approved by the board of directors on *18 December 2013* and were signed on its behalf by:

Director

Director

The notes set out on pages 10 to 40 form an integral part of these financial statements.

NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2013

	Share capital KShs'000	Share premium KShs '000	Funds awaiting allotment of shares KShs'000	Revenue reserve (deficit) KShs'000	Proposed dividends KShs'000	Revaluation reserve KShs'000	Total KShs'000
2013:							
At 1 July 2012	532,000	1,183,000	500,000	103,524	78,972	741,002	3,138,498
Comprehensive income for the year							
Profit for the year	-	-	-	220,967	-	-	220,967
Other comprehensive income							
Transfer of revaluation reserves to retained earnings on disposal	-	-	-	621	-	(621)	-
Total comprehensive income	-	-	-	221,588	-	(621)	220,967
Transaction with owners, recognised directly in equity							
Dividend paid out					(78,972)		(78,972)
Proposed dividend	-	-	-	(55,242)	55,242	-	-
Total transaction with owners for the year	-	-	-	(55,242)	(23,730)	-	(78,972)
At 30 June 2013	532,000	1,183,000	500,000	269,871	55,242	740,381	3,280,494
2012:							
At 1 July 2011	532,000	1,183,000	500,000	(135,191)	24,889	726,052	2,830,750
Comprehensive income for the year							
Profit for the year	-	-	-	315,887	-	-	315,887
Other comprehensive income							
Revaluation surplus	-	-	-	-	-	16,750	16,750
Transfer of revaluation reserves to retained earnings on disposal of assets	-	-	-	1,800	-	(1,800)	-
Total comprehensive income	-	-	-	317,687	-	14,950	332,637
Transaction with owners, recognised directly in equity							
Dividend paid out	-	-	-	-	(24,889)	-	(24,889)
Proposed dividend	-	-	-	(78,972)	78,972	-	-
Total transaction with owners for the year	-	-	-	(78,972)	54,083	-	(24,889)
At 30 June 2012	532,000	1,183,000	500,000	103,524	78,972	741,002	3,138,498

The notes set out on pages 10 to 40 form an integral part of these financial statements.



NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2013

	Notes	2013 KShs'000	2012 KShs'000
Net cash generated from operating activities	32(a)	1,475,512	223,431
Interest paid		(335,222)	(430,067)
Tax paid		(199,519)	(203,690)
Net cash used in operating activities		<u>940,771</u>	<u>(410,326)</u>
Cash flows from investing activities			
Interest received		20,659	-
Purchase of property, plant and equipment		(474,602)	(244,029)
Purchase of intangible assets		(10,522)	(46,012)
Acquisition of prepaid operating leases		(69,274)	(18,096)
Purchase of exploration assets		(239,067)	(26,412)
Proceeds on disposal of property, plant and equipment		<u>1,350</u>	<u>1,364</u>
Net cash generated from investing activities		<u>(771,456)</u>	<u>(333,185)</u>
Cash flows from financing activities			
Repayment of borrowings		(487,063)	(234,159)
Government grants received – upstream		214,000	170,000
Government grants received – proceeds from sale of geological maps		58,358	68,189
(Decrease)/ Increase in SBM Jetty Fund	38	(32,842)	55,812
Increase in CSR Projects funds	39	3,204	17,937
Increase in Block 14T fund	19(b)	235,757	-
Increase in E&P capacity building fund	40	437,000	-
Dividends paid		(78,972)	(24,889)
Ministry of Energy and Petroleum Headquarters construction Funds received/(paid)	37	<u>138,525</u>	<u>(140,494)</u>
Net cash generated from financing activities		<u>487,967</u>	<u>(87,604)</u>
Net decrease in cash and cash equivalents		657,285	(831,115)
Cash and cash equivalents at beginning of year		<u>(1,468,817)</u>	<u>(637,702)</u>
Cash and cash equivalents at end of year	32(b)	<u>(811,532)</u>	<u>(1,468,817)</u>

The notes set out on pages 10 to 40 form an integral part of these financial statements.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2013**

1. REPORTING ENTITY

The National Oil Corporation of Kenya Limited (the Corporation) is incorporated as a limited company in Kenya under the Kenyan Companies Act, and is domiciled in Kenya. The Corporation is involved in both the upstream and downstream activities of 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:

Aon Minet House
Mamlaka Road, off Nyerere Road
PO Box 58567 – 00200
Nairobi

2. BASIS OF PREPARATION

(i) *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 comprehensive income.

(ii) *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.

(iii) *Functional and presentation currency*

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

(iv) *Use of estimates and judgments*

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgments, 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.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2013**

2. BASIS OF PREPARATION (Continued)

(iv) *Use of estimates and judgments*

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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 Uncertainty.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Revenue recognition

Revenue, which represents sales to external customers during the year, is recognised upon delivery of products and customer acceptance and is measured net of value added tax, returns and rebates. Revenue consists of sales of white products, black products, lubricants, liquefied petroleum gas and gas cylinders.

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

(b) 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 recognized as revenue over the period necessary to match them with related costs which they are intended to compensate, on a systematic basis.

(c) 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.

(d) 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.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) **Leasehold land**

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

(f) **Operating leases**

Payments made under operating leases are recognised to the profit or loss on a straight line basis over the period of the lease.

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

(g) **Finance income and finance costs**

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

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

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

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

(h) **Income tax**

Income tax expense is the aggregate of the charge to the statement of comprehensive income in respect of current income tax and deferred income tax. Tax is recognised in the statement of comprehensive income unless it relates to items recognised directly in equity, in which case it is also recognised directly in equity.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Kenyan Income Tax Act.

Deferred income tax is recognised, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) 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, 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	Nil
Buildings	2%
Plant, motor vehicles and other equipment	5% - 25%
Furniture, fittings and office equipment	12.5% - 33 1/3%

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



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2013**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) 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.

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.

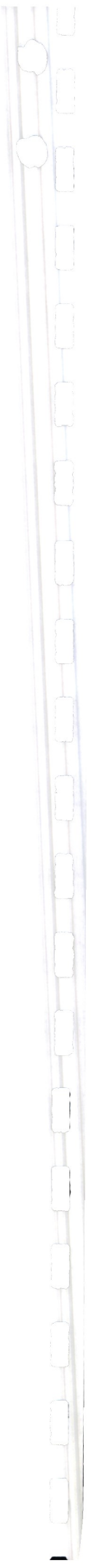
(j) Intangible assets

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.

(k) 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.



