# Gapco Tanzania Limited

# Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GAPCO TANZANIA LIMITED

**Report on the Financial Statements**

We have audited the accompanying financial statements of Gapco Tanzania Limited ("the company") and its subsidiary (together "the group"). Set out on pages 9 to 44 which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated and company statement of profit or loss and other comprehensive income, consolidated and company statements of changes in equity and consolidated and company statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Director's Responsibility for the Financial Statements**

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 Tanzanian Companies Act, 2002 and for such internal control 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.

**Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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, we considered the internal controls relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the Group and of the company as at 31 December 2014 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Tanzanian Companies Act 2002.

**Report on other legal and regulatory requirements**

This report, including the opinion, has been prepared for, and only for, the Company's members as a body in accordance with the Tanzanian Companies Act, 2002 and for no other purposes.

As required by the Tanzanian Companies Act, 2002 we report to you, based on our audit, that:

(i) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;

(ii) in our opinion, proper books of account have been kept by the company, so far as appears from our examination of those books;

(iii) The Consolidated and company's statement of financial position, statement of profit or loss and other comprehensive income are in agreement with the books of account;

**Deloitte & Touche**
**Certified Public Accountants (Tanzania)**

**Signed by: David C. Nchimbi**
**Dar es Salaam**

23rd March, 2015

# Consolidated and Company Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December, 2014

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2014** | 2013 | **2014** | 2013 |
| | **Notes** | **TZS Million** | TZS Million | **TZS Million** | TZS Million |
| Revenue | **4** | 358,070 | 1,750,609 | 358,070 | 1,750,609 |
| Cost of sales | | (335,590) | (1,719,544) | (335,590) | (1,719,544) |
| **Gross profit** | | 22,480 | 31,065 | 22,480 | 31,065 |
| Other income | **5** | 9,653 | 11,799 | 9,632 | 11,779 |
| Selling and distribution expenses | | (318) | (206) | (318) | (206) |
| Administrative expenses | | (9,617) | (11,515) | (9,604) | (11,435) |
| Other operating expenses | | (11,638) | (9,396) | (11,625) | (9,385) |
| **Operating profit** | **6** | 10,560 | 21,747 | 10,565 | 21,818 |
| Finance costs | **8 (a** | (1,009) | (2,150) | (1,009) | (2,150) |
| Finance income | **8 (b)** | 3,880 | 4,222 | 3,880 | 4,222 |
| **Profit before tax** | | 13,431 | 23,819 | 13,436 | 23,890 |
| Taxation charge | **9 (a)** | (3,817) | (8,748) | (3,817) | (8,748) |
| **Profit for the year** | | 9,614 | 15,071 | 9,619 | 15,142 |
| **Other comprehensive income** | | | | | |
| *Items that will not be reclassified reclassified to profit or loss in subsequent periods:* | | | | | |
| Revaluation of property,plant and equipment | **10** | - | 44,083 | - | 44,083 |
| Tax effect on revaluation of property, plant and equipment | **18** | - | (13,225) | - | (13,225) |
| | | - | 30,858 | - | 30,858 |
| **Total comprehensive income for the year, net of taxes** | | 9,614 | 45,929 | 9,619 | 46,000 |

# Consolidated and Company Statement of Financial Position as at 31 December, 2014

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2014** | 2013 | **2014** | 2013 |
| | **Notes** | **TZS Million** | TZS Million | **TZS Million** | TZS Million |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | **10** | 147,839 | 150,989 | 145,795 | 148,945 |
| Investment in subsidiary | **11** | - | - | 165 | 165 |
| | | 147,839 | 150,989 | 145,960 | 149,110 |
| **Current assets** | | | | | |
| Inventories | **12** | 41,106 | 32,460 | 41,106 | 32,460 |
| Trade and other receivables | **13** | 78,313 | 75,764 | 80,076 | 77,547 |
| Cash and cash equivalents | **14** | 4,575 | 8,881 | 4,575 | 8,881 |
| | | 123,994 | 117,105 | 125,757 | 118,888 |
| **TOTAL ASSETS** | | 271,833 | 268,094 | 271,717 | 267,998 |
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity** | | | | | |
| Share capital | **15** | 29,910 | 29,910 | 29,910 | 29,910 |
| Revaluation reserve | **16** | 68,964 | 70,806 | 68,964 | 70,806 |
| Retained earnings | | 74,425 | 62,969 | 74,510 | 63,049 |
| | | 173,299 | 163,685 | 173,384 | 163,765 |
| **Non-current liabilities** | | | | | |
| Retirement benefit obligations | **17** | 930 | 910 | 930 | 910 |
| Deferred tax | **18** | 32,042 | 34,794 | 32,042 | 34,794 |
| | | 32,972 | 35,704 | 32,972 | 35,704 |
| **Current liabilities** | | | | | |
| Trade and other payables | **19** | 50,519 | 68,316 | 50,321 | 68,143 |
| Borrowings | **20** | 14,792 | 196 | 14,792 | 196 |
| Tax payable | **9 (c)** | 251 | 193 | 248 | 190 |
| | | 65,562 | 68,705 | 65,361 | 68,529 |
| **TOTAL EQUITY AND LIABILITIES** | | 271,833 | 268,094 | 271,717 | 267,998 |

The financial statements are on pages 9 to 45 were approved and authorised for issue by the Board of Directors _________________2015 and were signed on its behalf by:

_________________________ _________________________

**Subhasish Mukherjee**
Director

**Vijay Govindan Kutty Nair**
Director

# Consolidated Statement of Changes in Equity for the year ended 31 December, 2014

| | Notes | Share capital TZS Million | Revaluation reserve TZS Million | Retained earnings TZS Million | Total TZS Million |
|---|---|---|---|---|---|
| **31 December 2013** | | | | | |
| **At start of year** | | 29,910 | 41,176 | 46,670 | 117,756 |
| Profit for the year | | - | - | 15,071 | 15,071 |
| Other comprehensive income | | - | 30,858 | - | 30.858 |
| Total comprehensive income | | - | 30,858 | 15,071 | 45,929 |
| Transfer of excess depreciation on property, plant and equipment | **16** | - | (1,764) | 1,764 | - |
| Transfer to retained earnings from revaluation reserve on disposal of property, plant and equipment | **16** | - | 7 | (7) | - |
| Deferred tax on transfer of excess depreciation | **16** | - | 529 | (529) | - |
| **At end of year** | | 29,910 | 70,806 | 62,969 | 163,685 |
| **31 December 2014** | | | | | |
| **At start of year** | | 29,910 | 70,806 | 62,969 | 163,685 |
| Total comprehensive income | | - | - | 9,614 | 9,614 |
| Transfer of excess depreciation on property, plant and equipment | **16** | - | (2,605) | 2,605 | - |
| Transfer to retained earnings from revaluation reserve on disposal of property, plant and equipment | **16** | - | (19) | 19 | - |
| Deferred tax on transfer of excess depreciation | **16** | - | 782 | (782) | - |
| **At end of year** | | 29,910 | 68,964 | 74,425 | 173,299 |

# Company Statement of Changes in Equity for the year ended 31 December, 2014

| | Notes | Share capital TZS Million | Revaluation reserve TZS Million | Retained earnings TZS Million | Total TZS Million |
|---|---|---|---|---|---|
| **31 December 2013** | | | | | |
| **At start of year** | | 29,910 | 41,176 | 46,679 | 117,765 |
| Profit for the year | | - | - | 15,142 | 15,142 |
| Other comprehensive income | | - | 30,858 | - | 30,858 |
| Total comprehensive income | | - | 30,858 | 15,142 | 46,000 |
| Transfer of excess depreciation on property, plant and equipment | **16** | - | (1,764) | 1,764 | - |
| Transfer to retained earnings from revaluation reserve on disposal of property, plant and equipment | **16** | - | 7 | (7) | - |
| Deferred tax on transfer of excess depreciation | **16** | - | 529 | (529) | - |
| **At end of year** | | 29,910 | 70,806 | 63,049 | 163,765 |
| **31 December 2014** | | | | | |
| **At start of year** | | 29,910 | 70,806 | 63,049 | 163,765 |
| Total comprehensive income | | - | - | 9,619 | 9,619 |
| Transfer of excess depreciation on property, plant and equipment | **16** | - | (2,605) | 2,605 | - |
| Transfer to retained earnings from revaluation reserve on disposal of property, plant and equipment | **16** | - | (19) | 19 | - |
| Deferred tax on transfer of excess depreciation | **16** | - | 782 | (782) | - |
| **At end of year** | | 29,910 | 68,964 | 74,510 | 173,384 |

