

**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 2018**

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## NAO VISION AND MISSION STATEMENTS

**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

|        |                                                  |        |                                             |
|--------|--------------------------------------------------|--------|---------------------------------------------|
| AG     | Attorney General                                 | NSSF   | National Social Security Fund               |
| AGG    | Airborne Gravity Gradiometry                     | NAO    | National Audit Office                       |
| BCF    | Billion Cubic Feet                               | NBAA   | National Board of Accountants and Auditors  |
| CAG    | Controller and Auditor General                   | NNGI   | National Natural Gas Infrastructure Project |
| CNG    | Condensed Natural Gas                            | NCI    | Non-Controlling Interest                    |
| TANOIL | Commercial Petroleum Company of Tanzania Limited | NEMC   | National Environmental Management Council   |
| CWIP   | Capital Work in Progress                         | NNGIP  | National Natural Gas Infrastructure Project |
| EIA    | Environmental Impact Assessment                  | OCI    | Other Comprehensive Income                  |
| FTG    | Full Tensor Gradiometry                          | PA     | Petroleum Act                               |
| GASCO  | Gas Company Tanzania Limited                     | PAET   | Pan African Energy Tanzania Limited         |
| CGU    | Cash Generating Unit                             | PMU    | Procurement Management Unit                 |
| GSA    | Gas Sale Agreement                               | PNG    | Piped Natural Gas                           |
| 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                          | PURA   | Petroleum Upstream Regulatory Authority     |
| LNG    | Liquefied Natural Gas                            | SACCOS | Savings and Credit Corporative Society      |
| M& P   | Maurel et Prom                                   | Sq. Km | Square Kilometres                           |
| MEM    | Ministry of Energy and Minerals                  | TCF    | Trillion Cubic Feet                         |
| MMSCFD | Million Standard Cubic Feet per Day              | TPDC   | Tanzania Petroleum Development Corporation  |
| MOU    | Memorandum of Understanding                      | TZ     | Tanzania                                    |
| MV     | Motor Vehicle                                    | URT    | United Republic of Tanzania                 |
| MW     | Megawatts                                        | MD     | Managing Director                           |
| NHIF   | National Health Insurance Fund                   | EPC    | Engineering Procurement and Construction    |



# **TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

## **REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2018**

The Directors submit their report together with consolidated and separate financial statements for the year ended 30 June 2018, which disclose the state of affairs of Tanzania Petroleum Development Corporation (the "Corporation" or "TPDC") and its subsidiaries – Gas Company Tanzania Limited and TAN Oil Investments Limited (formerly known as Commercial Petroleum Company of Tanzania Limited), (together, the "Group") as at that date.

The Petroleum Act, 2015 recognizes Tanzania Petroleum Development Corporation 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 of 1992 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 TAN Oil Investments Limited (TAN OIL) formerly known as the Commercial Petroleum Company of Tanzania Limited (COPEC). GASCO and TAN OIL have been 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, 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:

- 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.
- Advising the Government on policy matters pertaining to petroleum industry;

# **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 sq. km 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 sq. km, 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 Songo Songo 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 further feasible projects for utilization of natural gas in the country is underway where second draft of National Natural Gas Utilization Master Plan is being prepared to further explore the use of discovered gas from both onshore and offshore fields. The development of projects leading to domestic utilization of gas on power generation, industrial use for process heating and captive power generation as well as the use of gas in vehicles will create significant savings in foreign exchange and at the same time protect environment by reducing carbon foot prints and deforestation. Developments of natural gas projects will pave a way for the petrochemicals and fertilizer industries leading to significant multiplier effects to the general economy.

The key to success of the Corporation's rests on human resource development. Significant emphasis has been directed into human resource development, along with the establishment of an institutional set up suitable for the ongoing Corporation's activities and the new strategic directions.

### **6. COMPOSITION OF THE BOARD OF DIRECTORS**

The Directors of the Corporation who served during the year and up to the date of this report are:

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

\*Eng. Kapuulya Musomba is acting the Managing Director of TPDC



# **TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

## **REPORT OF THE DIRECTORS (CONTINUED)**

### **6. COMPOSITION OF THE BOARD OF DIRECTORS (CONTINUED)**

#### **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.

### **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 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/<br>Resigned | Date<br>Appointed/<br>Resigned |
|------------------------|-------------|------------------------------|-------------|------------------------|--------------------------------|
| Dr. Shufaa Albeity     | Chairperson | Accountant                   | Tanzanian   | Appointed              | 3 Jun 2016                     |
| Amb. Dr. Ben Moses     | Member      | Administrator/<br>Diplomatic | Tanzanian   | Appointed              | 3 Jun 2016                     |
| Prof. Hussein Sosovele | Member      | Environmentalism             | Tanzanian   | Appointed              | 3 Jun 2016                     |
| Prof. Shukrani Manya   | 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/<br>Resigned | Date<br>Appointed/<br>Resigned |
|------------------------------|----------|---------------------------------------|-------------|------------------------|--------------------------------|
| Hon. Judge Josephat Mackanja | Chairman | Rtd. Judge/Lawyer                     | Tanzanian   | Appointed              | 3 Jun 2016                     |
| Prof. Abiud Kaswamila        | Member   | Land use planner/<br>Environmentalism | Tanzanian   | Appointed              | 3 Jun 2016                     |
| Mrs. Mwanamani Kidaya        | Member   | Geologist                             | Tanzanian   | Appointed              | 3 Jun 2016                     |
| Ms. Monica Otaru             | Member   | Lawyer                                | Tanzanian   | Appointed              | 24 Feb 2017                    |

During the year ended 30 June 2018, the Board of Directors had eleven (11) meetings and twelve (12) committee meetings as tabulated in the table below:

| S/N | Meeting                     | Board of<br>Directors | Corporate and Legal<br>Affairs Committee | Audit and Risk<br>Management Committee |
|-----|-----------------------------|-----------------------|------------------------------------------|----------------------------------------|
| 1.  | Ordinary meetings           | 4                     | 2                                        | 3                                      |
| 2.  | Special meetings            | 7                     | 3                                        | 4                                      |
|     | Total number of<br>meetings | 11                    | 5                                        | 7                                      |



# 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                                | 2018<br>Tzs 'm | 2017<br>Tzs 'm |
|----------------------------------------------|----------------|----------------|
| <b>Authorised: Ordinary Shares</b>           |                |                |
| 2,500 ordinary shares of Tzs. 1,000,000 each | <u>2,500</u>   | <u>2,500</u>   |
| <b>Issued and fully paid:</b>                |                |                |
| 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

|                              | 2018<br>Tzs 'm        | 2017<br>Tzs 'm        |
|------------------------------|-----------------------|-----------------------|
| At start of year             | 184,139               | 184,139               |
| Received during the year     | -                     | -                     |
| Remittance to the government | -                     | -                     |
| <b>At end of year</b>        | <u><b>184,139</b></u> | <u><b>184,139</b></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**

#### **A) Upstream Operations**

##### **i) Exploration Activities**

During the year under review, the Corporation planned to undertake exploration activities to the strategic blocks including West Songo Songo, Block 4/1B, Eyasi Wembere and Mnazi Bay North. The specific activities for West Songo Songo, Block 4/1B and Mnazi Bay North were to secure Strategic Partners, apply for the Exploration Licenses, conduct EIA for 3D Seismic, and acquire 3D seismic data, processing and interpretation. For Eyasi Wembere Block, it was planned to secure a Strategic Partner, apply for the Exploration Licence, and conduct EIA for 2D Seismic and acquisition of 2D Seismic data.

During the year under review, the Corporation prepared Terms of Reference to procure Geophysical contractors to undertake 3D and 2D seismic data acquisition, processing and interpretation. For the case of Mnazi Bay North the geophysical company to conduct capacity building training in processing, interpretation and well planning was procured. The exploration granting right agreement was prepared for all four strategic blocks. EIA contractors for 3D seismic acquisition for blocks 4/1B and 4/1C were obtained. Procurement process to acquire the EIA contractors for 3D and 2D Seismic for remaining blocks has started.

Detailed geological mapping was done in Eyasi Wembere Block. The result of this fieldwork were the identification of potential working petroleum elements and possible indicators of active hydrocarbon system, update geological and structural maps of the basin, updated geological cross section and stratigraphy of the basin and identification of location for drilling stratigraphic boreholes.

TPDC prepared reconnaissance studies work plan and Memorandum of Understanding (MoU) with Uganda technical team for the joint technical work program. The reconnaissance permit for the technical studies was obtained from PURA.

##### **ii) LNG Development**

During the year ended 30 June 2018, the Group continued to support discussions with the International Oil Companies (IOCs) on the Host Government Agreement (HGA) by carrying out technical and economical modelling researches so as to provide inputs to the Government Negotiation Team (GNT). In this regard, the initial Government economic model for the LNG project has been prepared.

Likewise, the Group participated in LNG workshops in relation to Pre-FEED and FEED (Front End Engineering Design) studies, concept selection and sub-sea facility studies.

Additionally, TPDC, Ministry of Lands, Housing and Human Settlements Developments and Lindi Municipal completed evaluation on determination of the LNG site and areas outside the LNG project which were initially valued all together. The demarcation of the two sites has resulted into reduction of compensation costs from Tzs 13 billion to Tzs 5 billion. This liability is a Government commitment to cover compensation costs relating to the proposed LNG plant site.