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Exploration expenditure-Block 14T (continued)

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 viable or facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

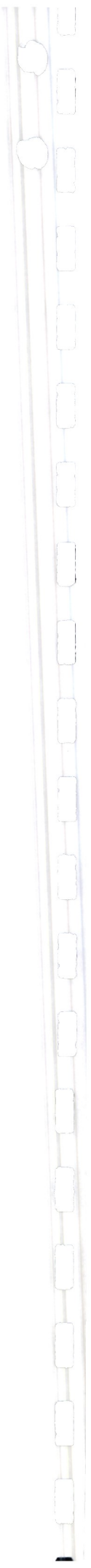
Accumulated costs in relation to an abandoned area are written off in full to the Statement of Comprehensive Income in the year in which the decision to abandon the area is made.

(m) 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 and condition, together with refining costs as appropriate. 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.

(n) Recognition and measurement of financial instruments

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



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) recognition and measurement of financial instruments (continued)

(i) *Classification, recognition and measurement*

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

Trade receivables

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

Bank borrowings

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

Cash and cash equivalents

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

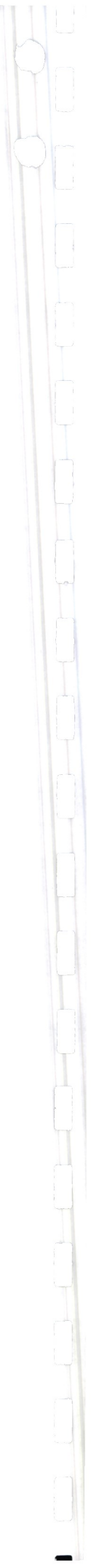
Cash on hand and in banks and short term deposits which are held to maturity are carried at cost plus interest earned but not yet received at the financial reporting date.

Trade payables

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

(ii) *Offsetting of financial assets and liabilities*

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



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Impairment of assets

(i) *Impairment of financial assets*

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

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

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

All impairment losses are recognised in profit or loss.

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

(ii) *Impairment of non-financial assets*

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

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



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2013**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) 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.

(q) 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.

(r) 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.

(s) 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.

Other long-term employee benefits

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.

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



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Employee benefit costs (continued)

plans are recognised as employee benefit expenses in the profit or loss in the period during which the employees have rendered the related services. The Corporation operates a defined contribution provident fund for its employees. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by payments from both the employees and the Corporation. Benefits are paid to retiring staff in accordance with the scheme's rules.

The Corporation also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to a maximum of KShs 200 per employee per month.

(t) Dividends

Proposed dividends are not recognised as a liability until ratified in an annual general meeting.

(u) 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, the construction of the SBM Jetty.

In addition the Corporation also holds CSR funds for Anadarko Company and utilises the funds in its CSR activities.

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

(v) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the year ended 30 June 2013. These, which are summarised below, have not been applied in preparing the financial statements. They are not expected to have a significant impact on the financial statements of the Corporation.

- IFRS 9 *Financial Instruments*. IFRS 9 will become mandatory for the Company's 2015 financial statements.
- IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013).
- IAS 19 Employee Benefits - (effective for annual periods beginning on or after 1 January 2013).



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:

(i) *Property, plant and equipment*

Management reviews the useful lives and residual values of the items of property, plant and equipment on a regular basis. During the financial year, the directors determined no significant changes in the useful lives.

(ii) *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.

(iii) *Impairment*

At each financial reporting date, the Corporation reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash generating unit to which the asset belongs.

(iv) *Income taxes*

The Corporation is subject to income taxes in Kenya. Significant judgment is required in determining the Corporation's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Corporation recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.



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 minimize potential adverse effects on its financial performance.

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

(a) Market risk

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

(i) Currency risk

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

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

The Corporation purchases its products in US Dollars and mainly buys US Dollars via spot deals as opposed to forward deals. However, when there is reliable information in the market about the anticipated exchange rate movements in the US Dollar to the Kenya Shilling, the Corporation enters into short term forward deals to mitigate foreign exchange risks.

The Corporation has a US Dollar Structured Trade Finance facility totalling USD 12 million with Kenya Commercial Bank Limited. Under the facilities, the bank pays the Corporation's bills for product and holds the related product as collateral. The credit period for this facility is 90 days. Depending on the exchange rate of the US Dollar to Kenya Shilling, the Corporation can either gain or lose upon settling the payments to the bank as they fall due.

As at 30 June 2013, the Corporation had utilised USD 5,000,000 (2012 – USD 8,525,406) of the US Dollar facility.

At 30 June 2013, if the Kenya Shilling had weakened/strengthened by 5% against the US Dollar with all other variables held constant, the impact on pre tax profit for the year would have been KShs 44,383,740 (2012 – KShs 35,904,749) higher/lower, mainly as a result of US Dollar borrowings.

Apart from the US dollar denominated borrowings whose sensitivity has been analysed above, management does not expect the other US dollar denominated assets and liabilities (debtors, bank balances and creditors) to have a significant impact on the Corporation's foreign exchange risk management policy.



5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (continued)

(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.

The sensitivity analysis below has been determined based on the exposure to interest rates as at the financial reporting date. The analysis was prepared using the following assumptions:

- Interest-bearing assets and liabilities outstanding as at 30 June 2013 were outstanding at those levels for the whole year.
- All other variables are held constant.

An increase/decrease of 100 basis points on average borrowing rates would have resulted in a decrease/increase in the loss before tax of KShs 18,318,556 (2012 – KShs 20,350,448).

Apart from the bank borrowings whose sensitivity has been analysed above, management does not expect the other interest bearing assets and liabilities to have a significant impact on the Corporation's interest rate risk management policy.

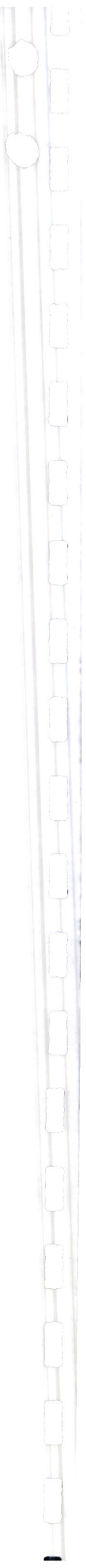
(b) Credit risk

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

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

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

30 June 2013:	Fully performing KShs'000	Past due KShs'000	Impaired KShs'000	Total KShs'000	Provisions KShs'000	Net exposure KShs'000
Trade and other receivables	605,430	73,339	321,784	1,000,553	(321,784)	705,012
Fixed and call deposits	633,602	-	36,629	670,231	(36,629)	633,602
Bank and cash balances	386,719	-	-	386,719	-	386,719
	1,625,751	73,339	358,413	2,057,503	(358,413)	1,725,333



5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

30 June 2012:	Fully performing	Past due	Impaired	Total	Provisions	Net exposure
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Trade and other receivables	818,011	173,212	295,263	1,286,486	(295,263)	991,223
Fixed deposits	150,934	-	36,629	187,563	(36,629)	150,934
Bank and cash balances	149,906	-	-	149,906	-	149,906
	1,118,851	173,212	331,892	1,623,955	(331,892)	1,292,063

The customers under the fully performing category are paying their debts as they continue trading.