# Consolidated and Company Statement of Cash Flows for the year ended 31 December, 2014

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2014** | 2013 | **2014** | 2013 |
| | **Notes** | **TZS Million** | TZS Million | **TZS Million** | TZS Million |
| **Operating activities** | | | | | |
| Cash generated from operations | 21 | (9,297) | (27,241) | (9,297) | (27,241) |
| Tax paid | 9 (c) | (6,511) | (8,611) | (6,511) | (8,611) |
| Net cash / (used in) operating activities | | (15,808) | (35,852) | (15,808) | (35,852) |
| **Investing activities** | | | | | |
| Purchase of property, plant and equipment | 10 | (4,437) | (4,406) | (4,437) | (4,406) |
| Proceeds from disposal of property, plant and equipment | | 48 | 4,144 | 48 | 4,144 |
| Interest received | | 2,049 | 2,105 | 2,049 | 2,105 |
| Net cash (used in) / generating by investing activities | | (2,340) | 1,843 | (2,340) | 1,843 |
| **Financing activities** | | | | | |
| Interest paid | | (1,009) | (2,150) | (1,009) | (2,150) |
| Net cash / (used in) financing activities | | (1,009) | (2,150) | (1,009) | (2,150) |
| Decrease in cash and cash equivalents | | (19,157) | (36,159) | (19,157) | (36,159) |
| **Movement in cash and cash equivalents** | | | | | |
| At start of year | | 8,685 | 43,997 | 8,685 | 43,997 |
| Decrease in cash and cash equivalents | | (19,157) | (36,159) | (19,157) | (36,159) |
| Effect of exchange rate changes | | 255 | 847 | 255 | 847 |
| **At end of year** | **14** | (10,217) | 8,685 | (10,217) | 8,685 |

# Notes to the Consolidated and Company Financial Statements for the year ended 31 December, 2014

## 1. GENERAL INFORMATION

The consolidated financial statements of the Company and its subsidiary (collectively, the Group) for the year ended 31 December 2014 were authorized for issue in accordance with resolution of the directors as indicated on the consolidated and Company statement of financial position. Registered place of business is indicated on page 1. The principal activities of the Company and its subsidiary is that of marketing of petroleum products.

## 2. ACCOUNTING POLICIES

### 2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS).

### 2.2 Application of new and revised International Financial Reporting Standards (IFRSs)

#### (i) Amendments to IFRSs and the new Interpretation that are mandatorily effective for the current year

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 IFRS 10, IFRS 12 and IAS 27 Investment Entities**

The Group has applied the amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities for the first time in the current year. The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and Company financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

As the Company is not an investment entity (assessed based on the criteria set out in IFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

**Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities**

The Group has applied the amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlements'.

As the Group does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognized in the Group's consolidated financial statements.

**Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets**

The Group has applied the amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets for the first time in the current year. The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosure include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

# Notes to the Consolidated and Separate Financial Statements for the year ended 31 December, 2014

**Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting**

The Group has applied the amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting for the first time in the current year. The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designed as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

As the Group does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amount recognised in the Group's consolidated financial statements.

**IFRIC 21 Levies**

The Group has applied IFRIC 21 Levies for the first time in the current year. IFRIC 21 addresses the issue as to when to recognised a liability to pay a lay imposed by a government. The interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy disclosures or on the amounts recognized in the Group's consolidated financial statements.

**(ii) Relevant new and amended standards and interpretation is issue but not yet effective in the ended 31 December 2014**

| | |
|---|---|
| IFRS 9 – Financial instruments | Effective for annual periods beginning on or after |
| Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations | 1 January 2018 |
| Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation | 1 January 2016 |
| Amendments to IAS 16 and IAS 41 – Agriculture: Bearer Plants | 1 January 2016 |
| Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions | 1 January 2016 |
| IFRS 15 Revenue from Contracts with Customers | 1 July 2014 |
| Amendments to IFRS s– Annual Improvements to IFRSs 2010-2012 Cycle | 1 January 2017 |
| Amendments to IFRSs – Annual Improvements to IFRSs 2011-2013 | 1 July 2014 |
| Cycle | 1 July 2014 |

**(iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2014 and future annual periods**

**IFRS 9 Financial Instruments**

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to induce requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include (a) impairments for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' IFVTOVL) measurement category for certain simple debt instruments.

**Key requirement of IFRS 9:**

- all recognized financial assets that are within the scope of IAS 39 Financial Instructions: Recognition and Measurement are required to be subsequently measured at amortized 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 of the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. 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 recognized in profit or loss.

# Notes to the Consolidated and Separate Financial Statements for the year ended 31 December, 2014

- 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.
- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specially broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Group undertakes a detailed review.

**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 recognize 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 recognizes 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 bee added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

**Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations**

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 36 Impairment of Assets regarding impairment testing of a cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to be formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

# Notes to the Consolidated and Separate Financial Statements for the year ended 31 December, 2014

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The amendments to IFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016. The directors of the Company do not anticipate that the application of these amendments to IFRS 11 will have a material impact on the Group's consolidated financial statements.

**Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation**

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. The presumption can only be rebutted in the following two limited circumstances.

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption on the economic benefits of the intangible asset are highly correlated.

**Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation**

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation and amortization for its property, plant and equipment, and intangible assets respectively. The directors of the Company believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Company do not anticipate that the application of these amendments to IAS 16 and IAS 36 will have a material impact on the Group's consolidated financial statements.

**Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants**

The amendments to IAS 16 and IAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 41.

The directors of the Company do not anticipate that the application of these amendments to IAS 16 and IAS 41 will have a material impact on the Group's consolidated financial statements as the Group is not engaged in agricultural activities.

**Amendments to IAS 19 Defined Benefit Plans: Employee Contributions**

The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognize the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method, whereas for contributions that are dependent on the number of years of service the entity is required to attribute them to the employees' periods of service.

The directors of the Company do not anticipate that the application of these amendments to IAS 19 will have a significant impact on the Group's consolidated financial statements.

**Annual Improvements to IFRSs 2010-2012 Cycle**

The Annual Improvements to IFRSs 2010-2012 Cycle include a number of amendments to various IFRSs, which are summarized below.

The amendments to IFRS 2 (i) change the definitions of 'vesting condition' and 'market condition; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to IFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to IFRS 3 clarify the contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognized in profit and loss. The amendments to IFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

# Notes to the Consolidated and Separate Financial Statements for the year ended 31 December, 2014

The amendments to IFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.

The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortization when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortization is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors of the Company do not anticipate that the application of these amendments will have a significant impact on the Group's consolidated financial statements.

**Annual Improvements to IFRSs 2010-2012 Cycle**

The Annual Improvements to IFRs 2011-2013 Cycle include a number of amendments to various IFRSs, which are summarized below.

The amendments ot 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 30 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 exclus9ive 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; and

(b) the transaction meets the definition of a business combination under IFRS3.

The directors of the Company do not anticipate that the application of these amendments will have a significant impact on the Group's consolidated financial statements.

**2.3 (a) Basis of Preparation**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements are prepared on the historical cost basis in accordance with International Financial Reporting Standards (IFRS), as modified by the revaluation of certain items of property, plant and equipment in the statement of financial position. The consolidated financial statements are presented in Tanzanian Shillings and all values are rounded to the nearest million (TZS Million), except when otherwise indicated.

