

REPUBLIC OF KENYA



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KENYA NATIONAL AUDIT OFFICE

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**REPORT**  
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*Paper laid*  
*By Hon. A. Duke, MP on*  
*Wed. 24. 06. 2015 (PM)*  
*mmw*

OF

THE AUDITOR GENERAL

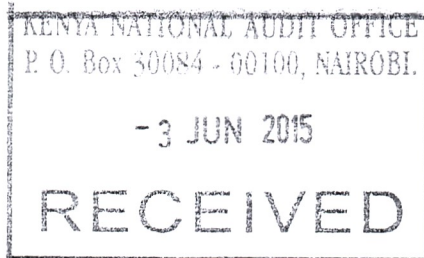
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ON

FINANCIAL STATEMENTS OF  
NATIONAL OIL CORPORATION OF KENYA  
LIMITED

FOR THE YEAR ENDED  
30 JUNE 2014





**NATIONAL OIL CORPORATION OF KENYA LIMITED**

**REPORT AND FINANCIAL STATEMENTS**

**AT**

**30 JUNE 2014**

**NATIONAL OIL CORPORATION OF KENYA LIMITED**

**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2014**

<b>Contents</b>	<b>Pages</b>
Directors, officers and administration	1
Report of the directors	2
Statement of directors' responsibilities	3
Independent auditors' report	4 – 5
Statement of profit or loss and other comprehensive income	6
Statement of financial position	7 - 8
Statements of changes in equity	9
Statement of cash flows	10
Notes to the financial statements	11 – 43
Appendix I: Detailed expenses	44 – 45

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## DIRECTORS, OFFICERS AND ADMINISTRATION

### **DIRECTORS**

Mr. Daniel Wamahiu	Chairman (Appointed 17 April 2015)
Sumayya H. Athmani	Chief Executive Officer
Eng. Joseph Njoroge	Principal Secretary - Ministry of Energy and Petroleum (Appointed 1 July 2013)
Dr. Kamau Thugge	Principal Secretary - Treasury (Appointed 1 July 2013)
Eng. Stanley Kamau	Alternate Director/Principal Secretary, National Treasury
Mr. Timothy Mulaha	Alternate Director/Principal Secretary, Ministry of Energy & Petroleum
Hon. Jaafar Sheikh	Director
Ms. Fatuma Hassan	Director
Mr. Kibuga Kariithi	Director (Appointed 17 April 2015)
Mrs. Margaret Saitoti	Director (Appointed 17 April 2015)
Dr. Joseph Rotumoi	Director (Appointed 17 April 2015)
Mr. Samuel Gakunga	Director (Appointed 17 April 2015)
Mr. Bernard Kitur Rono	Director (Appointed 17 April 2015)
Rev. Dr. Jessie Mutura	(Resigned 11 April 2015)
Peter Gitonga	(Resigned 11 April 2015)
Peter Munga	(Resigned 23 March 2015)
Patrick Nyoike, CBS	(Resigned 1 July 2013)
Joseph Kinyua, CBS	(Resigned 1 July 2013)
James Gacheru	(Resigned 23 August 2013)
Dr. Ezekiel C Koimett	(Resigned 23 August 2013)

### **SECRETARY**

Pauline Kimotho  
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 2014

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 30 June 2014, 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 do not recommend payment of a dividend (2013 – KShs 55,241,907).

### 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 2014.

### 6. **Approval of financial statements**

The financial statements were approved at a meeting of the directors held on 18 MAY 2015

**BY ORDER OF THE BOARD**

Director



Date:

18 MAY 2015

# 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 43 which comprise the statement of financial position as at 30 June 2014, statement of profit or loss and other 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.

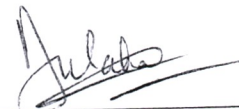
The Directors have made an assessment of the Corporation's ability to continue as a going concern and have no reason to believe the Corporation will not be a going concern for at least the next twelve months from the date of this statement.

### **Approval of the financial statements**

The financial statements, as indicated above, were approved by the Board of Directors on 18 MAY 2015 and were signed on its behalf by:



Director



Director

**REPORT OF THE AUTHORISED AUDITORS (APPOINTED UNDER SECTION 39(1) OF THE PUBLIC AUDIT ACT, ACT NO.12 OF 2003) TO THE AUDITOR GENERAL**

**Report on the financial statements**

We have audited the financial statements of National Oil Corporation of Kenya Limited, set out on pages 6 to 43 which comprise the statement of financial position of the Corporation at 30 June 2014, the Corporation's statements of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Directors' responsibilities for the financial statements**

As stated on page 3, the Corporation's Directors are responsible for the preparation and fair presentation of these 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 misstatement, whether due to fraud or error.

**Auditor-General's responsibility**

The Auditor-General is responsible for reporting on his examination of the financial statements to the Cabinet Secretary responsible for the Corporation for presentation to the National Assembly.

**Authorised auditors' responsibility**

Our responsibility is to report on the outcome of our audit of the financial statements to the Auditor-General.

**Basis of opinion**

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**REPORT OF THE AUTHORISED AUDITORS (APPOINTED UNDER SECTION 39(1) OF  
THE PUBLIC AUDIT ACT, ACT NO.12 OF 2003) TO THE AUDITOR GENERAL  
(CONTINUED)**

**Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the Corporation at 30 June 2014, and the Corporation's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

**Report on other legal requirements**

As required by the Kenyan Companies Act we report to you, based on our audit, that:

- (i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
- (ii) In our opinion, proper books of account have been kept by the Corporation, so far as appears from our examination of those books; and
- (iii) The statement of financial position and the statement of profit or loss and other comprehensive income are in agreement with the books of account.

*The Engagement Partner responsible for the audit resulting in this independent auditors' report is FCPA Eric Aholi - P/1471.*

**Date:**

# REPUBLIC OF KENYA

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NAIROBI



## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON NATIONAL OIL CORPORATION OF KENYA LIMITED FOR THE YEAR ENDED 30 JUNE 2014

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#### REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of National Oil Corporation of Kenya Limited set out on pages 6 to 43, which comprise the statement of financial position of the Corporation as at 30 June 2014, 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.

#### **Directors Responsibility for the Financial Statements**

The Corporation's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, 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 2014, 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 the Matter**

Without qualifying my opinion, I draw attention to the following matters on which I do not express a qualified opinion.

#### **1. Inventories**

The Corporation during the year realized a deficit of (Kshs.656,996,000) - (2012/2013 Profit Kshs.220,967,000) which brought its cumulative revenue reserve deficit to (Kshs.387,125,000) - (2012/2013 Kshs.269,871,000). The loss is attributable to full provision provided during the year under review to inventories recorded as being held at the Kenya Petroleum Refineries Limited amounting to Kshs.929,098,000 of which, information available indicate the inventory may be dead stocks, sludge and line fills. The Corporation is awaiting (Government) Ministry of Energy and Petroleum directive on how to access the products being held at KPRL.

