

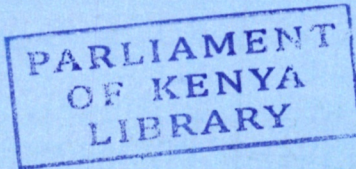
REPUBLIC OF KENYA

PAPER LAID



By the leader of the Majority Party, the Hon. Aden Duale MP
Thursday, 6 April 2017

OFFICE OF THE AUDITOR-GENERAL



REPORT

OF

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR ENDED
30 JUNE 2016**



**NATIONAL OIL CORPORATION
OF KENYA LIMITED**

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

30 JUNE 2016



NATIONAL OIL CORPORATION OF KENYA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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NATIONAL OIL CORPORATION OF KENYA LIMITED

CORPORATE INFORMATION

DIRECTORS	Mr. Daniel Wamahiu Ms. MaryJane Mwangi Dr. Kamau Thugge Mr. Andrew Kamau Ms. Margaret Saitoti Mr. Bernard Rono Dr. Joseph Rutomoi Dr. Sam Gakunga Mr. Kabuga Kariithi Mr. Peter Ekuleu Mr. Tom Macharia Ms. Christine Mutinda Eng. Stanley Kamau Mr. Timothy Mulaha	- Chairman - Ag. CEO – Appointed on 1 July 2016 - Principal Secretary, National Treasury - Principal Secretary, Ministry of Energy & Petroleum - Alternate Director to Principal Secretary, National Treasury - Alternate to Principal Secretary Ministry of Energy & Petroleum
SECRETARY	Pauline Kimotho Certified Public Secretary (Kenya) P O Box 58567 – 00200, Nairobi	
REGISTERED OFFICE	Aon Minet House Mamlaka Road, Off Nyerere Road P O Box 58567 – 00200, Nairobi	
BANKERS	Standard Chartered Bank Kenya Limited P O Box 30003 – 00100 Nairobi KCB Bank Kenya Limited P O Box 30081 – 00100 Nairobi The Co-operative Bank of Kenya Limited P O Box 67881 – 00200 Nairobi	Stanbic Bank Limited P O Box 72833 – 00200 Nairobi Equity Bank Limited P O Box 78569 – 00507 Nairobi
PRINCIPAL AUDITOR	The Auditor General Anniversary Towers P O Box 30084 – 00100, Nairobi	
DELEGATED AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place Waiyaki way, Muthangari P O Box 40092 – 00100, Nairobi	
LEGAL ADVISERS	IKM Advocates IKM Place, Tower A, 5 th floor 5 th Ngong Avenue, Off Bishop Road P O Box 11866 – 00400, Nairobi	

NATIONAL OIL CORPORATION OF KENYA LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2016

The Directors present their report together with the audited financial statements of National Oil Corporation of Kenya Limited (the "Corporation") for the year ended 30 June 2016 which show the state of the Corporation's affairs.

Principal activities

The core business of the Corporation continues to be trading in refined petroleum products and participation in related petroleum business such as refining, distribution and marketing; provision of related services such as hospitality, storage, transport, product receipt and loading; petroleum exploration; and promotion activities and participation in energy sector activities as directed by the Government from time to time.

Results for the year

	30 June 2016 Shs'000	30 June 2015 Shs'000
(Loss)/profit before taxation	(628,761)	6,721
Taxation charge	(179,407)	(69,980)
Loss for the year transferred to retained earnings	<u>(808,168)</u>	<u>(63,259)</u>

Dividends

The directors do not recommend payment of dividend in respect of the current financial year (2015: nil).

Directors


The current Board of Directors are as shown on page 2. Ms. Summaya. H. Athmani resigned on 1 July 2016.

Auditors

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

Accordingly, Deloitte & Touche were appointed to carry out the audit for the year ended 30 June 2016 and report to the Auditor General.

By order of the Board


For Pauline Kimotho
Company Secretary
Nairobi

15/12/2016

NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the Corporation's state of affairs as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure that the Corporation keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Corporation. They are also responsible for safeguarding the assets of the Corporation.

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements 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.

Disclosures regarding going concern are provided in note 8 to these financial statements. No other matters have come to the attention of the directors to indicate that the Corporation will not remain a going concern for at least the next 12 months from the date of this statement.



Director



Director

15th DECEMBER, 2016



REPUBLIC OF KENYA

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E-mail: oag@oagkenya.go.ke
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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NATIONAL OIL CORPORATION OF KENYA LIMITED FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of National Oil Corporation of Kenya Limited set out on pages 7 to 48, which comprise the statement of financial position as at 30 June 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Deloitte & Touché, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Management's Responsibility for the Financial Statements

Directors are responsible for the preparation and fair presentation of these financial statements in accordance with 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 misstatements, 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 47 of the Public Audit Act, 2015.

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 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. 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 disclosures 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

Report of the Auditor-General on the Financial Statements of National Oil Corporation of Kenya for the year ended 30 June 2016

design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of National Oil Corporation of Kenya Limited as at 30 June 2016, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act.

Emphasis of Matter

Going Concern

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

The Corporation incurred a loss of Kshs.808,168,000 (2014/2015 Kshs.63,259,000) during the year and had accumulated losses of Kshs.1,221,235,000 as of 30 June 2016 (2015 Kshs.413,347,000). In addition, the Corporation is in a net current liability position of Kshs.955,806,000 (2015 Kshs.1,383,027,000). These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Corporation's ability to continue as a going-concern. My opinion is not qualified in respect of this matter.

Other Matter

1. Late Submission of Signed Financial Statements

The Corporation's financial statements for the year ended 30 June 2016 were approved and signed by the Board of Directors on 15 December 2016 and submitted late for audit contrary to Section 47 (1) of the Public Audit Act, 2015.

2. Provisions

2.1 Inventories

The financial statements and as disclosed in Note 23 reflect provisions for inventories totalling Kshs.882,289,000 (2014/15 Kshs.847,230,000). The provisions relate to book values of inventories held at the Kenya Petroleum Refineries Limited (KPRL) and other inventory reconciling items. Although full provision has been

made in the financial statements, the management has not made any tangible effort to clear the provisions. Further, charges to the income statement include an amount of Kshs.111,243,941 on account of unsupported variances between book values for liquefied petroleum, gas and lubricants, and the respective physical counts as at 30 June 2016.

2.2 Trade and Other Receivables

The statement of financial position and as disclosed in Note 24 to the financial statements reflects a net trade and other receivables balance of Kshs.1,041,827,000 (2014/2015 Kshs.1,077,192,000) as of 30 June 2016. The balance is net of Kshs.406,431,000 (2014/2015 Kshs.338,157,000) provision for doubtful debts. Included in the provisions is recoverable prepayment of custom duty made on account of KPRL Kshs.52,571,000 for the financial year 2013/2014. As reported previously, the duty has not been reconciled to the various inventory deliveries to facilitate recovery.

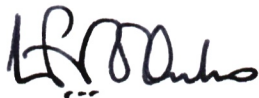
3. Allotment of Shares

As pointed out in 2014/2015 audit report, the financial statements as disclosed in Note 27 reflect a balance of Kshs.500,000,000 as funds awaiting allotment of shares. The balance represents funds received from the Government of Kenya in 2009 as share capital injection. As at the time of concluding the audit, the process of increasing the share capital had not been finalized, despite significant duration having lapsed since injection of the funds.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the 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; and,
- ii. In my opinion, adequate accounting records have been kept by the Company, so far as appears from my examination of records; and,
- iii. The Company's financial statements are in agreement with the accounting records.



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

Nairobi

14 March 2017

NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 Shs'000	2015 (Restated) Shs'000
Revenue	9	30,030,328	23,930,880
Cost of sales	10	(28,760,098)	(22,402,137)
GROSS PROFIT		1,270,230	1,528,743
Other operating income	11	98,699	214,669
Oil exploration grant	29	183,999	216,964
Release of deferred income in respect of depreciation of grant assets	29	13,248	13,248
		1,566,176	1,973,624
EXPENDITURE			
Administrative expenses		(482,436)	(425,141)
Operating expenses		(881,022)	(896,797)
Provisions for inventory at the refinery	23	-	65,300
Exploration cost	29	(183,999)	(216,964)
		(1,547,457)	(1,473,602)
OPERATING PROFIT		18,719	500,022
Interest income	14(a)	17,578	34,979
Finance costs	14(b)	(665,058)	(528,280)
		(647,480)	(493,301)
(LOSS)/PROFIT BEFORE TAXATION		(628,761)	6,721
Taxation charge	15	(179,407)	(69,980)
LOSS FOR THE YEAR		(808,168)	(63,259)
OTHER COMPREHENSIVE INCOME			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Revaluation surplus on property plant and equipment	17	-	2,032,183
Deferred tax on revaluation surplus	22	-	(507,720)
Other comprehensive income for the year, net of tax		-	1,524,463
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(808,168)	1,461,204
Loss per share			
Basic	16	(30.38)	(2.38)
Diluted	16	(15.66)	(1.23)

NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

		2016	2015	1 July 2014
	Notes	Shs'000	(Restated) Shs'000	(Restated) Shs'000
ASSETS				
Non-current assets				
Property, plant and equipment	17	6,653,850	6,459,796	3,783,067
Investment property	18	11,279	11,514	11,749
Prepaid operating leases	19	190,323	212,435	245,167
Intangible assets	20	156,134	70,433	32,888
Exploration expenditure- Block 14T	21(a)	820,667	778,800	747,709
Deferred tax asset	22	-	-	309,147
		<u>7,832,253</u>	<u>7,532,978</u>	<u>5,129,727</u>
Current assets				
Inventories	23	2,281,580	2,916,102	1,824,729
Trade and other receivables	24	1,041,827	1,077,192	1,676,705
Current tax asset	15(c)	128,427	143,578	7,699
Call deposits	25	109,537	462,132	645,426
Cash and bank balances	40(b)	523,036	337,819	215,316
		<u>4,084,407</u>	<u>4,936,823</u>	<u>4,369,875</u>
TOTAL ASSETS		<u><u>11,916,660</u></u>	<u><u>12,469,801</u></u>	<u><u>9,499,602</u></u>
EQUITY AND LIABILITIES				
CAPITAL AND RESERVES				
Share capital	26	532,000	532,000	532,000
Share premium	26	1,183,000	1,183,000	1,183,000
Funds awaiting allotment of shares	27	500,000	500,000	500,000
Revaluation reserve		2,037,173	2,037,453	512,990
Accumulated deficit		(1,221,235)	(413,347)	(350,088)
Shareholders' equity		<u><u>3,030,938</u></u>	<u><u>3,839,106</u></u>	<u><u>2,377,902</u></u>
Non-current liabilities				
Block 14T fund	21(b)	528,427	509,961	443,263
Deferred tax liability	22	432,809	268,553	-
Deferred income	29	1,061,839	933,910	625,299
Borrowings	32	1,822,434	598,421	109,934
		<u><u>3,845,509</u></u>	<u><u>2,310,845</u></u>	<u><u>1,178,496</u></u>
Current liabilities				
Trade and other payables	30	1,211,201	1,562,167	1,231,688
Gratuity provision	31	7,573	8,803	2,811
Borrowings	32	2,371,546	2,929,482	2,551,852
Structured trade finance facility	33	740,929	789,082	841,211
Ministry of Energy and Petroleum Headquarters Construction Fund	34	223,843	516,648	612,475
Single Buoy Mooring (SBM) jetty fund	35	11,443	11,443	11,443
Corporate Social Responsibility (CSR) projects fund	36	39,256	18,114	24,137
Exploration and Production Capacity Building fund	37	134,422	184,111	367,587
Laboratory Equipment fund	38	300,000	300,000	300,000
		<u><u>5,040,213</u></u>	<u><u>6,319,850</u></u>	<u><u>5,943,204</u></u>
TOTAL EQUITY AND LIABILITIES		<u><u>11,916,660</u></u>	<u><u>12,469,801</u></u>	<u><u>9,499,602</u></u>

The financial statements on pages 7 to 48 were approved and authorised for issue by the board of directors on 2016 and were signed on its behalf by:

Director

15TH DECEMBER, 2015

Director

NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

	Share capital Shs'000	Share premium Shs '000	Funds awaiting allotment of shares Shs'000	Revaluation reserve (deficit) Shs'000	Accumulated deficit Shs'000	Total Shs'000
At 1 July 2014						
- as previously reported	532,000	1,183,000	500,000	740,381	(387,125)	2,568,256
- prior year adjustment (note 44(a))	-	-	-	(227,391)	37,037	(190,354)
At 1 July 2014 – restated	532,000	1,183,000	500,000	512,990	(350,088)	2,377,902
Total comprehensive income for the year	-	-	-	1,524,463	(63,259)	1,461,204
At 30 June 2015 - restated	<u>532,000</u>	<u>1,183,000</u>	<u>500,000</u>	<u>2,037,453</u>	<u>(413,347)</u>	<u>3,839,106</u>
At 1 July 2015						
- as previously reported	532,000	1,183,000	500,000	2,264,177	(429,674)	4,049,503
- prior year adjustment (note 44(b))	-	-	-	(226,724)	16,327	(210,397)
At 1 July 2015 – restated	532,000	1,183,000	500,000	2,037,453	(413,347)	3,839,106
Total comprehensive loss for the year	-	-	-	-	(808,168)	(808,168)
Revaluation surplus realised on disposal of property, plant and equipments	-	-	-	(280)	280	-
At 30 June 2016	<u>532,000</u>	<u>1,183,000</u>	<u>500,000</u>	<u>2,037,173</u>	<u>(1,221,235)</u>	<u>3,030,938</u>



NATIONAL OIL CORPORATION OF KENYA LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 Shs'000	2015 Shs'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	40(a)	551,454	417,156
Interest paid		(614,175)	(469,982)
Interest received		17,578	34,979
Taxation paid	15(c)	-	(135,879)
Net cash used in operating activities		(45,143)	(153,726)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	17	(549,309)	(913,395)
Proceeds on disposal of property, plant and equipment		1,550	13,019
Acquisition of prepaid operating leases	19	(77,249)	(6,863)
Purchase of intangible assets	20	(95,709)	(59,646)
Purchase of exploration assets	21(a)	(41,867)	(31,091)
Net cash used in investing activities		(762,584)	(997,976)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in Block 14T fund	21(b)	18,466	66,698
Government grants received – proceeds from sale of geological maps	29	176	103,908
Government grants received – upstream	29	325,000	434,915
Borrowings received	32	19,588,337	16,126,277
Borrowings repaid	32	(18,019,498)	(15,562,257)
Receipts received in Ministry of Energy and Petroleum Headquarters construction fund	34	-	63,805
Payments made from Ministry of Energy and Petroleum Headquarters construction fund	34	(292,805)	(159,632)
Receipts received in corporate social responsibility projects fund	36	24,095	17,871
Payments made from corporate social responsibility projects fund	36	(2,953)	(23,894)
Decrease in exploration and production capacity building fund	37	(49,689)	(183,476)
Net cash generated from financing activities		1,591,129	884,215
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		783,402	(267,487)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		(1,958,597)	(1,691,110)
CASH AND CASH EQUIVALENTS AT END OF YEAR		(1,175,195)	(1,958,597)



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

1. REPORTING ENTITY

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

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

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

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2016

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

Amendments to IAS 19
Defined Benefit Plans:
Employee Contributions

The amendments to IAS 19 clarify the accounting treatment for contributions from employees or third parties to a defined benefit plan. According to the amendments, discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan. When the formal terms of the plan specify contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- i. If the contributions are not linked to services (e.g. contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they affect the remeasurement of the net defined benefit liability (asset).
- ii. If contributions are linked to services, they reduce service costs. If the amount of contribution is dependent on the number of years of service, the entity should reduce service cost by attributing it to the contributions to periods of service using the attribution method required by IAS 19 paragraph 70 (for the gross benefits). If the amount of contribution is independent of the number of years of service, the entity is permitted to either reduce service cost in the period in which the related service is rendered, or reduce service cost by attributing the contributions to the employees' periods of service in accordance with IAS 19 paragraph 70.

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

Annual Improvements to
2010-2012

The annual improvements to IFRSs 2010-2012 cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 2 amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'.



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

i) *Relevant new standards and amendments to published standards effective for the year ended 30 June 2016 (Continued)*

Annual Improvements to 2010-2012 (Continued) The amendments to IFRS 3 require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.

The amendments to IFRS 8 requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly.

The amendments to IFRS 13 clarify that issuing IFRS 13 and amending The amendments to IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only).

The amendments to IAS 16 and IAS 38 clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount.

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

Annual Improvements to 2011-2013 The annual improvements to IFRSs 2011-2013 cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 8 requires entities to disclose judgements made by management in applying the aggregation criteria set out in paragraph 12 of IFRS 8 Operating Segments. The Corporation has aggregated several operating segments into a single operating segment and made the required disclosures in Note 5 in accordance with the amendments.

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

- a) the property meets the definition of investment property in terms of IAS 40;
- b) the transaction meets the definition of a business combination under IFRS 3.

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

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

ii) *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016*

<i>New standards and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 16 Leases	1 January 2019
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
IFRS 14 Regulatory Deferral Accounts	1 January 2016
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IAS 1: Disclosure Initiative	1 January 2016
Amendments to IAS 27 Equity Method in Separate Financial Statements	1 January 2016
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants	1 January 2016
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception	1 January 2016
Annual Improvements to 2012-2014	1 January 2016

iii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2016*

IFRS 9 Financial Instruments

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

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

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



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2016 (Continued)

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

IFRS 16 Leases

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

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

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

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

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

The directors of the Corporation do not anticipate that the application of the amendments in IAS 12 in the future will have a significant impact on amounts reported in respect of the Corporation's financial assets and financial liabilities. However, it is not practical to provide a reasonable estimate of the effect of IAS 12 until a detailed review has been completed.