**2.3 (b) Basis of Consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at 31 December 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

# Notes to the Consolidated and Separate Financial Statements for the year ended 31 December, 2014

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

**c) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks. Revenue is stated net of Value Added Tax (VAT), rebates and discounts.

The specific recognition criteria described below must also be met before revenue is recognised.

- *Sale of goods:*

i) Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

- *Rental income:*

ii) Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature.

- *Interest income:*

iii) For all financial instruments measured at amortised cost, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected

# Notes to the Consolidated and Separate Financial Statements for the year ended 31 December, 2014

life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of profit or loss.

**d) Foreign currencies**

- *Functional and presentation currency:*

  Items included in the financial statements of each of the entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Tanzania Shillings.

- *Transactions and balances:*

  Transactions in foreign currencies during the year are converted into Tanzania Shillings (the functional currency) at rates ruling at the transaction dates. Assets and liabilities at the reporting date which are expressed in foreign currencies are translated into Tanzania Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

**e) Property, plant and equipment**

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Buildings and plant and machinery are subsequently measured at market value, based on periodic, but at least quinquennial valuations by external independent valuers, less accumulated depreciation on buildings and impairment losses recognised at the date of revaluation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Leasehold land is depreciated over the remaining period of the lease.

Capital work in progress is not depreciated.

Depreciation on all other assets is calculated on the straight line basis to write down the cost of each asset, or the revalued amount, to its residual value over its estimated useful life using the following annual rates:

| | No of years |
|---|---|
| Buildings | 25 to 50 years |
| Plant and machinery | 10 to 20 years |
| Motor vehicles | 5 to 8 years |
| Furniture, fittings and computers | 3 to 10 years |

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

# Notes to the Consolidated and Separate Financial Statements for the year ended 31 December, 2014

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings in the statement of changes in equity.

**f) Financial instrument**

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument. Management determines all classification of financial assets at initial recognition.

- **Financial assets**

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

The group's financial assets which include cash and bank balances and trade and other receivables fall into the following categories:

- **Loans and receivables:** financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are classified as current assets where maturities are within 12 months of the reporting date. All assets with maturities greater than 12 months after the reporting date are classified as non-current assets. Such assets are carried at amortised cost using the effective interest rate method. Changes in the carrying amounts are recognised in the profit or loss.

Purchases and sales of financial assets are recognised on the trade date, i.e. the date on which the group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. Impairment of financial assets is recognised in profit or loss under administrative expenses when there is objective evidence that the group will not be able to collect all amounts due per the original terms of the contract. Significant financial difficulties of the issuer, probability that the issuer will enter bankruptcy or financial reorganisation, default in payments and a prolonged decline in fair value of the asset are considered indicators that the asset is impaired.

The amount of the impairment loss is calculated at the difference between the assets carrying amount and the present values of expected future cash flows, discounted at the financial instrument's effective interest rate.

- ***Financial liabilities***

The group's financial liabilities which include borrowings, trade and other payables and current tax fall into the following category:

- **Financial liabilities measured at amortised cost**: These are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method.

Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in profit or loss under finance costs.

Fees associated with the acquisition of borrowing facilities are recognised as transaction costs of the borrowing to the extent that it is probable that some or all of the facilities will be acquired. In this case the fees are deferred until the drawn down occurs. If it is not probable that some or all of the facilities will be acquired the fees are accounted for as prepayments under trade and other receivables and amortised over the period of the facility.

All financial liabilities are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the date of this report.

Financial liabilities are derecognised when, and only when, the group's obligations are discharged, cancelled or expired.

- ***Offsetting financial instruments***

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

# Notes to the Consolidated and Separate Financial Statements for the year ended 31 December, 2014

**g) Leases**

- *Group as a lessor*

  Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

- *Group as a lessee*

  Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

  A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

  Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

**h) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**i) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on direct purchase value and all costs attributable to bring the inventory to its current location and condition and is stated on a weighted average cost basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

**j) Cash and cash equivalents**

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated and separate statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts.

**k) Taxation**

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in equity, in which case, the tax is also recognised in equity.

**Current tax**

Current tax is provided on the results for the year, adjusted in accordance with tax legislation.

**Deferred tax**

Deferred tax is provided using the liability method for all temporary timing differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary timing differences can be utilised.

**l) Retirement benefit obligations**

Employee entitlements to gratuity and long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the date of this report.

# Notes to the Consolidated and Separate Financial Statements for the year ended 31 December, 2014

The group and its employees contribute to the National Social Security Fund (NSSF), a statutory defined contribution scheme registered under the NSSF Act. The group's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate.

**m) Share capital**

Ordinary shares are classified as equity.

**3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the consolidated and separate financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

**a) Key sources of estimation uncertainty**

Management has made the following assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities.

- **Useful lives of property, plant and equipment**

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

**b) Significant judgements made by management in applying the group's accounting policies**

Management has made the following judgements that are considered to have the most significant effect on the amounts recognised in the consolidated financial statements:

- **Impairment of trade receivables**

  The group reviews their portfolio of trade receivables on an annual basis. In determining whether receivables are impaired, the management makes judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cashflows expected.

- **Impairment of non-financial assets**

  Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset.

- **Provision for pending litigations**

  Management regularly reviews the status of the legal 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 consolidated financial statements, management critically evaluates the probability of losing these cases and only makes provision for the cases in which it is probable that the future outflow of resources will be required to settle obligations.

**c) Taxes**

The company is subjected to numerous taxes and levies by various government and quasi-government regulations bodies. As a rule of thumb, the company recognises liabilities for the anticipated tax/levies payable with utmost care and diligence. However, significant judgement is usually required in the interpretation and applicability of those taxes levies. Should it come to the attention of managements in one way or other, that the initially recorded liability was erroneous, such differences will impact on the income and liabilities in the period in which such differences are determined.

# Notes to the Consolidated and Company Financial Statements for the year ended 31 December, 2014

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2014** | 2013 | **2014** | 2013 |
| | | **TZS Million** | TZS Million | **TZS Million** | TZS Million |
| **4.** | **REVENUE** | | | | |
| | Sale of petroleum products | 358,070 | 1,750,609 | 358,070 | 1,750,609 |
| **5.** | **OTHER OPERATING INCOME** | | | | |
| | Throughput fees | 9,323 | 8,736 | 9,323 | 8,736 |
| | Miscellaneous Income | 250 | 72 | 250 | 72 |
| | Rental income | 80 | 79 | 59 | 59 |
| | Gain on disposal of property, plant and equipment | - | 2,912 | - | 2,912 |
| | | 9,653 | 11,799 | 9,632 | 11,779 |
| **6.** | **OPERATING PROFIT** | | | | |
| | The following items have been charged in arriving at the operating profit | | | | |
| | Depreciation on property, plant and equipment (Note 10) | 7,503 | 6,268 | 7,503 | 6,268 |
| | Staff costs (Note 7) | 5,176 | 4,707 | 5,176 | 4,707 |
| | Auditors' remuneration | 77 | 74 | 67 | 64 |
| | Operating lease rentals | 724 | 615 | 711 | 604 |
| | Loss on disposal of property, plant and equipment | 36 | - | 36 | - |
| | Bad debts | 416 | 76 | 416 | 6 |
| | Repairs and maintenance | 1,107 | 514 | 1,107 | 514 |
| **7.** | **STAFF COSTS** | | | | |
| | Salaries and wages | 3,739 | 3,468 | 3,739 | 3,468 |
| | Provision for retirement benefit obligations (Note 17) | 258 | 150 | 258 | 150 |
| | Other staff costs | 935 | 951 | 935 | 951 |
| | Social security contribution: | | | | |
| | – National Social Security Fund | 244 | 138 | 244 | 138 |
| | | 5,176 | 4,707 | 5,176 | 4,707 |