The debts that are overdue are not impaired and continue to be paid. Management is actively following up on these debts.

The debts that are impaired have been fully provided for. However, management continues to follow up on these impaired debts.

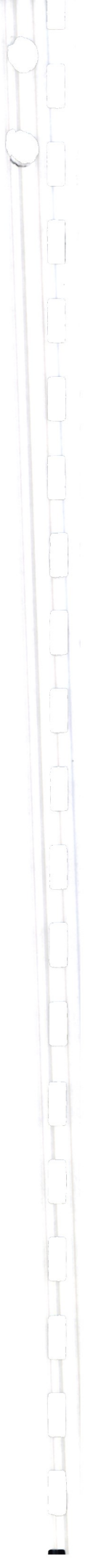
Fixed deposits and bank and cash balances are fully performing, except for impaired amounts which have been fully provided for.

(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 KShs 600,000,000 with Kenya Commercial Bank and KShs 1,375,000,000 with CfC Stanbic Bank;
- The Corporation has a structured trade finance facility with a limit of USD 12,000,000;
- The corporation has other short term loans of a limit of KShs 1,359,484,484; and
- The Corporation only invests in capital assets if funds are available or otherwise such investments are financed through non-current borrowings from its bankers.

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.



5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (continued)

	1 – 3 Months KShs'000	3-12 Months KShs'000	Over 12 months KShs'000	Total KShs'000
At 30 June 2013:				
Ministry of Energy and Petroleum				
Headquarters construction fund	-	638,031	-	638,031
SBM Jetty fund	-	22,970	-	22,970
CSR Funds	21,141	-	-	21,141
Trade and other payables	882,607	281,598	55,281	1,219,486
Borrowings (Note 30)	1,831,856	104,195	91,498	2,027,549
Structured Trade financing	430,038	-	-	430,038
	3,165,642	1,046,794	146,779	4,359,215
At 30 June 2012:				
Ministry of Energy and Petroleum				
Headquarters construction fund	-	499,506	-	499,506
SBM Jetty fund	-	55,812	-	55,812
CSR Funds	17,937	-	-	17,937
Trade and other payables	465,256	390,696	127,807	983,759
Borrowings (Note 30)	1,787,078	52,262	195,705	2,035,045
Structured Trade financing	847,405	-	-	847,405
	3,117,676	998,276	323,512	4,439,464

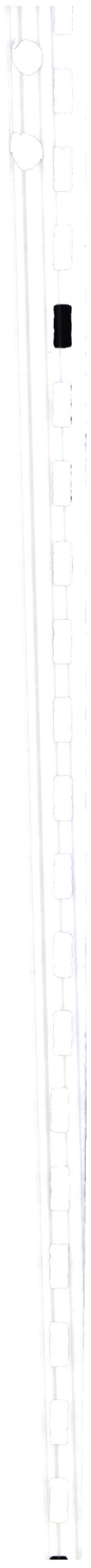
6. CAPITAL RISK MANAGEMENT

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.

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

	2013 KShs'000	2012 KShs'000
Share capital	532,000	532,000
Share premium	1,183,000	1,183,000
Funds awaiting allotment of shares	500,000	500,000
Revenue reserve	325,113	103,524
Equity	<u>2,540,113</u>	<u>2,318,524</u>
Borrowings (Note 30)	2,027,549	2,035,045
Structured trade finance facility (Note 31)	430,038	847,405
Less: Cash and cash equivalents (excluding borrowings)	(386,719)	(149,906)
Net debt	<u>2,070,868</u>	<u>2,732,544</u>
Total capital	<u>4,610,981</u>	<u>5,051,068</u>
Gearing ratio	<u>45%</u>	<u>54%</u>



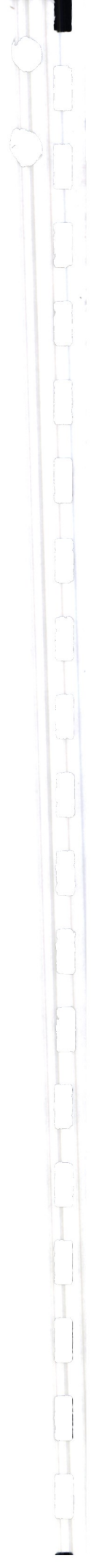
7. OPERATIONAL RISK MANAGEMENT

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

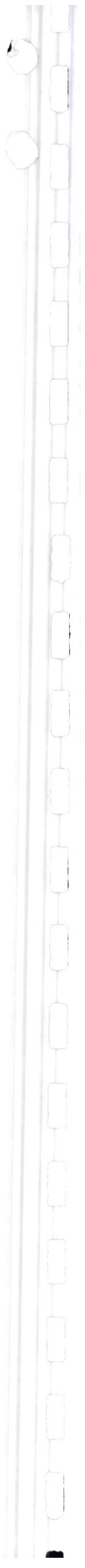
The Corporation's objective is to manage the operational risk so as to balance the avoidance of financial losses and damage to the Corporation's reputation with overall costs effectiveness and to avoid control procedures that restrict initiative and creativity.

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

	2013	2012
	KShs'000	KShs'000
8. REVENUE		
White product	23,531,952	25,551,098
Black product	1,151,951	2,273,918
Gas (LPG)	317,873	291,092
Other product sales	<u>93,205</u>	<u>172,418</u>
	<u>25,094,981</u>	<u>28,288,526</u>
9. OTHER OPERATING INCOME		
Throughput fees	65,974	124,936
Gains on disposal of assets	885	14
Sundry income	63,615	69,746
Rental income (subletting)	16,230	11,601
Bad debts recovered	<u>11,000</u>	<u>2,000</u>
	<u>157,704</u>	<u>208,297</u>
10. PROFIT BEFORE TAX		
The profit before tax is arrived at after charging:		
Staff costs	371,597	224,446
Depreciation on property, plant and equipment	108,752	161,405
Amortisation of prepaid operating leases	36,982	37,396
Directors' emoluments - fees	4,620	4,620
- other emoluments	9,428	11,155
Auditor's emoluments - current year	7,088	6,750
Amortisation of intangible assets	<u>14,163</u>	<u>56,316</u>
	<u>371,597</u>	<u>224,446</u>
11. ADMINISTRATION EXPENSES		
Salaries and wages	166,904	111,447
Other staff benefits	148,787	102,511
Pension costs – defined contribution scheme	45,670	9,380
Gratuity	3,045	(2,704)
Leave pay	7,161	3,791
National Social Security Fund (NSSF) contributions	<u>30</u>	<u>21</u>
	<u>371,597</u>	<u>224,446</u>