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2016 (Continued)

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes:

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

The directors of the Corporation believe that the application of the amendments to the standard has had no significant impact on the Corporation's financial statements.

Annual Improvements to 2012-2014 Cycle

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

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

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

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

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

iv) Early adoption of standards

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

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES

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

(d) Use of estimates and judgements

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. The estimates and assumptions are based on the directors' best knowledge of current events, actions, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements is described in note 4 – Critical Accounting Judgements and Key Sources of Estimation

Revenue recognition

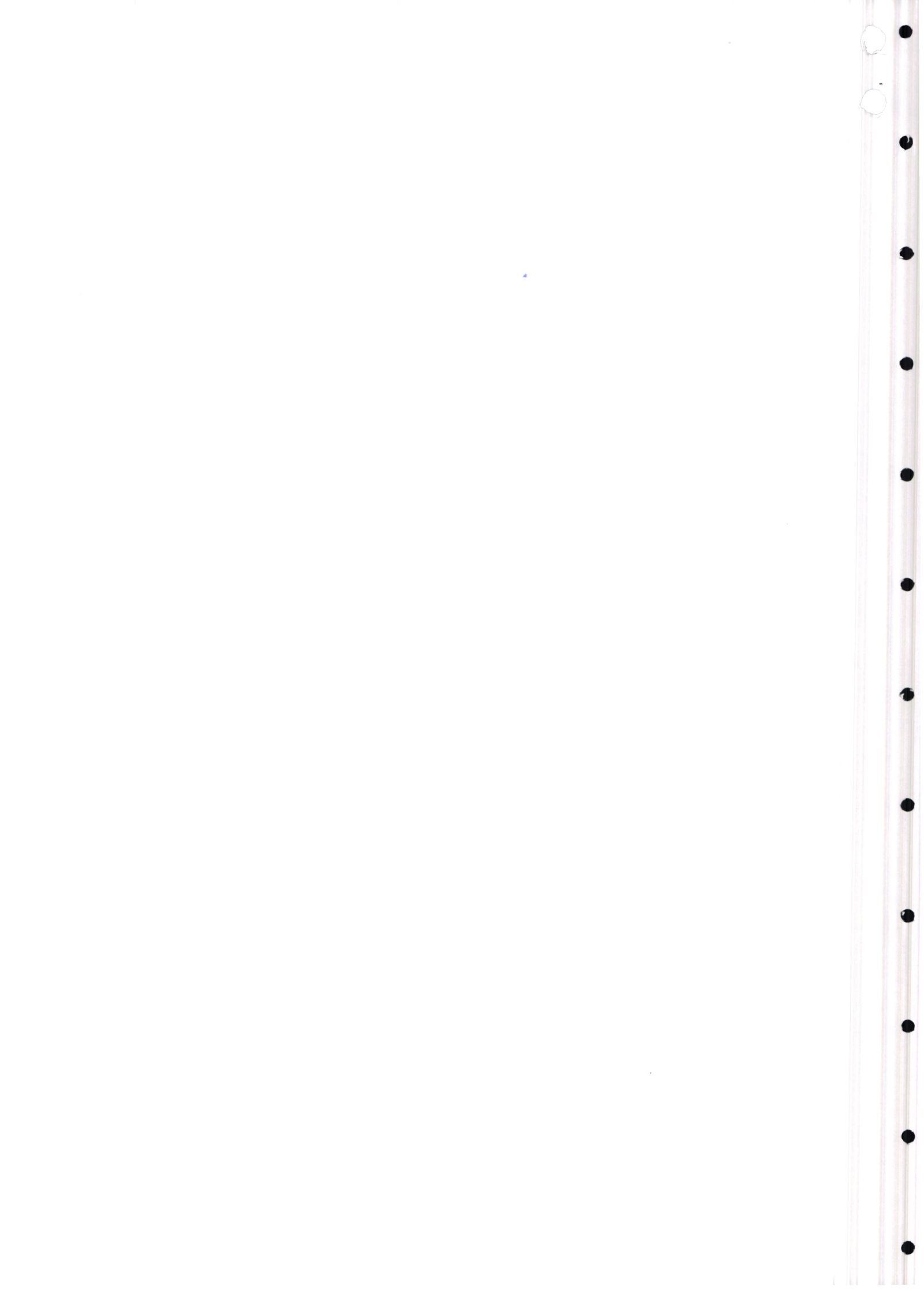
Revenue, which represents sales to external customers during the year, is recognised upon delivery of products and customer acceptance and is measured net of value added tax, returns and rebates. Revenue consists of sales of white products, black products, lubricants, liquefied petroleum gas and gas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

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

Oil exploration grants

These are funds received from the Government for exploration activities.

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



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Leasehold land

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

All other leases are classified as operating leases.

Operating leases

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

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

Finance income and finance costs

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

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

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

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

Taxation

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

(i) Current tax

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

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (continued)

(ii) *Deferred tax*

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

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

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

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



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Intangible assets

Intangible assets represent computer software which is measured at cost less accumulated amortisation. Amortisation is calculated to write off the cost of the assets on a straight line basis over their estimated useful life of 3 years, from the date that they are available for use.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

The amortisation of intangible assets is included in other operating expenses in the statement of profit or loss and other comprehensive income.

Exploration expenditure - Block 14 T

Exploration for and evaluation of mineral resources is the search for mineral resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource. Accordingly, exploration and evaluation expenditure are those expenditures incurred by the Corporation in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Accounting for exploration and evaluation expenditure is assessed separately for each 'area of interest'. An 'area of interest' is an individual geological area which is considered to constitute a favourable environment for the presence of a mineral deposit or has been proved to contain such a deposit.

For each area of interest, the expenditure is recognised as an exploration and evaluation asset when the rights of tenure to that area of interest are current and the expenditure is expected to be recouped through success development and exploitation of an area of interest, or alternatively by its sale, and where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

General and administrative costs are allocated to, and included in, the cost of exploring and evaluation assets only to the extent that those costs can be related directly to operational activities in the area of interest to which the exploration and evaluation assets relate. In all other instance, these costs are expenses as incurred.

Impairment testing of exploration and evaluation assets

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability or facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Accumulated costs in relation to an abandoned area are written off in full to the statement of profit or loss and other comprehensive income in the year in which the decision to abandon the area is made.

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are measured at the lower of cost and net realisable value. Cost comprises purchase price and other costs incurred in bringing the inventories to their present location. Inventory cost is determined using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of sale. Specific provision is recognised for obsolete, slow moving and defective inventories.

Recognition and measurement of financial instruments

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

(i) Classification, recognition and measurement

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

Trade receivables

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

Bank borrowings

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

Cash and cash equivalents

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

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

Trade payables

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

Equity instruments

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



3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recognition and measurement of financial instruments (continued)

(ii) Offsetting of financial assets and liabilities

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

(iii) Fair value of financial assets and liabilities

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

Impairment of assets

(i) Impairment of financial assets

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

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

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

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

(ii) Impairment of non-financial assets

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

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

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.



3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

Provisions

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

Employee benefit costs

Short term employee benefits

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

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

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

Defined contribution plans

A defined contribution plan is a post employment benefit plan under which the entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as employee benefit expenses in the profit or loss in the period during which the employees have rendered the related services. The Corporation operates a defined contribution provident fund for its employees. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by payments from both the employees and the Corporation. Benefits are paid to retiring staff in accordance with the scheme's rules.