# Notes to the Consolidated and Separate Financial Statements for the year ended 31 December, 2014

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **TZS Million** | TZS Million | **TZS Million** | TZS Million |
| **8. (a) FINANCE COST** | | | | |
| Interest expense | | | | |
| – bank borrowings | 96 | 2,150 | 96 | 2,150 |
| – Other interest | 913 | - | 913 | - |
| | 1,009 | 2,150 | 1,009 | 2,150 |
| **(b) FINANCE INCOME** | | | | |
| Interest income | 2,049 | 2,105 | 2,049 | 2,105 |
| Foreign exchange gain (net) | 1,831 | 2,117 | 1,831 | 2,117 |
| | 3,880 | 4,222 | 3,880 | 4,222 |
| **9. TAXATION** | | | | |
| **(a) Taxation charge** | | | | |
| Current tax based on taxable income | 3,948 | 7,583 | 3,948 | 7,583 |
| Under provision in prior periods | 2,621 | 464 | 2,621 | 464 |
| | 6,569 | 8,047 | 6,569 | 8,047 |
| Deferred tax charge (Note 18) | (2,752) | 701 | (2,752) | 701 |
| | 3,817 | 8,748 | 3,817 | 8,748 |
| **(b) Reconciliation of expected tax based on accounting profit to tax charge** | | | | |
| Profit before tax | 13,431 | 23,819 | 13,436 | 23,890 |
| Tax calculated at the rate of 30% | 4,029 | 7,146 | 4,031 | 7,167 |
| **Tax effect of:** | | | | |
| – expenses not deductible for tax purposes | (2,833) | 1,138 | (2,835) | 1,117 |
| – Adjustment for under provision in prior periods | 2,621 | 464 | 2,621 | 464 |
| | 3,817 | 8,748 | 3,817 | 8,748 |
| **(c) Tax payable** | | | | |
| At start of year | 193 | 757 | 190 | 754 |
| Charged to profit or loss | 6,569 | 8,047 | 6,569 | 8,047 |
| Tax paid during the year | (6,511) | (8,611) | (6,511) | (8,611) |
| At end of year | 251 | 193 | 248 | 190 |

# Notes to the Consolidated and Separate Financial Statements for the year ended 31 December, 2014

**10. PROPERTY, PLANT AND EQUIPMENT**

**Year ended 31 December 2014**

**GROUP**

| | Leasehold land TZS Million | Buildings TZS Million | Plant and machinery TZS Million | Motor vehicles TZS Million | Furniture, fittings and computers TZS Million | Capital work-in - progress TZS Million | Total TZS Million |
|---|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | | |
| At start of year | 3,337 | 82,476 | 59,239 | 359 | 754 | 6,896 | 153,061 |
| Transfer from capital work-in-progress | - | 1,474 | 5,233 | - | 78 | (6,785) | - |
| Additions | 90 | - | 96 | - | 26 | 4,225 | 4,437 |
| Disposals | (1,164) | - | (93) | - | - | - | (1,257) |
| At end of year | 2,263 | 83,950 | 64,475 | 359 | 858 | 4,336 | 156,241 |
| **Comprising** | | | | | | | |
| Cost | 2,263 | 38,112 | 50,893 | 359 | 858 | 4,336 | 96,821 |
| Revaluation | - | 45,438 | 13,582 | - | - | - | 59,020 |
| | 2,263 | 83,950 | 64,475 | 359 | 858 | 4,336 | 156,241 |
| **Depreciation** | | | | | | | |
| At start of year | 1,375 | - | - | 177 | 520 | - | 2,072 |
| Charge for the year | 417 | 3,220 | 3,722 | 68 | 76 | - | 7,503 |
| Disposal | (1,164) | - | (9) | - | - | - | (1,173) |
| At end of year | 628 | 3,220 | 3,713 | 245 | 596 | - | 8,402 |
| **Net carrying amount** | 1,635 | 80,730 | 60,762 | 114 | 262 | 4,336 | 147,839 |

Capital-work-in progress mainly relates to installations of LPG tanks, revamping of terminals and petrol stations.

Buildings and plant and machinery were revalued in December 2013 by M & R Agency Ltd. Valuations were made on the basis of open market value for the existing use. The book values of the properties were adjusted and the resultant surplus was credited to the revaluation reserve in the shareholder's equity and losses recognised in profit or loss.

# Notes to the Consolidated and Separate Financial Statements for the year ended 31 December, 2014

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

| | Leasehold land TZS Million | Buildings TZS Million | Plant and machinery TZS Million | Motor vehicles TZS Million | Furniture, fittings and computers TZS Million | Capital work-in - progress TZS Million | Total TZS Million |
|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2013** | | | | | | | |
| **GROUP** | | | | | | | |
| **Cost or valuation** | | | | | | | |
| At start of year | 3,131 | 57,866 | 60,305 | 359 | 687 | 5,814 | 128,162 |
| Transfer from capital work-in-progress | - | 1,546 | 1,765 | - | 13 | (3,324) | - |
| Additions | - | - | - | - | - | 4,406 | 4,406 |
| Opening Adjustment | - | - | - | - | 59 | - | 59 |
| Impairment | 310 | 23,685 | (2,029) | - | - | - | 21,966 |
| Disposals | (104) | (621) | (802) | - | (5) | - | (1,532) |
| At end of year | 3,337 | 82,476 | 59,239 | 359 | 754 | 6,896 | 153,061 |
| **Comprising** | | | | | | | |
| Cost | 3,027 | 36,947 | 45,636 | 359 | 754 | 6,896 | 93,619 |
| Revaluation | 310 | 45,529 | 13,603 | - | - | - | 59,442 |
| | 3,337 | 82,476 | 59,239 | 359 | 754 | 6,896 | 153,061 |
| **Depreciation** | | | | | | | |
| At start of year | 1,311 | 6,524 | 9,710 | 109 | 508 | - | 18,162 |
| Charge for the year | 174 | 2,251 | 3,700 | 68 | 75 | - | 6,268 |
| Revaluation Adjustment | (78) | (8,690) | (13,349) | - | - | - | (22,117) |
| Opening Adjustment | - | - | 118 | - | (59) | - | 59 |
| Disposal | (32) | (85) | (179) | - | (4) | - | (300) |
| At end of year | 1,375 | - | - | 177 | 520 | - | 2,072 |
| **Net carrying amount** | 1,962 | 82,476 | 59,239 | 182 | 234 | 6,896 | 150,989 |

Capital-work-in progress mainly relates to installations of LPG tanks, revamping of terminals and petrol stations.

Buildings and plant and machinery were revalued in December 2013 by M & R Agency Ltd. Valuations were made on the basis of open market value for the existing use. The book values of the properties were adjusted and the resultant surplus was credited to the revaluation reserve in the shareholder's equity and losses recognised in profit or loss.

# Notes to the Consolidated and Separate Financial Statements for the year ended 31 December, 2014

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

**Year ended 31 December 2014**

**COMPANY**

| | Leasehold land TZS Million | Buildings TZS Million | Plant and machinery TZS Million | Motor vehicles TZS Million | Furniture, fittings and computers TZS Million | Capital work-in - progress TZS Million | Total TZS Million |
|---|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | | |
| At start of year | 3,027 | 80,742 | 59,239 | 342 | 754 | 6,896 | 151,000 |
| Transfer from capital work-in-progress | - | 1,474 | 5,233 | - | 78 | (6,785) | - |
| Additions | 90 | - | 96 | - | 26 | 4,225 | 4,437 |
| Disposals | (1,164) | - | (93) | - | - | - | (1,257) |
| At end of year | 1,953 | 82,216 | 64,475 | 342 | 858 | 4,336 | 154,180 |
| **Comprising** | | | | | | | |
| Cost | 1,953 | 36,378 | 50,893 | 342 | 858 | 4,336 | 94,760 |
| Revaluation | - | 45,838 | 13,582 | - | - | - | 59,420 |
| | 1,953 | 82,216 | 64,475 | 342 | 858 | 4,336 | 154,180 |
| **Depreciation** | | | | | | | |
| At start of year | 1,375 | - | - | 160 | 520 | - | 2,055 |
| Charge for the year | 417 | 3,220 | 3,722 | 68 | 76 | - | 7,503 |
| Disposal | (1,164) | - | (9) | - | - | - | (1,173) |
| At end of year | 628 | 3,220 | 3,713 | 228 | 596 | - | 8,385 |
| **Net carrying amount** | 1,325 | 78,996 | 60,762 | 114 | 262 | 4,336 | 145,795 |

Capital-work-in progress mainly relates to installations of LPG tanks, revamping of terminals and petrol stations.