12.	FINANCE INCOME/(COSTS)	2013	2012
		KShs'000	KShs'000
	Finance income:		
	Interest income	20,659	53,359
	Net foreign exchange gain	<u>-</u>	<u>-</u>
		<u>20,659</u>	<u>53,359</u>
	Finance costs:		
	Interest expense	(335,222)	(430,067)
	Net foreign exchange loss	<u>(5,204)</u>	<u>(14,558)</u>
		<u>(340,426)</u>	<u>(444,625)</u>
	Net finance cost	<u>(319,767)</u>	<u>(391,266)</u>
13.	INCOME TAX CREDIT		
	(a) Tax (credit)/expense		
	Tax recognised in profit or loss		
	Current tax based on adjusted profit at 30%	154,659	173,845
	Deferred tax credit (Note 20(b))	<u>(18,765)</u>	<u>(4,440)</u>
	Over provision of deferred tax asset in the prior year	<u>(8,960)</u>	<u>(52,905)</u>
		<u>126,934</u>	<u>116,500</u>
	(b) Reconciliation of tax based on accounting profit to tax credit		
	Accounting profit before tax	<u>347,901</u>	<u>432,387</u>
	Current tax at 30%	104,370	129,716
	Tax effect of expenses not deductible for tax	35,491	43,669
	Tax effect of income not taxable	<u>(3,967)</u>	<u>(3,980)</u>
	Over provision of deferred tax asset in the prior year	<u>(8,960)</u>	<u>(52,905)</u>
		<u>126,934</u>	<u>116,500</u>
14.	EARNINGS PER SHARE		
	Profit attributable to ordinary shareholders	<u>220,967</u>	<u>315,887</u>
	Basic earnings per shares		
	Weighted average number of ordinary shares used in the calculation of basic earnings per share ('000)	<u>26,600</u>	<u>26,600</u>
	Basic earnings per share (KShs)	<u>8.31</u>	<u>11.88</u>
	Diluted earnings per share		
	Weighted average number of ordinary shares used in the calculation of basic earnings per share ('000)	26,600	26,600
	Weighted average number of ordinary shares deemed to be issued in respect of funds awaiting allotment of shares (Note 24)* ('000)	<u>25,000</u>	<u>25,000</u>
	Weighted average number of ordinary shares used in the calculation of diluted earnings per share ('000)	<u>51,600</u>	<u>51,600</u>
	Diluted earnings per share (KShs)	<u>4.28</u>	<u>6.12</u>



15. PROPERTY, PLANT AND EQUIPMENT

**Plant, machinery,
Computers,
furniture,
fittings and
equipment**

2013:	Buildings KShs'000	Plant, machinery, Computers, furniture, fittings and equipment KShs'000	Motor vehicles KShs'000	Capital work in progress KShs'000	Freehold land KShs'000	Leasehold land KShs'000	Total KShs'000
Cost or valuation:							
At 1 July 2012	819,175	956,629	10,016	84,592	187,800	1,132,551	3,190,763
Additions	133,894	128,029	4,168	142,008	29,115	37,388	474,602
Disposals	-	(445)	(670)	-	-	-	(1,115)
Transfers from capital work in progress	36,760	7,320	-	(65,171)	1,493	-	(19,598)
At 30 June 2013	989,829	1,091,533	13,514	161,429	218,408	1,169,939	3,644,652
Depreciation							
At 1 July 2012	20,832	327,891	3,211	-	-	27,364	379,298
Charge for the year	24,093	80,921	3,312	-	-	29,699	138,025
Disposals	-	(281)	(370)	-	-	-	(651)
At 30 June 2013	44,925	408,531	6,153	-	-	57,063	516,672
Net book value:							
At 30 June 2013	944,904	683,002	7,361	161,429	218,408	1,112,876	3,127,980

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Plant, machinery, computers, furniture, fittings and equipment						Total
	Buildings KShs'000	Plant, machinery, computers, furniture, fittings and equipment KShs'000	Motor vehicles KShs'000	Capital work in progress KShs'000	Freehold land KShs'000	Leasehold land KShs'000	Total KShs'000
2012:							
Cost or valuation:							
At 1 July 2011	727,498	995,959	6,972	64,581	173,636	1,119,524	3,088,170
Additions	6,092	93,699	4,846	130,538	2,800	6,054	244,029
Disposals	-	-	(1,800)	-	-	-	(1,800)
Transfers from capital work in progress	83,973	13,833	-	(101,003)	-	3,197	-
Revaluation surplus	1,612	-	(2)	-	11,364	3,776	16,750
Retirements	-	(146,862)	-	(9,524)	-	-	(156,386)
At 30 June 2012	819,175	956,629	10,016	84,592	187,800	1,132,551	3,190,763
Depreciation							
At 1 July 2011	-	272,991	-	-	-	-	272,991
Charge for the year	20,832	109,548	3,661	-	-	27,364	161,405
Retirements	-	(54,648)	-	-	-	-	(54,648)
Disposals	-	-	(450)	-	-	-	(450)
At 30 June 2012	20,832	327,891	3,211	-	-	27,364	379,298
Net book value:							
At 30 June 2012	798,343	628,738	6,805	84,592	187,800	1,105,187	2,811,465

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Land and buildings were last revalued as at 30 June 2011 by Crystal Valuers Limited, registered valuers. Plant and equipment were last revalued as at 30 June 2004 by Tyson's Limited, registered valuers. Both valuations were on the following basis:

- Land and buildings: open market value; and
- Plant and equipment: depreciated replacement cost.

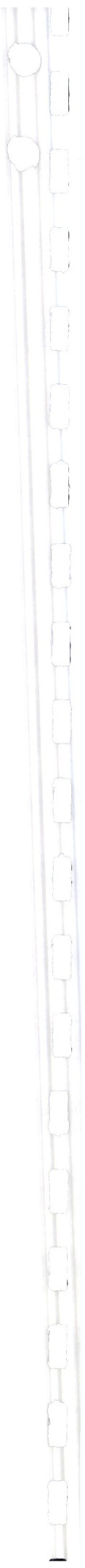
The revaluation surplus in respect of assets that had not been previously impaired is recognized in the equity as a revaluation surplus

The revaluation surplus in respect of assets that had been previously impaired is recognized in the statement of comprehensive income as a reversal of impairment loss, to the extent of the amount of the previous impairment.

The impairment loss on revaluation of assets that did not previously have a revaluation surplus is recognized in the statement of comprehensive income as an impairment loss.