# **TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

## **REPORT OF THE DIRECTORS (CONTINUED)**

### **10. ONGOING AND FUTURE DEVELOPMENT PROJECTS (CONTINUED)**

#### **B) Downstream Operations**

##### **Downstream Natural Gas Projects**

###### **i. Natural Gas Distribution Projects**

During the financial year 2017/2018, the Group planned to distribute gas to industries in Dar es Salaam, Coast and Mtwara regions. Among the targeted industries include Coca Cola and BIDCO in Dar es Salaam region, Lodhia and Knauf in the Coastal region (Mkuranga, Pwani) and Dangote Cement Factory in Mtwara region.

In the region of Dar es Salaam, it was planned to connect the National Natural Gas Infrastructure (NNGI) to the existing Ubungo-Mikocheni natural gas distribution pipeline and connection of BIDCO and Coca Cola to gas supply network. The project also involved undertaking of Environmental Audit (EA) as well as Environmental Impact Assessment (EIA) from Block Valve Station 15 (BVS 15) to the existing Ubungo - Mikocheni low pressure natural gas distribution pipeline. All permits for implementation of this project such as EWURA Construction permit was obtained and the project construction commenced.

In the Coast region, Natural gas distribution at Mkuranga area was one of the projects TPDC envisaged to implement during the financial year 2017/2018. During the year under review, GSA negotiations with Knauf were concluded. GSA for Lodhia has been reviewed by the AG Chambers and commended for action. Enabling various industries in Mkuranga district including Knauf and Lodhia Steel to be connected with natural gas, hot tapping and pipeline construction Contractors were procured and preparatory works for the procurement of tools and equipment for construction initiated.

As for Mtwara region, the Group concluded GSA negotiations with Dangote Cement Factory for supply of natural gas. The implementation of the project was divided into two phases; Phase I connection was completed in August 2017 which comprised of connecting Dangote with the use of gas for temporary power generation, up to 45 MW of electricity. Letter of Award was issued to the EPC Contractor for Dangote Phase II and Site was made available for works to commence. The project implementation was scheduled under the pre-financing arrangement where Dangote pays for connection costs in an agreement to recoup the expenditure incurred from gas sales when operations commences.

The Corporation planned to implement the Urea fertilizer manufacturing project that envisaged to use natural gas in its production processes. Among others, it was planned to establish a JV Company for the project and lead TPDC in negotiations of JVA and other relevant agreements.

During the period under review, negotiations with IOCs, Fertilizer project investors and institutions including the Ministry of Energy, Ministry of Finance and Planning, Ministry of Industry and Trade and Tanzania Investment Centre (TIC) on gas price that would make a fertilizer project sustainable and competitive were conducted although were not concluded. Natural Gas price continued to be a stumbling block to the project implementation (reaching financial closure and construction starting up) since the gas price offered by Fertilizer developers is very low compared to the cost of making that



# **TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

## **REPORT OF THE DIRECTORS (CONTINUED)**

gas available to the project. Also, the JV Company namely Tanzania Mbolea and Petrochemicals Company Limited (TAMPCO) was registered and Certificate of Incentive obtained from TIC.

### **10. ONGOING AND FUTURE DEVELOPMENT PROJECTS (CONTINUED)**

#### **B) Downstream Operations (Continued)**

##### **ii. Dar es Salaam to Bagamoyo Pipeline**

During the financial year 2017/2018, the plan was to carry out Feasibility study, EIA and Detailed Engineering Design; and Supervision and Monitoring of consultancy and construction work.

During the period under review, TPDC initiated discussions with DAWASA and Export Processing Zones Authority (EPZA) on the use of the existing wayleave. Also, negotiations for the MoU between TPDC and State General Reserve Funds of Oman (SGRF) on conducting Feasibility Study for the project are underway. Consultant to undertake Feasibility study for Tanzania (Dar es Salaam) – Uganda pipeline via Bagamoyo as one of the plausible routes from Dar es Salaam (which in effect will accommodate the target/project) is scheduled to be procured during the financial year of 2018/2019.

##### **iii. Regional Natural Gas Distribution project**

TPDC planned to roll out competitive bidding for setting up City Gas Distribution (CGD) networks to be developed through Piped Natural Gas (PNG) and/or Compressed Natural Gas (CNG).

During the year under review, a Concept Note Terms of Reference, Request for Proposal document and draft Joint Venture Agreement on the implementation of the project using Joint venture mode were prepared and approved. During the course of implementation, change of mode of private sector engagement was changed by the Public Procurement Regulatory Authority (PPRA) from Joint Venture to Public Private Partnership (PPP) mode (after procedures for PPP were followed). A concept Note as per the MoFP (PPRA and PPP Units') directives, was prepared and reviewed by the MoE and approved by MoFP. Also, Pre feasibility study was prepared and currently have been reviewed by MoE and awaits for submission to MoFP for approval. Draft ToRs for procurement of the Consultant/Transaction Advisor for conducting a Full Feasibility Study for the project according to PPP Act and Regulations were prepared and currently the Group is in the tendering process to engage a transaction advisor and the tender is at the evaluation stage.