Disposals under leasehold land represents expired leases which were not renewed.

Buildings and plant and machinery were revalued in December 2013 by M & R Agency Ltd. Valuations were made on the basis of open market value for the existing use. The book values of the properties were adjusted and the resultant surplus was credited to the revaluation reserve in the shareholder's equity and losses recognised in profit or loss.

# Notes to the Consolidated and Separate Financial Statements for the year ended 31 December, 2014

## 10. PROPERTY, PLANT AND EQUIPMENT (Continued)

**Year ended 31 December 2013**

**COMPANY**

| | Leasehold land TZS Million | Buildings TZS Million | Plant and machinery TZS Million | Motor vehicles TZS Million | Furniture, fittings and computers TZS Million | Capital work-in - progress TZS Million | Total TZS Million |
|---|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | | |
| At start of year | 3,131 | 55,822 | 60,305 | 342 | 687 | 5,814 | 126,101 |
| Transfer from capital work-in-progress | - | 1,546 | 1,765 | - | 13 | (3,324) | - |
| Additions | - | - | - | - | - | 4,406 | 4,406 |
| Opening Adjustment | - | - | - | - | 59 | - | 59 |
| Revaluation | - | 23,995 | (2,029) | - | - | - | 21,966 |
| Disposals | (104) | (621) | (802) | - | (5) | - | (1,532) |
| At end of year | 3,027 | 80,742 | 59,239 | 342 | 754 | 6,896 | 151,000 |
| **Comprising** | | | | | | | |
| Cost | 3,027 | 34,903 | 45,636 | 342 | 754 | 6,896 | 91,558 |
| Revaluation | - | 45,839 | 13,603 | - | - | - | 59,442 |
| | 3,027 | 80,742 | 59,239 | 342 | 754 | 6,896 | 151,000 |
| **Depreciation** | | | | | | | |
| At start of year | 1,311 | 6,524 | 9,710 | 92 | 508 | - | 18,145 |
| Charge for the year | 174 | 2,251 | 3,700 | 68 | 75 | - | 6,268 |
| Revaluation adjustments | (78) | (8,690) | (13,349) | - | - | - | (22,117) |
| Opening Adjustment | - | - | 118 | - | (59) | - | 59 |
| Disposal | (32) | (85) | (179) | - | (4) | - | (300) |
| At end of year | 1,375 | - | - | 160 | 520 | - | 2,055 |
| **Net carrying amount** | 1,652 | 80,742 | 59,239 | 182 | 234 | 6,896 | 148,945 |

Capital-work-in progress mainly relates to installations of LPG tanks, revamping of terminals and petrol stations.Buildings and plant and machinery were revalued in December 2013 by M & R Agency Ltd. Valuations were made on the basis of open market value for the existing use. The book values of the properties were adjusted and the resultant surplus was credited to the revaluation reserve in the shareholder's equity and losses recognised in profit or loss.

# Notes to the Consolidated and Separate Financial Statements for the year ended 31 December, 2014

## 10. PROPERTY, PLANT AND EQUIPMENT (Continued)

If the building and plant and machinery were stated on the historical cost basis, the amount would be as follows:

| Group and Company | Building TZS Million | Plant and machinery TZS Million | Total TZS Million |
|---|---|---|---|
| **Year 2014** | | | |
| Cost | 38,112 | 50,893 | 89,005 |
| Accumulated depreciation | (20,052) | (30,209) | (50,261) |
| Net carrying amount | 18,060 | 20,684 | 38,744 |
| **Year 2013** | | | |
| Cost | 36,947 | 45,636 | 82,583 |
| Accumulated depreciation | (16,832) | (26,496) | (43,328) |
| Net Carrying Amount | 20,115 | 19,140 | 39,255 |

## 11. INVESTMENT IN SUBSIDIARIES

| | | | Company | |
|---|---|---|---|---|
| | Country of incorporation | Holding | **2014 TZS Million** | 2013 TZS Million |
| **Shares at cost** | | | | |
| Gapoil (Zanzibar) Limited | Zanzibar | 100% | 165 | 165 |

The directors have carried our an impairment assesment and are of the opinion that the carring amount have not suffered imparement in value.

## 12. INVENTORIES

| | Group and Company | |
|---|---|---|
| | **2014 TZS Million** | 2013 TZS Million |
| Fuel and Lubricant stocks | 40,268 | 31,296 |
| Material and supplies | 838 | 1,164 |
| | 41,106 | 32,460 |

## 13. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2014 TZS Million** | 2013 TZS Million | **2014 TZS Million** | 2013 TZS Million |
| Trade receivables | 4,607 | 5,336 | 4,607 | 5.336 |
| Less: provision for impairment | (386) | (25) | (386) | (25) |
| Net trade receivables | 4,221 | 5,311 | 4,221 | 5,311 |
| Prepayment and deferred charges | 858 | 1,880 | 699 | 1,740 |
| Receivable from related parties [Note 22 (vi)] | 75 | 41 | 1,997 | 1,964 |
| Loan receivable from related parties [Note 22 (viii)] | 73,159 | 68,532 | 73,159 | 68,532 |
| | 78,313 | 75,764 | 80,076 | 77,547 |

# Notes to the Consolidated and Separate Financial Statements for the year ended 31 December, 2014

The carrying amounts of the current portion of trade and other receivables approximate to their fair value.

Trade receivables comprise a large and widespread customer base and the group performs credit evaluations on the financial condition of its customers. The group holds collateral of TZS.700 million (2013:TZS.1,524 million) as security against the trade receivable balances.

The carrying amounts of the trade and other receivables are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014 TZS Million** | 2013 TZS Million | **2014 TZS Million** | 2013 TZS Million |
| Tanzania Shillings | 1,936 | 3,967 | 3,699 | 5,750 |
| US Dollars | 76,377 | 71,797 | 76,377 | 71,797 |
| | 78,313 | 75,764 | 80,076 | 77,547 |

Trade receivables that are aged past 30 days are considered past due.

As of 31 December 2014, trade receivables amounting to TZS. 940 million (2013: TZS. 1,237 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

Individually impaired receivables mainly relate to customers, who are in unexpectedly difficult economic situations. As of 31 December 2014, trade receivables amounting to TZS. 386 million were past due and impaired.

The movement of the provision for impairment during the year was as follows.

| | **2014 TZS Million** | 2013 TZS Million |
|---|---|---|
| Opening balance | 25 | 19 |
| Additions | 386 | 6 |
| Recoveries | (9) | - |
| Write of | (16) | - |
| Closing balance | 386 | 25 |

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

| | Group and Company | |
|---|---|---|
| **14. CASH AND CASH EQUIVALENTS** | **2014 TZS Million** | 2013 TZS Million |
| Cash at bank and in hand | 4,575 | 8,881 |

For the purposes of the statement of cash flows,
the year–end cash and cash equivalents comprise the following:

| | | |
|---|---|---|
| Cash and bank balances | 4,575 | 8,881 |
| Bank overdraft (Note 20) | (14,792) | (196) |
| | (10,217) | 8,685 |

The carrying amounts of the group's cash at bank and in hand are denominated in the following currencies:

| | | |
|---|---|---|
| Tanzania Shillings | 4,567 | 4,185 |
| US Dollars | 8 | 4,696 |
| | 4,575 | 8,881 |