16. INVESTMENT PROPERTY	2013 KShs'000	2012 KShs'000
Cost		
At 1 July	<u>11,142</u>	<u>11,142</u>
Depreciation/amortisation		
Accumulated amortisation at 1 July	1,400	1,225
Amortisation charge for the year	<u>175</u>	<u>175</u>
Accumulated amortisation at 30 June:	<u>1,575</u>	<u>1,400</u>
Net book value at 30 June	<u>9,567</u>	<u>9,742</u>
17. PREPAID OPERATING LEASES		
Cost		
At 1 July	279,251	271,166
Additions	69,274	18,096
Transfer to from Capital work in progress	1,465	-
Provision for write off of shell assets	-	(10,011)
Disposals	<u>(6,500)</u>	<u>-</u>
At 30 June	<u>343,490</u>	<u>279,251</u>
Amortisation		
Accumulated amortisation at 1 July:	117,131	79,735
Amortisation charge for the year:	36,982	37,396
Disposals	<u>(6,500)</u>	<u>-</u>
Accumulated amortisation at 30 June:	<u>147,613</u>	<u>117,131</u>
Net book value at 30 June:	<u>195,877</u>	<u>162,120</u>

Included in the prepaid operating leases is leasehold land which has been pledged by the Corporation to secure liabilities to third parties disclosed on Note 30.



18. INTANGIBLE ASSETS	2013	2012
	KShs'000	KShs'000
Cost		
At 1 July	195,809	149,797
Additions	10,522	46,012
Transfers from capital work in progress	<u>18,133</u>	<u>-</u>
At 30 June	<u>224,464</u>	<u>195,809</u>
Amortisation		
At 1 July	150,369	94,053
Charge for the year	<u>22,241</u>	<u>56,316</u>
At 30 June	<u>172,610</u>	<u>150,369</u>
Net book value		
At 30 June	<u>51,854</u>	<u>45,440</u>

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

19. 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:

Exploration and Evaluation expenses	2013	2012
	KShs '000	KShs '000
As at 1 July	26,412	-
Additions	<u>239,067</u>	<u>26,412</u>
As at 30 June	<u>265,479</u>	<u>26,412</u>

(b) BLOCK 14T Fund

During the year the Government of Kenya in partnership with Japan Oil Gas and Metals National Corporation (JOGMEC) have funded the exploration activities through the Block 14T fund whose balance as at 30 June 2013 is KShs 235,757,000.

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.

Capitalised exploration and evaluation cost relates to the Corporation's exploration block in Magadi.



20. DEFERRED TAX

The deferred income tax is calculated using the enacted tax rate of 30% as at 30 June 2013 (30% - 2012).

	2013	2012
	KShs'000	KShs'000
(a) The net deferred tax asset as at 30 June is attributable to the following items		
<i>Assets:</i>		
Provisions	<u>138,126</u>	<u>121,712</u>
Deferred tax asset	<u>138,126</u>	<u>121,712</u>
<i>Liabilities:</i>		
Unrealised exchange loss	(7,564)	(14,522)
Accelerated capital allowance	(10,835)	(15,188)
Deferred tax liability	(18,399)	(29,710)
Net deferred tax asset	<u>119,727</u>	<u>92,002</u>
(b) Reconciliation of deferred tax asset		
At 1 July	92,002	34,657
Prior year over provision of deferred tax asset	8,960	52,905
Deferred tax credit (Note 13(a))	<u>18,765</u>	<u>4,440</u>
At 30 June	<u>119,727</u>	<u>92,002</u>

21. INVENTORIES

(a) Make up of inventory

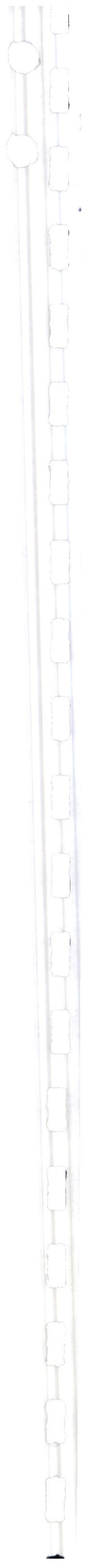
White products	2,500,764	3,069,414
Other products	613,278	798,616
Provision for inventories	(61,123)	(205,862)
	<u>3,052,919</u>	<u>3,662,168</u>

Included in the white products is stock held in lien of trade financing facility amounting to nil (2012 - KShs 437,080,779).

(b) Yield shift losses, dead stocks and line fills

Oil marketers in Kenya likely face a contingent or real liability based on the contractual arrangements with the refinery, Kenya Petroleum Refinery Limited ("KPRL"), relating to "yield shifts" from March 2002 to August 2012 that the refinery did not charge to the Oil marketers during the relevant periods. The refinery has estimated the quantum of "yield shifts" which it believes should now be passed on to the Oil marketers. The loss, estimated at US\$ 61 million by the refinery on current prices (equivalent to Euro 47 million), is expected to be recharged to Oil marketers in the near future.

In 2012, KPRL issued oil marketers in Kenya with notices to effect entitlement adjustments in their respective inventory holdings at the refinery relating to historical yield variances and sludge. Oil marketers have contested both the quantum of the losses and KPRL's methodology of effecting the entitlement adjustments. Both parties agreed to have a forensic auditor to review the matter. The forensic auditor's report was finalized but it is still under discussion by the various stakeholders in the industry. In addition, the Government, through the Ministry of Energy and Petroleum, requested for more time to seek and reach a resolution as to who will bear the cost of the yield shift.



21. INVENTORIES (continued)

(b) Yield shift losses, dead stocks and line fills (continued)

The Corporation faces a contingent liability relating to dead stocks and line fills inventory in the custody of KPRL, but for which KPRL is expected to compensate the Oil marketers. The total claim on yield shift losses, dead stocks and linefills is estimated at KShs 132 million. The book value of inventory being held by the Corporation at KPRL as at 30 June 2013 amounted to KShs 865,376,633.

The Directors are of the opinion that the above issues will be resolved in favour of the Corporation.