#### **2. Trade and Other Payables**

Information available indicates that there are several legal claims made against the Corporation. Total Kenya is suing the Corporation for breach of the open tender system supply contract with an estimated liability of USD 1,026,086 and Timau Agro Industries for specific performance and payment of Kshs.229,320,000 being purchase price and Kshs.8,400,000 in damages for breach of contract for the purchase of the claimants parcel of land. No provisions have been made in the financial statements in relation to the above uncertainties.

#### **3. Late Submission of the Financial Statements**

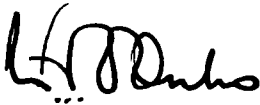
The Corporation's financial statements for the year 2013/2014 were approved and signed by the Board of Directors on 18 May 2015, eight months after the statutory

deadline date of 30 September, 2014 and draft audit report from the appointed auditors submitted to the Auditor-General on 3 June 2015. The Corporation is therefore in breach of Section 13 of the Public Audit Act, 2003.

#### 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 Corporation'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**

**16 June 2015**

**NATIONAL OIL CORPORATION OF KENYA LIMITED**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2014**

	Notes	2014 KShs'000	2013 KShs'000
<b>Revenue</b>	8	23,608,013	25,094,981
Cost of inventory sold	9	(22,269,526)	(23,605,642)
<b>Gross profit</b>		<b>1,338,487</b>	<b>1,489,339</b>
Other operating income	10	182,180	157,704
Oil exploration grant	29	197,876	154,341
Training fund grant	29	-	1,663
Release of deferred income in respect of depreciation of grant assets	29	<u>13,248</u>	<u>13,248</u>
		<b><u>1,731,791</u></b>	<b><u>1,816,295</u></b>
<b>Expenditure</b>			
Administrative expense	12	( 379,816)	( 371,597)
Operating expenses	13	( 756,411)	( 621,027)
Provisions for inventory at the refinery	23	( 929,098)	-
Exploration costs	29	( 197,876)	( 154,340)
Training expense	29	<u>-</u>	<u>(1,663)</u>
<b>Profit from operating activities</b>		<b><u>( 531,410)</u></b>	<b><u>667,668</u></b>
Finance income	14	33,271	20,659
Finance costs	14	<u>( 373,929)</u>	<u>( 340,426)</u>
<b>Net finance costs</b>	14	<b><u>( 340,658)</u></b>	<b><u>( 319,767)</u></b>
<b>(Loss)/profit before tax</b>		<b><u>( 872,068)</u></b>	<b>347,901</b>
Income tax credit/(expense)	15	<u>215,072</u>	<u>( 126,934)</u>
<b>(Loss)/profit for the year</b>		<b><u>( 656,996)</u></b>	<b>220,967</b>
Other comprehensive income:			
<b>Total comprehensive income</b>		<b><u>( 656,996)</u></b>	<b><u>220,967</u></b>
<b>Earnings per share - basic</b>	16	<b><u>( 24.70)</u></b>	<b><u>8.31</u></b>
<b>Earnings per share – diluted</b>	16	<b><u>( 12.73)</u></b>	<b><u>4.28</u></b>

The notes set out on pages 11 to 43 form an integral part of these financial statements.

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2014

ASSETS	Notes	2014 KShs'000	2013 KShs'000
<b>Non-current assets</b>			
Property, plant and equipment	17	3,783,067	3,127,980
Investment property	18	11,749	9,567
Prepaid operating leases	19	245,167	195,877
Intangible assets	20	32,888	51,854
Exploration expenditure- Block-14T	21(a)	747,709	265,479
Deferred tax asset	22	<u>499,501</u>	<u>119,727</u>
<b>Total non-current assets</b>		<b><u>5,320,081</u></b>	<b><u>3,770,484</u></b>
<b>Current assets</b>			
Inventories	23	1,824,729	3,052,919
Trade and other receivables	24	1,676,704	1,049,546
Current tax asset	15(c)	7,699	-
Call deposits	25	645,426	633,602
Cash and bank balances		<u>215,316</u>	<u>386,719</u>
<b>Total current assets</b>		<b><u>4,369,875</u></b>	<b><u>5,122,786</u></b>
<b>TOTAL ASSETS</b>		<b><u>9,689,956</u></b>	<b><u>8,893,270</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	26	532,000	532,000
Share premium	26	1,183,000	1,183,000
Funds awaiting allotment of shares	27	500,000	500,000
Revenue reserve		( 387,125)	269,871
Proposed dividends		-	55,242
Revaluation reserve		<u>740,381</u>	<u>740,381</u>
<b>Shareholders' equity</b>		<b><u>2,568,256</u></b>	<b><u>3,280,494</u></b>
<b>Non-current liabilities</b>			
Deferred income	29	625,299	554,097
Ministry of Energy and Petroleum Headquarters			
Construction fund	39	612,475	638,031
SBM Jetty fund	40	11,443	22,970
CSR Projects fund	41	24,137	21,141
Borrowings	32	109,934	91,498
Block 14T fund	21(b)	443,263	235,757
E & P Capacity building fund	42	367,587	437,000
Laboratory equipment fund	43	<u>300,000</u>	<u>-</u>
<b>Total non-current liabilities</b>		<b><u>2,494,138</u></b>	<b><u>2,000,494</u></b>


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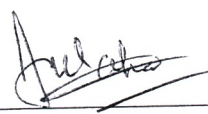
**NATIONAL OIL CORPORATION OF KENYA LIMITED**

**STATEMENT OF FINANCIAL POSITION (CONTINUED)**  
**FOR THE YEAR ENDED 30 JUNE 2014**

	Notes	2014 KShs'000	2013 KShs'000
<b>Current liabilities</b>			
Trade and other payables	30	1,231,688	1,219,486
Gratuity provision – current portion	31	2,811	4,763
Borrowings	32	2,551,852	1,936,051
Structured trade finance facility	33	841,210	430,038
Current tax liability	15(c)	-	21,944
<b>Total current liabilities</b>		<b><u>4,627,562</u></b>	<b><u>3,612,282</u></b>
<b>Total liabilities</b>		<b><u>7,121,700</u></b>	<b><u>5,612,776</u></b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>9,689,956</u></b>	<b><u>8,893,270</u></b>

The financial statements on pages 6 to 43 were approved by the board of directors on 18 MAY 2015 and were signed on its behalf by:

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

The notes set out on pages 11 to 43 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 2014