# Notes to the Consolidated and Separate Financial Statements for the year ended 31 December, 2014

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **TZS Million** | TZS Million | **TZS Million** | TZS Million |
| **15. SHARE CAPITAL** | | | | |
| **Authorised:** | | | | |
| 3,285,000,000 (2013: 3,285,000,000) ordinary shares of TZS. 20 each | 65,700 | 65,700 | 65,700 | 65,700 |
| **Issued and fully paid:** | | | | |
| 1,495,521,900 (2013: 1,495,521,900) ordinary shares of TZS. 20 each | 29,910 | 29,910 | 29,910 | 29,910 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **TZS Million** | TZS Million | **TZS Million** | TZS Million |
| **16. REVALUATION RESERVE** | | | | |
| Land and Buildings | 42,085 | 43,349 | 42,085 | 43,349 |
| Plant and machinery | 26,879 | 27,457 | 26,879 | 27,457 |
| | 68,964 | 70,806 | 68,964 | 70,806 |
| The movements of reserves were as follows: | | | | |
| **Land & Buildings:** | | | | |
| At start of year | 43,349 | 20,890 | 43,349 | 20,890 |
| Transfer of excess depreciation | (1,806) | (859) | (1,806) | (859) |
| Revaluation surplus on land and buildings | - | 22,934 | - | 22,934 |
| Transfer to retained earnings from revaluation reserve on disposal of property, plant and equipment | - | 126 | - | 126 |
| Deferred tax on transfer of excess depreciation | 542 | 258 | 542 | 258 |
| At end of year | 42,085 | 43,349 | 42,085 | 43,349 |
| **Plant and machinery:** | | | | |
| At start of year | 27,457 | 20,286 | 27,457 | 20,286 |
| Transfer of excess depreciation | (799) | (905) | (799) | (905) |
| Revaluation surplus on plant and equipment | - | 7,924 | - | 7,924 |
| Transfer to retained earnings from revaluation reserve on disposal of property, plant and equipment | (19) | (119) | (19) | (119) |
| Deferred tax on transfer of excess depreciation | 240 | 271 | 240 | 271 |
| At end of year | 26,879 | 27,457 | 26,879 | 27,457 |
| **Total** | | | | |
| At start of year | 70,806 | 41,176 | 70,806 | 41,176 |
| Transfer of excess depreciation | (2,605) | (1,764) | (2,605) | (1,764) |
| Revaluation surplus on property, plant and equipment | - | 30,858 | - | 30,858 |
| Transfer to retained earnings from revaluation reserve on disposal of property, plant and equipment | (19) | 7 | (19) | 7 |
| Deferred tax on transfer of excess depreciation | 782 | 529 | 782 | 529 |
| At end of year | 68,964 | 70,806 | 68,964 | 70,806 |

The revaluation reserve arose on the revaluation of buildings and plant and machinery and is not distributable.

# Notes to the Consolidated and Separate Financial Statements for the year ended 31 December, 2014

## 17. RETIREMENT BENEFIT OBLIGATIONS AND LONG-TERM SERVICE DUES

| | Group and Company | |
|---|---|---|
| | **2014** | 2013 |
| | **TZS Million** | TZS Million |
| At start of year | 910 | 820 |
| Less: amounts utilised | (238) | (60) |
| Charge to profit or loss [Note 7] | 258 | 150 |
| At end of year | 930 | 910 |

The group operates a gratuity scheme for qualifying employees which qualifies as a defined benefit scheme. Under the plan, the employees are entitled to 1 month basic salary for each completed year of services upto 10 years, between 10 to 20 years the employees are entitled to 1.5 month of basic salary and above 20 years the employees are entitled to 2 months basic salary.

## 18. DEFERRED TAX

Deferred tax is calculated in full, on all temporary timing differences under the liability method using a principal tax rate of 30% (2012: 30%). The movement on the deferred tax account is as follows:

| | Group and Company | |
|---|---|---|
| | **2014** | 2013 |
| | **TZS Million** | TZS Million |
| At start of year | 34,794 | 20,868 |
| (Credit)/charge to profit or loss | (2,752) | 13,926 |
| At end of year | 32,042 | 34,794 |

Deferred tax liabilities/(assets) and deferred tax charge/(credit) to profit or loss are attributable to the following items:

| | **At start of year TZS Million** | **Charge/ (credit) for the year** | **At end of year TZS Million** |
|---|---|---|---|
| **Deferred tax liabilities** | | | |
| Property, plant and equipment | | | |
| - historical cost | 31,152 | (221) | 30,931 |
| - revaluation | 3,924 | (782) | 3,142 |
| | 35,076 | (1,003) | 34,073 |
| **Deferred tax (assets)** | | | |
| Other provisions | (282) | (1,749) | (2,031) |
| | (282) | (1,749) | (2,031) |
| **Net deferred tax liability** | 34,794 | (2,752) | 32,042 |

| **Charged as follows:** | **TZS Million** |
|---|---|
| Charged to other comprehensive income | - |
| Charged to profit or loss [Note 9] | (2,752) |
| | **(2,752)** |

# Notes to the Consolidated and Separate Financial Statements for the year ended 31 December, 2014

| | Group | | Company | |
|---|---|---|---|---|
| **19. TRADE AND OTHER PAYABLES** | **2014 TZS Million** | 2013 TZS Million | **2014 TZS Million** | 2013 TZS Million |
| Trade payables | 22,502 | 31,956 | 22,502 | 31,956 |
| Accruals and other payables | 7,651 | 4,909 | 7,453 | 4,736 |
| Payable to related parties (Note 22 (vii)) | 20,366 | 31,451 | 20,366 | 31,451 |
| | 50,519 | 68,316 | 50,321 | 68,143 |

- Trade and other payables are non-interest bearing and are normally settled within three months.
- The carrying values of trade and other payables are assumed to approximate their fair values due to the short term nature of trade receivables and payables.

The carrying amount of the trade and other payables are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014 TZS Million** | 2013 TZS Million | **2014 TZS Million** | 2013 TZS Million |
| Tanzanian Shillings | 45,114 | 15,623 | 44,916 | 15,450 |
| US Dollars | 5,405 | 52,693 | 5,405 | 52,693 |
| | 50,519 | 68,316 | 50,321 | 68,143 |

The maturity analysis of current trade and other payables is as follows:

| | **1 to 3 months TZS Million** | **3 to 6 months TZS Million** | **Over 6 months TZS Million** | **Total TZS Million** |
|---|---|---|---|---|
| **Year ended 31 December 2014** | | | | |
| **Group** | | | | |
| Trade payables | 21,255 | - | 1,247 | 22,502 |
| Accruals and other payables | 4,690 | - | 2,961 | 7,651 |
| Payable to related parties | 7,756 | 12,082 | 528 | 20,366 |
| | 33,701 | 12,082 | 4,736 | 50,519 |
| **Year ended 31 December 2014** | | | | |
| **Company** | | | | |
| Trade payables | 21,255 | - | 1,247 | 22,502 |
| Accruals and other payables | 4,492 | - | 2,961 | 7,453 |
| Payable to related parties | 7,756 | 12,082 | 528 | 20,366 |
| | 33,503 | 12,082 | 4,736 | 50,321 |
| **Year ended 31 December 2013** | | | | |
| **Group** | | | | |
| Trade payables | 28,084 | 3,577 | 295 | 31,956 |
| Accruals and other payables | 4,710 | 9 | 190 | 4,909 |
| Payable to related parties | 28,444 | - | 3,007 | 31,451 |
| | 61,238 | 3,586 | 3,492 | 68,316 |

# Notes to the Consolidated and Separate Financial Statements for the year ended 31 December, 2014

| **19. TRADE AND OTHER PAYABLES (Contd.)** | **1 to 3 months TZS Million** | **3 to 6 months TZS Million** | **Over 6 months TZS Million** | **Total TZS Million** |
|---|---|---|---|---|
| **Year ended 31 December 2013** | | | | |
| **Company** | | | | |
| Trade payables | 28,084 | 3,577 | 295 | 31,956 |
| Accruals and other payables | 4,689 | 9 | 38 | 4,736 |
| Payable to related parties | 28,444 | - | 3,007 | 31,451 |
| | 61,217 | 3,586 | 3,340 | 68,143 |

| | **Group** | | **Company** | |
|---|---|---|---|---|
| **20. BORROWINGS** | **2014 TZS Million** | 2013 TZS Million | **2014 TZS Million** | 2013 TZS Million |
| The borrowings are made up as follows: | | | | |
| **Current** | | | | |
| Bank overdraft | 14,792 | 196 | 14,792 | 196 |

Bank borrowings are secured by:

- Floating charge over current assets (Present and future) of the company covering credit facility from Standard Chartered Bank Tanzania Limited
- Legal charge over 7 properties total amounting to TZS. 7.76 billion (2013 TZS. 7.76 billion) covering facilities from National Bank of Commerce Limited.