#### **Downstream Oil Trading Projects**

##### **a. Rehabilitation of Tank No. 8 and Strategic Petroleum Reserve (SPR)**

In the financial 2017/2018, the Corporation planned to rehabilitate Tank No. 8 existing within the TIPER premises. The target is to establish a Strategic Petroleum Reserve and conduct oil business in the near future. The plan during the accounting period was to procure a consultant for conducting feasibility study that will determine the possibility of rehabilitating the tank.

During the year under review, the Contractor and consultant for tank clean-up were procured and permits from OSHA and NEMC obtained.

Holding and maintaining the National Strategic Petroleum Reserve is one of role mandated to TPDC. During the financial year 2017/2018, the Group planned to start the process of procuring a supplier or strategic partner or enter into bilateral arrangement.

# **TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

## **REPORT OF THE DIRECTORS (CONTINUED)**

### **10. ONGOING AND FUTURE DEVELOPMENT PROJECTS (CONTINUED)**

#### **b. East Africa Crude Oil Pipeline (EACOP)**

During the financial year 2017/18, the Government Negotiation Team (GNT) including members from TPDC, planned to finalize contractual negotiations between countries and strategic investor(s) in the project and land acquisition for project construction (including compensation payments to the affected persons).

During the year under review, TPDC Group participated in the project development negotiations within the GNT and other technical aspects of the project. To this end, Front-End-Engineering-Design (FEED), including identification of final 30 meters right of way, was concluded. The ongoing project processes include procurements of a Consultant for Detailed Engineering Design and Construction supervision and Management services (EPCM). These procurements are expected to be awarded during the accounting period commencing July 2018. In preparation for a construction stage, areas for early works camps have been identified and proposal submitted to the Ministry of Lands, Housing and Human Settlements Development for submission to His Excellency President of the United Republic of Tanzania for his consent.

#### **c. TAZAMA Pipeline**

During the year under review, TPDC participated in several Stakeholders meetings including appraising the Inter-ministerial Technical Committee. The Corporation evaluated the TAZAMA report submitted to the Ministry of Energy for review. Also, Morogoro Municipal allocated to TPDC plots for fuel storage. Initial communications with Songwe region has started.



# TANZANIA PETROLEUM DEVELOPMENT CORPORATION

## REPORT OF THE DIRECTORS (CONTINUED)

### 11. KEY PERFORMANCE INDICATORS (KPIs) FOR THE YEAR 2017/2018

The Corporation attained the following key milestones in implementation of its activities for the year ended 30 June 2018;

| KPI                                         | Anticipated            | Actual          | Remarks                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|---------------------------------------------|------------------------|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Wells to be drilled onshore                 | 2                      | 0               | Kito-1 well was not drilled due to delays in obtaining site entry and campsite location permits. TPDC and Swala are planning to drill this well in the financial year 2018/2019.<br><br>Hammerkop-1 was not drilled due to Heritage shareholders significant concerns about a number of major unsolved matters including Helium rights. Major concerns arising from Heritage PSA and opinion of the special parliamentary committee to investigate oil and gas contracts with the view to renegotiate their terms. |
| Wells to be drilled offshore                | 1                      | 1               | Pilipili-1 exploration well was drilled successfully in Block 2 and discovered natural gas in the Late Miocene reservoir of approximately 290 BCF.                                                                                                                                                                                                                                                                                                                                                                 |
| Geological Fieldworks                       | 2                      | 2               | Two geological field were conducted successfully in two sedimentary basins i.e. Eyasi Wembere and Ruvuma basin.                                                                                                                                                                                                                                                                                                                                                                                                    |
| Seismic acquisition – 2D (Onshore)          | 1160 km and 306 sq. km | 135.1 km<br>0   | The acquisition of 2D in Ruvu Block stopped due rainfall in April 2018. Acquisition will resume in 2018/2019.<br>3D seismic West Songo Songo Block was deferred to the 2018/19 financial year.                                                                                                                                                                                                                                                                                                                     |
| Seismic acquisition – 3D (Offshore)         | 2500 sq.km             | 0 sq.km         | The acquisition of 3D seismic in Block 4/1B & 4/1C was not done due to the budget allocated was not enough. Acquisition of 600sq.km tender was announced but the allocated budget was not sufficient compared to the budget proposal submitted by bidders TPDC is planning to carry out 3D seismic acquisition in the financial year 2018/19. Therefore, tender will be re advertised.                                                                                                                             |
| Quantity processed and transported via NNGI | 33,396m scf            | 25,005m scf     | The shortfall on target of 8,391m scf resulted from some project earmarked to consume gas not completed within the year.                                                                                                                                                                                                                                                                                                                                                                                           |
| Gas Sales through NNGI (TZS)                | Tzs 452 billion        | Tzs 301 billion | The shortfall on target of Tzs 51 billion resulted from some project earmarked to consume gas not completed within the year.                                                                                                                                                                                                                                                                                                                                                                                       |