	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
<b>2014:</b>							
At 1 July 2013	532,000	1,183,000	500,000	269,871	55,242	740,381	3,280,494
<b>Comprehensive income for the year</b>							
Profit for the year	-	-	-	(656,996)	-	-	(656,996)
<b>Other comprehensive income</b>							
Transfer of revaluation reserves to retained earnings on disposal	-	-	-	-	-	-	-
<b>Total comprehensive income</b>	<b>532,000</b>	<b>1,183,000</b>	<b>500,000</b>	<b>(387,125)</b>	<b>55,242</b>	<b>740,381</b>	<b>2,623,498</b>
<b>Transaction with owners, recognised directly in equity</b>							
Dividend paid out	-	-	-	-	(55,242)	-	( 55,242)
Proposed dividend	-	-	-	-	-	-	-
<b>Total transaction with owners for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>At 30 June 2014</b>	<b>532,000</b>	<b>1,183,000</b>	<b>500,000</b>	<b>(387,125)</b>	<b>-</b>	<b>740,381</b>	<b>2,568,256</b>
<b>2013:</b>							
At 1 July 2012	532,000	1,183,000	500,000	103,524	78,972	741,002	3,138,498
<b>Comprehensive income for the year</b>							
Profit for the year	-	-	-	220,967	-	-	220,967
<b>Other comprehensive income</b>							
Transfer of revaluation reserves to retained earnings on disposal	-	-	-	621	-	( 621)	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>221,588</b>	<b>-</b>	<b>( 621)</b>	<b>220,967</b>
<b>Transaction with owners, recognised directly in equity</b>							
Dividend paid out	-	-	-	-	(78,972)	-	( 78,972)
Proposed dividend	-	-	-	( 55,242)	55,242	-	-
<b>Total transaction with owners for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>( 55,242)</b>	<b>(23,370)</b>	<b>-</b>	<b>( 78,972)</b>
<b>At 30 June 2013</b>	<b>532,000</b>	<b>1,183,000</b>	<b>500,000</b>	<b>269,871</b>	<b>55,242</b>	<b>740,381</b>	<b>3,280,494</b>

The notes set out on pages 11 to 43 form an integral part of these financial statements.

**NATIONAL OIL CORPORATION OF KENYA LIMITED**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2014**

	Notes	2014 KShs'000	2013 KShs'000
<b>Net cash generated from operating activities</b>	34(a)	156,052	1,475,512
Interest paid		( 344,640)	( 335,222)
Tax paid	15(c)	( 194,345)	( 199,519)
<b>Net cash used in operating activities</b>		<b><u>( 382,934)</u></b>	<b><u>940,771</u></b>
<b>Cash flows from investing activities</b>			
Interest received		33,271	20,659
Purchase of property, plant and equipment		( 842,319)	( 474,602)
Purchase of intangible assets		( 12,837)	( 10,522)
Acquisition of prepaid operating leases		( 147,518)	( 69,274)
Purchase of exploration assets		( 482,230)	( 239,067)
Proceeds on disposal of property, plant and equipment		<u>878</u>	<u>1,350</u>
<b>Net cash generated from investing activities</b>		<b><u>(1,450,755)</u></b>	<b><u>( 771,456)</u></b>
<b>Cash flows from financing activities</b>			
Increase/(repayment) of borrowings		323,021	( 487,063)
Government grants received – upstream		220,000	214,000
Government grants received – proceeds from sale of geological maps		62,326	58,358
Decrease in SBM Jetty fund	40	( 11,527)	( 32,842)
Net increase in CSR Projects fund	41	2,996	3,204
Increase in Block 14T fund	21(b)	207,506	235,757
(Decrease)/increase in E&P capacity building fund	42	( 69,413)	437,000
Increase in laboratory equipment fund	43	300,000	-
Dividends paid		( 55,242)	( 78,972)
Net (decrease)/increase in Ministry of Energy and Petroleum Headquarters construction fund	39	( 25,556)	<u>138,525</u>
<b>Net cash generated from financing activities</b>		<b><u>954,111</u></b>	<b><u>487,967</u></b>
Net (decrease)/increase in cash and cash equivalents		( 879,578)	657,285
Cash and cash equivalents at beginning of year		( 811,532)	<u>(1,468,817)</u>
<b>Cash and cash equivalents at end of year</b>	34(b)	<b><u>(1,691,110)</u></b>	<b><u>( 811,532)</u></b>

The notes set out on pages 11 to 43 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 2014

### 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

#### (a) Statement of compliance

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

#### (b) Basis of measurement

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

#### (c) Functional and presentation currency

The financial statements are presented in Kenya shillings (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).

#### (d) 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 2014

### 2. BASIS OF PREPARATION (Continued)

#### (e) 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 2014

### 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 2014

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (i) 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 2014**

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(j) 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.

**(k) 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.

**(l) 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 2014

### 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.

##### (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.

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

###### *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.

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

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

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

### 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 2014

### 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 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.

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (s) Employee benefit costs (continued)

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

The Corporation has adopted the following new standards and amendments during the year, including consequential amendments to other standards with the date of initial application by the Corporation from 1 July 2013.

- *Amendments to IAS 1: Presentation of Items of Other Comprehensive Income (Presentation of items of OCI)*

As a result of the amendments to IAS 1, the Corporation has modified the presentation of items of Other Comprehensive Income (OCI) in its profit or loss and other comprehensive income to present items that would be reclassified to profit or loss in the future separately from those that would never be.

The adoption of this standard did not have an impact on the Corporation's financial statements.

- *IFRS 13: Fair Value Measurement*

In accordance with the transitional provisions of IFRS 13, the Corporation has applied the new definition of fair value, as set out in Note 3(n) (iii), prospectively. The change had no significant impact on the measurements of the Corporation's assets and liabilities, but the Corporation has included new disclosures in the financial statements, which are required under IFRS 13. These new disclosure requirements are not included in the comparative information.

However, to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Corporation has provided the relevant comparative disclosures under those standards.

Other than enhanced disclosure requirements, the adoption of these standards did not have a significant impact on the amounts reported in these financial statements.

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (w) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2014, and have not been applied in preparing these financial statements.

These are summarised below and are not expected to have a significant impact on the Corporation financial statements.

<b>New standard or amendments</b>	<b>Effective for annual periods beginning on or after</b>
• IFRS 9 Financial Instruments	1 January 2018
• IFRS 15 Revenue	1 January 2017
• Amendments to IAS 32-Offsetting Financial Assets and Financial Liabilities (2011)	1 January 2014
• Amendments to IFRS 10, IFRS 12, and IAS 27 (2012)	1 January 2014
• Amendments to IAS 36-Recoverable Amount Disclosures for Non-Financial Assets (2013)	1 January 2014
• Amendments to IAS 39 titled Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
• IFRIC 21 Levies (2013)	1 January 2014
• Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)	1 July 2014

#### • ***IFRS 9: Financial Instruments.***

IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. In addition IFRS 9 has introduced new requirements on accounting for impairment based on expected credit losses on an entity's financial assets and commitments to extend credit. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. IASB has also issued a new general hedge accounting standard which aligns hedge accounting more closely with risk management, and establishes a more principle based approach to hedge accounting.