22. TRADE AND OTHER RECEIVABLES	2013 KShs'000	2012 KShs'000
Trade and other receivables	796,804	869,898
Prepayments	<u>574,526</u>	<u>416,588</u>
	1,371,330	1,286,486
Provision for doubtful debts	<u>(321,784)</u>	<u>(295,263)</u>
	<u>1,049,546</u>	<u>991,223</u>

23. CALL DEPOSITS

Deposits with banks	670,231	187,563
Provision for doubtful fixed deposits	<u>(36,629)</u>	<u>(36,629)</u>
	<u>633,602</u>	<u>150,934</u>

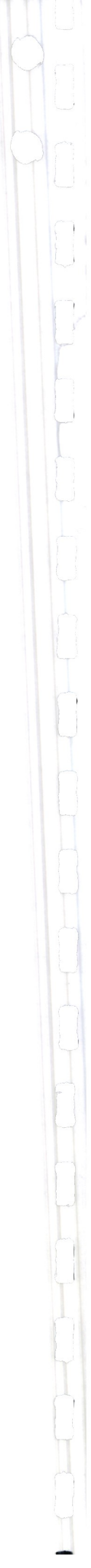
Included in deposits above are amounts of KShs 21,296,000 and KShs 15,332,000 placed with Heritage Bank Limited and Trade Bank Limited respectively. The two have since been wound up and the deposits have been fully provided for.

24. SHARE CAPITAL			2013 KShs'000	2012 KShs'000
Authorized				
26,600,000 Ordinary shares of KShs 20 each			<u>532,000</u>	<u>532,000</u>
Issued and fully paid	Number of shares		Value of shares	
	2013	2012	2013	2012
	'000	'000	KShs'000	KShs'000
At 1 July and 30 June	<u>26,600</u>	<u>26,600</u>	<u>532,000</u>	<u>532,000</u>

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

25. FUNDS AWAITING ALLOTMENT OF SHARES

The Corporation received KShs 500 million in 2009 from the Government of Kenya as share capital injection. The increase in share capital has not yet been formalized. As at 30 June 2013, this amount has been accounted for as funds awaiting allotment of shares.



26. SHAREHOLDING STRUCTURE	2013 No. of shares '000'	2012 No. of shares '000'
Ministry of Finance (Treasury) (99%)	26,334	26,334
Ministry of Energy and Petroleum (1%)	<u>266</u>	<u>266</u>
	<u>26,600</u>	<u>26,600</u>

27. DEFERRED INCOME	Training fund grant KShs'000	Government downstream grants KShs'000	Oil exploration grant KShs'000	Total deferred income KShs'000
2013:				
As at 1 July 2012	11,888	109,083	330,019	450,990
Receipts during the year	-	-	214,000	214,000
Proceeds from sale of geological maps	-	-	58,359	58,359
Transfer to income statement	(1,663)	(13,248)	(154,341)	(169,252)
As at 30 June 2013	<u>10,225</u>	<u>95,835</u>	<u>448,037</u>	<u>554,097</u>
2012:				
As at 1 July 2011	14,518	122,331	247,583	384,432
Receipts during the year	-	-	170,000	170,000
Proceeds from sale of geological maps	-	-	67,646	67,646
Transfer to income statement	(2,630)	(13,248)	(155,210)	(171,088)
As at 30 June 2012	<u>11,888</u>	<u>109,083</u>	<u>330,019</u>	<u>450,990</u>

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

Government downstream grant relate 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 income statement on a systematic basis over the useful life of the assets. Grants relating to income are presented as a credit in the statement of comprehensive income in the year in which they have been granted.

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

28. TRADE AND OTHER PAYABLES	2013 KShs'000	2012 KShs'000
Trade payables	532,232	580,422
Leave pay provision	12,551	7,761
Accruals and other payables	597,450	298,547
Provision for legal liabilities	<u>77,253</u>	<u>97,029</u>
	<u>1,219,486</u>	<u>983,759</u>



28. TRADE AND OTHER PAYABLES (Continued)

Several legal claims have been made against the Corporation. The plaintiffs are suing for various specific and general damages which the Corporation has disputed. The cases are on going and the likely outcome is unknown. In addition, the Corporation is regularly subject to an evaluation by the tax authorities of its direct and indirect tax affairs and in connection with such reviews, pending cases can arise with the tax authorities over the interpretation or application of certain tax rules applicable to the Corporation's business.

These pending legal and tax cases may not necessarily be resolved in a manner that is favourable for the Corporation. Additionally the resolution of the disputes could result in obligation for the Corporation. Therefore, based on information currently available, the directors have made provisions of KShs 77,253,000 (2012 – KShs 97,028,726) for the claims.

	2013 KShs'000	2012 KShs'000
29. GRATUITY PROVISION		
At 1 July	5,655	11,373
Additional provision during the year	2,892	5,507
Prior years over provision written back	-	(4,646)
Payments during the year	(3,784)	(6,579)
At 30 June	<u>4,763</u>	<u>5,655</u>
The amounts are due as follows:		
Within one year	4,763	3,795
After one year	-	1,860
At end of year	<u>4,763</u>	<u>5,655</u>
30. BORROWINGS		
<i>Current borrowings</i>		
Bank overdrafts	1,831,856	1,769,657
Term loans	<u>104,195</u>	<u>69,683</u>
	1,936,051	1,839,340
<i>Non-current borrowings</i>		
Term loan	<u>91,498</u>	<u>195,705</u>
	<u>2,027,549</u>	<u>2,035,045</u>
The borrowings therefore comprise of:		
Bank overdrafts	1,831,856	1,769,657
Term loans	<u>195,693</u>	<u>265,388</u>
	<u>2,027,549</u>	<u>2,035,045</u>

30. BORROWINGS (Continued)

Borrowings from Kenya Commercial Bank Limited which are denominated in Kenya shillings are secured over the following Corporation's land and buildings:

Location	L.R No.	Amount KShs
Ganjoni Mwembe Tayari Mombasa	Msa/Block XXII/127 Msa/Block XVIII/424 Msa/Block XVI/136	72,476,898
Kisumu Family Kisumu Market Kisumu Lake Kisumu	Kisumu Municipality/Block 8/7 Kisumu Municipality/Block 9/6 Kisumu Municipality/Block 7/7 Kisumu Municipality/Block 4/73	87,280,366
Kwale-Ukunda	Kwale/Ukunda/3061	1,625,000
Eldoret Central Elloways Eldoret,Klpkaren Eldoret Highway Eldoret, West Indies Eldoret,KIng'ong'o	Eldoret Municipality Block 3/39 Eldoret Municipality Block 13/417 & 689 Eldoret Municipality Block 2/73/1 Eldoret Municipality Block 5/628 Eldoret Municipality Block 21/King'ong'o/875	120,757,280
Bidco Thika	Thika Mun/Block 12/176	7,220,000
Mombasa	Msa/Block XVII/390,391 & 629	26,058,000
Nairobi	209/12298	437,000,000
Nakuru	Nakuru/Block 16/300	11,800,000
Nakuru	Nakuru/Block 21/581	13,000,000
Nairobi, Ngong Road	209/7753	128,896,000
Nairobi	12874,13036 & 13272	31,239,310
Nairobi Nairobi Nairobi Nairobi	NRB/BLK 97/59 NRB/BLK 97/60 NRB/BLK 97/61 NRB/BLK 97/62	19,639,480
Nairobi	Nairobi/Block/97/30	7,000,000
Eldoret, Langas	Eldoret Mun/Block 14/1519	60,391,500
Eldoret, Bondeni	Eldoret Mun/Block 5/541-3	64,253,000
Ongata Rongai Ngong	Ongata Rongai Ngong/Ngong/16204	15,000,000
Kisumu	Kisumu Mun/Block 31163	32,451,000
Nakuru	Kaplong Nakuru Kericho/ChemageV2275	52,677,000
Nairobi	330/662 Nairobi	47,000,000
Kisumu	Awendo Kisumu Sare/Awendo/280	9,285,000
Nairobi	9042/162 Embakasi	98,798,500
Mombasa	11487/1 Mtito Andei	27,000,000
Mombasa Mombasa	MNNI/2495/2 Magongo Mombasa MNNI/29/1 Magongo Mombasa	51,737,500
Nyeri	Nyeri Municipality/Block 111/230	29,825,000
Mombasa	MN/I/1474 Bamburi Mombasa	46,156,000
Uasin Gishu	Ngeria/KessesIBlock 1 (Nariri)/89.	5,000,000



