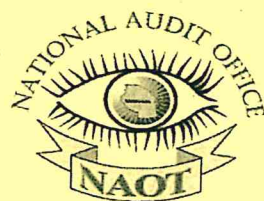


REPORT OF THE CONTROLLER AND AUDITOR GENERAL

**THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE**



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS OF TANZANIA
PETROLEUM DEVELOPMENT CORPORATION
FOR THE YEAR ENDED 30 JUNE 2017**

The Controller and Auditor General,
National Audit Office, Tanzania
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**THE UNITED REPUBLIC OF TANZANIA
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NAO VISION AND MISSION STATEMENT

**Office of the Controller and Auditor General,
National Audit Office,
The United Republic of Tanzania
(Established under Article 143 of the Constitution of the URT)**

The statutory duties and responsibilities of the Controller and Auditor General are given under Article 143 of the Constitution of the United Republic of Tanzania and amplified in the Public Audit Act of 2008.

Vision

To be a centre of excellence in public sector auditing.

Mission

To provide efficient audit services to enhance accountability and value for money in the collection and use of public resources.

In providing quality services, NAO is guided by the following Core Values:

- ✓ **Objectivity:** We are an impartial organization, offering services to our clients in an objective, and unbiased manner;
- ✓ **Excellence:** We are professionals providing high quality audit services based on best practices;
- ✓ **Integrity:** We observe and maintain high standards of ethical behaviour and the rule of law;
- ✓ **People focus:** We focus on stakeholders' needs by building a culture of good customer care and having competent and motivated work force;
- ✓ **Innovation:** We are a creative organization that constantly promotes a culture of developing and accepting new ideas from inside and outside the organization; and
- ✓ **Best resource utilisation:** We are an organisation that values and uses public resources entrusted to it in efficient, economic and effective manner.

We do this by:-

- Contributing to better stewardship of public funds by ensuring that our clients are accountable for the resources entrusted to them;
- Helping to improve the quality of public services by supporting innovation on the use of public resources;
- Providing technical advice to our clients on operational gaps in their operating systems;
- Systematically involve our clients in the audit process and audit cycles; and
- Providing audit staff with adequate working tools and facilities that promote independence.

ABBREVIATIONS

AGG	Airborne Gravity Gradiometry	NNGI	National Natural Gas Infrastructure Project
BCF	Billion Cubic Feet	NCI	Non-Controlling Interest
CAG	Controller and Auditor General	NEMC	National Environmental Management Council
CNG	Condensed Natural Gas	NNGIP	National Natural Gas Infrastructure Project
COPEC	Commercial Petroleum Company of Tanzania Limited	OCI	Other Comprehensive Income
CWIP	Capital Work in Progress	PA	Petroleum Act
FTG	Full Tensor Gradiometry	PAET	Pan African Energy Tanzania Limited
GASCO	Gas Company Tanzania Limited	PMU	Procurement Management Unit
CGU	Cash Generating Unit	PNG	Piped Natural Gas
GSA	Gas Sale Agreement	PPE	Property, Plant and Equipment
IOCs	International Oil Companies	PPF	Parastatal Pension Fund
Km	Kilometers	PSA	Production Sharing Agreement
LAPF	Local Authority Pension Fund	PSPF	Public Service Pensions Fund
LPG	Liquefied Petroleum Gas	SACCOS	Savings and Credit Corporative Society
LNG	Liquefied Natural Gas	Sq Km	Square Kilometres
M&P	Maurel et Prom	TCF	Trillion Cubic Feet
MEM	Ministry of Energy and Minerals	TPDC	Tanzania Petroleum Development Corporation
MMSCFD	Million Standard Cubic Feet per Day	TZ	Tanzania
MOU	Memorandum of Understanding	URT	United Republic of Tanzania
MV	Motor Vehicle	MD	Managing Director
NHIF	National Health Insurance Fund		
NSSF	National Social Security Fund		
NAO	National Audit Office		
NBAA	National Board of Accountants and Auditors		

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2017

The Directors submit their report together with consolidated and separate financial statements for the year ended 30 June 2017, which disclose the state of affairs of Tanzania Petroleum Development Corporation (the Corporation) and its subsidiaries – Gas Company Tanzania Limited and Commercial Petroleum Company of Tanzania, (together, the “Group”) as at that date.

The Petroleum Act 2015 recognizes Tanzania Petroleum Development Corporation (TPDC) as the National Oil Company of Tanzania (NOC) responsible for undertaking Tanzania’s commercial aspects of petroleum in the upstream, mid-stream and downstream operations.

1. INCORPORATION

The Corporation was established under the Public Corporations Act No.17 through the Government Notice No.140 of 30 May 1969. In addition, the Petroleum Act, 2015, among other things, has mandated TPDC to carry out specialized operations in the petroleum value chain using subsidiary companies. TPDC has two subsidiary companies namely, the Gas Company Tanzania Limited (GASCO) and the Commercial Petroleum Company of Tanzania (COPEC). GASCO and COPEC were established as limited liability companies and their entire shares are held by TPDC.

2. VISION STATEMENT

To become a leading integrated national oil company competing nationally, regionally and globally in an environmentally responsible manner for the benefit of all stakeholders.

3. MISSION STATEMENT

To participate and engage in the exploration, development, production and distribution of oil and gas related services, facilitate a fair trading environment, safeguard the national supply of petroleum products and natural gas, and at the same time develop quality and safety standards to protect people, property and the environment.

4. PRINCIPAL ACTIVITIES

The Petroleum Act, 2015 among other things, mandates TPDC to perform the following functions:

- Advising the Government on policy matters pertaining to petroleum industry;
- Participating in petroleum reconnaissance, exploration and development projects;
- Carrying out specialized operations in the petroleum value chain using subsidiary companies;
- Handling the government’s commercial participating interests in the petroleum sub-sector;
- Managing the marketing of the country’s share of petroleum received in kind;
- Developing in depth expertise in the petroleum industry;
- Investigating and proposing new upstream, midstream and downstream ventures local and international;
- Contracting, holding equity or participating in oil service and supply chain franchises and other licences; and
- Performing any petroleum activities and related functions.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

5. GENERAL OUTLOOK

Significant progress has been made in the areas of exploration, development and production for oil and gas. Sedimentary basins in Tanzania occupy a total area of 534,000 sqkm which is approximately 56% of the total area of the United Republic of Tanzania. Active exploration blocks that have been licensed for exploration and development occupy a total area of 54,764.5 sqkm, approximately 5.74% of the total area of the United Republic of Tanzania.

One of the key roles of TPDC is to monitor and encourage license holders to execute their work programmes in time. Optimization of the two gas fields at SongoSongo and Mnazi Bay is critical to ensure the availability of enough natural gas for power generation, industrial and household uses which are important elements for the general economic growth of the country.

Identification of feasible projects for further domestic utilization of gas resources from Mnazi Bay as further appraisal and development is being carried on and the deep sea discoveries will provide a challenge to the Corporation in a short term period. Commercialization through exports of liquefied natural gas (LNG) will form one of the main market segments.

The key to success of the Corporation's endeavours rests on human resource development. Significant emphasis has been directed into resource development, along with the establishment of an institutional set up suitable for the ongoing proliferation of the Corporation's activities and the new strategic direction. The development of projects leading to domestic utilization of gas, power generation, and use in vehicles will create significant savings in foreign exchange and at the same time protect our environment by reducing carbon foot prints and deforestation. Developments of natural gas projects will pave way for the petrochemicals and fertilizer industries leading to significant multiplier effects to the general economy.

6. COMPOSITION OF THE BOARD OF DIRECTORS

The Directors of the Corporation at the date of this report, and who have served since 1 July 2016 are:

Name	Position	Discipline	Nationality	Appointed/ Suspended	Date appointed/ Suspended
Prof. Sufian H. Bukurura	Chairman	Legal academician/ Researcher	Tanzanian	Appointed	30 May 2016
Hon. (Rtd) Judge Josephat Mackanja	Vice Chairman	Lawyer	Tanzanian	Appointed	30 May 2016
Ambassador Dr. Ben Mosses	Director	Administrator/ Diplomat	Tanzanian	Appointed	30 May 2016
Prof. Abiud Kaswamila	Director	Land use planner/ environmentalist	Tanzanian	Appointed	30 May 2016
Prof. Hussein Sosovele	Director	Environmentalist	Tanzanian	Appointed	30 May 2016
Ms. Mwanamani Kidaya	Director	Geologist	Tanzanian	Appointed	30 May 2016
Dr. Shufaa Albeity	Director	Accountant	Tanzanian	Appointed	30 May 2016
Dr. James P. Mataragio*	Secretary	Geophysicist	Tanzanian	Suspended	26 Aug 2016
Eng. Kapuulya Musomba	Ex-officio member	Engineer	Tanzanian	Appointed	26 Aug 2016

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

6. COMPOSITION OF THE BOARD OF DIRECTORS (CONTINUED)

*Dr. James P Mataragio was the former Managing Director and secretary of the board of directors.

Directors' remuneration

The Directors' remuneration for services rendered as directors of the Corporation for the year was TZS. 15,000,000 for the Board Chairman and TZS 13,000,000 for an ordinary Board Member both paid as Directors fee per annum for each Director.

7. CORPORATE GOVERNANCE

The Board consists of eight (8) Directors. The Managing Director holds an executive position in the Corporation. The Board takes overall responsibility for the Corporation, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing the performance of management business plans and budgets. The Board is also responsible for ensuring that a comprehensive system of internal control policies and procedures is operative, and for compliance with sound corporate governance principles.

The Board delegates the day-to-day management of the business to the Managing Director assisted by senior management team. Senior Management members are invited to attend Board meetings. They facilitate effective control of all the Corporation's operational activities, acting as a medium of communication and coordination between various business units. The Corporation is committed to the principles of effective corporate governance. The directors also recognize the importance of integrity, transparency and accountability.

The TPDC Board has two committees to ensure and uphold a high standard of corporate governance. The members' tenure of office for these committees runs concurrently with that of the Board of Directors. The Committees report to the Board of Directors and are required to meet at least once in every quarter. The two Board's committees are:

- i. Audit and Risk Management Committee, and
- ii. Corporate Legal Affairs Committee

The Audit and Risk Management Committee is made up of five members, three from members of the Board of Directors and two co-opted (independent) members. Among the two members of the committee, one has financial background and the other one has technical operational expertise of TPDC's activities.

The Corporate Legal Affairs Committee comprises of four members; three from the TPDC Board of Directors and one co-opted member with a legal background. The Chairman of the Corporate Legal Affairs Committee is a lawyer and a retired Judge.

During the year, members of the Committees were as follows:

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

7. CORPORATE GOVERNANCE (CONTINUED)

a) Audit and Risk Management Committee

Name	Position	Discipline	Nationality	Appointed/ Resigned	Date Appointed/ Resigned
Dr. Shufaa Albeity	Chairperson	Accountant	Tanzanian	Appointed	3 Jun 2016
Amb. Dr. Ben Moses	Member	Administrator/ Diplomatic	Tanzanian	Appointed	3 Jun 2016
Prof. Hussein Sosovele	Member	Environmentalism	Tanzanian	Appointed	3 Jun 2016
Prof. Shukrani Many	Member	Geologist	Tanzanian	Appointed	22 Aug 2016
Dr. Balozi Morwa	Member	Economist	Tanzanian	Resigned	12 July 2017
Mr. Nicodemus Mallya	Member	Accountant	Tanzanian	Appointed	12 July 2017

b) Corporate Legal Affairs Committee

Name	Position	Discipline	Nationality	Appointed/ Resigned	Date Appointed/ Resigned
Hon. Judge Josephat Mackanja	Chairman	Rtd. Judge/Lawyer	Tanzanian	Appointed	3 Jun 2016
Prof. Abiud Kaswamila	Member	Land use planner/ Environmentalism	Tanzanian	Appointed	3 Jun 2016
Mrs. Mwanamani Kidaya	Member	Geologist	Tanzanian	Appointed	3 Jun 2016
Mr. Said M Kalunde	Member	Lawyer	Tanzanian	Resigned	24 Feb 2017
Ms. Monica Otaru	Member	Lawyer	Tanzanian	Appointed	24 Feb 2017

During the year ended 30 June 2017, the Board of Directors had fourteen (14) meetings and sixteen (16) committee meetings as tabulated in the table below:

S/N	Meeting	Board of Directors	Corporate and Legal Affairs Committee	Audit and Risk Management Committee
1.	Ordinary meetings	3	4	4
2.	Special meetings	11	6	4
		14	10	8

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

8. CAPITAL STRUCTURE

The Corporation capital structure for the year is as shown below.

SHARE CAPITAL	2017 Tzs 'm	2016 Tzs 'm
Authorised: Ordinary Shares		
2,500 ordinary shares of Tzs. 1,000,000 each	<u>2,500</u>	<u>2,500</u>
Issued and fully paid:		
2,208 ordinary shares of Tzs. 1,000,000 each	<u>2,208</u>	<u>2,208</u>

All the issued and fully paid shares are held by the Treasury Registrar on behalf of the Government of the United Republic of Tanzania (URT)

EQUITY CONTRIBUTION FROM GOVERNMENT

	2017 Tzs 'm	2016 Tzs 'm
At start of year	184,139	194,013
Received during the year	-	-
Remittance to the government	<u>-</u>	<u>(9,874)</u>
At end of year	<u>184,139</u>	<u>184,139</u>

Equity contribution from Government represents net capital contributions received from the Government.

9. MANAGEMENT

Management of the Corporation is under the Managing Director and is organized in the following directorates and units:

Directorates

- Upstream Operations
- Downstream Operations
- Corporate Strategy and Planning
- Corporate Management
- Finance

Units

- Procurement Management
- Corporate Communication
- Risk Management
- Internal Auditing
- Legal Services

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

10. ONGOING AND FUTURE DEVELOPMENT PROJECTS

Downstream projects

a) Natural Gas Infrastructure Development

The National Natural Gas Infrastructure (NNGI) project, comprising the Mtwara and Songo Songo natural gas processing plants and the 551km natural gas transportation pipeline from Mtwara and Songo Songo to Dar es Salaam through Somanga Fungu as well as connections to TANESCO's power generation plants was completed and successfully commissioned in September 2015.

Following the successful completion and commissioning of the NNGI project, the Group commenced commercial operations including supply of gas aimed at enhancing electricity power generation and for industrial and domestic consumptions in October 2015.

During the financial year 2016/2017, natural gas through the NNGI was supplied to TANESCO (as a major customer) for consumption at the Ubungo II and Kinyerezi I power plants for power generation. The plan is to connect more customers who are ready to utilize natural gas so as to achieve optimal utilization of the NNGI.

b) Natural Gas Distribution Networks

i. Connection of the NNGI to the Ubungo-Mikocheni pipeline and connection of Coca Cola and BIDCO to the gas supply network

This project aimed at connecting the NNGI directly to the Ubungo-Mikocheni pipeline to enable supply of natural gas to more customers. Initial customers who were connected to the Ubungo-Mikocheni pipeline include seventy (70) houses located at TPDC Mikocheni Estate and five (5) industries at Mikocheni light industrial area. The connected industries are MMI Steel I, MMI Steel II, MMI Steel III, Iron and Steel and Tanpack Tissues. These customers draw gas from the Ubungo-Mikocheni gas pipeline which is connected to the Songas high pressure gas pipeline from Songo Songo to Dar es Salaam under the PSA arrangement and the Additional Gas Marketing Agreement between TPDC and PAET. Given the capacity of the Ubungo-Mikocheni gas pipeline (7.5 MMscfd), this pipeline is highly underutilized.

Steps involved in implementation of this project comprised of carrying out environmental audit (EA) for Ubungo Block Valve Station (BVS) via Ubungo Pressure Reduction Station (PRS) to Mikocheni Natural Gas Pipeline; conducting Detailed Engineering Design and Supervision of the project, construction activities for connecting NNGI to the Ubungo – Mikocheni and connections of the two industries of Coca Cola and BIDCO to the gas supply network.

The project could not take off timely as planned due to delays in agreement conclusion with PAET, funding constraints as well as delays in procurement of a consultant for Environmental Audit (EA) and Environmental Impact Assessment (EIA).

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

10. ONGOING AND FUTURE DEVELOPMENT PROJECTS (CONTINUED)

ii. Gas Distribution Project to Goodwill Ceramic Limited at Mkuranga

During the financial year 2016/2017, TPDC and Goodwill entered into pre-financing arrangement for construction of natural gas infrastructure to enable supply of gas to the Goodwill factory at Mkiu Village in Mkuranga. The connection is for purpose of generating own electricity (captive power generation) and for use in process heating at the ceramic production factory located closer to Block Valve Station 12 (BVS-12) of the main high pressure pipeline from Mtwara to Dar es Salaam. The quantity of gas required by Goodwill was 7 MMscfd during the first two years of operation (Phase I) which would have increased to 10 MMscfd starting from the third year onwards (Phase II).

Before the year end, the customer was connected and commissioned to use natural gas from Quarter 3 of the financial year 2016/2017.

iii. Permanent Connections to Downstream Customers: TANESCO Power Plants (Kinyerezi I, Ubungo I, Ubungo II, Symbion) & IPTL

TPDC planned to implement a project of constructing permanent connections of natural gas supply infrastructure from NNGI to TANESCO power plants. The power generation plants included Kinyerezi, Ubungo I & II, Symbion, Tegeta 45MW and IPTL. The new connection would replace temporary connections which were constructed in 2015. The temporary connections enabled immediate supply of natural gas to TANESCO (at Ubungo and Kinyerezi) during commissioning of Natural Gas Main Pipeline project from Mtwara to Dar es Salaam.

Planned activities for the period included supervision and monitoring during the project execution and construction works relating to connection of TANESCO power plants (Kinyerezi I, Ubungo I, Ubungo II, Tegeta 45MW), Symbion and IPTL. By the year end, the project reached a completion milestone of 80%.

iv. Connections of Dangote Industries Limited to the Gas Supply Network

The Corporation planned to connect and supply natural gas to Dangote Industries Limited Tanzania (DILT), a Cement factory in Mtwara. Through the pre-financing arrangement, the client (Dangote) agreed to finance the construction works and recover the full investment cost through gas sales during operations. TPDC was to incur costs associated with supervision and monitoring of construction of the gas infrastructure.

Planned activities for the period included finalization of gas price issue and GSA negotiations with Dangote cement factory, supervision and monitoring during construction and construction works for connecting the gas infrastructure.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

10. ONGOING AND FUTURE DEVELOPMENT PROJECTS (CONTINUED)

v. Extension of Construction for Connection of Kinyerezi II Power Plant

Kinyerezi II power plant is located closer to the Kinyerezi I power plant. The Kinyerezi I plant is currently supplied with gas through a temporary connection which will be replaced by the permanent one to be constructed during the year. The extension project was planned to consider connecting a pipeline from Kinyerezi I take-off point to Kinyerezi II plant. The project is fully financed by TANESCO while, TPDC was dedicated to supervise and monitor implementation of the same.