The standard is effective for annual period beginning on or after 1 January 2018. Management is still evaluating the impact of the new standard to the Corporation.

#### • ***Amendments to IAS 32: Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014).***

The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement.

The Corporation is still evaluating the potential effect of the adoption of the amendments to IAS 32.

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (w) New standards and interpretations not yet adopted (continued)

- **Amendments to IFRS 10, IFRS 12 and IAS 27: Investment entities** (effective for annual periods beginning on or after 1 January 2014)  
The amendments clarify that a qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss; the only exception would be subsidiaries that are considered an extension of the investment entity's investment activities. The consolidation exemption is mandatory and not optional. The adoption of the amendments will not have an impact on the financial statements of the Corporation.
- **Amendments to IAS 36: Recoverable Amount Disclosures for Non-Financial Assets** (effective for annual periods beginning on or after 1 January 2014)  
The amendments reverse the unintended requirement in IFRS 13 Fair Value Measurement to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed. The adoption of the amendments will not have a material impact on the financial statements of the Corporation.
- **Amendments to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting** (effective for annual periods beginning on or after 1 January 2014).  
The amendments permit the continuation of hedge accounting in a situation where a counterparty to a derivative designated as a hedging instrument is replaced by a new central counterparty (known as 'novation of derivatives'), as a consequence of laws or regulations, if specific conditions are met. The amendment is effective for the period beginning 1 January 2014.
- **IFRIC 21: Levies** (effective for annual periods beginning on or after 1 January 2014)  
IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs. The Corporation is still evaluating the potential effect of the adoption of IFRIC 21.
- **Amendments to IAS 19: Defined benefit plans – Employee contributions** (effective for annual periods beginning on or after 1 July 2014).  
The amendments clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service. The amendments are effective for annual periods beginning on or after 1 July 2014, with earlier application being permitted. The standard is not applicable to the Corporation.
- **IFRS 15: Revenue from Contracts with Customers** (Effective 31 December 2017)  
The IFRS specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; Identify the performance obligations in the contract; Determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and Recognise revenue when (or as) the entity satisfies a performance obligation.

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

### 4. **CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

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

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

#### **Key sources of estimation uncertainty**

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

#### **(a) Property, plant and equipment**

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.

#### **(b) Provisions for pending litigations**

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

#### **(c) Impairment**

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.

#### **(d) 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.

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

### 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 2014, the Corporation had utilised USD 9,599,570 (2013 – USD 5,000,000) of the US Dollar facility.

At 30 June 2014, 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 46,074,101 (2013 – KShs 44,383,740) 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.

##### (ii) Other price risk

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

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Market risk (continued)

##### (iii) Interest rate risk

The Corporation holds interest earning assets in form of call deposits.

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

Interest rate risks arise from fluctuations in the bank borrowing rates. The interest rates vary from time to time depending on the prevailing economic circumstances. Since the base rates charged by the banks are determined by the market forces, the Corporation negotiates with its bankers to get favourable interest rates.

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 2014 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 30,321,071 (2013 – KShs 18,318,556).

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:

	Fully performing	Past due	Impaired	Total	Provisions	Net exposure
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
<b>30 June 2014:</b>						
Trade and other receivables	1,461,119	215,585	328,540	2,005,244	(328,540)	1,676,704
Fixed and call deposits	645,426	-	-	645,426	-	645,426
Bank and cash balances	215,316	-	-	215,316	-	215,316
	<u>2,321,861</u>	<u>215,585</u>	<u>328,540</u>	<u>2,865,986</u>	<u>(328,540)</u>	<u>2,537,446</u>
<b>30 June 2013:</b>						
Trade and other receivables	976,207	73,339	321,784	1,371,330	(321,784)	1,049,546
Fixed and call deposits	633,602	-	36,629	670,231	( 36,629)	633,602
Bank and cash balances	386,719	-	-	386,719	-	386,719
	<u>1,996,528</u>	<u>73,339</u>	<u>358,413</u>	<u>2,428,280</u>	<u>(358,413)</u>	<u>2,069,867</u>

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (b) Credit risk (continued)

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 2,000,000,000 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.

	1 – 3 Months KShs'000	3-12 Months KShs'000	Over 12 months KShs'000	Total KShs'000
<b>At 30 June 2014:</b>				
Ministry of Energy and Petroleum				
Headquarters construction fund	-	612,475	-	612,475
SBM Jetty fund	-	11,443	-	11,443
CSR Funds	24,137	-	-	24,137
Trade and other payables	830,910	376,899	23,879	1,231,688
Borrowings (Note 30)	2,551,852	25,696	84,238	2,661,786
Structured Trade financing	841,210	-	-	841,210
	<b>4,248,109</b>	<b>1,026,513</b>	<b>108,117</b>	<b>5,382,739</b>

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (c) Liquidity risk (continued)

At 30 June 2013:	1 – 3 Months KShs'000	3-12 Months KShs'000	Over 12 months KShs'000	Total KShs'000
Ministry of Energy and Petroleum				638,031
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
	<u>3,165,642</u>	<u>1,046,794</u>	<u>146,779</u>	<u>4,359,215</u>

### 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:

	2014 KShs'000	2013 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	( 387,125)	325,113
Equity	<u>1,827,875</u>	<u>2,540,113</u>
Borrowings (Note 30)	2,661,786	2,027,549
Structured trade finance facility (Note 31)	841,210	430,038
Less: Cash and cash equivalents (excluding borrowings)	( 215,316)	( 386,719)
Net debt	<u>3,287,680</u>	<u>2,070,868</u>
<b>Total capital</b>	<u><b>5,115,556</b></u>	<u><b>4,610,981</b></u>
<b>Gearing ratio</b>	<u><b>64%</b></u>	<u><b>45%</b></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.

**NATIONAL OIL CORPORATION OF KENYA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2014**

**7. OPERATIONAL RISK MANAGEMENT (Continued)**

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.