# **TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

## **REPORT OF THE DIRECTORS (CONTINUED)**

### **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 52,804 million (Corporation: Tzs 52,944 million) for the year ended 30 June 2018 (2017: Group incurred a net loss of Tzs 136,753 million and Corporation: Tzs 136,753 million). Since there is significant accumulated losses, the directors do not recommend payment of dividend (30 June 2017: 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 28,132 million to the oil and gas fund maintained at the Central Bank of Tanzania (2017: Tzs 7,946 million). Going forward, with potential developments in upstream operations, the Group remittances to the fund are expected to increase rapidly in the near future. These funds are government share of profit gas and royalty resulting from upstream operations in the gas producing fields at Mnazi bay and Songo Songo island.

### **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.

The Group 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**

Despite of notable improvements in revenue collection during the year, cash flow performance remained below expectation partly due to having large amounts of long-overdue gas sales revenue. These overdue sales are mainly attributable to major natural gas off-takers including TANESCO, Songas (T) Limited and PanAfrican Energy (T) Limited.

This situation continued to cause cash flow strains affecting Corporation investments and daily operations; reducing the Corporation's capacity to meet financial obligations; limiting the ability of TPDC to secure different forms of credits, guarantees and strategic investments necessary for Corporation's growth and; reducing the pace of the Corporation to achieve commercial independence. The Corporation has been working with the debtors - TANESCO, Songas (T) Limited and PanAfrican Energy (T) Limited and its key stakeholders including the Ministry of Energy (MoE), to improve debtor collection.

# **TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

## **REPORT OF THE DIRECTORS (CONTINUED)**

### **14. RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)**

#### **(ii) Credit Default Risk**

The natural gas infrastructure operated by TPDC continued to be substantially underutilized, although there has been good progress in natural gas connection to new industrial customers. Progressive underutilization of the natural gas infrastructure which was constructed using borrowed funds, may defeat revenue assumptions of the natural gas infrastructure project and affect revenue projections needed to repay large loan principal and interest over the project lifetime. The effects may be broad ranging from increased financial loss due to loan default fees and additional loan interests, reduced ability of TPDC to source external financing for project funding due to weak credit repayment history, damaged country and Corporation reputation among strategic partners and financiers both locally and internationally.

#### **(iii) Fund Raising Risk**

Lack of sufficient funds to finance operating and investing activities continued to be a challenge to the Group. The Corporation remained unable to actively participate in additional stakes in the discovery areas where it has contractual rights 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 position and performance continued to impede 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 Songo Songo, tank farm project and oil trading activities. Various options are being explored to manage this risk including investing in quick-revenue generating projects, seeking potential Government financial support and exploring viable partnerships with suitable investors.

#### **(iv) Foreign Exchange Risk**

Foreign currency loans and payables especially those related to large loan obligations such as natural gas infrastructure project (NNGIP) loan, continued to expose the Corporation to foreign currency exchange risk which could have material adverse impact on our earnings, cash flows and financial condition. Although most of the cashflows generated from TPDC's operations are in USD, The Group and Corporation is working on ways to manage uncontained risks by utilizing various hedging methods and exploring suitable risk management products available in the financial markets.

#### **(v) Operational Risk**

The broader economic and security significance as well as complex nature of core TPDC operations call for development and maintenance of an effective Business Continuity Management (BCM) System, to guarantee the quickest possible resumption of key/ activities in a case of a major operational disruption. The direct dependence on TPDC's natural gas supplies by major electricity generators, distributors and industries for their energy needs, demand for immediate and sufficient investment in BCM systems, which is presently lacking hence the risk. Prolonged service disruption could lead to possible legal action against TPDC by customers, higher overhead cost and damage TPDC's credibility and reputation. To properly manage this risk, the Corporation has set aside funds in the financial year 2018/19 budget, to start contingency plans development process.



# **TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

## **REPORT OF THE DIRECTORS (CONTINUED)**

### **14. RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)**

#### **(vi) Political, Legal and Regulatory Risks**

Developments in policy, legal and regulatory and general political environment remained a considerable risk on operations. Certain shifts in policies and directives could limit the ability of the Group to obtain financing and security guarantees hence weakening its position in negotiations and increase operational hindrances. This threat has been managed by stakeholder influence and active involvement of TPDC in policy review processes.

### **15. 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 52,804 Million incurred by the Group during the year (Corporation Tzs 52,944 Million) and net liability position of Tzs 375,136 Million (Corporation Tzs 375,123 Million) as at 30 June 2018 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.

### **16. 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 secure loans and/or engage strategic partners in development of its viable projects.

#### **c) Processing and Transmission Resources**

The Corporation owns Madimba and Songo Songo 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).