Planned Activities were supervision and monitoring of consultancy and construction works, Engineering Design works and Supervision of construction (Consultancy) and Construction of the extension connection pipeline. The project was not accomplished following TANESCO's delays in making internal installations and construction of Kinyerezi II power plant.

vi. Fertilizer Project in Kilwa Masoko in Joint Venture with Ferrostaal Consortium

The project is planned to be implemented in Kilwa Masoko at a site which was initially planned for KILAMCO. Its implementation started in 2014, whereby a consortium led by M/S Ferrostaal of German won an international competitive bidding. Other members of the consortium were Fauji Fertilizer Company Limited from Pakistan and Haldo Topsoe from Denmark. The implementation of this project is through a Joint Venture Company that is planned to be formed between the consortium members and TPDC after meeting conditions precedents (CPs) which include land acquisition and gas availability.

The planned activities during the financial year 2016/2017 comprised of supervision of geotechnical studies and discussions on compensation and resettlement plan for the project site.

vii. Natural Gas Pipeline to Bagamoyo

The objective of this project is to construct a natural gas pipeline from Tegeta to Bagamoyo and beyond. The pipeline is to be utilized for supply of gas to Kamal Alloys Complex at Zinga, customers alongside the route, prospective consumers within the Bagamoyo Special Economic Zone (SEZ) and other customers in Bagamoyo district. Gas utilization potentiality in the area include consumptions for industries, households, commercial institutions and thermal power plants.

Planned activities during the year consisted of supervision and monitoring of consultancy and construction works, review and update of the feasibility study and carrying out detailed engineering design.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

10. ONGOING AND FUTURE DEVELOPMENT PROJECTS (CONTINUED)

viii. Mtwara and Lindi Natural Gas Distribution Network

The project aimed at construction of natural gas distribution network as Piped Natural Gas (PNG) and Compressed Natural Gas (CNG) in Mtwara and Lindi Municipalities. Feasibility study was completed by a Consultant in 2016. Planned activities were finalization of the feasibility study, EIA for Mtwara and Lindi Gas Distribution Project and Detailed Engineering Design (DED). The project could not be implemented following funding constraints which posed challenges in receiving final draft of the feasibility which, in turn, hindered DED commencement.

ix. Compressed Natural Gas (CNG) and Piped Natural Gas (PNG) Distribution Network in Dar es Salaam

The Dar es Salaam natural gas distribution network aims at distribution of natural gas in the city through Piped Natural Gas (PNG) and Compressed Natural Gas (CNG) stations. The objective is to bring natural gas to be utilized by households, hotels, motor vehicles and industries.

The project scope involved construction of three (3) CNG mother stations, 12 CNG daughter stations and pipeline network to distribute natural gas to about 8,000 vehicles, 30,000 households and a number of industries. Planned activities comprised of construction of 20 km out of 65 km of the natural gas distribution trunk lines; construction of four out of fifteen vehicle refuelling stations and land acquisition and compensation. The project was to be funded by the Government of Tanzania but could not be performed following funding constraints from the Government.

c) Rehabilitation of Liquid Petroleum Product Tank No. 8

Fuel tank number 8 is located at TIPER tank farm. The tank, that is the largest in the farm, was used as a crude oil storage facility when the refinery was operational. The tank has remained unused for over 15 years calling for major repair work. The rehabilitation work would restore the tank to useful employment at financial consideration (either for the National Strategic Reserves or for hospitality arrangement). Planned Activities were Supervision of consultancy, sludge removal and tank rehabilitation.

The project was not implemented following budget constraints which triggered challenges in procurement of the consultant and contractor.

Upstream projects

i. West Songosongo Project

During the financial year 2016/2017, TPDC carried out exploration activities in West Songo songo (WSS) Block. Activities carried out included integration and interpretation of AGG and seismic data to ascertain hydrocarbon prospectivity, basin stratigraphy and structural modelling.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

10. ONGOING AND FUTURE DEVELOPMENT PROJECTS (CONTINUED)

Upstream projects (Continued)

i. West Songosongo Project (Continued)

Source rock maturity and generation of Main Songosongo wells, Micropaleontological and palynological analysis of WSS offset wells of Songosongo-12 and Kianika-1 together with financial and economic modelling were also completed during the year under review.

ii. Blocks 4/1B and 4/1C Project

During the financial year 2016/2017, TPDC carried out exploration activities in Blocks 4/1B and 4/1C. Activities carried out covered geochemical and biostratigraphic analysis and interpretation of selected samples from Block 1 offset wells and interpretation of existing 2D seismic data. Financial and economic modelling for Block 4/1B project was also completed. TPDC started a process of acquiring a strategic partner where bidding documents and a draft of contract Agreement were prepared.

iii. Stratigraphic Nomenclature Project

During the financial year 2016/2017, TPDC carried out the Stratigraphic Nomenclature Project. Activities carried out included compilation and interpretation of the existing data and wells correlation and geological fieldwork to Tanga & Ruvu basins. Review of the 2nd Draft of the MoU for the project and preparation of project document was completed and submitted to the Ministry of Energy.

iv. Eyasi Wembere Project

During the financial year 2016/2017, TPDC carried out exploration activities in Eyasi Wembere Block. Activities carried out involved geological and geophysical ground truthing of the selected areas. Two fieldwork visits were conducted (Preliminary and Detailed). Technical field reports were prepared and technical presentations of the findings were conducted. Contract finalization, interpretation and modelling for the acquired AGG data, data handover from CGG and QC Companies were also done together with the preparation of ToR document for procuring a strategic partner was completed and submitted.

v. Liquefied Natural Gas (LNG) Project

BG Tanzania, Ophir, Pavilion, Statoil and ExxonMobil, each termed as International Oil Company ("IOC", together the "IOCs"), have made significant gas discoveries in Blocks 1, 2 & 4 (the "Blocks") in the offshore Tanzania. To commercialize these resources, it was agreed between the parties (TPDC, BG Tanzania, Ophir, Pavilion, Statoil and ExxonMobil) that a significant proportion of that gas will be exported to the international market in the form of Liquefied Natural Gas (LNG).

The parties have formed a joint project team to assess the feasibility of the construction and operation of the LNG Project. Fundamental upstream activities for the LNG project including concept selection, pre-FEED activities for Blocks 1, 2 & 4 and technical feasibility studies for the proposed onshore and offshore LNG facilities have been completed.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

10. ONGOING AND FUTURE DEVELOPMENT PROJECTS (CONTINUED)

c) Upstream projects (Continued)

v. Liquefied Natural Gas (LNG) project (Continued)

Bathymetry and metocean data collection were completed during the year under review. This data will provide supplement engineering, geological and environmental understanding of offshore infrastructure designing and LNG plant design. The land site for the LNG plant was acquired at Likong'o, Lindi and the Ministry of Lands, Housing and Human Settlements Developments has already issued the title deed to TPDC during the financial year 2016/2017.

In order to comply with international standards requirements, the Project Affected People (RAP) need to be resettled with the same livelihood or better than their existing livelihood. In order to accomplish the required standards, Resettlement Action Plan (RAP) and Resettlement EIA (REIA) were conducted.

From the legal and commercial perspectives, the Host Government Agreement (HGA) negotiations commenced between the Government of United Republic of Tanzania and IOCs since September, 2016 where the Terms of Reference (TOR) for the HGA process have been agreed. The Government of United Republic of Tanzania reviewed relevant documents and developed the HGA Term Sheet which were submitted to IOCs for discussion.

11. KEY PERFORMANCE INDICATORS (KPIs) FOR THE YEAR 2016/2017

The Corporation attained the following key milestones in implementation of its activities for the year ended 30 June 2017;

KPI	Anticipated	Actual	Remarks
Wells to be drilled onshore	2	1	Ntorya 2 was successful drilled in Ruvuma Basin and Natural gas was discovered (466 BCF). Kito-1 well was not drilled due to delays in obtaining site entry and campsite location permits. TPDC, Swala and Ndovu are planning to drill this well in the financial year 2017/2018.
Wells to be drilled offshore	2	2	Kitatange-1 and Bunju-1 exploration wells were drilled successfully in Block 1 and 4 respectively. Unfortunately, both wells were dry.
Fieldworks	4	4	Four geological field excursion were conducted in four different sedimentary basins i.e. Mandawa, Lake Victoria, Malagarasi Ruhuhu and Eyasi Wembere

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

11. KEY PERFORMANCE INDICATORS (KPIs) FOR THE YEAR 2016/2017 (CONTINUED)

KPI	Anticipated	Actual	Remarks
Seismic acquisition – 2D (Onshore)	1,698 km and 413 sq. km	0 km and 0 sq km	The acquisition of 2D and 3D seismic in Ruvu and West Songosongo Block was deferred to the 2017/18 financial year.
Seismic acquisition – 3D (Offshore)	571 km	0 sq km	The acquisition of 3D seismic in Block 4/1B & 4/1C was not done due to the lack of fund. TPDC is planning to carry out 3D seismic acquisition in the financial year 2017/18
Interpretation of AGG data in Eyasi Wembere and Mandawa basin	20,096.25 km	20,096 km	Interpretation and modelling completed 2016/17
Quantity processed and transported via NNGI	17,201 mmscf	12,441 mmscf	Less volumes of gas were consumed compared to initial projections due to delays in completion of Kinyerezi Power generation projects run by TANESCO.
NNGI revenues on Gas Sales (TZS)	TZS 406.7 billion	TZS 213.2 billion	Consumption of gas below the projections had a direct effect on gas from NNGI revenues.

12. RESULTS AND DIVIDEND

Results for the year are set out on page 25 of this report. During the year, the Group incurred a net loss of Tzs 136,753 million (Corporation: Tzs 136,753 million) for the year ended 30 June 2017 (2016: Group incurred a net loss of Tzs 341,634 million and Corporation: Tzs 341,621 million). Since there is significant accumulated losses, the directors do not recommend payment of dividend (30 June 2016: Nil).

13. REMMITANCE TO THE OIL AND GAS FUND

Pursuant to provisions of the Oil and Gas Revenue Management Act 2015, the Group remitted a sum of TZS 7,946 million to the oil and gas fund maintained at the Central Bank of Tanzania. Going forward, with the existing plans to increase more natural gas customers to be connected to the NNGI, the Group remittances to the fund are expected to increase tremendously.

14. RISK MANAGEMENT AND INTERNAL CONTROL

All employees are required to observe risks inherent at the work place. Risk assessment responsibility rests with the Management. Effective risk management process fulfils the intent of managing risks in TPDC so as to enhance business performance, protection of the Group reputation, and improvement of Corporation's ability in compliance with the existing regulations and standards in the industry, locally, regionally and globally. The Board is in-charge of the overall risk management schemes assisted by the Board's Audit and Risk Management Committee in carrying out its functions with respect to internal control systems.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

13. RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

The Corporation faces a number of risks that need to be constantly monitored such that its effects do not impair the going concern of the Corporation. Descriptions of these risks are provided below:

(i) Credit Risk

Revenue collections from major gas off-takers mainly TANESCO and SONGAS may remain uncertain. Erratic proceeds from customers undermine the ability of the Corporation to finance operations and investment activities and could hinder the timely achievement of strategic goals if the collection of significant revenue remain uncertain for long periods. The Corporation is working with its key stakeholders including the Ministry of Energy and Minerals (MEM), TANESCO, SONGAS and PAET to improve revenue collection.

(ii) Financial Risks (Fund raising risks)

Lack of sufficient funds to finance operating and investing activities has been a huge challenge to the Corporation. The Corporation is unable to actively participate in additional stakes in the discovery areas where it has the contractual right to participate due to financial constraints hindering investment financing called upon under respective PSAs. As a result, Government share could not be increased and an opportunity to realize significant future revenue could not be utilized. Further, weak financial muscle reduces the ability of TPDC as a National Oil Company (NOC) to leverage on its exclusive rights as a license holder and other privileges to profitably invest in viable projects like Blocks 4/1B and 4/1C, Strategic Petroleum Reserve (SPR), West Songosongo, tank farm project and oil trading. Various options are being explored to manage this risk including potential Government financial support and viable partnerships with suitable companies and contractors.

(iii) Foreign Exchange Risk

Foreign currency loans and payables have exposed the Corporation to foreign currency exchange which could have a material adverse impact on our earnings, cash flows and financial condition. The Corporation is working on ways to manage these risks by searching for suitable hedging products available in the financial markets.

(iv) Change in Policies, Laws and Regulations

Developments in policies, laws and regulations and general political environment could have considerable impact on operations. Certain shifts in policies and directives could limit the ability of the Corporation to obtain financing and security guarantees, weaken its position in negotiations and increase operational hindrances. This threat is managed by stakeholder influence and active involvement of TPDC in policy review processes.

(v) Health, Safety and Environmental (HSE) Risks

Technical complexity of our activities and the geographical size of our operations exposes the Group and the communities involved to numerous health, safety and environmental risks. These threats could materialize from occurrence of many events including natural disasters, health and safety lapses, hydrocarbon spill, explosion and violent attacks on assets and could result into injuries, loss of lives, environmental damage, disruption of operations and financial loss. The Corporation manages these threats by conducting Health Safety and Environmental training and drills, regular testing of controls, emergency response planning and complying with regulatory policies.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

13. RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

(vi) Fluctuations in Natural Gas Prices

Adverse variation in natural gas prices continue to pose potential consequences in our activities in terms of delays in implementation of key projects such as the LNG project, less incentives for foreign investments and future exploration activities and increased difficulty in enforcing the Model Production Sharing Agreement (MPSA 2013). In this regard, the Corporation may experience difficulties in realizing its strategic goals. Measures are being taken by working with the Government to implement suitable policies to manage the impacts.

(vii) Site Encroachment Risks

TPDC owns a number of plots acquired for future development projects. The plots include those located at Kilwa Masoko and Likong'o (Lindi), Mwanga, Kibirizi and Bangwe (Kigoma), Kigamboni and Mlalalakuwa (Dar es Salaam) and Msata, Bagamoyo (Coastal Region). These plots are exposed to risks of being invaded by intruders. In addition to regular public awareness programs, the Corporation has a plan to fence all of its plots as a mitigation factor to this risk.

14. SOLVENCY

The Directors have reviewed the Group and Corporation state of affairs and are of the opinion that the Group and Corporation will continue operating in a manner that its financial obligations will be met. The Directors believe the net loss of Tzs 136,753 Million made by the Group during the year (Corporation Tzs 136,753 Million) and net liability of Tzs 322,332 Million (Corporation Tzs 322,179 Million) mainly result from on lent loan due to the parent (Government of United Republic of Tanzania). The Government has confirmed through its letter of support not to demand repayment of any amounts due from the Group and Corporation within the next twelve months in the manner that will prevent the group and Corporation to discharge its other liabilities as they fall due.

15. RESOURCES

The Corporation owns several resources in its operations as described below:

a) Human Capital

The Corporation possesses adequate number of qualified human capital in relevant and different disciplines. TPDC has a tradition of enhancing staff capacities through short and long term training programs particularly in the fields of oil and gas.

b) Financial Resources

The main sources of corporate funding are Government's budgetary allocations, gas sales and gas tariff income from operations of the National Natural Gas Infrastructure (NNGI). In addition TPDC earns dividends from investments made in other companies. However, with expanding operations the funding is inadequate relative to the planned activities. The Corporation plans to continue in securing loans and/or engaging strategic partners in development of its viable projects.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

15. RESOURCES (CONTINUED)

c) Processing and Transmission Resources

The Corporation owns Madimba and SongoSongo Gas Processing Plants, Mtwara – Dar es Salaam gas transmission pipeline and Ubungo- Mikocheni gas distribution pipeline. These assets are held as future cash generating Strategic Business Units (SBUs).

(i) Land

The Corporation owns land located in various strategic areas for investment purposes. The lands owned by TPDC include those in Kilwa Masoko and Likong'o in Lindi Region; Kibirizi, Bangwe and Mwanga in Kigoma region; Makambako in Njombe region; Kigamboni Bitumen site and Mlalakuwa plots in the city of Dar Es Salaam. Other areas are Mpanda, Uyole Mbeya, Isaka Shinyanga, Makurunge and Msata.

d) Properties

(ii) Other Properties

Some of the Properties that are owned by the Corporation are located in various regions in the United Republic of Tanzania. The Corporation has properties in such areas as Upanga, Mikocheni, Mlalakuwa, Msasani, Masaki, Temeke and Kinondoni the city of Dar Es Salaam. Some more properties are in Lindi and Mtwara regions and others, include Petrol stations, existing at Makuyuni, Singida, Tarime, Musoma, Geita and Segera areas.

d) Gas Reserves

Following a number of discoveries in onshore and offshore blocks, the natural gas reserves in Tanzania have reached 57.25 trillion cubic feet. The reserves are expected to rise further as a result of the ongoing exploration activities in the country. For the period ended 30 June 2017, there were three onshore gas producing fields located at Mnazi bay, Songo Songo island and Kiliwani North. TPDC is a partner in Mnazi bay and Songo Songo

16. RELATIONSHIP WITH STAKEHOLDERS

The Corporation's operations cut across several stakeholders' interests. The Corporation enjoys good and cooperative support from all stakeholders. Key to this relationship has been prompt and informed communication system.

17. EMPLOYEES' WELFARE

a) Management and employees relationship

There is a good relationship between the TPDC management and its employees. TPDC's members of staff are free to air their views through the available normal channels like staff e-mailing system and during meetings. Employees and directors get in touch with each other during departmental meetings, workers council meetings and all staff meetings are held in different times.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

17. EMPLOYEES' WELFARE (CONTINUED)

b) Training facilities/ training and development

TPDC has a stable training and development system. The TPDC Staff Regulations (2008) provides procedures to be followed when implementing the training and development program. Sources of funds are clearly identified to make the program vibrant. During the year ended 30 June 2017, a total of Tzs 3.06 billion was spent to cover for short and long courses both local and abroad as compared to Tzs 2.89 billion spent in the year ended 30 June 2016.

c) Medical Assistance

All TPDC staff are included in the health insurance scheme. The National Health Insurance Fund (NHIF) which is a mandatory Government health scheme provides medical services to TPDC Staff. Both the employer and employee contribute 3% each of the basic salary to NHIF. In the cases where the NHIF cannot cover some of the medical services as required by our staff, the Corporation may cover that gap.

d) Persons with disabilities

TPDC has its disability policy which responds to the National Disability policy (2004) requiring all government institutions, families, relatives, local government and non-governmental organizations to care for disabled persons. TPDC Disability Policy extends to members of the public using Corporation premises and services. The objective of the policy is to ensure that people with disabilities (mental or physical) have access to the Corporation facilities and environment wherever reasonably possible, comparable to that of their non-disabled peers. The policy recognizes that disabled staff and members of the community are an integral part of the Corporation community.

e) Employees' Benefit Plans

During the year, the Corporation paid Tzs 1.19 billion (2016: Tzs 1.49 billion) as contributions to publicly administered Pension plans (i.e. PPF Pensions Funds, National Social Security Fund (NSSF), Public Service Pensions Fund (PSPF), Local Authority Pension Fund (LAPF) and Government Employees Pensions Fund (GEPF).

f) Saving and Credit Cooperative Society

TPDC has its SACCOS of which any TPDC staff is free to join as a member. It provides short and long term loans to TPDC Staff. This has lessened the burden of issuing loans and salary advances to staff.

g) Gender policy

TPDC is dedicated towards conforming to a national policy on gender balance by adhering to principles of gender issues. The TPDC Staff Regulations observes principles of gender matters like in employment opportunity, sexual harassment, etc. Gender Policy will be included in the staff regulations which is currently under review. During the year 2016/17, TPDC had 370 employees of which 298 (80%) were male and 72 (20%) were female.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

18. HIV/AIDS AWARENESS PROGRAM

The Corporation has HIV/AIDS awareness program and measures with an objective to provide an all-encompassing management of HIV/AIDS at the work place to ensure business continuity. In the year 2016/17, TPDC conducted an awareness program to the Management and its staff to bring awareness to the employees on HIV/AIDS related issues.

19. RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in Note 38 to the financial statements.

20. ENVIRONMENTAL CONTROL PROGRAMME

Activities such as seismic surveys, drilling programs and infrastructure construction have negative impact to the environment. To mitigate risks emanating from these developments, all projects are subjected to the National Environmental Management Council (NEMC) clearance.

21. CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Corporation upholds good Corporate Social Responsibility (CSR) practices. It identifies itself with the community within which it operates and cultivates harmonious relationship so as to acquire social license to operate with all such communities. The Corporation's CSR practices during the year ended 30 June 2017 covered areas including public health, education, good governance, environment, sports and games.

During the year under review, the Corporation made various donations to its stakeholders as part of its CSR practices. Below is the matrix showing the list of CSR activities conducted by the Corporation during the year under review:

S/N	Intervention Areas	Program/project Supported	Beneficiaries	Program/project Cost/Amount donated (Tzs)
1.	Natural Hazard intervention.	Provision of Building Materials to Kagera Earthquake victims.	Kagera Earthquake Victims through Kagera Regional Commissioner.	20,000,000
2.	Good governance	Rehabilitation of Mtwara Airport police station.	Police Mtwara Mikindani Municipal.	5,000,000
3.	Good governance	Bulding of Majohe Local Government street office	Mpiji Majohe, Dar es Salaam	10,000,000
3.	Education	Donation of Desks to Kisungu secondary school.	Kinyerezi Dar es Salaam.	6,300,000
4.	Education	Construction of toilets to Four primary schools in Lindi.	Hingawali, Madangwa, Mkupama and Ngapa Primary shools.	40,000,000

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

21. CORPORATE SOCIAL RESPONSIBILITY (CSR) (CONTINUED)

S/N	Intervention Areas	Program/project Supported	Beneficiaries	Program/project Cost/Amount donated (Tzs)
5.	Education	Construction of Dormitory to Ndungu Secondary School.	Same District, Kilimanjaro.	19,037,280
6.	Education	Construction of one class to Madangwa Primary school	Madangwa Primary school , Kilwa	8,860,500
7.	Health	Supporting disable group in Kibiti, Pwani.	Kibiti,Pwani.	2,110,000
8.	Sports	Serengeti Boys	Serengeti Boys	5,000,000
		TOTAL TZS		116,307,780

The Corporation did not make any political-related donations during the year. Total donations made during the year amounted to Tzs 116 million (2016: Tzs 125 million).

Corporate Image and Reputation

In carrying out its responsibilities, TPDC relies on good corporate image and reputation. During the year under review, a number of activities were carried out with an intention of building and maintaining the positive image and reputation of the Corporation. These activities include, awareness campaigns and strategic use of media and media relations. During the year under review, a total of 32 villages along the natural gas pipeline from Kilwa to Coastal region were visited as part of creating awareness relating to natural gas infrastructure and security. By understanding the strategic role of journalist, oil and gas workshop with various journalist were carried out in 19 regions with the aim of building understanding of the sector and empower journalist to report oil and gas news accurately. Along the same line of strategic use of media, 13 articles were published in various newspapers and 11 TV and 6 radio programs aired that aim to enhance understanding of the sector and publicizing TPDC activities.

22. GAS RESERVES

(a) Recoverable Gas

Two fields are under extraction namely Songosongo and Mnazi Bay. The Government of Tanzania and TPDC entered in the Production Sharing Agreements (PSAs) with Pan African Energy Tanzania Limited and Maurel Et Prom (M&P) for exploration and production of oil and gas over Songosongo and Mnazi Bay blocks respectively. The natural gas reserves at Songosongo field as per assessment done in December 2017 at P90 confidence level is 723.0 billion cubic feet (BCF). On the other hand, the gas reserves for Mnazi Bay as assessed by independent consultants in December 2017 at P90 confidence level is 304.7 BCF. The summaries of recoverable gas reserves for the two fields are as follows:

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

22. GAS RESERVES (CONTINUED)

(a) Recoverable Gas (Continued)

Confidence Level	Songo Songo Billion Cubic Feet	Confidence Level	Mnazi Bay Billion Cubic Feet
P 10	975.1	P 10	829.6
P 50	848.1	P 50	552.3
P 90	723.0	P 90	304.7

By June 2017, gas discoveries (both offshore and onshore) amounted to 57.25 TCF i.e. 47.25 TCF offshore and 10 TCF onshore.

(b) Gas Sharing

Gas produced from reserves are shared between the exploration and Production companies and TPDC in accordance with sharing tranches as per respective PSAs. Some revenues enacted from these reserves are remitted by TPDC to the oil and gas fund maintained at the Central Bank of Tanzania.

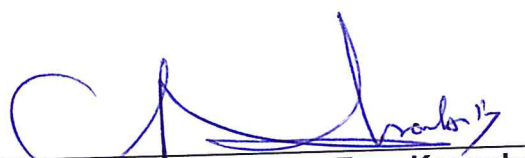
23. AUDITORS

The Controller and Auditor General (CAG) is the statutory auditor of the Corporation by virtue of Article 143 of the Constitution of the United Republic of Tanzania of 1977 as amplified under section 10(1) of the Public Audit Act, 2008. However, in accordance with section 33(1) of the same Act, KPMG was authorised to carry out the Audit of Tanzania Petroleum Development Corporation for the year ended 30 June 2017 on behalf of the Controller and Auditor General to assist the CAG in forming the audit opinion.

BY ORDER OF THE BOARD


Chairman: Prof. Sufian H. Bukurura

21st September, 2018
Date


Ag. Managing Director: Eng. Kapuulya
Musomba

21st September, 2018
Date

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2017

The Corporation's Directors are responsible for the preparation of the consolidated and separate financial statements that give a true and fair view of Tanzania Petroleum Development Corporation comprising the consolidated and separate statements of financial position as at 30 June 2017, and the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information, in accordance with International Financial Reporting Standards and in the manner required by Public Corporations Act, 1992.

The Directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

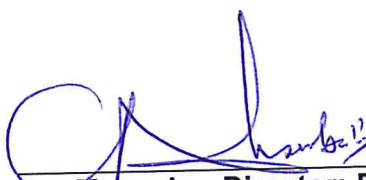
The Directors have made an assessment of the Corporation's and Group's ability to continue as going concern and have disclosed the facts under note 6 of these financial statements.

The auditor is responsible for reporting on whether the consolidated and separate financial statements give a true and fair view in accordance with the applicable financial reporting framework.

Approval of financial statements

The consolidated and separate financial statements of Tanzania Petroleum Development Corporation and its subsidiaries, as identified in the first paragraph, were approved by the Board of Directors on 21st September....2018 and signed on its behalf by:


Chairman: Prof. Sufian H. Bukurura


Ag. Managing Director: Eng. Kapuulya
Musomba

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

DECLARATION OF HEAD OF FINANCE FOR YEAR ENDED 30 JUNE 2017

The National Board of Accountants and Auditors (NBAA) according to the power conferred under the Auditors and Accountants (Registration) Act. No. 33 of 1972, as amended by Act No. 2 of 1995, requires financial statements to be accompanied with a Statement of Declaration issued by the Head of Finance responsible for the preparation of financial statements of the entity concerned.

It is the duty of a professional accountant to assist the Board of Directors to discharge the responsibility of preparing financial statements of an entity showing true and fair view position of the entity in accordance with international accounting standards and statutory reporting requirements. Full legal responsibility for financial statements rests with the Board of Directors as under Directors Responsibilities statement on an earlier page.

I **Godwin Gratian Kailembo** being the Acting Director of Finance of Tanzania Petroleum Development Corporation hereby acknowledge my responsibility of ensuring that financial statements for the year ended 30 June 2017 have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the financial statements comply with applicable accounting standards and statutory requirements as on that date and that they have been prepared based on properly maintained financial records.

Signed by:



Position: Ag. Director of Finance

NBAA Membership No.: ACPA (T) 2516

Date: 21st September, 2018

INDEPENDENT REPORT OF THE CONTROLLER AND AUDITOR GENERAL TO THE SHAREHOLDER OF TANZANIA PETROLEUM DEVELOPMENT CORPORATION

Report on the Audit of the Consolidated and Separate Financial statements

Opinion

I have audited the consolidated and separate financial statements of Tanzania Petroleum Development Corporation ("the Group and Corporation"), set out on pages 25 to 94 which comprise the statements of financial position as at 30 June 2017, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and the notes to the financial statements, comprising significant accounting policies and other explanatory information.

In my opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Tanzania Petroleum Development Corporation as at 30 June 2017, and of its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), and in the manner required by the Public Corporations Act, 1992.

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of my report. I am independent of the Group and Corporation in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to audit of the financial statements in Tanzania and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report, the Statement of Directors' Responsibilities and Declaration of the Head of Finance. The other information does not include the consolidated and separate financial statements and my auditors' report thereon.

My opinion on the consolidated and separate financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the consolidated and separate financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation of consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Public Corporation Act, 1992, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT REPORT OF THE CONTROLLER AND AUDITOR GENERAL TO THE SHAREHOLDER OF TANZANIA PETROLEUM DEVELOPMENT CORPORATION

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or Corporation or to cease operations, or have no realistic alternative but to do so. The directors are responsible for overseeing the Group's and Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusion is based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group and/or Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

INDEPENDENT REPORT OF THE CONTROLLER AND AUDITOR GENERAL TO THE SHAREHOLDER OF TANZANIA PETROLEUM DEVELOPMENT CORPORATION

I communicate with directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

In addition, section 10 (2) of the Public Audit Act, 2008 requires me to satisfy myself that the financial statements have been kept in accordance with the generally accepted accounting principles as required by relevant laws; reasonable precautions have been taken to safeguard the collection of revenue, the receipt, custody, disposal, issue and proper use of public property, and that the laws, directions and instructions applicable thereto have been duly observed, expenditures of public monies have been properly authorised.

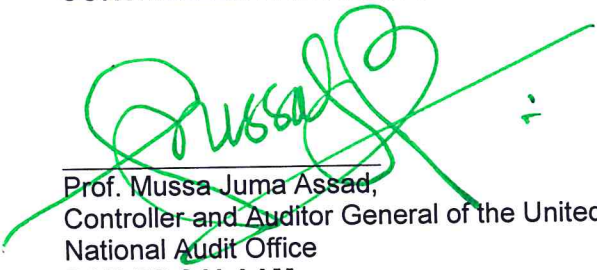
Further, section 48 (3) of the Public Procurement Act, 2011 requires me to state in my annual audit report whether or not the audited entity has complied with the provisions of the law and its regulations.

Report on Other Legal and Regulatory Requirements

Compliance with Public Procurement Act, 2011

In my opinion, taking into consideration the procurement transactions and processes I reviewed as part of this audit, I state that Tanzania Petroleum Development Corporation has generally complied with the Public Procurement Act, 2011 and its underlying regulations of 2013.

CONTROLLER AND AUDITOR GENERAL


Prof. Mussa Juma Assad,
Controller and Auditor General of the United Republic of Tanzania
National Audit Office
DAR ES SALAAM

Date: 26/10/2018



TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**CONSOLIDATED AND SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 30 JUNE 2017

		Consolidated		Separate	
	Note	2017 Tzs 'm	2016 Tzs 'm	2017 Tzs 'm	2016 Tzs 'm
Revenue	10	256,366	185,980	256,366	185,980
Cost of sales	11	<u>(233,793)</u>	<u>(158,489)</u>	<u>(233,793)</u>	<u>(158,489)</u>
Gross profit		22,573	27,491	22,573	27,491
Other income	12	17,395	20,239	17,395	20,235
Operating expenses	13	<u>(36,266)</u>	<u>(187,104)</u>	<u>(36,266)</u>	<u>(187,087)</u>
Operating profit/(loss)		3,702	(139,374)	3,702	(139,361)
Finance cost	14	(157,203)	(248,658)	(157,203)	(248,658)
Share of profit from associate	21	<u>16,748</u>	<u>15,407</u>	<u>16,748</u>	<u>15,407</u>
Operating loss before tax		(136,753)	(372,625)	(136,753)	(372,612)
Income tax credit	15	<u>-</u>	<u>30,991</u>	<u>-</u>	<u>30,991</u>
Loss for the year		(136,753)	(341,634)	(136,753)	(341,621)
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Revaluation of property, plant and equipment		-	120,684	-	120,684
Related tax		<u>-</u>	<u>(36,205)</u>	<u>-</u>	<u>(36,205)</u>
Other comprehensive income for the year net of tax		<u>-</u>	<u>84,479</u>	<u>-</u>	<u>84,479</u>
Total comprehensive loss for the year		<u>(136,753)</u>	<u>(257,155)</u>	<u>(136,753)</u>	<u>(257,142)</u>

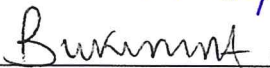
The notes on pages 30 to 94 are an integral part of these financial statements.

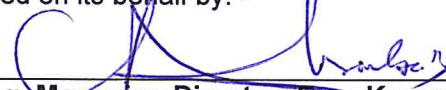
TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2017**

	Note	Consolidated		Separate	
		2017	2016	2017	2016
		Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Assets					
Non-current assets					
Property, plant and equipment	16	2,331,275	2,409,669	2,331,275	2,409,669
Natural gas properties	17	63,313	61,762	63,313	61,762
Investment properties	18	1,682	709	1,682	709
Intangible assets	19	14,263	9,639	14,263	9,639
Investment in subsidiaries	20	-	-	6,500	6,500
Investment in associate	21	51,836	43,574	51,836	43,574
Escrow funds	23	134,568	131,473	134,568	131,473
		<u>2,596,937</u>	<u>2,656,826</u>	<u>2,603,437</u>	<u>2,663,326</u>
Current assets					
Inventories	25	5,282	974	5,282	974
Trade and other receivables	26	437,031	307,047	437,031	307,182
Cash and cash equivalents	27	16,919	30,257	16,919	30,257
		<u>459,232</u>	<u>338,278</u>	<u>459,232</u>	<u>338,413</u>
Total assets		<u>3,056,169</u>	<u>2,995,104</u>	<u>3,062,669</u>	<u>3,001,739</u>
Equity and Liabilities					
Equity					
Share capital	28(a)	2,208	2,208	2,208	2,208
Equity contribution from Government	28(b)	184,139	184,139	184,139	184,139
Revaluation reserve		139,714	139,714	139,714	139,714
Retained earnings		(648,393)	(511,640)	(648,240)	(511,487)
Total equity		<u>(322,332)</u>	<u>(185,579)</u>	<u>(322,179)</u>	<u>(185,426)</u>
Liabilities					
Non-current liabilities					
Deferred tax liability	24	27,017	27,017	27,017	27,017
Carried interest liability	29	52,177	65,505	52,177	65,505
Borrowings	30	2,634,099	2,618,402	2,634,099	2,618,402
Government grant	31	30,746	31,240	30,746	31,240
Asset retirement obligation	32	3,102	2,193	3,102	2,193
		<u>2,747,141</u>	<u>2,744,357</u>	<u>2,747,141</u>	<u>2,744,357</u>
Current liabilities					
Borrowings	30	327,029	166,448	327,029	166,448
Carried interest liability	29	23,550	23,549	23,550	23,549
Trade and other payables	33	260,526	226,074	266,873	232,556
Income tax payable		20,255	20,255	20,255	20,255
		<u>631,360</u>	<u>436,326</u>	<u>637,707</u>	<u>442,808</u>
Total liabilities		<u>3,378,501</u>	<u>3,180,683</u>	<u>3,384,848</u>	<u>3,187,165</u>
Total equity and liabilities		<u>3,056,169</u>	<u>2,995,104</u>	<u>3,062,669</u>	<u>3,001,739</u>

The consolidated and separate financial statements on pages 25 to 94 were approved by the Board of Directors on ... 21st September ... 2018 and signed on its behalf by: -


Chairman: Prof. Sufian H. Bukurura


Ag. Managing Director: Eng. Kapuulya Musomba

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2017**

Consolidated	Share capital Tzs 'm	Equity contribution government Tzs 'm	Revaluation reserve Tzs 'm	Retained earnings Tzs 'm	Total Tzs 'm
Balance at 1 July 2015	2,208	194,013	55,235	(170,006)	81,450
Total comprehensive income					
Loss for the year	-	-	-	(341,634)	(341,634)
Other comprehensive income					
Net revaluation surplus	-	-	84,479	-	84,479
Transactions with owners:					
Remittance to government (Note 28(b))		(9,874)			(9,874)
Balance at 30 June 2016	2,208	184,139	139,714	(511,640)	(185,579)
At 1 July 2016	2,208	184,139	139,714	(511,640)	(185,579)
Total comprehensive income					
Profit/Loss for the year	-	-	-	(136,753)	(136,753)
Other comprehensive income					
Net revaluation surplus	-	-	-	-	-
Transactions with owners:					
Remittance to government (Note 28(b))	-	-	-	-	-
Balance at 30 June 2017	2,208	184,139	139,714	(648,393)	(322,332)

The notes on pages 30 to 94 are an integral part of these financial statement

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY
(CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2017**

Separate	Share capital Tzs 'm	Equity contribution government Tzs 'm	Revaluation reserve Tzs 'm	Retained earnings Tzs 'm	Total Tzs 'm
Balance at 1 July 2015	2,208	194,013	55,235	(169,866)	81,590
Total comprehensive income					
Loss for the year	-	-	-	(341,621)	(341,621)
Other comprehensive income					
Net revaluation surplus	-	-	84,479	-	84,479
Transactions with owners:					
Remittance to government (Note 28(b))		(9,874)			(9,874)
Balance at 30 June 2016	2,208	184,139	139,714	(511,487)	(185,426)
At 1 July 2016	2,208	184,139	139,714	(511,487)	(185,426)
Total comprehensive income					
Loss for the year	-	-	-	(136,753)	(136,753)
Other comprehensive income					
Net revaluation surplus	-	-	-	-	-
Transactions with owners:					
Remittance to government (Note 28(b))	-	-	-	-	-
Balance at 30 June 2017	2,208	184,139	139,714	(648,240)	(322,179)

The notes on pages 30 to 94 are an integral part of these financial statement

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017**

	Note	Consolidated		Separate	
		2017 Tzs 'm	2016 Tzs 'm	2017 Tzs 'm	2016 Tzs 'm
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash (used in) / generated from operating activities	35	(15,551)	(34,817)	(15,551)	(34,817)
Interest paid		(5,459)	(2,797)	(5,459)	(2,797)
Tax paid		-	-	-	-
Net cash used in operating activities		(21,010)	(37,614)	(21,010)	(37,614)
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of property, plant & equipment		(5,088)	(335,195)	(5,088)	(335,195)
Acquisition of intangible assets		(5,429)	(9,312)	(5,429)	(9,312)
Additions to natural gas properties		(1,585)	(6,754)	(1,585)	(6,754)
Dividends received		8,486	5,586	8,486	5,586
Net cash used in investing activities		(3,616)	(345,675)	(3,616)	(345,675)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		26,764	343,091	26,764	343,091
Remittance to parent		-	(9,874)	-	(9,874)
(Decrease)Increase in carried interest liability		(15,476)	11,213	(15,476)	11,213
Proceeds from grants		-	2,048	-	2,048
Net cash generated from financing activities		11,288	346,478	11,288	346,478
Net decrease in cash and cash equivalents		(13,338)	(36,811)	(13,338)	(36,811)
Movement in cash and cash equivalents					
Cash and cash equivalents at beginning of year		30,257	67,068	30,257	67,068
Decrease during the year		(13,338)	(36,811)	(13,338)	(36,811)
Cash and cash equivalents at end of year		16,919	30,257	16,919	30,257

The notes on pages 30 to 94 are an integral part of these financial statements.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

1. REPORTING ENTITY

Tanzania Petroleum Development Corporation is domiciled in Dar es Salaam, Tanzania. The consolidated financial statements of the Corporation as at and for the year ended 30 June 2017 comprise the Corporation and its subsidiaries GASCO and COPEC (together referred to as the "Group").