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

Government and other funds

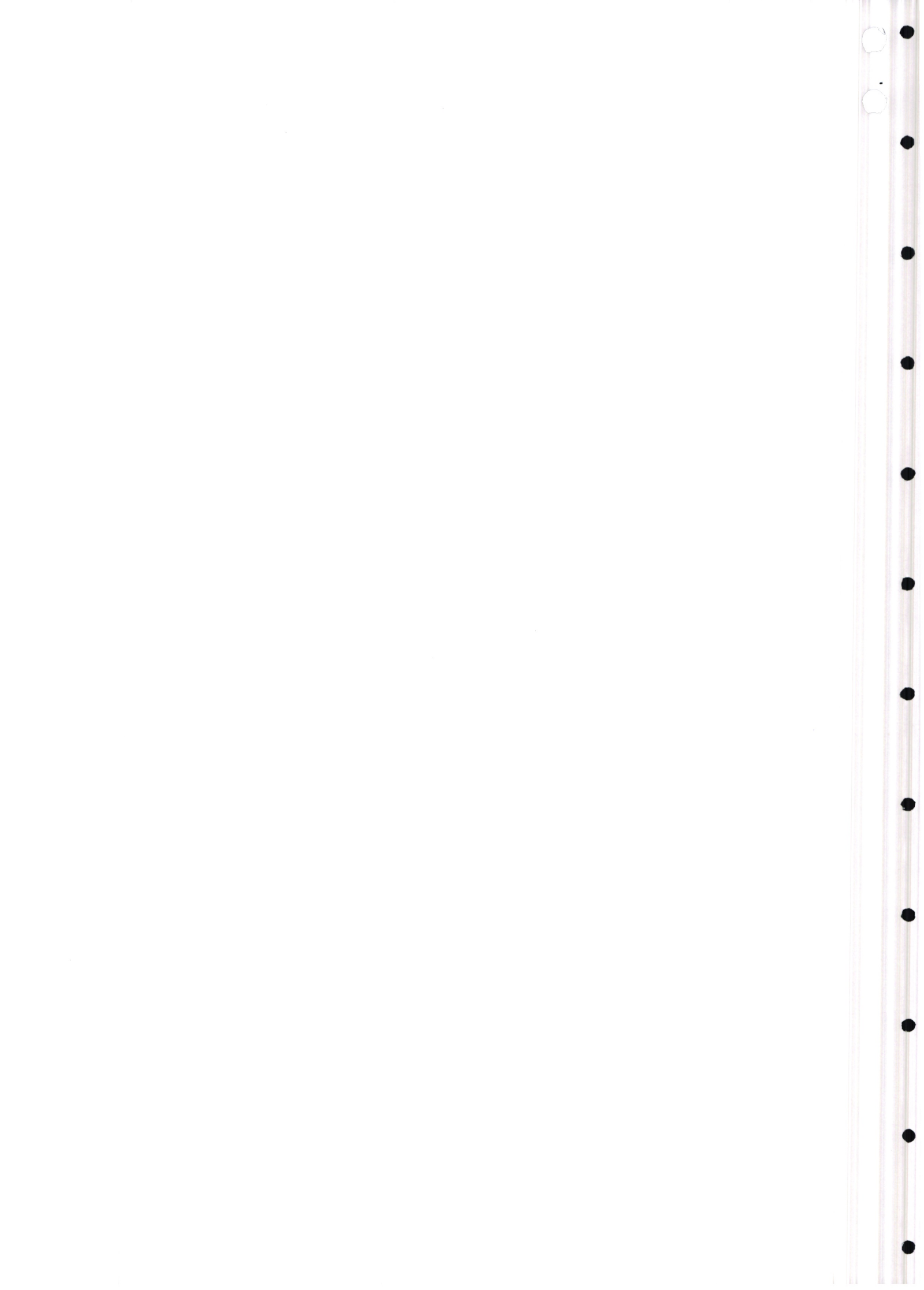
These arise as a result of the Corporation being the governments arm in exploration and other petroleum projects. As a result the Corporation acts as a custodian for funds meant for various government projects in the oil industry. These include the construction of the Ministry of Energy and Petroleum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

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

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

Comparatives

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. In particular Ministry of Energy and Petroleum Headquarters Construction fund, Single Buoy Mooring (SBM) Jetty fund, Corporate Social Responsibility (CSR) projects fund, Exploration and Production Capacity Building fund and Laboratory Equipment fund have been presented as current liabilities in the current year.



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key sources of estimation uncertainty

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

(a) Property, plant and equipment

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

(b) Provisions for pending litigations

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

(c) Impairment of assets

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

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

(d) Deferred tax asset

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Details of the carrying value of recognised tax losses at 30 June 2016 are provided in note 21.

(e) Classification of leases of land as finance or operating leases

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

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(e) Classification of leases of land as finance or operating leases (Continued)

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

(f) Provision for doubtful debts

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

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

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

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

5. FINANCIAL RISK MANAGEMENT

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

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

(a) Market risk

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

(i) Currency risk

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

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

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



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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (Continued)

(i) Currency risk (Continued)

	2016 Sh'000	2015 Sh'000
Assets		
Bank and cash balances	86,689	17,987
Trade and other receivables	141,398	56,179
	<u>228,087</u>	<u>74,166</u>
Liabilities		
Trade and other payables	101,591	137,664
Borrowings	782,499	960,015
	<u>884,090</u>	<u>1,097,679</u>

10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis covers only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

At 30 June 2015, if the Kenya Shilling had weakened/strengthened by 10% against the US dollar with all other variables held constant, the impact on pre-tax profit for the year and total capital would have been Sh 65,600,300 (2014: Sh 102,351,300) higher/lower, mainly as a result of foreign currency denominated payables and bank balances.

(ii) Other price risk

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

(iii) Interest rate risk

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

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

During the year, an increase/decrease of 5 percentage points on average borrowing rates would have resulted in an increase/decrease in pretax profit by Shs 30,708,750 (2015 – Sh 23,499,100).

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk

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

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

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

	Fully performing Shs'000	Past due Shs'000	Impaired Shs'000	Total Shs'000	Provisions Shs'000	Net exposure Shs'000
30 June 2016:						
Trade receivables	848,395	68,371	353,860	1,270,626	(353,860)	916,766
Call deposits	109,537	-	-	109,537	-	109,537
Bank and cash balances	522,907	-	-	522,907	-	522,907
	<u>1,480,839</u>	<u>68,371</u>	<u>358,860</u>	<u>1,903,070</u>	<u>(353,860)</u>	<u>1,549,210</u>
30 June 2015:						
Trade receivables	528,567	33,526	338,157	900,250	(338,157)	562,093
Call deposits	462,132	-	-	462,132	-	462,132
Bank and cash balances	337,418	-	-	337,418	-	337,418
	<u>1,328,117</u>	<u>33,526</u>	<u>338,157</u>	<u>1,699,800</u>	<u>(338,157)</u>	<u>1,361,643</u>

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

Call deposits and bank and cash balances are fully performing.

(c) Liquidity risk

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

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



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

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

	1 – 3 Months Shs'000	3-12 Months Shs'000	Over 12 months Shs'000	Total Shs'000
At 30 June 2016:				
Ministry of Energy and Petroleum				
Headquarters construction fund	-	223,843	-	223,843
SBM Jetty fund	-	11,443	-	11,443
CSR Funds	-	39,256	-	39,256
Exploration and Production				
Capacity Building fund	-	134,422	-	134,422
Laboratory equipment fund	-	300,000	-	300,000
Trade payables	289,442	248,201	-	537,643
Borrowings	2,371,546	-	1,822,434	4,193,980
Structured trade financing	740,929	-	-	740,929
	<u>3,401,917</u>	<u>957,165</u>	<u>1,822,434</u>	<u>6,181,516</u>
At 30 June 2015:				
Ministry of Energy and Petroleum				
Headquarters construction fund	-	516,648	-	516,648
SBM Jetty fund	-	11,443	-	11,443
CSR Funds	-	18,114	-	18,114
Exploration and Production				
Capacity Building fund	-	184,111	-	184,111
Laboratory equipment fund	-	300,000	-	300,000
Trade payables	395,847	121,433	-	517,280
Borrowings	2,929,482	-	598,421	3,527,903
Structured trade financing	789,082	-	-	789,082
	<u>4,114,411</u>	<u>1,151,749</u>	<u>598,421</u>	<u>5,864,581</u>

(d) Fair values

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

	Carrying amount		Fair value	
	2016 Shs'000	2015 Shs'000	2016 Shs'000	2015 Shs'000
Financial assets				
Trade and other receivables	1,041,827	1,077,192	1,041,827	1,077,192
Call deposits	109,537	462,132	109,537	462,132
Bank and cash balances	523,036	337,819	523,036	337,819
	<u>1,674,400</u>	<u>1,877,143</u>	<u>1,674,400</u>	<u>1,877,143</u>
Financial liabilities				
Borrowings	4,193,980	3,527,903	4,193,980	3,527,903
Structured trade finance facility	740,929	789,082	740,929	789,082
Trade and other payables	1,211,201	1,562,167	1,211,201	1,562,167
	<u>6,146,110</u>	<u>5,879,952</u>	<u>6,146,110</u>	<u>5,879,952</u>

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Fair values (Continued)

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

Trade and other receivables are evaluated regularly to assess the likelihood of impairment. Based on this evaluation, allowances are taken to account for the expected losses on these receivables. As at 30 June 2016, the carrying amounts of such receivables, net of allowances, approximates their fair value.

The fair values of term deposits, bank and cash balances and trade and other payables approximates their carrying amounts largely due to the short term maturities of these instruments.

- (ii) Fair value hierarchy

The Corporation uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Disclosures of of financial instruments recorded at fair value by level of the fair value hierarchy has been disclosed under note 17.

6. CAPITAL RISK MANAGEMENT

The Corporation's objectives when managing capital are to safeguard the Corporation's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Corporation consists of borrowings (net of cash and cash equivalents) and equity attributable to equity holders comprising issued share capital, share premium, shareholders funds awaiting allotment of shares and revenue reserve.