# **TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

## **REPORT OF THE DIRECTORS (CONTINUED)**

### **16. RESOURCES (CONTINUED)**

#### **d) Properties**

##### **(i) Land**

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

##### **(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.

#### **e) Gas reserves**

Following a number of discoveries in onshore and offshore blocks, the natural gas reserves in Tanzania have reached 57.54 trillion cubic feet. The reserves are expected to rise further as a result of the ongoing exploration activities in the country. For the period under review, there were three onshore gas producing fields located at Mnazi bay, Songo Songo Island and Kiliwani North. TPDC has participating interest in Mnazi bay and Songo Songo gas fields.

### **17. 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.

### **18. EMPLOYEES' WELFARE**

#### **a. Management and employees relationship**

There is a well established Workers Council which facilitates 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.

#### **b. Training facilities/ training and development**

TPDC has a stable training and development program. 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 comprehensive. During the year ended 30 June 2018, a total of Tzs 1.25 billion was spent to cover for short and long courses both local and abroad as compared to Tzs1.34 billion spent in the year ended 30 June 2017.



# **TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

## **REPORT OF THE DIRECTORS (CONTINUED)**

### **18. EMPLOYEES' WELFARE (CONTINUED)**

#### **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 adheres to 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 ensures 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 1.17 billion (2017: Tzs 1.19 billion) as contributions to publicly administered Pension plans (i.e. PPF Pension Fund, National Social Security Fund (NSSF), Public Service Pension Fund (PSPF), Local Authority Pension Fund (LAPF) and Government Employees Pension 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 ended 30 June 2018, TPDC had 354 employees of which 282 (80%) were male and 72 (20%) were female.

### **19. HIV/AIDS AWARENESS PROGRAMME**

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 2017/2018, TPDC conducted an awareness program to the Management and its staff to bring awareness to the employees on HIV/AIDS related issues.

### **20. RELATED PARTY TRANSACTIONS**

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

# TANZANIA PETROLEUM DEVELOPMENT CORPORATION

## REPORT OF THE DIRECTORS (CONTINUED)

### 21. 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.

### 22. 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 2018 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:

| S/N | Intervention Areas | Program/project Supported                                                                                                   | Beneficiaries                                      | Program/project Cost/Amount donated (Tzs) |
|-----|--------------------|-----------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|-------------------------------------------|
| 1   | Education          | Construction of toilet for students with special needs Shangani Primary School.                                             | Shangani Primary                                   | 12,000,000                                |
| 2   | Health             | Contribution on construction of Health Centre, Nakayaya Ward, Tunduru                                                       | Tunduru District, Ruvuma                           | 25,000,000                                |
| 11  | Health             | Contribute on the world heart day from the Heart Foundation of Tanzania                                                     | Dar es salaam                                      | 25,000,000                                |
| 12  | Health             | Purchase of special Oil Skin for Albino Ndugumbi Women Group.                                                               | Dar es salaam                                      | 500,000                                   |
| 13  | Good governance    | CSR for the purpose of describing the opportunities of Tanzania Industrialization from Public Relation Society of Tanzania. | Public Relation Society of Tanzania. Dar es Salaam | 2,500,000                                 |



# TANZANIA PETROLEUM DEVELOPMENT CORPORATION

## REPORT OF THE DIRECTORS (CONTINUED)

### 22. CORPORATE SOCIAL RESPONSIBILITY (CSR) (CONTINUED)

| S/N          | Intervention Areas | Program/project Supported                                                                      | Beneficiaries | Program/project Cost/Amount donated (Tzs) |
|--------------|--------------------|------------------------------------------------------------------------------------------------|---------------|-------------------------------------------|
| 14           | Good governance    | Achieving peak of Uhuru Torch race for National Governments of Zanzibar.                       | Zanzibar      | 500,000                                   |
| 15           | Education          | Materials of the House of Teachers of Secondary School Songo.                                  | Songo Songo   | 4,613,100                                 |
| 16           | Health             | Construction of the clinic in the village of Vuga - Kidundai Lushoto district in Tanga Region. | Lushoto-Tanga | 4,000,000                                 |
| 17           | Health             | Construction of Muheza District Hospital, Tanga Region                                         | Muheza-Tanga  | 3,000,000                                 |
| 18           | Sport and games    | Sport gears for Songo Songo football team                                                      | Songo Songo   | 3,720,000                                 |
| 19           | Health             | Construction of Health centre in the village of Mngoji, Mtwara Region                          | Mngoji-Mtwara | 21,151,500                                |
| 20           | Education          | Construction of toilets in primary school Kivinje Kilwa District in Lindi Region.              | Kilwa         | 16,000,000                                |
| 21           | Water              | Water distribution project to Songo Songo secondary school.                                    | Songo Songo   | 24,999,922                                |
| <b>TOTAL</b> |                    |                                                                                                |               | <b>142,984,522</b>                        |

Total donations made during the year amounted to Tzs **143 million** (June 2017: Tzs 116 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.