The Group is primarily involved in administration and development of oil and gas sector on behalf of the Government of United Republic of Tanzania, as well as running the downstream gas business as the main supplier and distributor.

The registered address of the office is:

Benjamin William Mkapa Pension Towers,
Tower A, Plot 51/52 Azikiwe/Jamhuri Street,
Dar es Salaam, Tanzania.

For the purpose of these financial statements "Consolidated" refers to the group's financial statements (including its Corporation and subsidiaries) and Separate refers to the Corporation's financial statements.

2. BASIS OF ACCOUNTING

These consolidated and separate financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) and the Public Corporation Act, 1969 as amended in 1992.

The financial statements were authorised for issue by the Corporation's Board of Directors on 21st September 2018.

Consolidation

The Corporation owns 100% of the ordinary share capital of GASCO and COPEC. The consolidated financial statements include the financial statements of Tanzania Petroleum Development Corporation and its subsidiaries all made up to 30 June 2017. These financial statements are of the Group (Consolidated) and Corporation (Separate).

3. FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated and separate financial statements are presented in Tanzanian Shillings (Tzs), which is the Group and Corporation's functional currency. All financial information presented in Tanzanian Shillings has been rounded off to the nearest million (Tzs 'm) except where otherwise indicated.

4. USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Corporate accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are separately disclosed in Note 8.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES

Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated and separate financial statements are set out below. These policies have been applied consistently to all years presented, unless otherwise stated.

a) Basis of consolidation

i. Subsidiary

Subsidiary is the entity controlled by the Corporation. The Corporation controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiary are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

ii. Non – controlling interest (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Corporation's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

iii. Loss of control

When the Corporation loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

iv. Transaction eliminated on consolidation

Intercompany balances and transactions, and any unrealised income and expenses arising from intercompany transactions, are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Corporation's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) Interest in equity- accounted investees

The Corporation's interests in equity-accounted investees comprise interests in associates.

An associate is an entity in which the Corporation has significant influence, but not control or joint control, over the financial and operating policies.

In the consolidated and separate financial statements, interest in associate is accounted for using the equity method. They are initially recognised at cost, which includes the initial transaction costs directly attributable to the acquisition of the investments. Subsequent to initial recognition, the consolidated and separate financial statements include the Corporation's share of the profit or loss and OCI of equity accounted investees, until the date on which significant influence or joint control ceases.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Joint operations and similar arrangements and joint ventures

A joint arrangement is present where Group holds a long-term interest which is jointly controlled by Group and one or more other parties under a contractual arrangement in which decisions about the relevant activities require the unanimous consent of the parties sharing control. Such joint arrangements are classified as either joint operations or joint ventures.

The parties to a joint operation have rights to the assets and obligations for the liabilities, relating to their respective share of the joint arrangement. In determining whether the terms of contractual arrangements and other facts and circumstances lead to a classification as joint operations, Group in particular considers the nature of products and markets of the arrangement and whether the substance of their agreements is that the parties involved have rights to substantially all the arrangement's assets. Group accounts for the assets, liabilities, revenues and expenses relating to its interests in joint operations in accordance with the principles applicable to those particular assets, liabilities, revenues and expenses. Normally this leads to accounting for the joint operation in a manner similar to the previous proportionate consolidation method where the Corporation recognises, in respect of its interests in jointly controlled operations, the assets that it controls, the liabilities that it incurs, the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint operation.

Group's unincorporated joint production activities are conducted through arrangements that are jointly controlled because unanimous consent is required among all parties involved. In determining whether each separate arrangement related to TPDC's unincorporated joint exploration and production licence activities is within or outside the scope of IFRS 11, Group considers the terms of relevant licence agreements, governmental concessions and other legal arrangements impacting how and by whom each arrangement is controlled.

Joint ventures (in in which the Group has rights to the net assets), are accounted for using the equity method.

d) Revenue

Natural gas, protected gas and other merchandise

Natural gas and protected gas revenues are recognised when the significant risks and rewards of ownership have been transferred, which is when title passes to the purchaser, and payment is reasonably assured.

Revenues associated with sale and transportation of natural gas, petroleum products and other merchandise are recognised when risk passes to the customer, which is normally when title passes at the point of delivery of the gas, based on the contractual terms of the agreements. Meter readings are done to ascertain the quantity of gas sold.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Revenue (Continued)

PSA Revenue

Revenues from the production of gas in which the Group shares an interest with other companies are recognised based on the Group's share of volumes transported and sold to customers during the period. It comprises the cost gas and profit gas revenue which is determined in accordance with the Production Sharing Agreements. The revenue is presented net of taxes and royalties.

Cost gas is the portion of revenue accruing to the licence partners as a manner of recovery for the cost incurred by the partner to reach to the production level. Profit gas is the residual profit accruing to TPDC and the partners after deductions of cost gas.

Upstream revenues are remitted to the government and downstream portion retained by the Group as per provision of respective PSAs.

e) Foreign currency translations

Transactions in foreign currencies are translated to the functional currency (Tanzanian Shilling – (Tzs) at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and the amortised cost in the foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at the fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss in the period in which they arise.

f) Property, Plant and Equipment

Property, plant and equipment are measured at fair value based on periodic valuations by external independent valuers, less subsequent depreciation and impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of an asset retirement obligation, if any, and borrowing costs for qualifying assets. Property, plant and equipment also includes expenditure on major maintenance refits or repairs including the cost of replacement assets or parts of assets, inspection costs and overhaul costs.

Where an asset or part of an asset is replaced and it is probable that future economic benefits associated with the item will flow to the Group and Corporation, the expenditure is capitalised. Inspection and overhaul costs, associated with regularly scheduled major maintenance programs planned and carried out at recurring intervals exceeding one year, are capitalised and amortised over the period to the next scheduled inspection and overhaul. All other maintenance costs are expensed as incurred. All other repair and maintenance costs are recognized in profit or loss as and when incurred.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Property, Plant and Equipment (Continued)

The estimated useful lives of property, plant and equipment are reviewed on an annual basis, and changes in useful lives are accounted for prospectively. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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 item) is included within other income in the period the item is derecognised.

Valuation

Valuations of property, plant and equipment are performed with sufficient regularity between 3 and 5 years to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any revaluation surplus is credited to the revaluation reserve included in the shareholders equity net of deferred tax, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the profit or loss, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve.

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/disposed is transferred to retained earnings.

Physical verification and valuation of all Group's and Corporation's fixed assets were carried out to determine values of assets as at 30 June, 2016. The exercise was conducted by the Ministry of Lands, Housing and Human settlements Development under the Valuation section and approved by the Chief Government valuer.

Depreciation

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:-

Asset class	Rate per annum
Buildings	2%
Furniture, fittings and equipment	10%
Motor vehicles	12.5%
Natural gas processing plant	5%
Natural gas pipeline	3.33%
Computer hardware	25%
Tanker lorries	20%

Useful lives and residual values are assessed for reasonableness at end of each reporting period and adjusted where appropriate.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Capital work in progress

Capital work in progress represents the costs incurred for capital projects that are under construction and are stated at cost. The cost comprises of the cost of materials, labour, overheads and spares. The capital projects under construction are not depreciated.

h) Natural gas properties

Natural gas properties include oil and gas development and production assets and are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Natural gas properties assets include costs incurred in developing commercial reserves and bringing them into production such as drilling of development wells, tangible costs of facilities and infrastructure construction, projected cost of retiring the assets i.e. asset retirement obligation and the borrowing costs on qualifying assets. The development expenditures are capitalized to Natural gas properties when it is probable that a future economic benefit will flow to the Group and the cost can be reliably measured.

These expenditures are incurred under the terms of Profit Sharing Agreement (PSA) and Joint Operations Agreements (JOA) and represents the Group's share of those expenditures. The costs of the day-to-day servicing of natural gas properties are recognised in profit or loss as incurred.

Depletion

The net carrying amount of natural gas properties is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. If the useful life of the asset is less than the reserve life, in which case the asset is depreciated over its estimated useful life using the straight-line method.

Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers. Changes in factors such as estimates of reserves that affect unit-of-production calculations are dealt with on a prospective basis. Capital costs for assets under construction included in development and production assets are excluded from depletion until the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Disposals

Crude oil and natural gas properties are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on derecognition of the asset, including farm out transactions or asset sales or asset swaps, is calculated as the difference between the proceeds on disposal, if any, and the carrying value of the asset, is recognised in profit or loss in the period of derecognition.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Exploration and Evaluation

Exploration and evaluation ("E&E") costs, including costs of licence acquisition, technical services and studies, exploratory drilling and directly attributable overhead are capitalized as E&E assets when deemed successful according to the nature of the assets acquired, otherwise they are expensed. The costs are initially accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability.

E&E assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

The technical feasibility and commercial viability of extracting a mineral resource is generally considered to be determinable when proven and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether it is technically feasible and commercially viable. Upon determination of technical feasibility and commercial viability, intangible E&E assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to a separate category within tangible assets within property, plant and equipment referred to as oil and gas interests.

j) Investment properties

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are measured initially at cost, including transaction costs.

The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the period in which they arise. Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the profit or loss in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group and Corporation accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Intangible assets

Intangible assets acquired are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets are recognized at cost when it is probable that future economic benefits pertaining to the asset will flow to the entity. Intangible assets include exploration software, accounting software and FTG projects.

The useful lives of intangible assets are assessed to be finite with the exception of FTG project costs which have indefinite useful lives. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The annual rate of amortization, which has been consistently applied is 25%.

The amortization period and the amortization method for intangible assets are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets is recognized in the profit or loss. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the profit or loss when the asset is derecognized. Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in first-out method and comprises direct purchase costs, cost of production, transportation and manufacturing expenses. Any obsolete items are provided for in full in the year they are detected.

m) Asset retirement obligations (ARO)

Provisions for ARO costs are recognised when the Group and Corporation has an obligation (legal or constructive) to dismantle and remove a facility or an item of property, plant and equipment and to restore the site on which it is located, and when a reliable estimate of that liability can be made. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. Cost is estimated based on current regulations and technology, considering relevant risks and uncertainties. The discount rate used in the calculation of the ARO is a risk-free rate based on the applicable currency and time horizon of the underlying cash flows, adjusted for a credit premium which reflects the group's own credit risk. Normally an obligation arises for a new facility, such as an oil and natural gas production or transportation facility, upon construction or installation. An obligation may also crystallise during

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Asset retirement obligations (ARO) (Continued)

the period of operation of a facility through a change in legislation or through a decision to terminate operations.

When a provision for ARO cost is recognised, a corresponding amount is recognised to increase the related property, plant and equipment and is subsequently depreciated as part of the costs of the facility or item of property, plant and equipment. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding property, plant and equipment.

When a decrease in the ARO provision related to a producing asset exceeds the carrying amount of the asset, the excess is recognised as a reduction of depreciation, amortisation and net impairment losses in profit or loss. When an asset has reached the end of its useful life, all subsequent changes to the ARO provision are recognised as they occur in operating expenses in the profit or loss.

n) Borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method. Borrowing costs on non-qualifying assets are expensed in the period they accrue.

Capitalisation of borrowing costs

Borrowing costs attributable to the construction of qualifying assets are capitalized as part of the cost of these assets over the period of construction to the extent that the assets are financed by borrowings.

o) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group and Corporation substantially all the risk and benefits incidental to ownership of the leased item, are capitalized 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 recognized in the profit or loss. Leased assets are 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

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Leases (Continued)

useful life of the asset and the lease term. Operating lease payments are recognized as an expense in the profit or loss on a straight line basis over the lease term.

p) Current and deferred income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised in equity or other comprehensive income respectively.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The current rate of corporate tax is 30%.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with the investments in associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused income tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax credits and tax losses can be utilized except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of transaction, affects neither accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with the investments in associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of the deferred tax assets is reviewed at each reporting date and reduced to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered; such reductions are reversed when the probability of future taxable profits improves.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Current and deferred income tax (Continued)

Deferred tax (Continued)

Unrecognised deferred tax assets are re-assessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or liability settled, based on the tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same tax authority on the same taxable entity.

q) Value added tax

Revenues, expenses and assets are recognised at amounts net of value added tax except where the value added tax incurred on a purchase of an asset or service is not recoverable from the taxation authority in which case the value added tax is recognised as part of the cost of acquisition of the asset or part of the expense item as applicable.

The net amount of value added tax recoverable from, or payable to, the tax authority is included as part of the receivables or payables in the statement of financial position.

r) Tax exposures

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

s) Financial instruments

The Group and Corporation classifies non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the

short-term or that it has designated as at fair value through profit or loss or available-for-sale or those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale. They are included in current assets, except for maturities greater than 12 months after the reporting date. Loans

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) Financial instruments (Continued)

and receivables comprise trade and other receivables, cash and bank balances, escrow funds and balances due from related parties.

Available-for-sale financial assets include equity investments. These are financial assets that are neither classified as held for trading nor designated at fair value through profit or loss.

The Group classifies non-derivative financial liabilities into other financial liabilities category. The Group's financial liabilities include trade and other payables, borrowings, carried interest liability and balances due to related parties.

(i) Non-derivative financial assets and financial liabilities – Recognition and derecognition

The Group initially recognises loans and receivables on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Group and Corporation derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risk and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(ii) Non-derivative financial assets - Measurement

Loans and receivables are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) Financial instruments (Continued)

(ii) Non-derivative financial assets – Measurement (Continued)

Available-for-sale financial assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses are recognised in OCI and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss. Dividends earned whilst holding the available-for-sale assets are recognised in profit or loss as other income when the right of payment has been established.

(iii) Non-derivative financial liabilities - Measurement

Other financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

t) Compound financial instruments

Compound financial instruments of the Group comprise of borrowing that have been issued at below market rates. The liability component is initially recognised at fair value and the equity

u) Compound financial instruments

Component is initially recognised as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Subsequent to initial recognition, the liability component is measured at amortised cost using the effective interest method. The equity component is not remeasured. Interest related to the financial liability is recognised in profit or loss.

v) Impairment

i. Non-derivative financial assets

Financial assets not classified at fair value through profit or loss, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtors;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

v) Impairment (Continued)

i. Non-derivative financial assets (Continued)

- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost.

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found to be impaired are then collectively identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance for doubtful debt account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

Available-for sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

v) Impairment (Continued)

i. Non-derivative financial assets (Continued)

Equity-accounted investees

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

ii. Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash flows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments or the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill (if any) is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss and been recognised.

w) Cash and cash equivalents

Cash and cash equivalents include cash in hand, cash at bank Cash and bank overdrafts that are repayable on demand and form an integral part of the Group's and Corporation's cash management.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

x) Escrow funds

The amount represent funds deposited into the Escrow Accounts opened at commercial bank to secure repayment of principal and payment of interest and fees for the loan from Export-Import Bank of China which was received through the Government of Tanzania. The loan was used to finance the processing plants and transportation pipeline projects. For further details, refer to Note 23. Changes in the escrow funds account are presented within financing activities in the statement of cash flows. These funds do not have original maturities of three months or less. These have been classified as non-current.

y) Employee benefit obligation

Defined contribution scheme

The Group and Corporation pay contributions to a publicly administered pension plan on a mandatory basis which qualifies to be a defined contribution plan.

A defined contribution plan is a pension plan under which the Group pays fixed contribution into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Group portion of contributions are recognized as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

All of the Group's employees are either members of the National Social Security Fund ("NSSF") or Parastatals Pension Fund (PPF), Public Sector Pension Fund (PSPF), Local Authorities Pension Fund (LAPF) and Government Employees Pension Fund (GEPF) which are defined contribution plans. Each employee must be a member of at least one of the aforementioned pension funds. The Group and employees both contribute a total of 20% of the employees' gross salaries to the pension funds.

z) Related party transactions

Transactions between the Corporation and controlled entities, entities with significant influence, joint ventures, key management personnel, its shareholder and close family members of these related parties have been disclosed in the notes to these financial statements.

Key management personnel constitute the members of the Board of Directors, Managing Director, Heads of Directorates and Department.

aa) Government grant and assistance/Government contribution

Government grants received relating to the creation of non-current assets are included in non-current liabilities as deferred income and are credited to profit or loss in other income on a straight-line basis over the expected useful lives of the related assets.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

aa) Government grant and assistance/Government contribution (Continued)

Government grants in the form of non-monetary assets are accounted for at fair value and presented as deferred grant in the statement of financial position. The grant is credited to profit or loss in other income on a straight-line basis over the expected useful life of the asset.