The Corporation monitors capital adequacy on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. CAPITAL RISK MANAGEMENT (Continued)

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

	2016 Shs'000	2015 Shs'000
Share capital	532,000	532,000
Share premium	1,183,000	1,183,000
Funds awaiting allotment of shares	500,000	500,000
Revaluation surplus	2,037,173	2,037,453
Accumulated deficit	(1,221,235)	(413,347)
	<hr/>	<hr/>
Equity	3,030,938	3,839,106
	<hr/>	<hr/>
Borrowings	4,193,980	3,527,903
Structured trade finance facility	740,929	789,082
Less: Cash and cash equivalents (excluding borrowings)	(632,573)	(799,951)
	<hr/>	<hr/>
Net debt	4,302,336	3,517,034
	<hr/>	<hr/>
Gearing ratio	over 100%	92%
	<hr/> <hr/>	<hr/> <hr/>

7. OPERATIONAL RISK MANAGEMENT

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

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

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

8. GOING CONCERN

The Corporation incurred a loss of Shs 808,168,000 (2015 – Shs 63,259,000) during the year and had accumulated losses of Sh 1,221,235,000 as at 30 June 2016 (2015 – Shs 413,347,000). In addition, the Corporation is in a net current liability position of Shs 955,806,000 (2015 – Shs 1,383,027,000). These conditions may indicate the existence of a material uncertainty that may cast significant doubt about the Corporation's ability to continue as a going concern. However, the directors are putting in place measures to improve the performance of the Corporation and to reduce reliance on financial support from the shareholders. The measures put in place include renegotiating for a debt restructure with the bank whereby short term loans will be converted to long term loans.



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Shs'000	2015 Shs'000
9. REVENUE		
White products	29,012,644	22,083,301
Black products	94,262	252,456
Liquefied petroleum gas and lubricants	923,422	1,595,123
	<u>30,030,328</u>	<u>23,930,880</u>
10. COST OF SALES		
Cost of goods sold	28,313,523	22,158,426
Other direct costs	446,575	243,711
	<u>28,760,098</u>	<u>22,402,137</u>
11. OPERATING INCOME		
Multi - client data	28,892	135,297
Rental income (subletting)	32,925	38,376
Throughput fees	29,201	32,343
Sundry income	3,971	8,788
Bad debts recovered	-	5,000
LPG plant through put fees	2,687	20
Gain/(loss) on disposal of property, plant and equipment	1,023	(5,155)
	<u>98,699</u>	<u>214,669</u>
12. (LOSS)/PROFIT BEFORE TAXATION		
The (loss)/profit before taxation is arrived at after charging:		
Staff costs (note 13)	477,231	429,474
Depreciation on property, plant and equipment (note 17)	299,731	225,330
Depreciation of investment property (note 18)	235	235
Amortisation of prepaid operating leases (note 19)	99,941	64,940
Amortisation of intangible assets (note 20)	62,864	22,101
Inventory provisions (note 23)	87,630	(107,296)
Provision for bad debts (note 24)	15,703	9,617
Directors' emoluments - fees	4,620	4,620
- Other emoluments	16,035	16,568
Auditor's emoluments	6,988	8,526
	<u>477,231</u>	<u>429,474</u>
13. STAFF COSTS		
Salaries and wages	436,318	390,609
Pension costs - defined contribution plan	30,254	27,431
Leave pay allowance	4,662	3,876
Gratuity	5,187	6,966
National Social security Fund costs (NSSF)	810	592
	<u>477,231</u>	<u>429,474</u>



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Shs'000	2015 Shs'000
14. (a) INTEREST INCOME:		
Interest income	17,578	34,979
(b) FINANCE COSTS:		
Interest expense	(614,175)	(469,982)
Net foreign exchange loss	(50,883)	(58,298)
	<u>(665,058)</u>	<u>(528,280)</u>
Net finance cost	<u><u>(647,480)</u></u>	<u><u>(493,301)</u></u>
	2016	2015
	Shs'000	(Restated) Shs'000
15. INCOME TAX CHARGE		
(a) Taxation charge		
Tax recognised in profit or loss		
Current tax based on adjusted profit at 30%	15,151	-
Deferred tax charge (note 22(b))	104,597	65,276
Under provision of deferred tax asset in the prior year (note 22(b))	59,659	4,704
Taxation charge	<u>179,407</u>	<u>69,980</u>
(b) Reconciliation of tax based on accounting profit to tax charge		
Accounting (loss)/profit before taxation	<u>(628,761)</u>	<u>6,721</u>
Current tax at 30%	(188,628)	2,016
Tax effect of expenses not deductible for tax	72,425	63,260
Under provision of deferred taxation asset in the prior year (note 22(b))	59,659	4,704
Deferred tax on tax losses derecognised (note 22(a))	235,951	-
Taxation charge	<u>179,407</u>	<u>69,980</u>
(c) Current tax asset		
At beginning of the year	143,578	7,699
Current tax expense (note 15(a))	(15,151)	-
Income tax paid	-	135,879
At end of year	<u>128,427</u>	<u>143,578</u>

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

	2016	2015 (Restated)
	Shs'000	Shs'000
16. LOSS PER SHARE		
Loss attributable to ordinary shareholders	(808,168)	(63,259)
	<u>=====</u>	<u>=====</u>
Basic earnings per share		
Weighted average number of ordinary shares used in the calculation of basic earnings per share ('000)	26,600	26,600
	<u>=====</u>	<u>=====</u>
Basic earnings per share (Shs)	(30.38)	(2.38)
	<u>=====</u>	<u>=====</u>
Diluted earnings per share		
Weighted average number of ordinary shares used in the calculation of basic earnings per share ('000)	26,600	26,600
Weighted average number of ordinary shares deemed to be issued in respect of funds awaiting allotment of shares ('000)	25,000	25,000
	<u>-----</u>	<u>-----</u>
Weighted average number of ordinary shares used in the calculation of diluted earnings per share ('000)	51,600	51,600
	<u>=====</u>	<u>=====</u>
Diluted earnings per share (Shs)	(15.66)	(1.23)
	<u>=====</u>	<u>=====</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. PROPERTY, PLANT AND EQUIPMENT

	Freehold land Shs'000	Leasehold land Shs'000	Plant, machinery, computers, furniture, Buildings Shs'000	fittings and equipment Shs'000	Capital Motor vehicles Shs'000	work in progress Shs'000	Total Shs'000
Cost or valuation:							
At 1 July 2014	246,604	1,194,818	1,340,089	1,220,605	29,865	453,237	4,485,218
Additions	108,388	25,373	166,703	205,566	-	407,365	913,395
Disposals	-	-	(13,737)	(1,000)	(3,500)	(4,025)	(22,262)
Reclassification to prepaid operating leases	(24,704)	(41,228)	(336,642)	361,346	-	-	(41,228)
Transfers in/(out)	1,681	652	223,714	99,144	-	(325,191)	-
Transfers to prepaid operating leases	-	-	-	-	-	(1,546)	(1,546)
Revaluation surplus	326,979	1,349,096	135,661	-	(11,634)	-	1,800,102
At 30 June 2015	658,948	2,528,711	1,515,788	1,885,661	14,731	529,840	7,133,679
At 1 July 2015	658,948	2,528,711	1,515,788	1,885,661	14,731	529,840	7,133,679
Additions	-	-	252,455	143,803	-	153,051	549,309
Disposals	-	-	-	(222)	(400)	-	(622)
Impairment	-	-	-	-	-	(1,561)	(1,561)
Reclassification to prepaid operating leases	-	(13,035)	-	-	-	-	(13,035)
Transfers in/(out)	-	250	298,022	10,496	-	(308,768)	-
Transfers to intangible assets	-	-	-	-	-	(52,856)	(52,856)
Transfers to prepaid operating leases	-	-	-	-	-	(232)	(232)
At 30 June 2016	658,948	2,515,926	2,066,265	2,039,738	14,331	319,474	7,614,682



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Freehold Land Shs'000	Leasehold land Shs'000	Buildings Shs'000	Plant, machinery, computers, furniture, fittings and equipment Shs'000	Motor vehicles Shs'000	Capital work in progress Shs'000	Total Shs'000
Depreciation							
At 1 July 2014	-	86,369	79,212	524,813	11,757	-	702,151
Charge for the year	-	31,424	53,580	133,982	6,344	-	225,330
Eliminated on disposal	-	-	(369)	(219)	(3,500)	-	(4,088)
Reclassification to prepaid operating leases	-	(15,851)	(7,109)	5,531	-	-	(17,429)
Reversal on accumulated depreciation on revaluation	-	(92,500)	(124,980)	-	(14,601)	-	(232,081)
At 30 June 2015	-	9,442	334	664,107	-	-	673,883
At 1 July 2015	-	9,442	334	664,107	-	-	673,883
Charge for the year	-	68,279	56,105	167,934	7,413	-	299,731
Reclassification to prepaid operating leases	-	(12,687)	-	-	-	-	(12,687)
Disposals	-	-	-	(95)	-	-	(95)
At 30 June 2016	-	65,034	56,439	831,946	7,413	-	960,832
Net book value on valuation basis:							
At 30 June 2016	658,948	2,450,892	2,009,825	1,207,792	6,918	319,475	6,653,850
At 30 June 2015	658,948	2,519,269	1,515,454	1,221,554	14,731	529,840	6,459,796
Net book value on cost basis:							
At 30 June 2016	274,053	618,850	1,564,804	1,207,792	5,364	319,475	3,990,338
At 30 June 2015	274,053	647,109	1,061,006	1,221,554	11,764	529,840	3,745,326

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

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

There was no valuation carried out during the year.