	<b>2014</b>	<b>2013</b>
	<b>KShs'000</b>	<b>KShs'000</b>
<b>8. REVENUE</b>		
White product	22,828,565	23,531,952
Black product	163,591	1,151,951
Liquefied petroleum gas	426,953	317,873
Lubricants	158,600	-
Other product sales	<u>30,304</u>	<u>93,205</u>
	<b><u>23,608,013</u></b>	<b><u>25,094,981</u></b>
<b>9. COST OF SALES</b>		
Cost of goods sold	22,185,066	23,511,383
Other costs	<u>84,460</u>	<u>94,259</u>
	<b><u>22,269,526</u></b>	<b><u>23,605,642</u></b>
<b>10. OTHER OPERATING INCOME</b>		
Throughput fees	40,002	65,974
Gains on disposal of assets	106	885
Sundry income	19,326	63,615
Rental income (subletting)	22,843	16,230
Multi - client data	87,057	-
Bad debts recovered	<u>12,846</u>	<u>11,000</u>
	<b><u>182,180</u></b>	<b><u>157,704</u></b>
<b>11. PROFIT BEFORE TAX</b>		
The profit before tax is arrived at after charging:		
Staff costs	379,816	371,597
Depreciation on property, plant and equipment	156,257	108,752
Amortisation of prepaid operating leases	98,228	36,982
Directors' emoluments - fees	4,620	4,620
- other emoluments	14,871	9,428
Auditor's emoluments - current year	7,513	7,088
Amortisation of intangible assets	<u>32,700</u>	<u>14,163</u>
<b>12. ADMINISTRATION EXPENSES</b>		
Salaries and wages	208,366	166,904
Other staff benefits	148,987	148,787
Pension costs – defined contribution scheme	17,190	45,670
Gratuity	2,093	3,045
Leave pay	2,968	7,161
National Social Security Fund (NSSF) contributions	<u>212</u>	<u>30</u>
	<b><u>379,816</u></b>	<b><u>371,597</u></b>

**NATIONAL OIL CORPORATION OF KENYA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2014**

	2014	2013
	KShs'000	KShs'000
<b>13. OPERATING EXPENSES</b>		
Depreciation	185,563	138,025
Prepaid operating leases amortization	98,228	36,982
Travel and accommodation	72,048	59,783
Consultancy and other professional fees	69,746	71,873
Repairs and maintenance	62,940	55,772
Intangible assets amortization	32,700	22,241
Others	<u>235,186</u>	<u>236,351</u>
	<b><u>756,411</u></b>	<b><u>621,027</u></b>
<b>14. FINANCE INCOME/(COSTS)</b>		
<b>Finance income:</b>		
Interest income	33,271	20,659
Net foreign exchange gain	-	-
	<u>33,271</u>	<u>20,659</u>
<b>Finance costs:</b>		
Interest expense	(344,640)	( 335,222)
Net foreign exchange loss	<u>( 29,289)</u>	<u>( 5,204)</u>
	<u>(373,929)</u>	<u>( 340,426)</u>
<b>Net finance cost</b>	<b><u>(340,658)</u></b>	<b><u>( 319,767)</u></b>
<b>15. INCOME TAX CREDIT</b>		
<b>(a) Tax expense</b>		
<b>Tax recognised in profit or loss</b>		
Current tax based on adjusted profit at 30%	164,701	154,659
Deferred tax credit (Note 22(b))	(379,429)	( 18,765)
Over provision of deferred tax asset in the prior year	<u>( 345)</u>	<u>( 8,960)</u>
	<b><u>(215,072)</u></b>	<b><u>126,934</u></b>
<b>(b) Reconciliation of tax based on accounting profit to tax expense</b>		
Accounting profit before tax	<b><u>(872,068)</u></b>	<b><u>347,901</u></b>
Current tax at 30%	(261,620)	104,370
Tax effect of expenses not deductible for tax	46,892	35,490
Tax effect of income not taxable	-	( 3,967)
Over provision of deferred tax asset in the prior year	<u>( 345)</u>	<u>( 8,960)</u>
	<b><u>(215,072)</u></b>	<b><u>126,934</u></b>

**NATIONAL OIL CORPORATION OF KENYA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2014**

	2014	2013
	KShs'000	KShs'000
15. INCOME TAX CREDIT (Continued)		
(c) Current tax asset		
At 1 July	( 21,944)	( 66,805)
Current tax charge (Note 15(a))	( 164,701)	( 154,659)
Income tax paid	<u>194,345</u>	<u>199,520</u>
Balance at 30 June	<u><u>7,699</u></u>	<u><u>( 21,944)</u></u>
16. EARNINGS PER SHARE		
Profit attributable to ordinary shareholders	<u><u>(656,996)</u></u>	<u><u>220,967</u></u>
<b>Basic earnings per shares</b>		
Weighted average number of ordinary shares used in the calculation of basic earnings per share ('000)	<u><u>26,600</u></u>	<u><u>26,600</u></u>
<b>Basic earnings per share (KShs)</b>	<u><u>( 24.70)</u></u>	<u><u>8.31</u></u>
<b>Diluted earnings per share</b>		
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><u>51,600</u></u>	<u><u>51,600</u></u>
<b>Diluted earnings per share (KShs)</b>	<u><u>( 12.73)</u></u>	<u><u>4.28</u></u>

**NATIONAL OIL CORPORATION OF KENYA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2014**

**17. PROPERTY, PLANT AND EQUIPMENT**

	<b>Buildings KShs'000</b>	<b>Plant, machinery, Computers, furniture, fittings and equipment KShs'000</b>	<b>Motor vehicles KShs'000</b>	<b>Capital work in progress KShs'000</b>	<b>Freehold land KShs'000</b>	<b>Leasehold land KShs'000</b>	<b>Total KShs'000</b>
<b>2014:</b>							
<b>Cost or valuation:</b>							
At 1 July 2013	989,829	1,091,533	13,514	161,429	218,408	1,169,939	3,644,652
Additions	245,915	97,861	16,351	429,117	28,196	24,879	842,319
Disposals	-	( 299)	-	( 557)	-	-	( 856)
Transfers from capital work in progress	104,345	31,510	-	(136,752)	-	-	( 897)
At 30 June 2014	1,340,089	1,220,605	29,865	453,237	246,604	1,194,818	4,485,218
<b>Depreciation</b>							
At 1 July 2013	44,925	408,531	6,153	-	-	57,063	516,672
Charge for the year	34,287	116,366	5,604	-	-	29,306	185,563
Disposals	-	( 84)	-	-	-	-	( 84)
At 30 June 2014	79,212	524,813	11,757	-	-	86,369	702,151
<b>Net book value:</b>							
At 30 June 2014	<b>1,260,877</b>	<b>695,792</b>	<b>18,108</b>	<b>453,237</b>	<b>246,604</b>	<b>1,108,449</b>	<b>3,783,067</b>

**NATIONAL OIL CORPORATION OF KENYA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2014**

**17. PROPERTY, PLANT AND EQUIPMENT (Continued)**

	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
<b>2013:</b>							
<b>Cost or valuation:</b>							
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
<b>Depreciation</b>							
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
<b>Net book value:</b>							
<b>At 30 June 2013</b>	<b>944,904</b>	<b>683,002</b>	<b>7,361</b>	<b>161,429</b>	<b>218,408</b>	<b>1,112,876</b>	<b>3,127,980</b>

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

### 17. PROPERTY, PLANT AND EQUIPMENT (continued)

The value of property, plant and equipment is determined by external, independent property valuers, having appropriate recognised professional qualifications every 5 years. Property, plant and equipment were last revalued as at 30 June 2011 by Crystal Valuers Limited, registered valuers. The 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.