Government grants which become receivable as compensation for expenses or losses already incurred, or for the purpose of giving immediate financial support to the Group with no future related costs, are recognised in profit or loss within other operating income for the period in which they become receivable.

bb) Other income

Other income comprises of gains or losses on disposals of item property, plant and equipment, government grants relating to expenses, amounts from amortisation of deferred government grants, license fees and training fees from contractors, rental income, sale of condensate and other miscellaneous income.

cc) Finance cost

Finance cost comprises interest payable on borrowings and carried interest liability. Borrowing costs which are not capitalised (refer to Note 5(n)) are recognised in profit or loss.

dd) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are recognised as a deduction from equity. Income tax relating to transactions costs of an equity transaction are accounted for in accordance with IAS 12 Income Taxes

ee) Carried interest liability

Carried interest liability include cash calls commitments and accrued interest on the liability payable to other partners in Mnazibay PSA in respect of 20% participating interest in the PSA covering the Mnazi Bay Development Area. The portion that the entity expects to settle in less than 12 months is classified as current portion. Refer to Note 29.

ff) The Group has consistently applied the its accounting policies to all periods presented in these consolidated financial statements, Certain comparative amounts in the statement of profit or loss and OCI have been reclassified as a result of change of operating expenses during the current year.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

6. GOING CONCERN

The Group incurred a net loss of Tzs 136,753 million (Corporation: Tzs 136,753 million) for the year ended 30 June 2017 (2016: Group incurred a net loss of Tzs 341,634 million and Corporation: Tzs 341,621 million). As at the reporting date the Group's liabilities exceeded its assets by Tzs 322,332 million (Corporation: Tzs 322,179) (2016: Group's total liabilities exceeded assets by Tzs 185,579 and Corporation: Tzs 185,426).

In addition, TPDC holds 100% shares in its subsidiary companies, GASCO and COPEC. The operational budget of the subsidiaries are financed by the Corporation.

As stated in Note 30 (a) & (b) to these financial statements, the Group and Corporation have defaulted in paying the interest for the loan which was received from Export - Import Bank of China through the Government of United Republic of Tanzania to finance the Natural Gas Processing Plants and Pipeline Project. Unless the Government intervenes, the Group will not be able to realise its assets and pay its liabilities in the ordinary course of the business.

The consolidated and separate financial statements have been prepared on the going concern basis based on assumption that the Government will continue to provide financial support as and when necessary. The Government has consistently shown its commitment to provide financial support to the Group through revenue grants to finance part of operating costs, capital contributions to finance capital projects, granting of government loans and/or securing of loans on behalf of the Group.

The directors are of the opinion that the Government acknowledges the Group's financial difficulties and it will not recall its on-lent loan that the Group has defaulted in paying interest. The Government has continued funding the Corporation despite the default. Additionally, the Government has confirmed its commitment of providing financial support to TPDC in order to continue operating on a going concern basis.

In view of the above, the directors of the Corporation believe that the Group will continue to operate on a going concern basis. Accordingly, these financial statements have been prepared on the basis of accounting policies applicable to a going concern.

7. NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2017 and earlier application is permitted but not mandatory, the Group has not early applied the following new or amended standards in preparing these consolidated and separate financial statements.

New standard or amendments	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019
Disclosure initiative (Amendments to IAS 7)	1 January 2017
Recognition of Deferred Tax Asset for unrealised Losses (Amendments to IAS 12)	1 January 2017

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

7. NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

All Standards and Interpretations will be adopted on their effective dates.

A. IFRS 9 *FINANCIAL INSTRUMENTS*

IFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement

i) Classification of Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

ii) Impairment of financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- *12-month ECLs*: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- *Lifetime ECLs*: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component.

iii) Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and the remaining amount of change in the fair value is presented in profit or loss.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

7. NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

A. IFRS 9 *FINANCIAL INSTRUMENTS* (CONTINUED)

iv) Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and ECLs. The Group's and Corporation's assessment included an analysis to identify data gaps against current processes and the Group and Corporation are in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

v) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

The Group and Corporation will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognized in retained earnings and reserves as at 1 January 2018.

The Group and Corporation is assessing the potential impact on its financial statements resulting from the application of IFRS 9

B. IFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

i) Sales of goods

For the sale of Gas, revenue is currently recognised when the goods are delivered to the customers' premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognised at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.

Under IFRS 15, revenue will be recognised when a customer obtains control of the goods. For some made-to-order Gas contracts, the customer controls all of the work in progress as the products are being manufactured. The revenue from these contracts will be recognised as the products are being manufactured.

For certain contracts that permit the customer to return an item, revenue is currently recognised when a reasonable estimate of the returns can be made, provided that all other criteria for revenue recognition are met. If a reasonable estimate cannot be made, then revenue recognition is deferred until the return period lapses or a reasonable estimate of returns can be made.

Under IFRS 15, revenue will be recognised for these contracts to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur. As a consequence, for those contracts for which the Group and Corporation are unable to make a

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

7. NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

B. IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

reasonable estimate of return, revenue is expected to be recognised sooner than when the return period lapses or a reasonable estimate can be made.

ii. Commission

For commissions earned, the Group and Corporation has determined that it acts in the capacity of an agent for certain transactions.

Under IFRS 15, the assessment will be based on whether the Group and Corporation controls the specific goods before transferring them to the end customer, rather than whether it has exposure to significant risks and rewards associated with the sale of goods.

iii. Transition

The Group and Corporation plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application; 1 January 2018. As a result, the Group and Corporation will not apply the requirements of IFRS 15 to the comparative period presented.

The Group and Corporation are assessing the potential impact on its financial statements resulting from the application of IFRS 9

C. IFRS 16 LEASES

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard.

In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

i. Determining whether an arrangement contains a lease

The Group and Corporation has an arrangement that was not in the legal form of a lease, for which it concluded that the arrangement contains a lease of buildings). On transition to IFRS 16, the Group and Corporation can choose whether to:

- apply the IFRS 16 definition of a lease to all its contracts; or
- apply a practical expedient and not reassess whether a contract is, or contains, a lease.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

7. NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

D. IFRS 16 LEASES (CONTINUED)

The Group and Corporation plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

ii. Transition

As a lessee, the Group and Corporation can either apply the standard using a:

Retrospective approach; or modified retrospective approach with optional practical expedients. The lessee applies the election consistently to all of its leases.

The Group and Corporation plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group and Corporation is assessing the potential impact of using these practical expedients.

The Group and Corporation are not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

E. DISCLOSURE INITIATIVE (AMMENDMENT TO IAS 7)

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash flow changes. Effective for periods beginning on or after 1 January 2017.

The Group is assessing the potential impact on its consolidated and separate financial statements resulting from the amendment.

F. RECOGNITION OF DEFERRED TAX ASSET FOR UNREALISED LOSSES (AMENDMENTS TO IAS 12)

The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. Effective for periods beginning on or after 1 January 2017.

The Group is assessing the potential impact on its consolidated and separate financial statements resulting from the amendment.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

7. NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

The following new or amended standards are not applicable to the entity business and will therefore have no impact on future financial statements.

-Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

-Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

8. USE OF JUDGMENTS AND ESTIMATES

In preparing these consolidated and separate financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

i. Key sources of estimation uncertainty

The preparation of the consolidated and separate financial statements requires that management makes estimates and assumptions that affect reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis considering the current and expected future market conditions.

The Group and Corporation is exposed to a number of underlying economic factors which affect the overall results, such as natural gas prices, foreign exchange rates and interest rates. In addition, Group's results are influenced by the level of production, which in the short term may be influenced by, for instance, maintenance programmes or market bottlenecks. In the long term, the results are impacted by field development activities.

The matters described below are considered to be the most important in understanding the key sources of estimation uncertainty that are involved in preparing these consolidated and separate financial statements and the uncertainties that could most significantly impact the amounts reported on the results of operations, financial position and cash flows.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

8. USE OF JUDGMENTS AND ESTIMATES (CONTINUED)

a. Proved oil and gas reserves

Proved oil and gas reserves may materially impact the consolidated and separate financial statements, as changes in the proved reserves, for instance as a result of changes in estimated volume, will impact the unit of production rates used for depletion and impairment assessments of the natural gas properties. Proved oil and gas reserves have been estimated on the basis of industry standards which require the use of a price based on a 12-month average for reserve estimation, and which are to be based on existing economic conditions and operating methods and with a high degree of confidence (at least 90% probability) that the quantities will be recovered.

Reserves estimates are based on subjective judgements involving geological and engineering assessments of in-place hydrocarbon volumes, the production, historical recovery and processing yield factors and installed plant operating capacity. For future development projects, proved reserves estimates are included only where there is a significant commitment to project funding and execution and when relevant governmental and regulatory approvals have been secured or are reasonably certain to be secured. The reliability of these estimates at any point in time depends on both the quality and quantity of the technical and economic data and the efficiency of extracting and processing the hydrocarbons. An independent third party has evaluated Group's proved reserves estimates, and the results of this evaluation do not differ materially from Group's estimates.

Proved gas reserves are those quantities of gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods and government regulations. Unless evidence indicates that renewal is reasonably certain, estimates of economically producible reserves only reflect the period before the contracts providing the right to operate expire.

b. Expected oil and gas reserves

Expected gas reserves may materially impact the consolidated and separate financial statements, as changes in the expected reserves, for instance as a result of changes in prices, will impact asset retirement obligations and impairment testing of upstream assets, which in turn may lead to changes in impairment charges affecting operating income. Expected gas reserves are the estimated remaining, commercially recoverable quantities, based on Group's judgement of future economic conditions, from projects in operation or justified for development.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

8. USE OF JUDGMENTS AND ESTIMATES (CONTINUED)

i. Key sources of estimation uncertainty (Continued)

b. Expected oil and gas reserves (Continued)

Recoverable gas quantities are always uncertain, and the expected value is the weighted average, or statistical mean, of the possible outcomes. Expected reserves are therefore typically larger than proved reserves. Expected gas reserves have been estimated on the basis of industry standards and are used for impairment testing purposes and for calculation of asset retirement obligations. Reserves estimates are based on subjective judgments involving geological and engineering assessments of in-place hydrocarbon volumes, the production, historical recovery and processing yield factors, installed plant operating capacity and operating approval limits. The reliability of these estimates at any point in time depends on both the quality and quantity of the technical and economic data and the efficiency of extracting and processing the hydrocarbons.

c. Impairment/reversal of impairment

The Group and Corporation has significant investments in property, plant and equipment. Changes in the circumstances or expectations of future performance of an individual asset may be an indicator that the asset is impaired, requiring the carrying amount to be written down to its recoverable amount. Impairments are reversed if conditions for impairment are no longer present. Evaluating whether an asset is impaired or if an impairment should be reversed requires a high degree of judgement and may, to a large extent depend upon the selection of key assumptions about the future.

Subsequent to the initial evaluation phase for a well, it will be considered a trigger for impairment testing of a well if no development decision is planned for the near future and there is no concrete plan for future drilling in the licence. Impairment of unsuccessful wells is reversed, as applicable, to the extent that conditions for impairment are no longer present.

Estimating recoverable amounts involves complexity in estimating relevant future cash flows, based on assumptions about the future, discounted to their present value. Impairment testing requires long-term assumptions to be made concerning a number of often volatile economic factors such as future market prices, currency exchange rates and future output, discount rates and political and country risk among others, in order to establish relevant future cash flows. Impairment testing frequently also requires judgement regarding probabilities and probability distributions as well as levels of sensitivity inherent in the establishment of recoverable amount estimates.

d. Asset retirement obligations

The Group and Corporation has significant obligations to decommission and remove onshore and offshore installations at the end of the production period. It is difficult to estimate the costs of these decommissioning and removal activities, which are based on current regulations and technology, and consider relevant risks and uncertainties. Most of the removal activities are to be done in many years in the future, and the removal technology and costs are constantly changing. The estimates include assumptions of the time required and the day rates for rigs, marine operations and heavy lift vessels that can vary considerably depending on the assumed removal complexity. As a result, the initial recognition of the liability and the

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

8. USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

i. Key sources of estimation uncertainty (Continued)

d. Asset retirement obligations (Continued)

capitalized cost associated with decommissioning and removal obligations, and the subsequent adjustment of these balance sheet items, involve the application of significant judgment.

The estimates include assumptions of the time required and the day rates for rigs, marine operations and heavy lift vessels that can vary considerably depending on the assumed removal complexity. As a result, the initial recognition of the liability and the capitalized cost associated with decommissioning and removal obligations, and the subsequent adjustment of these balance sheet items, involve the application of significant judgment.

e. Income tax

The Corporation is subject to income taxes to the Government. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Corporation recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

f. Property, plant & equipment

Critical estimates are made by the management in determining depreciation rates for property, plant and equipment. The rates used are set out in Note 5 (f) above.

ii. Measurement of fair values

A number of Group's and Corporation's accounting policies and disclosure require the measurement of fair values. Management had overall responsibility for overseeing all significant fair value measurements.

When measuring the fair value of an asset or a liability, the Group and Corporation uses observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input that is significant to the entire measurement.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

9. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT

(a) Accounting classification and measurement of fair values

The Group and Corporation has an established control framework with respect to the measurement of fair value.

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the input used in the valuation techniques as follows;

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observed for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobserved inputs)

If the input used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The following table shows the carrying amounts and fair value of financial assets and financial liabilities, including their levels in the fair value hierarchy as described above:

	Carrying amount Tzs 'm	Fair value Tzs 'm	Level 1 Tzs 'm	Level 2 Tzs 'm	Level 3 Tzs 'm	Total Tzs 'm
Available for sale investments	-	-	-	-	-	-
	-	-	-	-	-	-

During the year there were no movements between the fair value levels.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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9. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(a) Accounting classification and measurement of fair values (Continued)

Financial instruments at amortized cost

Consolidated	Carrying amounts 2017 Tzs 'm	Carrying amounts 2016 Tzs 'm
Financial assets not measured at fair value		
Trade and other receivables	377,639	246,982
Escrow funds	134,568	131,473
Cash and cash equivalents	16,919	30,257
	<u>529,126</u>	<u>408,712</u>
Financial liabilities not measured at fair value		
Borrowings	(2,961,128)	(2,784,850)
Trade and other payables*	(236,733)	(198,105)
Carried interest liability	(75,727)	(89,054)
	<u>(3,273,588)</u>	<u>(3,072,009)</u>

*these exclude VAT and payroll liabilities

Financial instruments at amortized cost

Separate	Carrying amounts 2017 Tzs 'm	Carrying amounts 2016 Tzs 'm
Financial assets not measured at fair value		
Trade and other receivables	377,639	247,116
Escrow funds	134,568	131,473
Cash and cash equivalents	16,919	30,257
	<u>529,126</u>	<u>408,846</u>
Financial liabilities not measured at fair value		
Borrowings	(2,961,128)	(2,784,850)
Trade and other payables*	(243,080)	(204,587)
Carried Interest liability	(75,727)	(89,054)
	<u>(3,279,935)</u>	<u>(3,078,491)</u>

*these exclude VAT payable and payroll liabilities

The financial assets and liabilities on the table above are not measured at fair value; however due to their short term nature, their carrying amount are deemed to be reasonable approximation of their fair values. Borrowing and carried interest liability have interest or Imputed interest close to the market rates.

Fair value of property plant and Equipment and investment property are disclosed in note 16 and 18 respectively.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

9. FINANCIAL INSTRUMENTS –FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(a) Financial risk management

The Group and Corporation has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established Audit and risk management committee which is responsible for developing and monitoring the Group's risk management policies. The Committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor adherence to risk limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit and risk management committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's audit and risk management committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and risk management committee.

The Group's exposure to risk, its objectives, policies and processes for managing the risk and the methods used to measure it have been consistently applied in the years presented, unless otherwise stated.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

i. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables.

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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9. FINANCIAL INSTRUMENTS –FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(a) Financial risk management (Continued)

i. Credit risk (Continued)

Credit risk arises from cash at bank and trade and other receivables. The major customer is TANESCO, a related party. The Corporation works with Ministry of Energy, Treasury Registrar office (TRO) and TANESCO to ensure gas sales proceeds are paid timeously. The Group has policies in place to ensure that debts are recoverable within 30 days after the invoice is issued to customers. The carrying amounts of financial assets represent the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	Consolidated		Separate	
	2017	2016	2017	2016
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Cash and cash equivalents	16,919	30,257	16,919	30,257
Trade receivables	377,639	247,185	377,639	247,320
Escrow funds	134,568	131,473	134,568	131,473
	529,126	408,915	529,126	409,050

No collateral is held for any of the above assets. Analysis of trade and other receivables is provided in Note 26. At 30 June 2017, the aging of trade receivables that were not impaired was as follows:

	Consolidated		Separate	
	2017	2016	2017	2016
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Neither past due nor impaired	45,942	28,454	45,942	28,454
Past due but not impaired:				
- by up to 30 days	45,148	21,457	45,148	21,457
- by 31 to 60 days	28,245	21,299	28,245	21,299
- by 61 to 90 days	29,024	17,318	29,024	17,318
- Over 91 days	229,280	158,454	229,280	158,588
Total unimpaired	377,639	246,982	377,639	247,116
Impaired	32,327	44,526	32,327	44,526
Gross debtors	409,966	291,508	409,966	291,642

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

9. FINANCIAL INSTRUMENTS –FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(a) Financial risk management (Continued)

i. Credit risk (Continued)

The movement in the allowance for impairment in respect of trade receivables during the year is as follows:

	Consolidat ed	Separate
	Tzs ‘m	Tzs ‘m
Balance at 1 July 2015	6,835	6,835
Impairment loss recognized during the year	37,691	37,691
Balance at 30 June 2016	44,526	44,526
 Balance at 1 July 2016	 44,526	 44,526
Utilisation during the year	(13,332)	(13,332)
Impairment loss recognized during the year	1,133	1,133
Balance at 30 June 2017	32,327	32,327

Cash and cash equivalents

The Group held cash and cash equivalents of Tzs 16,919 million (Corporation: Tzs 16,919 million) at 30 June 2017 (30 June 2016: Tzs 30,257 million for Group and Tzs 30,257 for Corporation) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with banks of good reputation.

Concentration risk

The Corporation provides credit sales to customers in the ordinary course of business. Management does not anticipate any adverse effects on its consolidated and separate financial position resulting from this credit risk. As of 30 June 2017 and 2016 TPDC had amounts due from one customer totalling approximately Tzs 227,367 million and Tzs 85,324 million respectively representing 55% and 34%, respectively of its total trade receivable. This customer also accounted for approximately Tzs 213,210 million and Tzs 148,407 in revenue, representing 80% and 89% of total sales for TPDC for the years ended June 30 June 2017 and 2016, respectively. Subsequent to the year end to the date of this report collection from this customer amounted to Tzs 131,040 Million

ii. Liquidity risk

Liquidity risk is the risk that the Group and Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through active cash flow monitoring.