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

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

	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
30 June 2016				
Freehold land	-	384,895	-	384,895
Leasehold land	-	1,832,041	-	1,832,041
Buildings	-	445,022	-	445,022
Motor vehicles	-	1,554	-	1,554
	-	2,663,512	-	2,663,512
30 June 2015				
Freehold land	-	384,895	-	384,895
Leasehold land	-	1,872,159	-	1,872,159
Buildings	-	454,448	-	454,448
Motor vehicles	-	2,967	-	2,967
	-	2,714,469	-	2,714,469

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



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

	2016 Shs'000	2015 Shs'000
18. INVESTMENT PROPERTY		
Cost		
At 1 July and 30 June	13,531	13,531
Depreciation		
At 1 July	2,017	1,782
Charge for the year	235	235
At 30 June	2,252	2,017
Net book value		
At 30 June	11,279	11,514

Investment property relate to a building held for rental purposes. The building is constructed on freehold land. The directors estimate the fair value of the investment property to be about Shs 172,500,000 (2015: Shs 172,500,000). The prior year valuation was carried out by by Swatz Developers Limited, Registered Valuers and Estate Agents who are independent of the Corporation. Swatz Developers Limited, Registered Valuers and Estate Agents are members of the Institute of Valuers of Kenya, and they have appropriate qualifications and recent experience in the fair value measurement of properties in the relevant locations

	2016 Shs'000	2015 Shs'000
19. PREPAID OPERATING LEASES		
Cost		
At 1 July	540,645	491,008
Additions	77,249	6,863
Transfer from capital work in progress (note 17)	232	1,546
Reclassification from property plant and equipment (note 17)	13,035	41,228
At 30 June	631,161	540,645
Amortisation		
At 1 July:	328,210	245,841
Amortisation charge for the year:	99,941	64,940
Reclassification from property plant and equipment (note 17)	12,687	17,429
At 30 June:	440,838	328,210
Net book value		
At 30 June:	190,323	212,435

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

Leases are renewed as they expire. Where leases have expired in the past, all have been renewed without any complications and no renewal complications are expected in the foreseeable future.



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Shs'000	2015 Shs'000
20. INTANGIBLE ASSETS		
Cost		
At 1 July	297,844	238,198
Additions	95,709	59,646
Transfers from capital work in progress (note 17)	52,856	-
	<hr/>	<hr/>
At 30 June	446,409	297,844
	<hr/>	<hr/>
Amortisation		
At 1 July	227,411	205,310
Charge for the year	62,864	22,101
	<hr/>	<hr/>
At 30 June	290,275	227,411
	<hr/>	<hr/>
Net book value		
At 30 June	156,134	70,433
	<hr/> <hr/>	<hr/> <hr/>

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

21. EXPLORATION EXPENDITURE – BLOCK 14T

(a) Capitalised exploration expenses

In November 2010, the Corporation entered into an agreement with the Government of Kenya (GOK) giving the Corporation the rights of tenure to an exploration block in Magadi i.e. Block 14T. Under this agreement, the Corporation:

- (a) Is responsible to the GOK for execution of petroleum operations;
- (b) Will provide all capital, machinery, equipment, technology and personnel necessary for petroleum operations; and
- (c) Will bear all the risks of the petroleum costs required in carrying out petroleum operations and therefore have an economic interest in the development of petroleum deposits in the contract area. Such costs shall be included in petroleum costs recoverable.

The exploration activity began during the year ended 30 June 2012. The exploration and evaluation expenses incurred to date with regards to this block are as follows:

	2016 Shs '000	2015 Shs '000
Exploration and Evaluation expenses		
At beginning of year	778,800	747,709
Additions	41,867	31,091
	<hr/>	<hr/>
As end of year	820,667	778,800
	<hr/> <hr/>	<hr/> <hr/>

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

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

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. EXPLORATION EXPENDITURE – BLOCK 14T (Continued)

(b) BLOCK 14T Fund

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

	2016 Shs'000	2015 Shs'000
Cost		
At beginning of year	509,961	443,263
Receipts during the year	18,466	66,698
	<hr/>	<hr/>
At end of year	<u>528,427</u>	<u>509,961</u>

22. DEFERRED TAXATION

The deferred income tax is calculated using the enacted tax rate of 30% as at 30 June 2016 (30% - 2015).

	2016 Shs'000	2015 (Restated) Shs'000
(a) The net deferred tax (liability)/asset as at 30 June is attributable to the following items		
<i>Assets:</i>		
Temporary provisions	406,806	481,873
Tax losses	235,951	132,356
Deferred tax on tax losses derecognised	(235,951)	-
	<hr/>	<hr/>
Deferred tax asset	406,806	614,229
	<hr/>	<hr/>
<i>Liabilities:</i>		
Unrealised exchange loss	(1,397)	(18,304)
Revaluation surplus	(702,830)	(718,117)
Accelerated capital allowances	(135,388)	(146,361)
	<hr/>	<hr/>
Deferred tax liability	(839,615)	(882,782)
	<hr/>	<hr/>
Net deferred tax liability	<u>(432,809)</u>	<u>(268,553)</u>
	<hr/>	<hr/>
(b) Reconciliation of deferred tax liability		
At beginning of year – as previously reported	(268,553)	499,501
Prior year adjustment (note 44)	-	(190,354)
	<hr/>	<hr/>
At beginning of year – restated	(268,553)	309,147
Prior year under provision of deferred tax (note 15(a))	(59,659)	(4,704)
Deferred tax on revaluation	-	(507,720)
Deferred tax charge (note 15(a))	(104,597)	(65,276)
	<hr/>	<hr/>
At end of year	<u>(432,809)</u>	<u>(268,553)</u>

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Shs'000	2015 Shs'000
23. INVENTORIES		
White products	2,512,016	3,211,479
Other products	651,853	551,853
Provisions for inventories	(882,289)	(847,230)
	<u>2,281,580</u>	<u>2,916,102</u>

The movement the provisions for inventory is as follows:

At beginning of year	(847,230)	(1,019,826)
Provision of inventory at Refinery	-	65,300
Reclassification to provision for doubtful debts* (note 24)	52,571	-
Other inventory provisions	(87,630)	107,296
	<u>(882,289)</u>	<u>(847,230)</u>

Inventories with a value of Shs 283,204,000 have been charged to secure banking facilities granted to the Corporation as disclosed in note 33. The amount of inventories recognised as an expense during the period was nil (2015: nil)

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

	2016 Shs'000	2015 Shs'000
24. TRADE AND OTHER RECEIVABLES		
Trade and other receivables	1,270,626	900,250
Prepayments	177,632	515,099
	<u>1,448,258</u>	<u>1,415,349</u>
Provision for doubtful debts	(406,431)	(338,157)
	<u>1,041,827</u>	<u>1,077,192</u>

The provision for doubtful debts movement is as follows:

At 1 July	(338,157)	(328,540)
Additional provisions	(15,703)	(9,617)
Reclassification from provision for inventory (note 23)	(52,571)	-
	<u>(406,431)</u>	<u>(338,157)</u>

25. CALL DEPOSITS		
Deposits with banks	109,537	462,132
	<u>109,537</u>	<u>462,132</u>

The weighted average interest rate received on call deposits during the year was 13.67% (2015: 14.35%).



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Shs'000	2015 Shs'000
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26. SHARE CAPITAL

Authorised, issued and fully paid

26,600,000 Ordinary shares of Shs 20 each	532,000	532,000
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On 29 October 2008, the general meeting of shareholders approved the issuance of 9,100,000 ordinary shares at a price of Shs 150 per share resulting in a share premium of Shs 130 per share totalling to a share premium of Shs 1,183,000,000.

27. FUNDS AWAITING ALLOTMENT OF SHARES

The Corporation received Shs 500 million in the financial year ended 30 June 2009 from the Government of Kenya towards subscription of shares. The increase in share capital has not yet been formalized. As at 30 June 2016, this amount has been accounted for as funds awaiting allotment of shares.