18. INVESTMENT PROPERTY	2014 KShs'000	2013 KShs'000
<b>Cost</b>		
At 1 July	11,142	11,142
Additions	<u>2,389</u>	<u>-</u>
At 30 June	<u>13,531</u>	<u>11,142</u>
<b>Depreciation/amortisation</b>		
Accumulated amortisation at 1 July	1,575	1,400
Amortisation charge for the year	<u>207</u>	<u>175</u>
Accumulated amortisation at 30 June:	<u>1,782</u>	<u>1,575</u>
<b>Net book value at 30 June</b>	<b><u>11,749</u></b>	<b><u>9,567</u></b>
<b>19. PREPAID OPERATING LEASES</b>		
<b>Cost</b>		
At 1 July	343,490	279,251
Additions	147,518	69,274
Transfer from Capital work in progress	-	1,465
Disposals	<u>-</u>	<u>( 6,500)</u>
At 30 June	<u>491,008</u>	<u>343,490</u>
<b>Amortisation</b>		
Accumulated amortisation at 1 July:	147,613	117,131
Amortisation charge for the year:	98,228	36,982
Disposals	<u>-</u>	<u>( 6,500)</u>
Accumulated amortisation at 30 June:	<u>245,841</u>	<u>147,613</u>
<b>Net book value at 30 June:</b>	<b><u>245,167</u></b>	<b><u>195,877</u></b>

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.

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

20.	<b>INTANGIBLE ASSETS</b>	<b>2014</b>	<b>2013</b>
		<b>KShs'000</b>	<b>KShs'000</b>
	<b>Cost</b>		
	At 1 July	224,464	195,809
	Additions	12,837	10,522
	Transfers from capital work in progress	<u>897</u>	<u>18,133</u>
	At 30 June	<u>238,198</u>	<u>224,464</u>
	<b>Amortisation</b>		
	At 1 July	172,610	150,369
	Charge for the year	<u>32,700</u>	<u>22,241</u>
	At 30 June	<u>205,310</u>	<u>172,610</u>
	<b>Net book value</b>		
	<b>At 30 June</b>	<u><b>32,888</b></u>	<u><b>51,854</b></u>

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

### 21. **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:

<b>Exploration and Evaluation expenses</b>	<b>2014</b>	<b>2013</b>
	<b>KShs '000</b>	<b>KShs '000</b>
As at 1 July	265,479	26,412
Additions	<u>482,230</u>	<u>239,067</u>
<b>As at 30 June</b>	<u><b>747,709</b></u>	<u><b>265,479</b></u>

#### (b) **BLOCK 14T Fund**

The Government of Kenya in partnership with Japan Oil Gas and Metals National Corporation (JOGMEC) has funded the exploration activities through the Block 14T fund whose balance as at 30 June 2014 is KShs 443,263,000 (2013 – 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.

**NATIONAL OIL CORPORATION OF KENYA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2014**

21. BLOCK 14T (continued)

(b) BLOCK 14T Fund (continued)

	2014 KShs'000	2013 KShs'000
<b>Cost</b>		
At 1 July	235,757	-
Receipts during the year	<u>207,506</u>	<u>235,757</u>
<b>At 30 June</b>	<b><u>443,263</u></b>	<b><u>235,757</u></b>

22. DEFERRED TAX

The deferred income tax is calculated using the enacted tax rate of 30% as at 30 June 2014 (30% - 2013).

	2014 KShs'000	2013 KShs'000
(a) <b>The net deferred tax asset as at 30 June is attributable to the following items</b>		
<i>Assets:</i>		
Provisions	475,156	138,126
Unrealised exchange gains	4,818	-
Decelerated capital allowances	<u>19,527</u>	<u>-</u>
Deferred tax asset	<u>499,501</u>	<u>138,126</u>
<i>Liabilities:</i>		
Unrealised exchange loss	-	( 7,564)
Accelerated capital allowance	<u>-</u>	<u>( 10,835)</u>
Deferred tax liability	<u>-</u>	<u>( 18,399)</u>
<b>Net deferred tax asset</b>	<b><u>499,501</u></b>	<b><u>119,727</u></b>
(b) <b>Reconciliation of deferred tax asset</b>		
At 1 July	119,727	92,002
Prior year over provision of deferred tax asset	345	8,960
Deferred tax credit (Note 15(a))	<u>379,429</u>	<u>18,765</u>
<b>At 30 June</b>	<b><u>499,501</u></b>	<b><u>119,727</u></b>

23. INVENTORIES

	2014 KShs'000	2013 KShs'000
White products	2,334,647	2,500,764
Other products	509,908	613,278
Provision for inventories	<u>(1,019,826)</u>	<u>( 61,123)</u>
	<b><u>1,824,729</u></b>	<b><u>3,052,919</u></b>

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

23.	<b>INVENTORIES (Continued)</b>	<b>2014</b>	<b>2013</b>
		<b>KShs'000</b>	<b>KShs'000</b>
	The provision for inventories are as follows:		
	Provision for inventory at the refinery	( 929,098)	-
	Damaged/obsolete inventory	( 90,728)	( 61,123)
		<b>(1,019,826)</b>	<b>( 61,123)</b>
	The provision for inventory at the refinery relates to the book value of inventory in the custody of Kenya Petroleum Refineries Limited (KPRL) and other reconciling items in the inventory balances that have been long outstanding as at 30 June 2014.		
24.	<b>TRADE AND OTHER RECEIVABLES</b>	<b>2014</b>	<b>2013</b>
		<b>KShs'000</b>	<b>KShs'000</b>
	Trade and other receivables	1,106,837	796,804
	Prepayments	<u>898,407</u>	<u>574,526</u>
		2,005,244	1,371,330
	Provision for doubtful debts	( 328,540)	( 321,784)
		<b><u>1,676,704</u></b>	<b><u>1,049,546</u></b>
25.	<b>CALL DEPOSITS</b>		
	Deposits with banks	645,426	670,231
	Provision for doubtful call deposits	-	( 36,629)
		<b><u>645,426</u></b>	<b><u>633,602</u></b>
26.	<b>SHARE CAPITAL</b>		
	<b>Authorized</b>		
	26,600,000 Ordinary shares of KShs 20 each	<b><u>532,000</u></b>	<b><u>532,000</u></b>
	<b>Issued and fully paid</b>		
		<b>Number of shares</b>	<b>Value of shares</b>
		2014	2013
		2013	2013
		<u>'000</u>	<u>'000</u>
		<u>KShs'000</u>	<u>KShs'000</u>
	<b>At 1 July and 30 June</b>	<b><u>26,600</u></b>	<b><u>26,600</u></b>
		<b><u>532,000</u></b>	<b><u>532,000</u></b>
	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.		
27.	<b>FUNDS AWAITING ALLOTMENT OF SHARES</b>		
	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 2014, this amount has been accounted for as funds awaiting allotment of shares.		
28.	<b>SHAREHOLDING STRUCTURE</b>	<b>2014</b>	<b>2013</b>
		<b>No. of shares</b>	<b>No. of shares</b>
		<b>'000'</b>	<b>'000'</b>
	Ministry of Finance (Treasury) (99%)	26,334	26,334
	Ministry of Energy and Petroleum (1%)	<u>266</u>	<u>266</u>
		<b><u>26,600</u></b>	<b><u>26,600</u></b>