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)**

9. FINANCIAL INSTRUMENTS –FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(a) Financial risk management (Continued)

ii. Liquidity risk (Continued)

The table below analyses the Group's and Corporation's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

Consolidated	Carrying amount	Contractual cash flows	Up to and Less than 1 year	Between 1 and up to 2 years	Between 2 and up to 5 years	Over 5 years
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Non-derivative financial liabilities						
At 30 June 2017						
Borrowings	2,961,128	2,961,128	327,029	55,676	426,658	2,151,765
Carried interest liability	75,727	75,727	23,550	47,099	5,078	-
Trade and other payables	236,733	236,733	236,733	-	-	-
	3,273,588	3,273,588	587,312	102,775	431,736	2,151,765
Separate	Carrying amount	Contractual cash flows	Up to and Less than 1 year	Between 1 and up to 2 years	Between 2 and up to 5 years	Over 5 years
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Non-derivative financial liabilities						
At 30 June 2017						
Borrowings	2,961,128	2,961,128	327,029	55,676	426,658	2,151,765
Carried interest liability	75,727	75,727	23,550	47,099	5,078	-
Trade and other payables	243,080	243,080	243,080	-	-	-
	3,279,935	3,279,935	593,659	102,775	431,736	2,151,765

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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9. FINANCIAL INSTRUMENTS –FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(a) Financial risk management (Continued)

ii. Liquidity risk (Continued)

Consolidated	Carrying amount	Contractual cash flows	Up to and Less than 1 year	Between 1 and up to 2 years	Between 2 and up to 5 years	Over 5 years
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Non-derivative financial liabilities						
At 30 June 2016						
Borrowings	2,784,850	2,784,850	166,448	44,415	168,963	2,405,023
Carried interest liability	89,054	89,054	23,549	47,099	18,406	-
Trade and other payables	198,105	198,105	198,105	-	-	-
	3,072,009	3,072,009	388,102	91,514	187,369	2,405,023
Separate	Carrying amount	Contractual cash flows	Up to and Less than 1 year	Between 1 and up to 2 years	Between 2 and up to 5 years	Over 5 years
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Non-derivative financial liabilities						
At 30 June 2016						
Borrowings	2,784,850	2,784,850	166,448	44,415	168,963	2,405,023
Carried interest liability	89,054	89,054	23,549	47,099	18,406	-
Trade and other payables	204,587	204,587	204,587	-	-	-
	3,078,491	3,078,491	394,584	91,514	187,369	2,405,023

ii. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates etc. will affect the Group's and Corporation's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing returns.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

9. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(a) Financial risk management (Continued)

ii. Market risk (Continued)

Foreign exchange risk

Foreign exchange risk arise from commercial transaction as the Group and Corporation transact in US Dollar (USD) for significant portion of its transactions. The Group is exposed to foreign exchange risk arising from currency exposures due to exchange fluctuations, primarily with respect to the USD.

Generally borrowings, trade and other payables and carried interest liability are denominated in currency (USD) that matches the cash flows generated by the underlying operations of the Group.

The summary of quantitative data about Group's exposure to currency risks as reported to management of the Corporation on its risk management policy is as follow:

Equivalent amounts in shillings (in millions)

Consolidated	2017	2016
Balances denominated in USD	Tzs 'm	Tzs 'm
Trade and other receivables	377,353	240,407
Cash and cash equivalents	4,735	28,432
Escrow funds	134,568	131,473
Borrowings	(2,961,128)	(2,784,850)
Carried interest liability	(75,727)	(89,054)
Trade and other payables	(97,500)	(114,899)
Net exposure	(2,617,699)	(2,588,491)

Separate	2017	2016
Balances denominated in USD	Tzs 'm	Tzs 'm
Trade and other receivables	377,353	240,407
Cash and cash equivalents	4,735	28,432
Escrow funds	134,568	131,473
Borrowings	(2,961,128)	(2,784,850)
Carried interest liability	(75,727)	(89,054)
Trade and other payables	(97,500)	(114,899)
Net exposure	(2,617,699)	(2,588,491)

The following significant exchange rates applied during the year/period (Tzs values for 1 USD);

	<u>Average rate</u>		<u>Reporting rate</u>	
	2017	2016	2017	2016
USD	2,197.82	2,170.03	2,230.15	2,178.86

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)**

9. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(a) Financial risk management (Continued)

ii. Market risk (Continued)

Foreign exchange risk

Sensitivity analysis

The table below shows the Group's sensitivity to foreign exchange rates on its US dollar financial instruments excluding obligations which do not present a material exposure. The Group has considered movements in these currencies over the last three years and has concluded that a 10% movement in rates is a reasonable benchmark.

Consolidated	Strengthening		Weakening	
	Profit or loss	Equity*	Profit or loss	Equity*
30 June 2017				
USD - 10% movement (Loss)/gain	(261,770)	(183,239)	261,770	183,239
30 June 2016				
USD - 10% movement (Loss)/gain	(258,849)	(181,194)	258,849	181,194
Separate	Strengthening		Weakening	
	Profit or loss	Equity*	Profit or loss	Equity*
30 June 2017				
USD - 10% movement (Loss)/gain	(261,770)	(183,239)	261,770	183,239
30 June 2016				
USD - 10% movement (Loss)/gain	(258,849)	(181,194)	258,849	181,194

*Figures are presented net of tax.

Cash flow and fair value interest rate risk

As the Group and Corporation has no significant interest-bearing assets, its income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)**

9. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(a) Financial risk management (Continued)

ii. Market risk (Continued)

Profile

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Consolidated		Separate	
	Carrying amount		Carrying amount	
	2017	2016	2017	2016
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Fixed rate instruments				
Financial assets	-	-	-	-
Financial liabilities				
- Borrowings	<u>(2,180,591)</u>	<u>(2,075,037)</u>	<u>(2,180,591)</u>	<u>(2,075,037)</u>
	<u>(2,180,591)</u>	<u>(2,075,037)</u>	<u>(2,180,591)</u>	<u>(2,075,037)</u>
Variable rate instruments				
Financial assets	-	-	-	-
Financial liabilities				
-Borrowings	(717,809)	(709,813)	(717,809)	(709,813)
-Carried interest liability	<u>(75,727)</u>	<u>(89,054)</u>	<u>(75,727)</u>	<u>(89,054)</u>
	<u>(793,536)</u>	<u>(798,867)</u>	<u>(793,536)</u>	<u>(798,867)</u>

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

A change of 100 basis points interest rates at the reporting date would have increased (decreased) profit or loss by the amounts below. This analysis assumes that all other variables in particular foreign currency rates, remain constant.

	Consolidated		Separate	
	Profit or loss		Profit or loss	
	100 bp	100 bp	100 bp	100 bp
	increase	decrease	increase	decrease
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
2017				
Variable rate instruments	<u>(7.94)</u>	<u>(7.94)</u>	<u>(7.94)</u>	<u>(7.94)</u>
2016				
Variable rate instruments	<u>(7.99)</u>	<u>7.99</u>	<u>(7.99)</u>	<u>7.99</u>

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

9. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(a) Financial risk management (Continued)

ii. Market risk (continued)

The Group and Corporation has elected not to hedge interest risk and there would therefore be no impact on equity.

Capital risk management

The Group's and Corporation's objectives when managing capital are aimed at safeguarding its ability to continue as a going concern in order to provide returns for the shareholder and to maintain an optimal capital structure to reduce the cost of capital.

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

The gearing ratios at 30 June 2017, 30 June 2016 were as follows:

	Consolidated		Separate	
	2017	2016	2017	2016
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Total borrowings	2,961,128	2,784,850	2,961,128	2,784,850
Less: cash and cash equivalents	(16,919)	(30,257)	(16,919)	(30,257)
Net debt	<u>2,944,209</u>	<u>2,754,593</u>	<u>2,944,209</u>	<u>2,754,593</u>
Total equity	(322,332)	(185,579)	(322,179)	(185,426)
Gearing ratio	<u>-10.95:1</u>	<u>-6.74:1</u>	<u>-10.94:1</u>	<u>-6.74:1</u>

10. REVENUE

	Consolidated		Separate	
	2017	2016	2017	2016
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Net PSA revenue - Songosongo	-	8,193	-	8,193
PSA revenue - Mnazi Bay	14,469	10,414	14,469	10,414
Sale of natural gas	213,210	148,407	213,210	148,407
Sale of protected gas	20,417	18,154	20,417	18,154
Sale of Data	8,270	812	8,270	812
	<u>256,366</u>	<u>185,980</u>	<u>256,366</u>	<u>185,980</u>

Net PSA revenue is arrived after deducting the adjustment factor as provided by respective PSA.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)**

11. COST OF SALES

	Consolidated		Separate	
	2017	2016	2017	2016
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Purchase of natural gas	121,929	87,997	121,929	87,997
Pipeline maintenance	25,836	2,379	25,836	2,379
Depreciation of gas processing plant & pipeline	80,864	61,496	80,864	61,496
Depletion of natural gas properties	346	428	346	428
PSA carried expenses	4,818	6,189	4,818	6,189
	233,793	*158,489	233,793	*158,489

*During the year the Group modified classification of pipeline maintenance cost and PSA carried expenses from operating expenses to cost of sales. The modification resulted into a change in classification for prior year amounting to Tzs 7,944 Million. The reclassification has been made to enhance comparability with current year presentation.

12. OTHER INCOME

	Consolidated		Separate	
	2017	2016	2017	2016
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Training fees from contractors	2,909	3,968	2,909	3,968
Licence fees from contractors	1,547	1,921	1,547	1,921
Sale of condensate	-	1,600	-	1,600
Government contribution (grant)	11,990	11,228	11,990	11,228
Gas project income	231	258	231	258
Interest income	82	357	82	357
House rent	80	87	80	87
Miscellaneous income	43	268	43	264
Rent from petrol stations	18	22	18	22
Amortisation of capital grants	495	530	495	530
	17,395	20,239	17,395	20,235

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)**

13. OPERATING EXPENSES

	Consolidated		Separate	
	2017	2016	2017	2016
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Provision for doubtful receivables	1,349	38,088	1,349	38,088
Staff costs**	13,216	19,719	13,216	19,719
Depreciation	3,143	1,672	3,143	1,672
Legal expenses	24	145	24	145
Transport and travel expenses	1,301	1,053	1,301	1,053
Audit fees	690	285	690	285
Insurance	3,109	477	3,109	477
Bank charges and commission	336	115	336	115
Foreign exchange differences	(2,432)	(7,719)	(2,432)	(7,719)
Loss on revaluation of property, plant and equipment	-	496	-	496
Fair valuation loss – investment property	-	495	-	495
Impairment loss on other investments	-	1,500	-	1,500
Net PSA expense - Songosongo	4,034	-	4,034	-
Other expenses	10,692	92,370	10,692	92,353
Provisions for taxes	-	37,784	-	37,784
Amortisation of intangible	804	624	804	624
	36,266	*187,104	36,266	*187,087

*During the year the Group and Corporation modified classification of exchange loss on borrowings, ARO accretion; and Pipeline maintenance cost, carried interest expense from operating expenses to finance cost and cost of sales respectively. The modification resulted into a change in classification for prior year amounting to Tzs 185,545 Million with Tzs 177,407 Million exchange loss on borrowings and Tzs 194 Million ARO accretion taken to Finance cost, Tzs 7,944 Million to cost of sales and Tzs 6,691 tax refund relating to the Songosongo PSA netted off against revenue. The reclassification has been made to enhance comparability with current year presentation.

**Staff costs include social security contribution amounting to Tzs 1.19 billion (2016: Tzs 1.49 billion)

	Consolidated		Separate	
	2017	2016	2017	2016
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Depreciation on property, plant and equipment charged to:				
- Cost of sales	80,864	61,496	80,864	61,496
- Operating expenses	3,144	1,672	3,144	1,672
Total depreciation charge (Note 16)	84,008	63,168	84,008	63,168

14. FINANCE COST

Interest expense - borrowings	87,134	67,118	87,134	67,118
Interest expense – carried interest	2,148	3,939	2,148	3,939
Exchange loss on loan revaluation	67,849	177,407	67,849	177,407
ARO accretion	72	194	72	194
	157,203	248,658	157,203	248,658

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)**

15. TAXATION

	Consolidated		Separate	
	2017	2016	2017	2016
	Tzs'm	Tzs'm	Tzs'm	Tzs'm
Current tax charge	-	-	-	-
Deferred income tax credit	-	(30,991)	-	(30,991)
	<u>-</u>	<u>(30,991)</u>	<u>-</u>	<u>(30,991)</u>
The tax on the Corporation's result before tax differs from the amount that would arise using the basic tax rate as follows:				
Loss before tax	(136,753)	(372,625)	(136,753)	(372,612)
Tax credit calculated at a tax rate of 30% (2016: 30%)	(41,026)	(111,788)	(41,026)	(111,784)
Expenditure permanently disallowed	2,546	18,837	2,546	18,837
Deferred income tax movement not recognised (Note 24)	43,504	66,582	43,504	66,582
Share of profit of equity accounted investee	(5,024)	(4,622)	(5,024)	(4,622)
	<u>-</u>	<u>(30,991)</u>	<u>-</u>	<u>(30,991)</u>

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)**

16. PROPERTY, PLANT AND EQUIPMENT

Consolidated	Land Tzs 'm	Buildings Tzs 'm	Motor vehicles Tzs 'm	Furniture, fittings and equipment Tzs 'm	Computer hardware Tzs 'm	Gas pipeline Tzs 'm	Gas processing plant Tzs 'm	Capital Work In Progress TZS 'm	Total Tzs 'm
Cost/revaluation									
Balance at 1 July 2015	73,464	16,073	2,697	1,470	1,954	-	-	1,887,674	1,983,332
Additions	25,000	-	-	1,119	222	671	-	347,046	374,058
Transfers	-	-	-	-	-	1,855,655	378,647	(2,234,302)	-
(Write off)/reclassification from investment property	(789)	-	-	-	-	4,490	-	-	3,701
Write off of cost of revalued assets	-	(5,747)	(1,991)	(877)	(1,499)	(51,213)	(10,283)	-	(71,610)
Gain on revaluation	10,130	10,796	2,877	9,249	-	87,136	-	-	120,188
Balance at 30 June 2016	107,805	21,122	3,583	10,961	677	1,896,739	368,364	418	2,409,669
Balance at 1 July 2016	107,805	21,122	3,583	10,961	677	1,896,739	368,364	418	2,409,669
Additions	-	-	-	423	524	3,681	644	342	5,614
Balance at 30 June 2017	107,805	21,122	3,583	11,384	1,201	1,900,420	369,008	760	2,415,283
Accumulated depreciation and impairment losses									
Balance at 1 July 2015	-	5,105	1,484	691	1,163	-	-	-	8,443
Depreciations	-	643	507	185	337	51,213	10,283	-	63,168
Write off on revaluation	-	(5,748)	(1,991)	(876)	(1,500)	(51,213)	(10,283)	-	(71,611)
Balance at 30 June 2016	-	-	-	-	-	-	-	-	-
Balance at 1 July 2016	-	-	-	-	-	-	-	-	-
Depreciation	-	614	459	1,001	1,069	59,000	21,865	-	84,008
Balance at 30 June 2017	-	614	459	1,001	1,069	59,000	21,865	-	84,008
Carrying Amounts;									
At 30 June 2016	107,805	21,122	3,583	10,961	677	1,896,739	368,364	418	2,409,669
At 30 June 2017	107,805	20,508	3,124	10,383	132	1,841,420	347,143	760	2,331,275

** Gas pipeline assets includes the main pipeline, valve stations, land and buildings.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)**

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Separate	Land Tzs 'm	Buildings Tzs 'm	Motor vehicles Tzs 'm	Furniture, fittings and equipment Tzs 'm	Computer hardware Tzs 'm	Gas pipeline Tzs 'm	Gas processing plant Tzs 'm	Capital Work In Progress	Total Tzs 'm
Cost/revaluation									
Balance at 1 July 2015	73,464	16,073	2,697	1,470	1,954	-	-	1,887,674	1,983,332
Additions	25,000	-	-	1,119	222	671	-	347,046	374,058
Transfers	-	-	-	-	-	1,855,655	378,647	(2,234,302)	-
(Write off)/reclassification from investment property	(789)	-	-	-	-	4,490	-	-	3,701
Write off of cost of revalued assets	-	(5,747)	(1,991)	(877)	(1,499)	(51,213)	(10,283)	-	(71,610)
Gain on revaluation	10,130	10,796	2,877	9,249	-	87,136	-	-	120,188
Balance at 30 June 2016	107,805	21,122	3,583	10,961	677	1,896,739	368,364	418	2,409,669
Balance at 1 July 2016	107,805	21,122	3,583	10,961	677	1,896,739	368,364	418	2,409,669
Additions	-	-	-	423	524	3,681	644	342	5,614
Balance at 30 June 2017	107,805	21,122	3,583	11,384	1,201	1,900,420	369,008	760	2,415,283
Accumulated depreciation and impairment losses									
Balance at 1 July 2015	-	5,105	1,484	691	1,163	-	-	-	8,443
Depreciations	-	643	507	185	337	51,213	10,283	-	63,168
Write off on revaluation	-	(5,748)	(1,991)	(876)	(1,500)	(51,213)	(10,283)	-	(71,611)
Balance at 30 June 2016	-	-	-	-	-	-	-	-	-
Balance at 1 July 2016	-	-	-	-	-	-	-	-	-
Depreciation	-	614	459	1,001	1,069	59,000	21,865	-	84,008
Balance at 30 June 2017	-	614	459	1,001	1,069	59,000	21,865	-	84,008
Carrying Amounts:									
At 30 June 2016	107,805	21,122	3,583	10,961	677	1,896,739	368,364	418	2,409,669
At 30 June 2017	107,805	20,508	3,124	10,383	132	1,841,420	347,143	760	2,331,275

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Items of property, plant and equipment were revalued on 30 June 2016 by Ministry of Lands, Housing and Human settlements Development under the Valuation section and approved by the Chief Government valuer. The valuation was done using direct comparison and replacement cost method. Significant inputs applied by the valuer in arriving at the fair value are unobservable, consequently, directors have classified the fair value measurement as level 3. There has been no change in valuation technique. The highest and best use does not differ from the actual.

During the year, the directors performed an assessment of the fair value of property, plant and equipment and are of the opinion that the value of the property, plant and equipment reasonably approximates their fair value as at 30 June 2015.