28. SHAREHOLDING STRUCTURE

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

29. DEFERRED INCOME

	Training fund grant Shs'000	Government downstream grants Shs'000	Oil exploration grant Shs'000	Total deferred income Shs'000
At 1 July 2014	10,225	82,587	532,487	625,299
Receipts during the year:	-	-	434,915	434,915
Proceeds from sale of geological maps	-	-	103,908	103,908
Transfer to statement of profit or loss	-	(13,248)	(216,964)	(230,212)
At 30 June 2015	<u>10,225</u>	<u>69,339</u>	<u>854,346</u>	<u>933,910</u>
At 1 July 2015	10,225	69,339	854,346	933,910
Receipts during the year:	-	-	325,000	325,000
Proceeds from sale of geological maps	-	-	176	176
Transfer to statement of profit or loss	-	(13,248)	(183,999)	(197,247)
At 30 June 2016	<u>10,225</u>	<u>56,091</u>	<u>995,523</u>	<u>1,061,839</u>

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 DEFERRED INCOME (Continued)

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 relates to funds received from the Government for the expansion of downstream distribution assets. Government grants relating to downstream assets, including non-monetary grants, are presented in the financial statements as a deferred income liability and are recognised as a credit in the statement of profit or loss and other comprehensive income on a systematic basis over the useful life of the assets. Grants relating to income are presented as a credit in the statement of profit or loss and other comprehensive income in the year in which they have been granted.

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

	2016 Shs'000	2015 Shs'000
30. TRADE AND OTHER PAYABLES		
Trade payables	537,643	517,280
Leave pay provision	9,574	9,112
Accruals and other payables	613,830	950,914
Other accruals*	50,154	84,861
	<u>1,211,201</u>	<u>1,562,167</u>

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

These pending legal and tax cases may not necessarily be resolved in a manner that is favourable for the Corporation. Additionally the resolution of the disputes could result in obligation for the Corporation. Therefore, based on information currently available, the directors have made provisions of Shs 50,154,000 (2015 – Shs 84,861,000) for the claims. The reduction is as a result of a case determined in the current financial period.

	2016 Shs'000	2015 Shs'000
31. GRATUITY PROVISION		
At beginning of year	8,803	1,837
Additional provision during the year	5,187	6,966
Payments during the year	(6,417)	-
	<u>7,573</u>	<u>8,803</u>
The amounts are due as follows:		
Within one year	<u>7,573</u>	<u>8,803</u>

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

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Shs'000	2015 Shs'000
32. BORROWINGS		
<i>Current borrowings</i>		
Bank overdrafts	1,807,768	2,758,548
Term loans	563,778	170,934
	2,371,546	2,929,482
<i>Non-current borrowings</i>		
Term loan	1,822,434	598,421
	4,193,980	3,527,903
The borrowings therefore comprise of:		
Bank overdrafts	1,807,768	2,758,548
Term loans	2,386,212	769,355
	4,193,980	3,527,903

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

Location	L.R No.	Amount Shs
Kisumu	Kisumu Municipality/Block 8/7	72,926,267
Kisumu	Kisumu Municipality/Block 9/6	107,136,660
Kisumu	Kisumu Municipality/Block 7/7	43,761,468
Kisumu	Kisumu Municipality/Block 4/73	117,963,964
Kwale-Ukunda	Kwale/Ukunda/3061	16,293,750
Eldoret	Eldoret Municipality Block 3/39	117,362,637
Eldoret	Eldoret Municipality Block 13/417 & 13/689	80,134,222
Eldoret	Eldoret Municipality Block 5/628	41,922,423
Eldoret	Eldoret Municipality Block 2/73/1	43,679,707
Eldoret	Eldoret Municipality Block 21/Kingongo/875	15,209,136
Thika	Thika Municipality Block 12/176	6,218,102
Mombasa	Mombasa/Block XVII/390,391 & 629	60,000,000
Mombasa	Mombas/Block XXVII/127	50,000,000
Mombasa	Mombas/Block XVII/424	150,000,000
Mombasa	Mainland North/Section 1/474	45,000,000
Mombasa	Mainland North/Section VI/2495/2 & 29/1	40,000,000
Nakuru	Nakuru/Block 16/300	21,226,115
Nakuru	Nakuru/Block 21/581	20,215,607
Nairobi	209/12298	715,705,129
Nairobi	209/7753	196,380,090
Nairobi	Nairobi/Block 97/59	8,850,000
Nairobi	Nairobi/Block 97/60	8,850,000
Nairobi	Nairobi/Block 97/61	8,850,000
Nairobi	Nairobi/Block 97/62	8,850,000

The term loans facility is offered by KCB Bank Kenya Limited (KCB) and consists of two term loans. The term loan VII (a) which was issued on July 2015 with a limit of Ksh 300,000,000 is repayable in 60 months; interest is at KBRR plus a variable margin of 6.9% subject to a minimum of 15% p.a.

The term loan VII (b) which was issued on July 2015 with a limit of Ksh 291,000,000 is repayable in 60 months; interest is at KBRR plus a variable margin of 6.9% subject to a minimum of 15% p.a.

However, interest rates have since been capped at 4% above the CBBR through the Banking (Amendment) Act No. 25 of 2016 which came into effect on 14 September 2016. The CBBR is currently at 10.5%.



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. BORROWINGS (Continued)

	2016 Shs'000	2015 Shs'000
KCB Term loan VI	-	26,606
KCB Term Loan VII - LPG Plant	357,278	404,768
KCB Term Loan VIII - Station acquisition	465,156	167,047
KCB OTS Finance Loan	315,152	-
CfC Stanbic Bank Loan	41,662	170,934
CfC Short term Loan	1,000,000	-
CfC Invoice discounting Loan	206,964	-
	<hr/>	<hr/>
Total term loan	2,386,212	769,355
KCB Bank Kenya Limited overdraft facility (see below)	855,800	764,104
Stanbic Bank Limited overdraft facility (see below)	951,968	1,994,444
	<hr/>	<hr/>
	4,193,980	3,527,903
	<u>=====</u>	<u>=====</u>

The Corporation has a composite facility comprising of overdrafts, guarantees and letters of credit with KCB Bank Kenya Limited with a limit of Shs 1,000,000,000 (2015 - Shs 800,000,000). This facility is utilised for working capital requirements of the Corporation. The Corporation also has an overdraft facility with Stanbic Bank Limited with a limit of Shs 1,000,000,000 (2015 - Shs 2,000,000,000) and a short term financing loan of Shs 1,000,000 (2015 - nil)

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

	2016 Shs'000	2015 Shs'000
At beginning of year	1,558,437	918,656
Additional borrowings in the year	19,588,337	16,126,277
Repayments during the year	(18,019,498)	(15,562,257)
Unrealised exchange difference	(135)	75,761
	<hr/>	<hr/>
At end of year	3,127,141	1,558,437
	<u>=====</u>	<u>=====</u>

Interest rates

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

	2016	2015
Bank overdrafts	16.17%	14.30%
Term loans	17.83%	16.35%
	<hr/>	<hr/>



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. STRUCTURED TRADE FINANCE FACILITY

During the year, the Corporation maintained the structured trade finance facility with KCB Bank Kenya Limited (the "Bank") at USD 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. The Corporation has a trust receipt facility of USD 8,000,000 with the Bank as well.

As at 30 June 2016, the Corporation had utilised the US dollar equivalent of Shs 241,634,000 (2015: nil) of the structured trade finance facility, Shs 499,295,000 (2015 – Shs 789,082,000) of KCB Post Import Finance facility, a total Shs 740,929,000 (2015- Shs 789,082,000).

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

The Corporation receives funds from the Ministry of Energy and Petroleum (Ministry) for the construction of both headquarters offices and a laboratory for the Ministry. The Corporation holds these funds on behalf of the Ministry. The movement in the funds is as follows:

	2016 Shs'000	2015 Shs'000
Cost		
At beginning of year	516,648	612,475
Receipts during the year	-	63,805
Payments made for construction of MOEP HQ	(292,805)	(159,632)
	<hr/>	<hr/>
At end of year	<u>223,843</u>	<u>516,648</u>

35. SINGLE BUOY MOORING (SBM) JETTY FUND

The Government has undertaken to put up a floating jetty at the port of Mombasa, with the Corporation being the facilitator of the project. National Oil arranges the operational works with the contractor, and pays the contractors using the funds which the Government has advanced to it and which it maintains in a fiduciary capacity.

	2016 Shs'000	2015 Shs'000
Cost		
At beginning and at end of the year	11,443	11,443
	<hr/>	<hr/>

36. CORPORATE SOCIAL RESPONSIBILITY (CSR) PROJECTS FUND

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

	2016 Shs'000	2015 Shs'000
Cost		
At beginning of year	18,114	24,137
Receipts during the year	24,095	17,871
Payments made during the year	(2,953)	(23,894)
	<hr/>	<hr/>
At end of year	<u>39,256</u>	<u>18,114</u>

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

37. EXPLORATION AND PRODUCTION CAPACITY BUILDING FUND

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

	2016 Shs'000	2015 Shs'000
Cost		
At beginning of year	184,111	367,587
Payments made during the year	(49,689)	(183,476)
	<hr/>	<hr/>
At end of year	134,422	184,111
	<hr/> <hr/>	<hr/> <hr/>

38. LABORATORY EQUIPMENT FUND

The funds from the Ministry of Energy and Petroleum which are meant for laboratory equipment amounting to Shs 300,000,000 for the energy centre at the new Ministry of Energy and Petroleum headquarters were not utilised in the year.