# TANZANIA PETROLEUM DEVELOPMENT CORPORATION

## REPORT OF THE DIRECTORS (CONTINUED)

### 22. CORPORATE SOCIAL RESPONSIBILITY (CSR) (CONTINUED)

#### Corporate image and reputation (Continued)

By understanding the strategic role of journalists, a number of oil and gas workshops were carried out in 19 regions with the aim of building understanding of the sector and empowering reporters to report oil and gas news accurately. Along the same line of strategic use of media, 13 articles were published in various newspapers, 11 Television stations and 6 radio programs aired that aimed at enhancing understanding of the sector and publicizing TPDC activities.

### 23. GAS RESERVES

#### a. Recoverable Gas

Two fields are currently under production i.e. Songo Songo and Mnazi Bay; The Government of Tanzania and TPDC entered in the Production Sharing Agreements (PSAs) with Pan African Energy Tanzania Limited and Maurel & Prom (M&P) for exploration and production of oil and gas over Songo Songo and Mnazi Bay blocks respectively. TPDC opted to participate in the Joint Operating agreement (JOA) for Mnazi bay PSA, but it does not participate in the assets of Songo Songo PSA operated by Pan African Energy. The natural gas reserves at Songo Songo 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:

| Confidence Level | Songo Songo<br>Billion Cubic Feet | Mnazi Bay Billion<br>Cubic Feet |
|------------------|-----------------------------------|---------------------------------|
| P 10             | 975.1                             | 829.6                           |
| P 50             | 848.1                             | 552.3                           |
| P 90             | 723.0                             | 304.7                           |

Up to the end of period under review, gas discoveries i.e. *Gas Initial in Place (GIIP)* for both offshore and onshore fields is 57.54 TCF of which 47.54 TCF is offshore and 10 TCF is 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 from these reserves are remitted by TPDC to the oil and gas fund maintained at the Central Bank of Tanzania as per provisions of the Oil and Gas Revenue Management Act, 2015.



# TANZANIA PETROLEUM DEVELOPMENT CORPORATION

## REPORT OF THE DIRECTORS (CONTINUED)

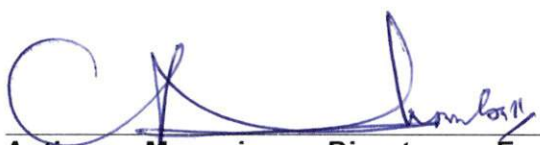
### 24. AUDITORS

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 has been authorised to carry out the Audit of Tanzania Petroleum Development Corporation for the year ended 30 June 2018 on behalf of the Controller and Auditor General to assist the CAG in forming his audit opinion.

#### BY ORDER OF THE BOARD

  
Chairman: Prof. Sufian H. Bukurura

13-02-2019  
Date

  
Acting Managing Director: Eng.  
Kapuulya A. Musomba

13 Feb 2019  
Date

# **TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2018**

The 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 2018, and the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year, 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 (IFRS) and 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.

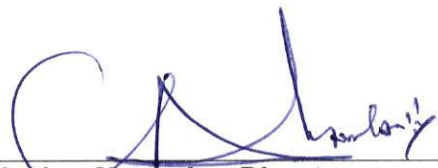
The Directors have made an assessment of the Corporation's and Group's ability to continue as going concern and have disclosed the facts under note 6 of these financial statements. They have no reason to believe that the business will not be a going concern in the year ahead.

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 13<sup>th</sup> February 2019 and signed on its behalf by:

  
Chairman: Prof. Sufian H. Bukurura

  
Acting Managing Director:  
Eng. Kapuulya A. Musomba



## TANZANIA PETROLEUM DEVELOPMENT CORPORATION

### DECLARATION OF HEAD OF FINANCE FOR YEAR ENDED 30 JUNE 2018

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 2018 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: .....

13<sup>th</sup> February 2019

# **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**

### ***Introduction***

I have audited the consolidated and separate financial statements of Tanzania Petroleum Development Corporation ("the Group and Corporation"), set out on pages 25 to 91 which comprise the statements of financial position as at 30 June 2018, 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.

### ***Opinion***

In my opinion, the accompanying consolidated and separate financial statements present fairly the consolidated and separate financial position of Tanzania Petroleum Development Corporation as at 30 June 2018, and of its consolidated and separate financial performance and its 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 of Supreme Audit Institutions (ISSAIs). 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. 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 Report of the Directors, the Statement of Directors' Responsibilities and Declaration of 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 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  
(CONTINUED)**

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 auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs 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 ISSAIs, 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. I am 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  
(CONTINUED)**

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 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.