17. NATURAL GAS PROPERTIES

	Consolidated Tzs 'm	Separate Tzs 'm
Balance at 1 July 2015	54,125	54,125
Additions	8,082	8,082
Balance as at 30 June 2016	62,207	62,207
Cost as 1 July 2016	62,207	62,207
Additions*	1,897	1,897
Balance at 30 June 2017	64,104	64,104
Depletion and impairment		
Balance at 1 July 2015	17	17
Charge for the year	428	428
Balance at 30 June 2016	445	445
Balance at 1 July 2016	445	445
Charge for the year	346	346
Balance at 30 June 2017	791	791
Net book value:		
At 30 June 2016	61,762	61,762
At 30 June 2017	63,313	63,313

*Non-cash increase in the cost of the natural gas properties during the year of Tzs 312 million relates to increase in the estimated future retirement obligation for existing natural gas properties.

The Group assessed triggers for impairment on the natural gas properties and determined that an impairment test was not required. The majority of the Corporation's natural gas is sold under long-term fixed price gas sales and purchase agreement, eliminating the current volatility in the commodity market. In addition, the valuation of the Corporation's reserves is in excess of the net book value of natural gas assets.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)**

18. INVESTMENT PROPERTIES

	Consolidated		Separate	
	2017	2016	2017	2016
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Balance at 1 July				
- Petrol stations	709	709	709	709
- Ubungo Mikocheni pipeline	-	4,985	-	4,985
	709	5,694	709	5,694
Change in fair value	973	(495)	973	(495)
Reclassification to property, plant and equipment	-	(4,490)	-	(4,490)
Balance	1,682	709	1,682	709

Investment property comprises a number of petrol stations which have been leased out to private petrol station operators.

The Group and Corporation's policy require that subsequent to initial recognition, investment properties to be stated at fair value, which reflects market conditions at the reporting date, as stated in Note 5(n). The fair value of investment property was determined by external, independent property valuer having appropriate recognised professional qualifications. The independent valuer provide the fair value of the Group's investment property at the end of each year.

The fair value measurement for all of the investment properties has been categorised as level 3 fair value based on inputs to the valuation technique used.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)**

19. INTANGIBLE ASSETS

Consolidated	Exploration Software Tzs 'm	Accounts Software Tzs 'm	FTG* Project Tzs 'm	Total Tzs 'm
Balance at 01 July 2015	1,832	23	-	1,855
Additions*	1,094	-	8,218	9,312
Balance at 30 June 2016	2,926	23	8,218	11,167
Balance at 01 July 2016	2,926	23	8,218	11,167
Additions*	-	591	4,838	5,429
Balance at 30 June 2017	2,926	614	13,056	16,596
Accumulated amortisation and impairment losses				
Balance at 01 July 2015	881	23	-	904
Amortisation	624	-	-	624
Balance at 30 June 2016	1,505	23	-	1,528
Balance at 01 July 2016	1,505	23	-	1,528
Amortization	737	68	-	805
Balance at 30 June 2017	2,242	91	-	2,333
Carrying amounts				
At 30 June 2016	1,421	-	8,218	9,639
At 30 June 2017	684	523	13,056	14,263

*This relates to costs incurred to collect seismic data that is sold to customers.

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)**

19. INTANGIBLE ASSETS (CONTINUED)

Separate	Exploration Software Tzs 'm	Accounts Software Tzs 'm	FTG* Project Tzs 'm	Total Tzs 'm
Balance at 01 July 2015	1,832	23	-	1,855
Additions*	1,094	-	8,218	9,312
Balance at 30 June 2016	2,926	23	8,218	11,167
Balance at 01 July 2016	2,926	23	8,218	11,167
Additions*	-	591	4,838	5,429
Balance at 30 June 2017	2,926	614	13,056	16,596
Accumulated amortisation and impairment losses				
Balance at 01 July 2015	881	23	-	904
Amortisation	624	-	-	624
Balance at 30 June 2016	1,505	23	-	1,528
Balance at 01 July 2016	1,505	23	-	1,528
Amortization	737	68	-	805
Balance at 30 June 2017	2,242	91	-	2,333
Carrying amounts				
At 30 June 2016	1,421	-	8,218	9,639
At 30 June 2017	684	523	13,056	14,263

*This relates to costs incurred to collect seismic data that is sold to customers.

20. INVESTMENT IN SUBSIDIARY

Consolidated	2017 Tzs 'm	2016 Tzs 'm
Investment in subsidiary	-	-
	-	-
Separate	2017 Tzs 'm	2016 Tzs 'm
Investment in COPEC*	5,000	5,000
Investment in GASCO*	1,500	1,500
	6,500	6,500

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

20. INVESTMENT IN SUBSIDIARY (CONTINUED)

Commercial Petroleum Company of Tanzania Limited (COPEC) is a fully-owned subsidiary company of TPDC established in March 1999 to carry on oil business in terms of export and import, storage, supplies and distribution of petroleum products.

Gas Company Tanzania Limited (GASCO) is a fully-owned subsidiary company of TPDC established in August 1985 to carry on operations, maintenance and construction activities of the natural gas infrastructure as well as performing mechanical and civil works.

21. INVESTMENT IN ASSOCIATE

On 31 July 2004, TPDC acquired 30,000 shares in SONGAS Limited which is equivalent to 28.69% of the share capital of SONGAS Limited. This investment had cost of USD 3,000,000. The Group has determined that it has significant influence over the investee and has accounted for the investment as an associate. SONGAS Limited is one of the Group's strategic partner and is principally engaged in the gas processing, transportation and generation of electricity in Tanzania using natural gas from Songo songo Island "SSI", which is off the coast of Southern Tanzania. The Company is not publicly listed. There was no change in ownership during the year.

The investment is accounted for using the equity method in both the consolidated and separate financial statements.

The following table analyses the financial information about the associate as included in its own financial statements. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in Songas. The financial information of the associate presented in the table below from which the attributable loss was taken were for the year ended 30 June 2017, this is consistent with prior years.

	2017	2016
Percentage ownership interest	28.69%	28.69%
	USD 'm	USD 'm
Non-current assets	146	169
Current assets	140	121
Non-current liabilities	(115)	(148)
Current liabilities	(87)	(67)
Net assets (100%)	84	75
Group's share of net assets (28.69%)	24	21
Foreign exchange rate	2,230.15	2,178.86
Group's share of net assets in associate (Tzs'm)	53,524	45,756
Foreign exchange differences (Tzs'm)	(1,688)	(2,182)
Carrying amount of interest in associate at 30 June (Tzs'm)	51,836	43,574
Revenue	141.00	97.00
Profit from continuing operations	26.56	24.75
Groups share of net profit	7.62	7.10
Exchange rate	2,197.82	2,170.03
Group's share of total comprehensive income (28.69%) (Tzs'm)	16,747.69	15,407.21

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

21. INVESTMENT IN ASSOCIATE (CONTINUED)

The following table analyses, in aggregate, the carrying amount and share of profit and OCI of the associates.

	Consolidated		Separate	
	2017	2016	2017	2016
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Carrying amount of interest in associate	43,574	32,428	43,574	32,428
Share of Profit from continuing operations	16,748	15,407	16,748	15,407
Dividends received	(8,486)	(5,586)	(8,486)	(5,586)
Foreign currency translation	-	1,325	-	1,325
	51,836	43,574	51,836	43,574

22. OTHER INVESTMENTS

	Consolidated		Separate	
	2017	2016	2017	2016
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Equity security available-for-sale*	-	1,500	-	1,500
Less: Accumulated impairment loss	-	(1,500)	-	(1,500)
Add: Fair value changes	-	-	-	-
	-	-	-	-

*The Group holds 150,000 shares of TZS 10,000 each in Agro EcoEnergy (T) Ltd representing 5% of total issued share capital in the company. This is a private Agro industrial development Company registered in 2007 under Tanzanian Company law. Agro EcoEnergy formed a special purpose project Bagamoyo EcoEnergy Ltd with the purpose of developing a modern sugar cane plantation and factory producing sugar, ethanol and power for the Tanzanian market. The project was later cancelled by the Government.

23. ESCROW FUNDS

The Corporation is an end user of a loan awarded to the Government of Tanzania ("GOT"/Borrower) by the Export-Import Bank of China (Lender). The GOT and the Export-Import Bank of China had entered into a preferential buyer credit loan agreement and the buyer credit loan agreement in 2012 with the total amount of USD 920 million and USD 275 million respectively (see Note 30-Loans and borrowings). The funds were on-lent to TPDC ("End-User") to fund part of the cost of construction of the Tanzania's natural gas processing plants and pipelines. In accordance with terms of the loan agreements, three escrow accounts were opened and governed by the Escrow Accounts Management Agreement between Exim Bank of China, Ministry of Finance, TPDC (End User) and a commercial bank (Escrow Bank"). The escrow accounts were opened to secure repayment of principal and payment of interest and fees under the loan agreements.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)**

23. ESCROW FUNDS (CONTINUED)

The escrow funds represents amounts deposited into the escrow accounts.

The balance of USD 60,340,466 (Tzs 134,567 million) as at 30 June 2017 (2016: USD 60,340,466(Tzs 131,473 million)) consists of USD 58,866,942 and USD 1,473,574 deposited by the Ministry of Finance on behalf of the Government of United Republic of Tanzania and TPDC respectively. The deposited funds are classified under Non-current assets since they are not available for meeting immediate short term Group's and Corporation's financial obligations during the entire period of the loan.

The total deposits made into the escrow accounts are shown below;

Consolidated	Consolidated		Separate	
	2017	2016	2017	2016
	Tzs' m	Tzs' m	Tzs' m	Tzs' m
Escrow funds	134,568	131,473	134,568	131,473
	134,568	131,473	134,568	131,473

24. DEFERRED INCOME TAX (ASSET)/LIABILITY

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 30%. The details of the deferred tax are as follows:

	At start of year	Movement	At end of year
	Tzs 'm	Tzs 'm	Tzs 'm
Year ended 30 June 2017			
Consolidated			
<i>Deferred income tax liabilities</i>			
Accelerated capital deductions	81,117	22,467	103,584
Revaluations	59,856	-	59,856
	140,973	22,467	163,440
<i>Deferred income tax assets</i>			
Tax loss carried forward	(113,095)	(49,666)	(162,761)
Provisions	(161,330)	(16,305)	(177,635)
	(274,425)	(65,971)	(340,396)
Net deferred tax asset	(133,452)	(43,504)	(176,956)
Deferred tax asset not recognized	(160,469)	(43,504)	(203,973)
Deferred tax liability recognized	27,017	-	27,017
Net deferred tax asset	(133,452)	(43,504)	(176,956)

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)**

24. DEFERRED INCOME TAX (ASSET)/LIABILITY (CONTINUED)

	At start of year Tzs 'm	Movement Tzs 'm	At end of year Tzs 'm
Year ended 30 June 2017			
Separate			
<i>Deferred income tax liabilities</i>			
Accelerated capital deductions	81,117	22,467	103,584
Revaluations	59,856	-	59,856
	140,973	22,467	163,440
<i>Deferred income tax assets</i>			
Tax loss carried forward	(113,095)	(49,666)	(162,761)
Provisions	(161,330)	(16,305)	(177,635)
	(274,425)	(65,971)	(340,396)
Net deferred tax asset	(133,452)	(43,504)	(176,956)
Deferred tax asset not recognized	(160,469)	(43,504)	(203,973)
Deferred tax liability recognized	27,017	-	27,017
Net deferred tax asset	(133,452)	(43,504)	(176,956)
	At start of year Tzs 'm	Movement Tzs 'm	At end of year Tzs 'm
Year ended 30 June 2016			
Consolidated			
<i>Deferred income tax liabilities</i>			
Accelerated capital deductions	3,125	77,992	81,117
Revaluations	23,651	36,205	59,856
	26,776	114,197	140,973
<i>Deferred income tax assets</i>			
Tax loss carried forward	-	(113,095)	(113,095)
Provisions	(98,861)	(62,469)	(161,330)
	(98,861)	(175,564)	(274,425)
Net deferred tax asset	(72,085)	(61,367)	(133,452)
Deferred tax asset not recognized	(93,887)	(66,582)	(160,469)
Deferred tax liability recognized	21,802	5,215	27,017
Net deferred tax asset	(72,085)	(61,367)	(133,452)

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)**

24. DEFERRED INCOME TAX (ASSET)/LIABILITY (CONTINUED)

	At start of year Tzs 'm	Movement Tzs 'm	At end of year Tzs 'm
Year ended 30 June 2016			
Separate			
<i>Deferred income tax liabilities</i>			
Accelerated capital deductions	3,125	77,992	81,117
Revaluations	23,651	36,205	59,856
	<u>26,776</u>	<u>114,197</u>	<u>140,973</u>
<i>Deferred income tax assets</i>			
Tax loss carried forward	-	(113,095)	(113,095)
Provisions	(98,861)	(62,469)	(161,330)
	<u>(98,861)</u>	<u>(175,564)</u>	<u>(274,425)</u>
Net deferred tax asset	<u>(72,085)</u>	<u>(61,367)</u>	<u>(133,452)</u>
Deferred tax asset not recognized	(93,887)	(66,582)	(160,469)
Deferred tax liability recognized	21,802	5,215	27,017
Net deferred tax asset	<u>(72,085)</u>	<u>(61,367)</u>	<u>(133,452)</u>

25. INVENTORIES

	Consolidated		Separate	
	2017	2016	2017	2016
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Stationery & supplies	527	129	527	129
Condensate	4,755	845	4,755	845
	<u>5,282</u>	<u>974</u>	<u>5,282</u>	<u>974</u>

No inventory item was reduced as a result of write down to net realisable value as assigned cost at reporting date was lower than expected market value.

Inventory amounting to Tzs 243 Million was charged as expense in the profit or loss during the year (2016: Tzs 343 Million)

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)**

26. TRADE AND OTHER RECEIVABLES

	Consolidated		Separate	
	2017	2016	2017	2016
	Tzs'm	Tzs'm	Tzs'm	Tzs'm
Trade receivables				
Trade receivables due from related party (Note 38)	293,541	156,855	293,541	156,989
Other trade receivables	<u>116,425</u>	<u>134,653</u>	<u>116,425</u>	<u>134,653</u>
	409,966	291,508	409,966	291,642
Provision for trade receivables impairments	<u>(32,327)</u>	<u>(44,526)</u>	<u>(32,327)</u>	<u>(44,526)</u>
Net trade receivables	<u>377,639</u>	<u>246,982</u>	<u>377,639</u>	<u>247,116</u>
Other receivables				
Prepayments	59,247	59,862	59,247	59,862
Other debtors	<u>402</u>	<u>244</u>	<u>402</u>	<u>245</u>
	59,649	60,106	59,649	60,107
Provision for other receivables (impairment)	<u>(257)</u>	<u>(41)</u>	<u>(257)</u>	<u>(41)</u>
Net other receivables	<u>59,392</u>	<u>60,065</u>	<u>59,392</u>	<u>60,066</u>
Net total debtors	<u>437,031</u>	<u>307,047</u>	<u>437,031</u>	<u>307,182</u>

The Group exposure to credit and market risks and impairment losses related to trade receivable are disclosed in Note 9 (a).

27. CASH AND CASH EQUIVALENTS

	Consolidated		Separate	
	2017	2016	2017	2016
	Tzs'm	Tzs'm	Tzs'm	Tzs'm
Bank balance -USD	4,754	28,432	4,754	28,432
Bank balance -TZS	<u>12,165</u>	<u>1,825</u>	<u>12,165</u>	<u>1,825</u>
	<u>16,919</u>	<u>30,257</u>	<u>16,919</u>	<u>30,257</u>

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

28. CAPITAL AND RESERVES

(a) SHARE CAPITAL

	2017 Tzs'm	2016 Tzs'm
Authorised:		
2,500 ordinary shares of Tzs 1,000,000 each	2,500	2,500
Issued and fully paid:		
2,208 ordinary shares of Shs 1,000,000 each	2,208	2,208

The issued and paid up share capital was financed through conversion of retained earnings and funds extended to the Corporation as capital and development grants in 1988. The shares are held by the Treasury Registrar on behalf of the Government of Tanzania.

(b) EQUITY CONTRIBUTION FROM GOVERNMENT

The equity contribution from Government as at 30 June 2017 represents net cash received from the Government of Tanzania as capital contribution to the petroleum/gas projects for TPDC.

	Consolidated		Separate	
	2017 Tzs 'm	2016 Tzs 'm	2017 Tzs 'm	2016 Tzs 'm
At start of year	184,139	194,013	184,139	194,013
Received during the year	-	-	-	-
Remittance to the government	-	(9,874)	-	(9,874)
At end of year	184,139	184,139	184,139	184,139

(c) REVALUATION RESERVE

The revaluation reserves amounting to Tzs 139.7 billion relates to the revaluation of property, plant and equipment (2016: 139.7 billion)

29. CARRIED INTEREST LIABILITY

Carried interest represents amounts payable to other partners in the Mnazi bay PSA in respect to 20% participating interest. Amounts include cash call commitments and accrued interest on contributions made by other partners on behalf of TPDC. The Group is liable to contribute 20% of all operation and development cost in Mnazi bay PSA as a specified TPDC's participation interest of the all contract expenses other than exploration expenses of joint operations in all development areas. TPDC portion of cash calls carried with other partners are at an interest rate of one month LIBOR + 2%. The amount is recovered by the Operator from the TPDC's profit share on the future production by applying the agreed TPDC's annual share of revenue towards financing the long term liability repayment obligations until it is fully settled. The balances as at year end are shown below;

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

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29. CARRIED INTEREST LIABILITY (CONTINUED)

	Consolidated		Separate	
	2017	2016	2017	2016
	Tzs'm	Tzs'm	Tzs'm	Tzs'm
Cash call commitments payable	61,649	77,224	61,649	77,224
Interest payable	14,078	11,830	14,078	11,830
	<u>75,727</u>	<u>89,054</u>	<u>75,727</u>	<u>89,054</u>
Represented as:				
Current	23,550	23,549	23,550	23,549
Non-current	52,177	65,505	52,177	65,505
	<u>75,727</u>	<u>89,054</u>	<u>75,727</u>	<u>89,054</u>

30. BORROWINGS

	Consolidated		Separate	
	2017	2016	2017	2016
	Tzs'm	Tzs'm	Tzs'm	Tzs'm
Loans	2,961,128	2,784,850	2,961,128	2,784,850
Less: Current portion	(327,029)	(166,448)	(327,029)	(166,448)
Non-current	<u>2,634,099</u>	<u>2,618,402</u>	<u>2,634,099</u>	<u>2,618,402</u>

As at 30 June 2017

Consolidated and Separate (Amounts in Tzs'm)	Ref	Balance as at 1 July 2016	Addition	Interest	Exchange losses	Principal paid	Interest paid	Balance as at 30 June 2017
Preferential buyer's credit – Exim	(a)	2,075,037	11,837	43,892	49,826	-	-	2,180,592
Buyer's credit – Exim	(b)	648,979	14,927	37,793	16,120	-	-	717,819
TIB Loan	(c)	60,834	-	5,449	1,893	-	(5,459)	62,717
		<u>2,784,850</u>	<u>26,764</u>	<u>87,134</u>	<u>67,839</u>	<u>-</u>	<u>(5,459)</u>	<u>2,961,128</u>

As at 30 June 2016

Consolidated and Separate (Amounts in Tzs'm)	Ref	Balance as at 1 July 2015	Addition	Interest	Exchange losses	Principal paid	Interest paid	Balance as at 30 June 2016
Preferential buyer's credit -Exim	(a)	1,689,444	212,659	40,490	132,444	-	-	2,075,037
Buyer's credit - Exim	(b)	488,968	83,669	33,932	42,410	-	-	648,979
TIB loan	(c)	-	55,978	5,100	2,553	-	(2,797)	60,834
		<u>2,178,412</u>	<u>352,306</u>	<u>79,522</u>	<u>177,407</u>	<u>-</u>	<u>(2,797)</u>	<u>2,784,850</u>

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

30. BORROWINGS (CONTINUED)

TERMS AND CONDITION

- a) This loan from Export – Import (Exim) Bank of China was received through the Government of the United Republic of Tanzania to finance the construction of Mtwara and Songo Songo to Dar es Salaam gas pipeline and processing plants. The loan is denominated in US dollars. The loan contract amounts to USD 920,000,000 and carries an interest of two percent per annum (2% p.a) which is to be paid every 21 January and 21 July. The loan had a grace period of 84 months from the first day of disbursement, 20 June 2013. The loan is to be repaid in 156 months from the end of the grace period.