Weighted average effective interest rates at the year-end were as follows:

| | **Group and Company** | |
|---|---|---|
| | **2014** | 2013 |
| Bank overdraft - TZS | 9.60% | 9.32% |
| Bank overdraft - USD | 3.15% | 3.25% |

The carrying amounts of borrowings approximate to their fair values.

The carrying amounts of the company's borrowings are denominated in the following currencies:

| | | |
|---|---|---|
| Tanzania Shillings | 169 | 196 |
| US Dollars | 14,623 | - |
| | 14,792 | 196 |

The borrowing facilities expiring within one year are subject to review at various dates during the next financial year.

# Notes to the Consolidated and Separate Financial Statements for the year ended 31 December, 2014

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| **21. CASH FROM OPERATIONS** | **TZS Million** | TZS Million | **TZS Million** | TZS Million |
| Reconciliation of profit before tax to cash generated from operations: | | | | |
| Profit before tax | 13,431 | 23,819 | 13,436 | 23,890 |
| **Adjustments for:** | | | | |
| Depreciation on property, plant and equipment [Note 10] | 7,503 | 6,268 | 7,503 | 6,268 |
| Interest expense [Note 8 (a)] | 1,009 | 2,150 | 1,009 | 2,150 |
| Interest income [Note 8 (b)] | (2,049) | (2,105) | (2,049) | (2,105) |
| Foreign exchange gain (net) | (255) | (847) | (255) | (847) |
| Loss/(gain) on disposal of property, plant and equipment | 36 | (2,912) | 36 | (2,912) |
| Increase in retirement benefit obligations [Note 17] | 20 | 90 | 20 | 90 |
| Changes in working capital: | | | | |
| - Increase in inventories | (8,646) | (22,456) | (8,646) | (22,456) |
| - Increase in trade and other receivables | (2,549) | (2,667) | (2,529) | (2,717) |
| - Decrease in trade and other payables | (17,797) | (28,581) | (17,822) | (28,602) |
| Cash generated from operations | (9,297) | (27,241) | (9,297) | (27,241) |

**22. RELATED PARTY TRANSACTIONS AND BALANCES**

The immediate holding company is Gulf Africa Petroleum Corporation, a company incorporated and registered in Mauritius while the ultimate holding company is Reliance Industries Limited, India. Gapco Kenya Limited,Gapco Uganda Limited, Reliance Petro Marketing Limited and Reliance Corporate IT Park Limited are related through common holding. Gapco Rwanda Limited ceased to be related party as on August 2014.

The following transactions were carried out with related parties:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **TZS Million** | TZS Million | **TZS Million** | TZS Million |
| i) **Hospitality/storage services** | | | | |
| - Gapco Uganda Limited | 19 | - | 19 | - |
| - Gapco Rwanda Limited | 45 | 261 | 45 | 261 |
| | 64 | 261 | 64 | 261 |
| ii) **Purchase of goods and services** | | | | |
| - Gapco Kenya Limited | 88,158 | 34,619 | 88,158 | 34,619 |
| - Reliance Industries Limited | 732 | 1,438,407 | 732 | 1,438,407 |
| - Reliance Corporate IT Park Limited | 528 | 2,955 | 528 | 2,955 |
| | 89,418 | 1,475,981 | 89,418 | 1,475,981 |
| iii) **Sales of goods and services** | | | | |
| - Gapco Kenya Limited | 19 | 43,269 | 19 | 43,269 |
| - Gapco Uganda Limited | 532 | 282 | 532 | 282 |
| | 551 | 43,551 | 551 | 43,551 |
| iv) **Royalty** | | | | |
| Reliance Petro Marketing Limited | 89 | 113 | 89 | 113 |

# Notes to the Consolidated and Separate Financial Statements for the year ended 31 December, 2014

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2014** | 2013 | **2014** | 2013 |
| | | **TZS Million** | TZS Million | **TZS Million** | TZS Million |
| v) | **Interest paid** | | | | |
| | - Reliance Industries Limited | 822 | - | 822 | - |
| vi) | **Interest received on interest bearing loan due from related party** | 1,910 | 1,820 | 1,910 | 1,820 |

Sales and purchases to/from related parties were made at arms length prices.

vii) **Outstanding balances arising from sale and purchase of goods/services**

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2014** | 2013 | **2014** | 2013 |
| | | **TZS Million** | TZS Million | **TZS Million** | TZS Million |
| | **Receivable from other related companies** | | | | |
| | - Gapco Rwanda Limited | - | 41 | - | 41 |
| | - Gapco Uganda Limited | 75 | - | 75 | - |
| | - Gapoil (Zanzibar) Limited | - | - | 1,922 | 1,923 |
| | **Receivable from related parties (Note 13)** | 75 | 41 | 1,997 | 1,964 |
| | **Payable to ultimate parent company** | | | | |
| | - Reliance Industries Limited | 1,538 | 4,575 | 1,538 | 4,575 |
| | **Payables to other related companies** | | | | |
| | - Gapco Kenya Limited | 18,278 | 23,899 | 18,278 | 23,899 |
| | - Reliance Corporate IT Park Limited | 528 | 2,955 | 528 | 2,955 |
| | - Reliance Petro Marketing Limited | 22 | 22 | 22 | 22 |
| | | 18,828 | 26,876 | 18,828 | 26,876 |
| | **Payable to related parties (Note 19)** | 20,366 | 31,451 | 20,366 | 31,451 |
| viii) | **Loan to parent company** | | | | |
| | At start of year | 68,532 | 66,593 | 68,532 | 66,593 |
| | Additions | 4,627 | 1,939 | 4,627 | 1,939 |
| | At end of year | 73,159 | 68,532 | 73,159 | 68,532 |
| ix) | **Directors' Remuneration** | | | | |
| | Salaries and other short-term benefits | 147 | 118 | 147 | 118 |

# Notes to the Consolidated and Separate Financial Statements for the year ended 31 December, 2014

## 23. COMMITMENTS

i) **Operating lease commitments**

The future minimum lease payments under non-cancellable operating leases are as follows:

| | Group and Company | |
|---|---|---|
| | **2014** **TZS Million** | 2013 TZS Million |
| Not later than 1 year | 147 | 164 |

ii) **Capital commitments**

Capital expenditure contracted for at the reporting date is as follows:

| | | |
|---|---|---|
| Property, plant and equipment | 5,414 | 1,260 |

## 24. CONTINGENT LIABILITIES

i) Guarantees issued by banks on behalf of the Company

Standard Chartered Bank - TZS 29,601,430,283 (2013: TZS 18,764,152,178).

ii) Idemnity bonds issued to statutory authorities - TZS 25,020,000,000 (2012: TZS 24,010,000,000).

iii) Claims against the Company not acknowledged by the company - TZS 402,991,513 (2013: TZS 1,619,662,838).

No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise if there were any rulings against the Group.

The Directors are not aware of any other major contingent liabilities that are required to be disclosed or recorded in accordance with International Financial Reporting Standards.

## 25. RISK MANAGEMENT OBJECTIVES AND POLICIES

**Financial risk management**

The company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

Risk management is carried out by the management. Management identifies, evaluates and hedges financial risks in close co-operation with the board.

**(a) Market risk**

- *Foreign exchange risk*

The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollars. The risk arises from future transactions, assets and liabilities in the statement of financial position.