**NATIONAL OIL CORPORATION OF KENYA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2014**

29. DEFERRED INCOME	Government Training fund grant KShs'000	downstream grants KShs'000	Oil exploration grant KShs'000	Total deferred income KShs'000
<b>2014:</b>				
As at 1 July 2013	10,225	95,835	448,037	554,097
Receipts during the year	-	-	220,000	220,000
Proceeds from sale of geological maps	-	-	62,326	62,326
Transfer to income statement	-	(13,248)	(197,876)	(211,124)
<b>As at 30 June 2014</b>	<b><u>10,225</u></b>	<b><u>82,587</u></b>	<b><u>532,487</u></b>	<b><u>625,299</u></b>
<b>2013:</b>				
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	-	-	58,358	58,358
Transfer to income statement	( 1,663)	(13,248)	(154,340)	(169,251)
<b>As at 30 June 2013</b>	<b><u>10,225</u></b>	<b><u>95,835</u></b>	<b><u>448,037</u></b>	<b><u>554,097</u></b>

*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.

30. TRADE AND OTHER PAYABLES	2014 KShs'000	2013 KShs'000
Trade payables	457,176	532,232
Leave pay provision	7,761	12,551
Accruals and other payables	654,969	597,450
Other provisions	<u>111,782</u>	<u>77,253</u>
	<b><u>1,231,688</u></b>	<b><u>1,219,486</u></b>

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 71,804,591 (2013 – KShs 77,253,000) for the claims.

**NATIONAL OIL CORPORATION OF KENYA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2014**

	2014	2013
	KShs'000	KShs'000
<b>31. GRATUITY PROVISION</b>		
At 1 July	4,763	5,655
Additional provision during the year	3,454	2,892
Payments during the year	( 5,406)	( 3,784)
<b>At 30 June</b>	<b><u>2,811</u></b>	<b><u>4,763</u></b>
The amounts are due as follows:		
Within one year	2811	4,763
After one year	-	-
<b>At end of year</b>	<b><u>2,811</u></b>	<b><u>4,763</u></b>
<b>32. BORROWINGS</b>		
<i>Current borrowings</i>		
Bank overdrafts	2,551,852	1,831,853
Term loans	-	104,198
	2,551,852	1,936,051
<i>Non-current borrowings</i>		
Term loan	109,934	91,498
	<b><u>2,661,786</u></b>	<b><u>2,027,549</u></b>
The borrowings therefore comprise of:		
Bank overdrafts	2,551,852	1,831,853
Term loans	109,934	195,696
	<b><u>2,661,786</u></b>	<b><u>2,027,549</u></b>

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,Klng'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

**NATIONAL OIL CORPORATION OF KENYA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2014**

**32. BORROWINGS (Continued)**

Location	L.R No.	Amount KShs
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	NRB/BLK 97/59	19,639,480
Nairobi	NRB/BLK 97/60	
Nairobi	NRB/BLK 97/61	
Nairobi	NRB/BLK 97/62	

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:

	2014 KShs'000	2013 KShs'000
KCB Term loan III	6,857	17,333
KCB Term loan IV	13,368	33,794
KCB Term loan V	5,471	10,655
KCB Term loan VI	<u>84,238</u>	<u>133,911</u>
<b>Total KCB term loan</b>	<b>109,934</b>	<b>195,693</b>
Kenya Commercial Bank overdraft facility (see below)	583,136	472,201
CfC Stanbic Bank overdraft facility (see below)	<u>1,968,716</u>	<u>1,359,655</u>
	<b><u>2,551,852</u></b>	<b><u>1,831,856</u></b>

The Corporation has a composite facility comprising of overdrafts, guarantees and letters of credit with Kenya Commercial Bank with a limit of KShs 800,000,000 (2013 - KShs 600,000,000). 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 2,000,000,000 (2013 - 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:

	2014	2013
Bank overdrafts	14.50%	14.25%
Term loans	15.00%	19.75%

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

### 33. 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 2014, the Corporation had utilised the US dollar equivalent of KShs 403,082,425 (2013 – KShs 430,037,500) of the structured trade finance facility and KShs 438,127,873 (2013 - Nil) of the KCB Post Import Finance (OTS) facility.

The interest rate paid on the structured trade finance facility is 6% p.a. (2013 – 6% p.a.) for the USD component and 15% p.a. (2013 – 15% p.a.) for the KShs component.

### 34. 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.

(a) Reconciliation of profit before tax to cash used in operating activities	2014 KShs'000	2013 KShs'000
Profit before tax	( 872,068)	347,901
Adjustments for:		
Depreciation	185,563	138,025
Gain on disposal of property, plant and equipment	( 106)	( 885)
Amortisation – prepaid operating rentals	98,228	36,982
Amortisation – intangible assets	32,700	22,241
Release of training fund grant		( 1,663)
Release of deferred income – upstream	( 197,876)	( 154,340)
Release of deferred income – downstream	( 13,248)	( 13,248)
Net interest expense	311,369	314,563
Depreciation/amortisation of investment property	<u>207</u>	<u>175</u>
<b>Operating profit before working capital changes</b>	<b>( 455,231)</b>	<b>689,751</b>
Decrease in inventories	1,228,190	609,249
Increase in trade and other receivables	( 627,158)	( 58,323)
Increase in trade and other payables	12,202	235,727
Decrease in gratuity provision	( <u>1,952</u> )	( <u>892</u> )
<b>Net cash generated from operating activities</b>	<b><u>156,052</u></b>	<b><u>1,475,512</u></b>
(b) Analysis of the balances of cash and cash equivalents		
Cash and bank balances	215,316	386,719
Bank overdrafts (Note 32)	(2,551,852)	(1,831,853)
Call deposits	<u>645,426</u>	<u>633,602</u>
	<b><u>(1,691,110)</u></b>	<b><u>( 811,532)</u></b>

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

### 35. 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 22,852,000 (2013 - KShs 33,335,000).

### 36. 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.

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:

	2014 KShs'000	2013 KShs'000
Less than one year	8,109	8,805
Between one and five years	<u>10,605</u>	<u>22,331</u>
	<u>18,714</u>	<u>31,136</u>

### 37. 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:

	2014 KShs'000	2013 KShs'000
Authorised but not contracted for	<u>2,145,200</u>	<u>1,747,093</u>
Authorised and contracted for	-	-

### 38. RELATED PARTIES

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

	2013 KShs'000	2012 KShs'000
(a) <b>Key management compensation</b>		
Salaries and other short-term employment benefits	<u>54,134</u>	<u>44,683</u>
(b) <b>Directors' remuneration</b>		
Fees for service as directors	4,620	4,620
Other emoluments	<u>8,573</u>	<u>7,421</u>
	<u>13,193</u>	<u>12,041</u>

**NATIONAL OIL CORPORATION OF KENYA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2014**

**38. RELATED PARTIES (Continued)**

**(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 1,578,008 (2013 – KShs 1,604,765).

	2014	2013
	KShs'000	KShs'000
<b>(d) Outstanding balances</b>		

The balances outstanding at year end were as follows:

Due to related parties	<u>(247,296)</u>	<u>(115,518)</u>
Due from related parties	<u>(275,675)</u>	<u>101,828</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.