	2016 Shs'000	2015 Shs'000
Cost		
At beginning and at the end of year	300,000	300,000
	<hr/> <hr/>	<hr/> <hr/>

39. OPERATING LEASE COMMITMENTS

The Corporation has leased some of its stations from landowners for a period of 5 years. At the financial reporting date, the Corporation had no outstanding commitments under these operating leases since the leases are prepaid for the five years. The leases are disclosed under prepaid operating leases in Note 17.

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

	2016 Shs'000	2015 Shs'000
Operating lease rentals are payable as follows:		
Less than one year	24,934	18,393
Between one and five years	16,710	15,068
	<hr/>	<hr/>
	41,644	33,461
	<hr/> <hr/>	<hr/> <hr/>



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40. NOTES TO THE CASH FLOW STATEMENT

Cash and cash equivalents

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

	2016 Shs'000	2015 Shs'000
(a) Reconciliation of (loss)/profit before tax to cash generated from operating activities		
(Loss)/profit before taxation	(628,761)	6,721
Adjustments for:		
Depreciation (note 17)	299,731	225,330
(Gain)/loss on disposal of property, plant and equipment	(1,023)	5,156
Amortisation – prepaid operating rentals (note 19)	99,941	64,940
Amortisation – intangible assets (note 20)	62,864	22,101
Impairment loss on property plant and equipment	1,561	12,808
Release of deferred income – upstream (note 29)	(183,999)	(216,964)
Release of deferred income – downstream (note 29)	(13,248)	(13,248)
Interest income recognised in the profit/(loss) (note 14(a))	(17,578)	(34,979)
Interest expense recognised in the profit/(loss) (note 14(b))	614,175	469,982
Amortisation of investment property (note 18)	235	235
Unrealised exchange difference on borrowings (note 32)	(135)	75,761
Operating profit before working capital changes	233,763	617,843
Decrease/(increase)/ in inventories	634,522	(1,091,373)
Decrease in trade and other receivables	35,365	599,512
(Decrease)/increase in trade and other payables	(350,966)	284,208
(Decrease)/increase in gratuity provision	(1,230)	6,966
Cash generated from operations	551,454	417,156
(b) Analysis of the balances of cash and cash equivalents		
Cash and bank balances	523,036	337,819
Call deposits	109,537	462,132
Bank overdrafts (note 32)	(1,807,768)	(2,758,548)
	(1,175,195)	(1,958,597)

41. CONTINGENT LIABILITIES AND GUARANTEES

The Corporation is a defendant in two legal suits in which the claimants are claiming Shs 252 million and shs 11.5 million. Based on the legal advice and information currently available, the directors do not expect any significant amounts to crystallize from the assessments and therefore no provision has been made on these financial statements. The directors have disclosed the general nature of the dispute as they do not want to prejudice the position of the Corporation over these matters that are currently in court.

The Corporation has issued guarantees, bid bonds and security bonds in favour of third parties amounting to Shs 75,215,000 (2015 - Shs 23,111,000).



NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

42. CAPITAL COMMITMENTS

Commitments related to construction work and the purchase of assets at the year-end for which no provision has been made in these financial statements are as stated below:

	2016 Shs'000	2015 Shs'000
Authorised but not contracted for	74,465 =====	232,997 =====

43. RELATED PARTIES

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

	2016 Shs'000	2015 Shs'000
(a) Key management compensation		
Salaries and other short-term employment benefits	92,216 =====	64,283 =====
(b) Directors' remuneration		
Fees for service as directors	4,620	4,620
Other emoluments	16,035	16,568
	----- 20,655 =====	----- 21,188 =====

(c) Sales to related parties

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

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

During the year, sales to the related parties amounted to Shs 2,994,650,000 (2015 – Shs 1,446,941,000).

(d) Outstanding balances

The balances outstanding at year end were as follows:

Due to related parties	184,248 =====	169,406 =====
Due from related parties	407,215 =====	163,612 =====

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

NATIONAL OIL CORPORATION OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

44 PRIOR YEAR ADJUSTMENT

The prior year adjustment relates to deferred tax on revaluation of property, plant and equipment in the year ended 30 June 2011 erroneously not recognised in the books of National Oil Corporation of Kenya Limited.

a) Restatement of audited statement of financial position as at 1 July 2014

	As at 1 July 2014 (as previously reported) Shs'000	Adjustment Shs'000	As at 1 July 2014 (as restated) Shs'000
Assets			
Decrease in deferred tax	499,501	(190,354)	309,147
Liabilities			
Decrease in revaluation reserve	(740,381)	227,391	(512,990)
Net effect on retained earnings	<u>(240,880)</u>	<u>37,037</u>	<u>(203,843)</u>

b) Restatement of audited statement of financial position as at 30 June 2015

	As at 30 June 2015 (as previously reported) Shs'000	Adjustment Shs'000	As at 30 June 2015 (as restated) Shs'000
Liabilities			
Increase in deferred tax	(58,156)	(210,397)	(268,553)
Decrease in revaluation reserve	(2,264,177)	226,724	(2,037,453)
Net effect on retained earnings	<u>(2,322,333)</u>	<u>16,327</u>	<u>(2,306,006)</u>

c) Restatement of audited statement of profit and loss and other comprehensive income as at 30 June 2015

	As at 30 June 2015 (as previously reported) Shs'000	Adjustment Shs'000	As at 30 June 2015 (as restated) Shs'000
Profit before taxation	6,721	-	6,721
Taxation charge	(49,937)	(20,043)	(69,980)
Profit after taxation	<u>(43,216)</u>	<u>(20,043)</u>	<u>(63,259)</u>

45 FUNCTIONAL AND PRESENTATION CURRENCY

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

46. EVENTS AFTER THE REPORTING PERIOD

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

NATIONAL OIL CORPORATION OF KENYA LIMITED

DETAILED EXPENSES
FOR THE YEAR ENDED 30 JUNE 2016

	2016 Shs'000	2015 Shs'000
EXPLORATION COSTS		
Salaries	45,132	65,690
Other office supplies and expenses	46,245	15,994
Rent and rates	21,433	26,112
Professional fees	19,612	15,585
Traveling and accommodation	11,102	11,622
Staff housing	6,770	10,795
Medical expenses	6,500	6,171
Training and education	5,240	26,955
Board expenses	3,874	4,648
Audit fees	2,252	2,131
Printing and stationery	1,470	2,131
Telephone, telex and postage	1,677	1,477
Gratuity and pension costs	1,023	4,864
Subscriptions and donations	1,490	10,145
Groceries and drinks	1,074	1,176
Advertising and publicity	4,766	4,148
Staff welfare expenses	1,755	2,640
Cleaning, repairs and maintenance	1,476	1,817
Security charges	266	353
Insurance- Office & other Insurance	226	1,061
Motor running expenses	361	568
Recruitment costs	584	359
Light and water	21	229
Repairs and maintenance	(350)	293
	<hr/>	<hr/>
	183,999	216,964
	<hr/> <hr/>	<hr/> <hr/>
ADMINISTRATIVE EXPENSES		
Salaries	272,841	214,029
Other allowances and compensation	73,938	66,924
House allowance	55,522	49,076
Medical expenses	26,109	25,260
Other pension costs	26,706	21,376
Staff welfare	8,914	10,058
Training and education	7,393	26,166
Vacation and holiday compensation	4,209	3,334
Recruitment costs	2,339	2,516
Gratuity	2,242	2,102
Overtime	1,282	3,105
Wages	185	694
NSSF costs	756	501
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	482,436	425,141
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NATIONAL OIL CORPORATION OF KENYA LIMITED

DETAILED EXPENSES
FOR THE YEAR ENDED 30 JUNE 2016 (Continued)

	2016 Shs	2015 Shs
OTHER OPERATING EXPENSES		
Depreciation of property, plant and machinery	299,727	225,330
Maintenance of equipment	71,009	87,227
Professional fees	67,299	105,412
Amortization of prepaid operating leases	99,941	64,940
Travelling and accommodation	67,365	93,147
Amortization of intangible assets	62,864	22,101
Security charges	34,377	53,405
Advertising and publicity	34,477	39,643
Rent and rates	18,670	17,705
Hire and rentals	31,406	83,562
Board expenses	16,781	16,540
Subscriptions and donations	15,365	25,048
Insurance	12,554	7,655
Printing	4,100	13,757
Telephone and fax	8,738	5,710
Cleaning	7,595	8,625
Light and water	6,740	6,226
Audit fees	4,736	6,395
Groceries and drinks	6,602	6,490
Office supply and expenses	4,737	3,340
Postage and courier	2,135	1,747
Staff uniforms	1,191	1,504
Impairment loss on property, plant and equipment	1,561	-
Books and newspapers	751	956
Depreciation of investment property	235	235
Entertainment	66	97
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	881,022	896,797
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