The table below summarises the effect on post-tax profit and components of equity had the Tanzania Shilling weakened by 10% against each currency, with all other variables held constant.If the Tanzania Shilling strengthened against each currency, the effect would have been the opposite.

| | Group and Company | |
|---|---|---|
| | **2014** **TZS Million** | 2013 TZS Million |
| Effect on profit - Increase | 3,944 | 1,337 |

# Notes to the Consolidated and Separate Financial Statements for the year ended 31 December, 2014

**25. RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)***

**(a) Market risk *(Continued)***

- *Interest rate risk*

The companies exposure to interest rate risk arises from loan receivables, non-current borrowings/ current borrowings and interest bearing creditors. Borrowings obtained at different rates expose the company to interest rate risk. Borrowings obtained at fixed rates expose the company to fair value interest rate risk.

During the year ended 31 December 2014, if interest rates at that date had been 5 percentage point higher with all other variables held constant, post-tax profit for the year would have been Nil (2013: TZS. NIL) lower, arising mainly as a result of parent company loan fully paid.

**(b) Credit risk**

Credit risk arises from cash and cash equivalents and trade and other receivables.

Management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors.

Individual limits are set by management based on internal or external information available. The utilisation of credit limits is regularly monitored.

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

None of the financial assets that are fully performing has been renegotiated in the last year.

Exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk.

The amount that best represent the Group's maximum exposure to credit risk as at 31 December 2014 is made up as follows:

| | Fully performing TZS Million | Past due TZS Million | Impaired TZS Million | Total TZS Million |
|---|---|---|---|---|
| **Year ended 31 December 2014** | | | | |
| Trade receivables | 3,667 | 554 | 386 | 4,607 |
| Provision for impairment | - | - | (386) | (386) |
| | 3,667 | 554 | - | 4,221 |
| Receivables from related parties | 75 | - | - | 75 |
| Loan receivables from related parties | 73,159 | - | - | 73,159 |
| Bank balances | 4,575 | - | - | 4,575 |
| | 81,476 | 554 | - | 82,030 |

The amount that best represent the Group's maximum exposure to credit risk as at 31 December 2013 is made up as follows:

| | Fully performing TZS Million | Past due TZS Million | Impaired TZS Million | Total TZS Million |
|---|---|---|---|---|
| **Year ended 31 December 2013** | | | | |
| Trade receivables | 4,099 | 1,212 | 25 | 5,336 |
| Provision for impairment | - | - | (25) | (25) |
| | 4,099 | 1,212 | - | 5,311 |
| Receivables from related parties | 41 | - | - | 41 |
| Loan receivables from related parties | 68,532 | - | - | 68,532 |
| Bank balances | 8,881 | - | - | 8,881 |
| | 81,553 | 1,212 | - | 82,765 |

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

The debt that is overdue is not impaired and continues to be paid. The finance department is actively following this debt.

The debt that is impaired has been fully provided for.  However, the finance department are following up on the impaired debt.

# Notes to the Consolidated and Separate Financial Statements for the year ended 31 December, 2014

**25. RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)***

**(c) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the company's management maintains flexibility in funding by maintaining availability under committed credit lines.

Notes 19 and 20 disclose the maturity analysis of trade and other payables and borrowings respectively.

**26. CAPITAL MANAGEMENT**

The Group's objectives when managing capital are:

- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk;
- to comply with the capital requirements set out by the company's bankers;
- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to maintain a strong asset base to support the development of business; and
- to maintain an optimal capital structure to reduce the cost of capital.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, bonuses paid to directors or issue new shares. Consistently with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt to capital. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents.

Capital comprises all components of equity.

The gearing ratios at 31 December 2014 and 2013 were as follows:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2014 TZS Million** | 2013 TZS Million | **2014 TZS Million** | 2013 TZS Million |
| Total borrowings (Note 20) | 14,792 | 196 | 14,792 | 196 |
| Less cash and bank balances [Note 14] | (4,575) | (8,881) | (4,575) | (8,881) |
| Net debt | 10,217 | (8,685) | 10,217 | (8,685) |
| Total equity | 173,299 | 163,685 | 173,384 | 163,685 |
| Gearing ratio | 0.06 | NA | 0.06 | NA |

Debt-to-capital ratio during the year 2013 is not calculated since the cash and cash equivalents exceeds the total borrowings.

**27. INCORPORATION**

Gapco Tanzania Limited is incorporated in Tanzania under the Companies Act, 2002 as a private limited company and is domiciled in Tanzania.

**28. PRESENTATION CURRENCY**

The financial statements are presented in Tanzania Shillings (TZS millions).

**29. SUBSEQUENT EVENTS**

There are no subsequent events that have occurred which are either to be disclosed or to be adjusted in the financial statements that could materially affect the financial statements.

# Schedule of Expenditure for the year ended 31 December, 2014

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2014** | 2013 | **2014** | 2013 |
| **1.** | **SELLING AND DISTRIBUTION** | **TZS Million** | TZS Million | **TZS Million** | TZS Million |
| | Sales promotion expenses | 56 | 49 | 56 | 49 |
| | Advertising expenses | 262 | 157 | 262 | 157 |
| | | **318** | **206** | **318** | **206** |
| **2.** | **ADMINISTRATIVE EXPENSES** | | | | |
| | **Employment** | | | | |
| | Salaries and wages | 4,241 | 3,756 | 4,241 | 3,756 |
| | Other staff expenses | 908 | 937 | 908 | 937 |
| | Staff medical and welfare | 27 | 14 | 27 | 14 |
| | | **5,176** | **4,707** | **5,176** | **4,707** |
| | **Other administrative expenses** | | | | |
| | Postages and telephones | 143 | 247 | 143 | 247 |
| | Printing and stationery | 19 | 41 | 19 | 41 |
| | Travelling and entertainment | 936 | 851 | 936 | 851 |
| | Subscriptions | 70 | 28 | 70 | 28 |
| | Donations | 10 | 11 | 10 | 11 |
| | Audit fees - current year | 77 | 74 | 67 | 64 |
| | Legal and professional fees | 2,267 | 4,224 | 2,266 | 4,224 |
| | Miscellaneous expenses | 155 | 219 | 155 | 219 |
| | Bank charges | 66 | 382 | 66 | 382 |
| | Bad debts | 416 | 76 | 416 | 6 |
| | VAT expenses | 282 | 647 | 280 | 647 |
| | Tax penalties | - | 8 | - | 8 |
| | | **4,441** | **6,808** | 4,428 | **6,728** |
| | | **9,617** | **11,515** | **9,604** | **11,435** |
| **3.** | **OTHER OPERATING EXPENSES** | | | | |
| | **Establishment** | | | | |
| | Rent and rates | 724 | 615 | 711 | 604 |
| | Repairs and maintenance | 1,107 | 514 | 1,107 | 514 |
| | Electricity and water | 237 | 183 | 237 | 183 |
| | Insurance | 931 | 1,033 | 931 | 1,033 |
| | Security expenses | 649 | 552 | 649 | 552 |
| | Licences | 451 | 231 | 451 | 231 |
| | Depreciation on property, plant and equipment | 7,503 | 6,268 | 7,503 | 6,268 |
| | Loss on disposal of property, plant and equipment | 36 | - | 36 | - |
| | | **11,638** | **9,396** | **11,625** | **9,385** |
| **4.** | **FINANCE COSTS** | | | | |
| | Bank interest and charges | **96** | **2,150** | **96** | **2,150** |
| | Other Interest | 913 | - | 913 | - |
| | | **1,009** | **2,150** | **1,009** | **2,150** |
| **5.** | **FINANCE INCOME** | | | | |
| | Interest income | 2,049 | 2,105 | 2,049 | 2,105 |
| | Foreign exchange gain on Cash and bank (net) | 255 | 847 | 255 | 847 |
| | Foreign exchange gain on others (net) | 1,576 | 1270 | 1,576 | 1270 |
| | | **3,880** | **4,222** | **3,880** | **4,222** |