30. BORROWINGS (Continued)

The term loans facility is offered by Kenya Commercial Bank Limited (KCB) and consists of four term loans. The term loan III which was issued on 16 December 2009 with a limit of KShs 300,000,000 is repayable in 60 months; interest is at current bank base rate minus 2% p.a. The term loan IV which was issued on 12 November 2009 with a limit of KShs 291,000,000 is repayable in 60 months; interest is at current bank base rate minus 2% p.a. The term loan V which was issued on 30 December 2009 with a limit of KShs 223,500,000 is repayable in 60 months; interest is at current bank base rate minus 2% p.a. Term loan VI was issued in three tranches on 23 December 2010, 31 December 2010 and 3 May 2011 with a limit of KShs 223,500,000 is repayable in 60 months; interest is at current base rate minus 2% p.a. The loan balances at year end are as follows:

	2013 KShs'000	2012 KShs'000
KCB Term loan III	17,333	25,892
KCB Term loan IV	33,794	50,479
KCB Term loan V	10,655	14,870
KCB Term loan VI	<u>133,911</u>	<u>174,147</u>
Total KCB term loan	195,693	265,388
Kenya Commercial Bank overdraft facility (see below)	472,201	397,495
CfC Stanbic Bank overdraft facility (see below)	<u>1,359,655</u>	<u>1,372,162</u>
	<u>1,831,856</u>	<u>1,769,657</u>

The Corporation has a composite facility comprising of overdrafts, guarantees and letters of credit with Kenya Commercial Bank with a limit of KShs 600,000,000 (2012 - KShs 400,000,000). This facility is utilised for working capital requirements of the Corporation. The Corporation also has a composite facility with CfC Stanbic Bank with a limit of KShs 1,375,000,000 (2012 - KShs 1,375,000,000). The facility is comprised of overdrafts and an import financing facility.

Interest rates

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

	2013	2012
Bank overdrafts	14.25%	21%
Term loans	19.75%	20%

31. STRUCTURED TRADE FINANCE FACILITY

During the year, the Corporation maintained the structured trade finance facility with Kenya Commercial Bank Limited at USD 12,000,000. 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.

As at 30 June 2013, the Corporation had utilised the US dollar equivalent of KShs 430,037,500 (2012 - KShs 718,112,098) of the structured trade finance facility and KShs Nil (2012-Kshs. 129,293,013) of the KCB Post Import Finance (OTS) facility.

The interest rate paid on the structured trade finance facility is 6% p.a. (2012 - 6% p.a.) for the USD component and 15% p.a. (2012 - 13% p.a.) for the KShs component.

32. 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.

	2013	2012
	KShs'000	KShs'000
(a) Reconciliation of profit before tax to cash used in operating activities		
Profit before tax	347,901	432,387
Adjustments for:		
Depreciation	138,025	161,405
Gain on disposal of property, plant and equipment	(885)	(14)
Amortisation – prepaid operating rentals	36,982	37,396
Amortisation – intangible assets	22,241	56,316
Release of training fund grant	(1,663)	(2,630)
Release of deferred income – upstream	(154,340)	(155,753)
Release of deferred income – downstream	(13,248)	(13,248)
Net impairment loss recorded through profit	-	111,748
Net interest expense	314,563	430,067
Depreciation/amortisation of investment property	<u>175</u>	<u>175</u>
Operating profit before working capital changes	689,751	1,057,849
Decrease/(increase) in inventories	609,249	(791,157)
(Increase)/decrease in trade and other receivables	(58,323)	92,374
Increase/(decrease) in trade and other payables	235,727	(129,917)
Increase in gratuity provision	(892)	(5,718)
Cash generated from operating activities	<u>1,475,512</u>	<u>223,431</u>
(b) Analysis of the balances of cash and cash equivalents		
Cash and bank balances	386,719	149,906
Bank overdrafts (Note 30)	(1,831,856)	(1,769,657)
Call deposits	<u>633,602</u>	<u>150,934</u>
	<u>(811,535)</u>	<u>(1,468,817)</u>

33. CONTINGENT LIABILITIES AND GUARANTEES

The Corporation is a defendant in two legal suits in which the claimants are claiming KShs 315 million. Based on the legal advice and information currently available, the directors do not expect the outcome of the legal suit to have a material negative effect on the Corporation's financial position.

The company has issued guarantees in favour of third parties amounting to KShs 33,335,000 (2012 - KShs 28,355,287).

34. 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 17.



34. OPERATING LEASE COMMITMENTS (Continued)

The company has a non-cancellable operating lease with respect to office space, which is renewable every five and a half years.

Operating lease rentals are payable as follows:	2013	2012
	KShs 000	KShs 000
Less than one year	8,805	9,112
Between one and five years	<u>22,331</u>	<u>21,708</u>
	<u>31,136</u>	<u>30,820</u>

35. 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:

	2013	2012
	KShs'000	KShs'000
Authorised but not contracted for	<u>1,747,093</u>	<u>1,241,633</u>
Authorised and contracted for	<u>-</u>	<u>-</u>

36. RELATED PARTIES

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

	2013	2012
	KShs'000	KShs'000
(a) Key management compensation		
Salaries and other short-term employment benefits	<u>44,683</u>	<u>39,078</u>
(b) Directors' remuneration		
Fees for service as directors	4,620	4,620
Other emoluments	<u>7,421</u>	<u>11,155</u>
	<u>12,041</u>	<u>15,775</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 corporations.

During the year, sales to the related parties amounted to KShs 1,604,765 (2012 – KShs 1,472,546,006).