The loan is defaulted as no interest has been paid to the Government.

- b) This loan from Export – Import (Exim) Bank of China was received through the Government of the United Republic of Tanzania to finance the construction of Mtwara and Songo Songo to Dar es Salaam gas pipeline and processing plants. The loan is denominated in US dollars. The loan contract amounts to USD 275 million and carries an interest of 430 basis points plus a 6 months libor per annum which is to be paid every 21 January and 21 July. The loan had a grace period of 22 months from the first day of disbursement, 24 July 2013. The loan is to be repaid in 132 months from the end of the grace period.

The loan is defaulted as no interest has been paid to the Government.

The securities for loan (a) and loan (b) above includes all rights under the natural gas sales agreement between TPDC and TANESCO to the lender as security for the obligation of the borrower under the loan agreement and escrow account agreement.

- c) This is a medium term loan from the TIB Development Bank Limited. The purpose of the loan was to fulfil conditions set out in the Gas Sales Agreement between TPDC and Mnazi Bay PSA Partners. Interest for the loan is charged at 900 basis points plus 6 months US libor rate per annum. The loan amounts to USD 27 million. The loan had a grace period of 12 months from the date of disbursement, 16 August 2015. The loan is to be repaid in 4 equal instalments within the period of 24 months from the end of the grace period.

The loan has the following securities;

- Specific assignment over the TPDC entitlements of Cost Gas and Profit Gas Mnazi Bay GSA receivables which shall rank second to the Mnazi Bay Concession Partners' claims prior to settlement of the outstanding TPDC payables and thereafter shall rank first till the liquidation of the loan and;
- Pledge/assignment of the TPDC's shares in the Mnazi Bay Concession standing at 20% participating interests. As at the date of entering the agreement the participating interest was estimated to be Tzs 61.55 billion.

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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31. GOVERNMENT GRANT

Consolidated	Balance at 1 July	Additions	Amortisation	Balance at 30 June
2016				
(i) Benjamin William Mkapa tower A	4,722	-	(266)	4,456
(ii) Ministry of energy - World Bank	-	2,048	(264)	1,784
(iii) Likong'o grant	-	25,000	-	25,000
	4,722	27,048	(530)	31,240
2017				
(i) Benjamin William Mkapa tower A	4,456	-	(178)	4,278
(ii) Ministry of energy - World Bank	1,784	-	(316)	1,468
(iii) Likong'o grant	25,000	-	-	25,000
	31,240	-	(494)	30,746
2016				
(i) Benjamin William Mkapa tower A	4,722	-	(266)	4,456
(ii) Ministry of energy - World Bank	-	2,048	(264)	1,784
(iii) Likong'o grant	-	25,000	-	25,000
	4,722	27,048	(530)	31,240
2017				
(i) Benjamin William Mkapa tower A	4,456	-	(178)	4,278
(ii) Ministry of energy - World Bank	1,784	-	(316)	1,468
(iii) Likong'o grant	25,000	-	-	25,000
	31,240	-	(494)	30,746

Terms and conditions

- (i) The grant relates to Benjamin William Mkapa tower A (TPDC's head office) that was granted to TPDC in year 2008 and 2009 by the government and is being amortised over the life of the building designated at 25 years.
- (ii) The grant was received from World Bank through the Ministry of Energy. World Bank through the Ministry of energy granted Source Rock Analyser system, Petrol Reservoir engineering and eclipse software including computers. The grant aimed at building capacity in the energy sector.
- (iii) The grant relates to the land which was given to TPDC by the Ministry of Lands, Housing and Human Settlements Development in 2015 in Likong'o area, Lindi. This area has been reserved for the LNG project. The amount is the fair value of the land as it was offered to TPDC at no cost.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

32. ASSET RETIREMENT OBLIGATION

The Group has AROs primarily related to Mnazi bay gas fields, Natural gas processing plants and gas pipeline. The accounting policy for asset retirement obligation is disclosed in Note 5(l).

The full balance is non-current as decommissioning activities are not expected to occur within the next twelve months.

The information below reconciles the value of the asset retirement obligation for Mnazi bay gas field and the Natural gas processing plants and pipeline:

	Consolidated		Separate	
	2017	2016	2017	2016
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Opening balance	2,193	-	2,193	-
New provision	837	1,999	837	1,999
Accretion expense	72	194	72	194
	<u>3,102</u>	<u>2,193</u>	<u>3,102</u>	<u>2,193</u>

The ARO relates to the following assets:

	Consolidated		Separate	
	2017	2016	2017	2016
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Mnazi Bay gas fields	1,793	1,450	1,793	1,450
Natural gas processing plants and pipeline	1,309	743	1,309	743
	<u>3,102</u>	<u>2,193</u>	<u>3,102</u>	<u>2,193</u>

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)**

33. TRADE AND OTHER PAYABLES

	Consolidated		Separate	
	2017	2016	2017	2016
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Trade payables due to related parties (Note 38)	56,703	51,242	63,203	57,722
Other trade payables	75,539	38,329	75,386	38,330
	132,242	89,571	138,589	96,052
Other payables:				
VAT Payable	16,456	20,852	16,456	20,852
Accruals	104,491	108,534	104,491	108,535
Payroll liabilities	7,337	7,117	7,337	7,117
	260,526	226,074	266,873	232,556

34. OPERATING LEASES

(a) Group and Corporation as a lessee

The Group leases a number of buildings under operating leases. The leases typically run for a period of three years, with the option to renew the leases after that date. Lease payments are renegotiated every three years to reflect market rentals. The leases for buildings were entered as combined leases of land and buildings. The Group determined that the land and building elements of the rented buildings are operating leases. The rent paid to the landlord is adjusted to market rentals at regular intervals, and the Group does not have an interest in the residual value of the land and buildings. As a result, it was determined that substantially all the risks and rewards of the land and buildings are with the landlord.

i. Future minimum lease payments

As at 30 June 2017, the future minimum lease payments under non-cancellable leases were payable as follows:

	Consolidated		Separate	
	2017	2016	2017	2016
	Tzs'm	Tzs'm	Tzs'm	Tzs'm
Less than one year	183	183	183	183
Between one and five years	732	1,530	732	1,530
Beyond five years	-	-	-	-
	915	1,713	915	1,713

ii. Amounts recognised in profit or loss

Lease expense	183	264	183	264
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TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)**

34. OPERATING LEASES (CONTINUED)

(b) Group and Corporation as a lessor

The group leases out its investment properties (see Note 18)

i. Future minimum lease payments

As at 30 June 2017, the future minimum lease payments under non-cancellable leases were receivable as follows:

	Consolidated		Separate	
	2017	2016	2017	2016
	Tzs'm	Tzs'm	Tzs'm	Tzs'm
Less than one year	329	280	329	280
Between one and five years	-	-	-	-
Beyond five years	-	-	-	-
	<u>329</u>	<u>280</u>	<u>329</u>	<u>280</u>

ii. Amounts recognised in profit or loss

During 2017, investment property rentals of Tzs 329 million (2016: Tzs 280 million) were included in "other operating income" (see Note 12). Expenses included in "operating expenses" (see Note 13) was Tzs Nil million (2016: Tzs Nil million)

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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35. CASH GENERATED FROM OPERATIONS

		Consolidated		Separate	
	Note	2017 Tzs 'm	2016 Tzs 'm	2017 Tzs 'm	2016 Tzs 'm
Operating activities					
Loss before tax		<u>(136,753)</u>	<u>(372,625)</u>	<u>(136,753)</u>	<u>(372,612)</u>
<i>Adjustments for:</i>					
Depreciation –fixed assets	16	84,008	63,168	84,008	63,168
Depletion expense		346	428	346	428
Revaluation loss		-	496	-	496
Fair value (gain)/loss - investment property		(973)	495	(973)	495
Interest expense		89,354	71,250	89,354	71,250
Amortisation of intangible asset	19	805	624	805	624
Amortisation of grants	31	(494)	(530)	(494)	(530)
Share of profit of equity-accounted investees, net of tax		(16,748)	(15,407)	(16,748)	(15,407)
Impairment loss on receivables		1,133	37,732	1,133	37,732
Impairment loss on other investments		-	1,500	-	1,500
Net unrealized forex losses		<u>64,746</u>	<u>174,333</u>	<u>64,746</u>	<u>174,333</u>
		<u>85,424</u>	<u>(38,536)</u>	<u>85,424</u>	<u>(38,523)</u>
 Changes in:					
- inventories		(4,307)	(558)	(4,307)	(558)
- trade and other receivables		(130,983)	(196,083)	(130,983)	(196,083)
- trade and other payables		34,315	200,360	34,315	200,347
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash used in operations		<u>(15,551)</u>	<u>(34,817)</u>	<u>(15,551)</u>	<u>(34,817)</u>

36. COMMITMENTS

During 2016/2017 the Group was engaged in the project for permanent connection known as downstream customers along the newly constructed natural gas transmission pipeline. The project was implemented by M/s China Petroleum Pipeline Bureau (CPP) as the Contractor under the supervision of M/s KIMPHIL Konsult LTD as a project consultant. TANESCO has been financing the project by covering the Contactor's costs while TPDC has been financing the consultant's costs.

The amount of capital commitment relating to this project as at 30 June 2017 was Tzs 8,662 Million

Other Capital Commitments

The Group is also committed to pay a sum of Tzs 244 Million in respect of the outstanding dues resulted from acquisition of high-tech data to enhance exploration activities in the identified blocks.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

37. CONTINGENCIES- ASSETS AND LIABILITIES

The following are contingent liabilities which might arise and is in respect of:

Abandonment / decommissioning costs of plants and other assets at Songo Songo Gas producing site

In October, 2001 the Government of United Republic of Tanzania, TPDC and PAET entered into a Production Sharing Agreement for the development of Songo Songo gas field. At the same time, the Government, TPDC, Songas Limited and PanAfrican Energy Tanzania Limited entered into a Gas Agreement relating to Songo Songo Gas-to-Electricity Project. The investment costs for the wells and other upstream structures at the gas field were done by the Government, Songas and PAET.

Per the Gas Agreement, TPDC transferred and assigned to Songas Limited the exclusive rights to carry exploration and development operations in the Discovery blocks and carry on other related operations as are necessary, for the sole purpose of supplying Protected Gas. The same Agreement transferred and assigned TPDC's rights to PanAfrican Energy Tanzania Limited to carry exploration and development operations in the Songo Songo Gas Field and jointly with TPDC sell the Additional Gas.

The Gas Agreement stipulates that when the Gas wells reach their respective economic limits it is the Operator who will plug and abandon the wells utilizing good oilfield practices. Prior to this the Operator is ought to have forecasted a realistic cost of abandonment and to have consulted Government and TPDC in the determination of when the economic limit is reached. Also, the Operator is obliged to set aside funds for abandonment and these would be recoverable prior to expenditure. Also, it is the Operator who will safely arrange for the abandonment of unused flow lines and arrange for clean-up and reclamation of all sites.

According to a reserve estimate report from an independent consultant, the Songo Songo field is not anticipated to cease economic production until a time between 2036 and 2040 hence abandonment costs are expected to be incurred at some time after 2036. This is well beyond the current basic agreements (with the operator) and development license expiry in 2026. The estimated liability for the abandonment work as computed by independent consultant in year 2012 was approximately USD 34.35 million.

The management is of the opinion that it is not probable that any liability will arise to TPDC because it is not the Operator of the Songo Songo gas field. Despite the current suite of basic agreements and the development license expiring before the economic life of the gas field, management believes that an extension of the agreements and license will be sought with or without the current operator. Also, the operator will be advised to update the existing abandonment plan and set aside funds for that purpose. Additionally, TPDC has no participation interest in the Songo Songo gas field assets and hence the Group and Corporation has not made any provision against it.

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

37. CONTINGENCIES- ASSETS AND LIABILITIES (CONTINUED)

Relocation costs of Mtwara pipeline from Mtwara Airport land reserve

In the year 2012 the Group commenced implementation of National Natural Gas Infrastructure Project (NNGIP) which comprised construction of the two processing plants located at Madimba in Mtwara and Songo songo in Lindi, and a transportation pipeline from Mnazi Bay and Songo songo to Dar es Salaam. Prior to project commencement, TPDC engaged Ardhi University (ARU) as a project consultant for pipeline route (wayleave) survey, environmental impact assessment, valuation and acquisition. TPDC successfully acquired natural gas pipeline wayleave under the professional guidance and advice from the Ardhi University

On 11th January 2018, through various media coverage the Deputy Minister for Works directed TPDC, Tanzania Airport Authority (TAA) and experts from the Ministry of Infrastructure, Transport and Communication to discuss the reported pipeline crossing the airport including relocating the gas pipeline from the Mtwara Airport land.

Pursuant to such directive, TPDC made a preliminary investigation on 15th January 2018 in collaboration with Mtwara Airport management and Mtwara Municipal Council on the matter and identified that the gas pipeline crossed within the airport land. Management made a presentation to the Board on the preliminary findings for deliberation and Direction.

Based on the preliminary findings, there is a possibility to relocate the existing natural gas pipeline towards the north-east side outside the Mtwara Airport land. Relocation costs might be incurred by the Corporation but have not been agreed as yet.

If determined to be necessary and agreed, the relocation of the pipeline will have economic and financial implications to TPDC. The estimation of the cost includes cost incurred for acquisition of the wayleave and construction of the existing pipeline (Sunk Cost) and Additional Cost to be incurred for relocation (Additional Cost). Management has estimated the relocation cost at TZS 53.17 Billion and sunk costs at TZS 9.66 Billion thus making total estimated cost at TZS 62.83 Billion.

However management is of the opinion that it is not probable that the liability will occur due to high cost of relocation and continuous negotiations with the Tanzania Airport Authority. The Group, together with the Ministry of Energy plans to initiate amicable land dispute settlement mechanisms with Ministry of Infrastructure, Transport and Communication and Ministry of Land, Housing and Human Settlements Development to re-coordinate Mtwara Airport land into national coordinate system without relocating the existing pipeline.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

38. RELATED PARTY TRANSACTIONS AND BALANCES

The Corporation is wholly owned by the Government of United Republic of Tanzania through the Treasury Registrar. Therefore the Government of United Republic of Tanzania is the ultimate holding entity.

Related parties in the books of TPDC include subsidiaries, associates and government agencies (including national departments/Ministries, public entities and local government municipalities). TPDC's transactions with the local Government offices and Government Executive Agencies are not individually significant when compared to the total value of the transactions between TPDC and other government related parties and are therefore not disclosed separately. These include, among others, transactions as a result of services received from government hospitals and utility companies.

Related parties also comprise key management personnel of TPDC or its shareholder and close family members of these related parties.

The following transactions were carried out with related parties and were deemed to be significant for disclosure purposes.

The following transactions were carried out with related parties;

	Consolidated		Separate	
	2017	2016	2017	2016
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Transactions:				
Sales of goods and services				
Associate – SONGAS Limited	20,417	18,154	20,417	18,154
Government entity - TANESCO	213,209	148,407	213,209	148,407
	<u>233, 626</u>	<u>166,561</u>	<u>233, 626</u>	<u>166,561</u>
Other				
Government - Interest incurred on on-lent borrowings	81,674	79,552	81,674	79,552
TIB borrowing – Interest incurred	5,459	5,100	5,459	5,100
Associate - Dividend received	8,486	5,586	8,486	5,586
Borrowings received – TIB bank	-	55,978	-	55,978
Grants received from government				
- revenue grants	11,990	11,228	11,990	11,228
- capital grants	<u>-</u>	<u>27,048</u>	<u>-</u>	<u>27,048</u>

The group also contributed to social security fund authorities as disclosed in note 13

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)**

38. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

	Consolidated		Separate	
	2017	2016	2017	2016
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Outstanding balances (due from related parties)				
Receivables and amounts owed by related parties				
Associate – SONGAS Limited	66,174	71,665	66,174	71,665
Government entity –TANESCO	227,367	85,324	227,367	85,324
	293,541	156,989	293,541	156,989
Outstanding balances (due to related parties)				
Payables and amounts owed to related parties				
Amounts payable to subsidiary – COPEC			5,000	5,000
Amounts payable to subsidiary – GASCO			1,500	1,500
Royalty payable to Ministry of Energy and Minerals	23,275	17,579	23,275	17,579
License fees payable to MEM	2,606	2,252	2,606	2,252
Training fees payable	746	2,845	746	2,845
Gas sale due to Government	30,076	28,546	30,076	28,546
	56,703	51,222	63,203	57,722
Borrowings				
TIB Loan	62,727	60,834	62,727	60,834
Government on-lent borrowings	2,898,401	2,724,016	2,898,401	2,724,016
	2,961,128	2,784,850	2,961,128	2,784,850

Directors and key management personnel remuneration

Consolidated	Salary and post-retirement benefits		Fees and Sitting allowances		Social security costs (defined contribution scheme)	
	2017	2016	2017	2016	2017	2016
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Key management	795	977	-	623	119	147
Directors	-	-	242	184	-	-
Total	795	977	242	807	119	147
Separate						
Key management	795	977	-	623	119	147
Directors	-	-	242	184	-	-
Total	795	977	242	807	119	147

See also Note 28(b) for other related party transactions

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)**

39. SUBSEQUENT EVENTS

The members of the subsidiary company COPEC, changed the name of the Company to TANOIL Investments Limited effective from 01 November 2017.

The directors are not aware of any other event that requires adjustment to the financial statements and/or disclosure other than those already mentioned here and elsewhere in the financial statements