**39. 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:

	2014	2013
	KShs'000	KShs'000
<b>Cost</b>		
At 1 July	638,031	499,506
Receipts during the year	433,989	801,000
Payments made for construction of MOE HQ	<u>(459,545)</u>	<u>(662,475)</u>
<b>At 30 June</b>	<u><b>612,475</b></u>	<u><b>638,031</b></u>

**40. 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.

	2014	2013
	KShs'000	KShs'000
<b>Cost</b>		
At 1 July	22,970	55,812
Receipts during the year	-	-
Payments made during the year	<u>(11,527)</u>	<u>(32,842)</u>
<b>At 30 June</b>	<u><b>11,443</b></u>	<u><b>22,970</b></u>

# NATIONAL OIL CORPORATION OF KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

### 41. 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.

	2014 KShs'000	2013 KShs'000
<b>Cost</b>		
At 1 July	21,141	17,937
Receipts during the year	17,534	17,138
Payments made during the year	(14,538)	(13,934)
<b>At 30 June</b>	<b><u>24,137</u></b>	<b><u>21,141</u></b>

### 42. EXPLORATION AND PRODUCTION CAPACITY BUILDING FUND

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

	2014 KShs'000	2013 KShs'000
<b>Cost</b>		
At 1 July	437,000	-
Receipts during the year	-	437,000
Payments made during the year	( 69,413)	-
<b>At 30 June</b>	<b><u>367,587</u></b>	<b><u>437,000</u></b>

### 43. LABORATORY EQUIPMENT FUND

The Corporation received funds during the year from the Ministry of Energy and Petroleum which are meant for laboratory equipment amounting to KShs 300,000,000 for the energy centre at the new Ministry of Energy and Petroleum headquarters.

**NATIONAL OIL CORPORATION OF KENYA LIMITED**

**DETAILED EXPENSES**  
**FOR THE YEAR ENDED 30 JUNE 2014**

**Appendix I**

	<b>2014</b>	<b>2013</b>
	<b>KShs</b>	<b>KShs</b>
<b>EXPLORATION COSTS</b>		
Salaries	75,237,599	60,579,725
Professional fees	16,473,848	15,956,075
Traveling and accommodation	14,098,357	8,650,592
Training and education	8,229,700	4,439,073
Rent and rates	24,916,070	14,401,733
Board expenses	4,979,005	5,747,899
Staff housing	11,180,897	9,970,116
Medical expenses	4,979,741	3,724,067
Security charges	598,679	1,127,090
Printing and stationery	2,057,244	1,453,341
Telephone, telex and postage	1,481,160	1,693,526
Light and water	199,064	112,014
Gratuity and pension costs	1,361,150	960,395
Audit fees	1,627,857	1,633,317
Subscriptions and donations	3,904,154	4,143,326
Insurance- Office & other Insurance	751,470	218,597
Groceries and drinks	1,060,200	599,138
Advertising and publicity	4,661,716	4,595,697
Other office supplies and expenses	15,222,532	10,672,457
Cleaning, repairs and maintenance	1,300,194	2,474,423
Motor running expenses	93,140	168,653
Staff welfare expenses	2,183,728	507,299
Recruitment costs	<u>1,278,451</u>	<u>512,074</u>
	<b><u>197,875,956</u></b>	<b><u>154,340,627</u></b>
<b>ADMINISTRATIVE EXPENSES</b>		
Salaries	206,653,974	165,658,890
Other allowances and compensation	52,052,782	50,036,804
House allowance	36,216,738	35,414,789
Training and education	27,319,936	31,984,590
Gratuity	2,093,120	3,044,745
Medical expenses	21,956,349	18,956,023
Other pension costs	17,190,381	45,669,763
Overtime	3,038,044	2,569,919
Vacation and holiday compensation	2,967,998	7,161,430
Staff welfare	7,355,022	7,300,317
Wages	1,712,344	1,245,200
NSSF costs	212,128	29,720
Recruitment costs	<u>1,047,309</u>	<u>2,524,359</u>
	<b><u>379,816,125</u></b>	<b><u>371,596,549</u></b>

**NATIONAL OIL CORPORATION OF KENYA LIMITED**

**DETAILED EXPENSES**  
**FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)**

<b>OTHER OPERATING EXPENSES</b>	<b>2014</b> <b>KShs</b>	<b>2013</b> <b>KShs</b>
Depreciation plant and machinery	90,056,216	63,501,889
Maintenance of equipment	63,714,172	55,612,095
Professional fees	67,704,363	101,642,254
Amortization of prepaid lease rentals	98,897,585	36,981,732
Amortization of leasehold land	29,306,364	29,699,115
Advertising and publicity	30,824,358	36,693,677
Traveling and accommodation	83,202,156	80,862,669
Rent and rates	29,918,165	22,665,019
Board expenses	19,490,547	14,047,999
Depreciation of buildings	34,887,426	24,304,384
Security charges	31,977,048	30,450,590
Subscriptions and donations	16,419,641	11,215,974
Depreciation of furniture and equipment	10,718,401	10,251,736
Postage and courier	1,267,776	1,009,659
Printing	4,012,360	3,257,074
Depreciation of computers	10,317,547	8,565,106
Telephone and fax	3,908,098	5,023,056
Light and water	7,733,312	4,276,344
Insurance	3,136,177	4,826,859
Audit fees	7,379,906	8,501,213
Depreciation of motor vehicles	4,392,887	2,128,407
Groceries and drinks	5,828,019	5,279,041
Staff uniforms	610,284	1,155,720
Entertainment	154,866	191,896
Amortization of intangible assets	24,048,742	14,163,218
Hire and rentals	62,373,795	33,299,541
Cleaning	6,998,856	5,055,414
Office supply and expenses	6,383,630	5,767,374
Books and newspapers	748,335	597,241
	<b><u>756,411,032</u></b>	<b><u>621,026,296</u></b>