	2013	2012
	KShs'000	KShs'000
(d) Outstanding balances		
The balances outstanding at year end were as follows:		
Due to related parties	<u>(115,518)</u>	<u>(263,609)</u>
Due from related parties	<u>101,828</u>	<u>141,669</u>

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

**37. MINISTRY OF ENERGY AND PETROLEUM - HEADQUARTERS (MOE-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:

	2013	2012
	KShs'000	KShs'000
Cost		
At 1 July	499,506	640,000
Receipts during the year	801,000	504,095
Payments made for construction of MOE HQ	(662,475)	(644,589)
At 30 June	<u>638,031</u>	<u>499,506</u>

38. 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.

	2013	2012
	KShs'000	KShs'000
Cost		
At 1 July	55,812	-
Receipts during the year	-	81,000
Payments made during the year	(32,842)	(25,188)
At 30 June	<u>22,970</u>	<u>55,812</u>

39. CORPORATE SOCIAL RESPONSIBILITY (CSR) PROJECTS FUND

As guided by the Production Sharing Contracts (PSC), Exploration Companies are required to spend a percentage of their funds in CSR projects within the communities where they are carrying out exploration. In the year 2011/12, Anadarko one of the exploration companies in the coast region of Kenya selected the Corporation to be the facilitators in carrying out CSR in their block and have continued to do so into the current year.

	2013	2012
	KShs'000	KShs'000
Cost		
At 1 July	17,937	-
Receipts during the year	17,138	17,937
Payments made during the year	(13,934)	-
At 30 June	<u>21,141</u>	<u>17,937</u>

40. EXPLORATION AND PRODUCTION CAPACITY BUILDING FUND

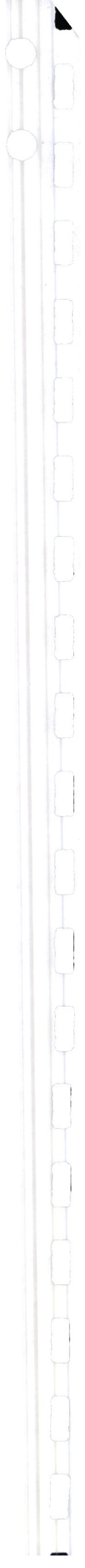
The Corporation received funds from the Ministry of Energy and Petroleum which are meant to equip the Exploration department staff with the requisite knowledge. During the year, the Corporation enhanced the capacity of the Exploration department by among other things recruiting 32 management trainees. The Corporation will use this fund to train these staff. The amount received during the year to fund the upstream training activities was KShs 410 million and an additional KShs 27 million for other upstream operations.

NATIONAL OIL CORPORATION OF KENYA LIMITED

DETAILED EXPENSES FOR THE YEAR ENDED 30 JUNE 2013

Appendix I

	2013 KShs	2012 KShs
EXPLORATION COSTS		
Salaries	60,579,725	54,104,866
Other professional fees	15,956,075	12,479,213
Travelling and accommodation	8,650,592	18,373,960
Rent and rates	14,401,733	13,501,522
Staff housing	9,970,116	8,776,317
Board expenses	5,747,899	6,036,763
Training and education	4,439,073	1,397,596
Advertising and Publicity	4,595,697	9,798,084
Medical expenses	3,724,067	5,042,468
Gratuity and pension costs	960,395	3,410,936
Telephone, telex and postage	1,693,526	2,004,819
Repairs and Maintenance	1,171,257	328,579
Audit and tax fees	1,633,317	2,583,900
Security charges	1,127,090	1,645,946
Groceries and drinks	599,138	1,073,581
Cleaning	1,303,166	1,412,930
Office insurance	218,597	1,029,187
Staff welfare expenses	507,299	2,955,752
Printing and stationery	1,453,341	2,692,662
Subscriptions and donations	4,143,326	1,015,518
Other office supplies and expenses	10,672,457	4,784,920
Motor running expenses	168,653	261,080
Light and water	112,014	111,203
Recruitment costs	512,074	388,086
	<u>154,340,627</u>	<u>155,209,888</u>
ADMINISTRATIVE EXPENSES		
Salaries	165,658,890	110,541,611
Other allowances and compensation	50,036,804	35,446,575
House allowance	35,414,789	24,433,426
Training and education	31,984,590	23,052,266
Gratuity	3,044,745	-2,705,759
Medical expenses	19,250,616	10,795,850
Other pension costs	45,669,763	9,380,221
Overtime	2,569,919	2,500,016
Vacation and holiday compensation	7,161,430	3,790,503
Insurance	-294,591	144,922
Staff welfare	7,300,317	5,503,928
Wages	1,245,200	634,999
NSSF costs	29,720	21,780
Recruitment costs	2,524,359	905,534
	<u>371,596,551</u>	<u>224,445,872</u>



NATIONAL OIL CORPORATION OF KENYA LIMITED

DETAILED EXPENSES FOR THE YEAR ENDED 30 JUNE 2013 (CONTINUED)

OTHER OPERATING EXPENSES	2013 KShs	2012 KShs
Traveling and accommodation	80,862,669	61,432,172
Maintenance of equipment	55,612,095	31,191,920
Amortization of intangible assets	14,163,218	53,623,048
Depreciation of plant and machinery	63,501,889	128,626,245
Reclassification of LPG cylinders	-	71,956,774
Professional fees	58,090,306	43,412,856
Amortization of prepaid lease rentals	36,981,732	37,396,438
Depreciation of buildings	24,129,770	21,482,449
Advertising and publicity	36,693,677	30,352,919
Hire and rentals	33,299,541	24,411,720
Amortization of leasehold land	29,699,115	32,358,508
Rent and rates	22,665,019	14,052,278
Board expenses	14,047,999	11,420,534
Security charges	30,450,590	13,940,391
Subscriptions and donations	11,215,974	11,055,660
Legal fees	43,551,948	13,481,317
Depreciation of furniture and equipment	10,251,736	9,142,624
Audit and tax fees	8,501,213	9,273,954
Telephone and fax	5,023,056	5,704,187
Printing	3,257,074	1,272,623
Office supply and expenses	5,767,374	3,896,838
Insurance	4,826,859	4,285,156
Light and water	4,276,344	4,296,283
Depreciation of computers	8,565,106	4,456,934
Cleaning	5,055,414	4,172,513
Depreciation of motor vehicles	2,128,407	3,055,294
Groceries and drinks	5,279,041	3,949,341
Postage and courier	1,009,659	939,926
Books and newspapers	597,241	486,514
Entertainment	191,896	842,056
Staff uniforms	1,155,720	-
Amortization of investment property	174,614	174,614
	<u>621,026,296</u>	<u>656,144,086</u>