Prof. Mussa Juma Assad,  
**CONTROLLER AND AUDITOR GENERAL**

National Audit Office  
**DAR ES SALAAM .**

**15<sup>th</sup> March 2019**



**TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

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

**FOR THE YEAR ENDED 30 JUNE 2018**

|                                              | Note | Consolidated    |                  | Separate        |                  |
|----------------------------------------------|------|-----------------|------------------|-----------------|------------------|
|                                              |      | 2018<br>Tzs 'm  | 2017<br>Tzs 'm   | 2018<br>Tzs 'm  | 2017<br>Tzs 'm   |
| Revenue                                      | 10   | 369,477         | 256,366          | 369,477         | 256,366          |
| Cost of sales                                | 11   | (304,807)       | (233,793)        | (304,807)       | (233,793)        |
| <b>Gross profit</b>                          |      | <b>64,670</b>   | <b>22,573</b>    | <b>64,670</b>   | <b>22,573</b>    |
| Other income                                 | 12   | 25,972          | 17,395           | 25,972          | 17,395           |
| Operating expenses                           | 13   | (25,398)        | (36,266)         | (25,538)        | (36,266)         |
| <b>Operating profit</b>                      |      | <b>65,244</b>   | <b>3,702</b>     | <b>65,104</b>   | <b>3,702</b>     |
| Finance cost                                 | 14   | (144,602)       | (157,203)        | (144,602)       | (157,203)        |
| Share of profit from associate               | 21   | 14,815          | 16,748           | 14,815          | 16,748           |
| <b>Operating loss before tax</b>             |      | <b>(64,543)</b> | <b>(136,753)</b> | <b>(64,683)</b> | <b>(136,753)</b> |
| Taxation                                     | 15   | 11,739          | -                | 11,739          | -                |
| <b>Loss for the year</b>                     |      | <b>(52,804)</b> | <b>(136,753)</b> | <b>(52,944)</b> | <b>(136,753)</b> |
| Other comprehensive income                   |      | -               | -                | -               | -                |
| <b>Total comprehensive loss for the year</b> |      | <b>(52,804)</b> | <b>(136,753)</b> | <b>(52,944)</b> | <b>(136,753)</b> |

The notes on pages 29 to 91 are an integral part of these financial statements.



**TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

**CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION  
AS AT 30 JUNE 2018**

|                                     | Note  | Consolidated     |                  | Separate         |                  |
|-------------------------------------|-------|------------------|------------------|------------------|------------------|
|                                     |       | 2018             | 2017             | 2018             | 2017             |
|                                     |       | Tzs 'm           | Tzs 'm           | Tzs 'm           | Tzs 'm           |
| <b>Assets</b>                       |       |                  |                  |                  |                  |
| <b>Non-current assets</b>           |       |                  |                  |                  |                  |
| Property, plant and equipment       | 16    | 2,249,421        | 2,331,275        | 2,249,421        | 2,331,275        |
| Natural gas properties              | 17    | 61,378           | 63,313           | 61,378           | 63,313           |
| Investment properties               | 18    | 1,682            | 1,682            | 1,682            | 1,682            |
| Intangible assets                   | 19    | 13,438           | 14,263           | 13,438           | 14,263           |
| Investment in subsidiaries          | 20    | -                | -                | 6,500            | 6,500            |
| Investment in associate             | 21    | 49,246           | 51,836           | 49,246           | 51,836           |
| Other investments                   | 22    | -                | -                | -                | -                |
| Escrow funds                        | 23    | 136,713          | 134,568          | 136,713          | 134,568          |
|                                     |       | <b>2,511,878</b> | <b>2,596,937</b> | <b>2,518,378</b> | <b>2,603,437</b> |
| <b>Current assets</b>               |       |                  |                  |                  |                  |
| Inventories                         | 25    | 2,465            | 5,282            | 2,465            | 5,282            |
| Trade and other receivables         | 26    | 606,101          | 437,031          | 606,103          | 437,031          |
| Cash and cash equivalents           | 27    | 49,312           | 16,919           | 49,310           | 16,919           |
|                                     |       | <b>657,878</b>   | <b>459,232</b>   | <b>657,878</b>   | <b>459,232</b>   |
| <b>Total assets</b>                 |       | <b>3,169,756</b> | <b>3,056,169</b> | <b>3,176,256</b> | <b>3,062,669</b> |
| <b>Equity and Liabilities</b>       |       |                  |                  |                  |                  |
| <b>Equity</b>                       |       |                  |                  |                  |                  |
| 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                   |       | (701,197)        | (648,393)        | (701,184)        | (648,240)        |
| <b>Total equity</b>                 |       | <b>(375,136)</b> | <b>(322,332)</b> | <b>(375,123)</b> | <b>(322,179)</b> |
| <b>Liabilities</b>                  |       |                  |                  |                  |                  |
| <b>Non-current liabilities</b>      |       |                  |                  |                  |                  |
| Deferred tax liability              | 24    | 27,017           | 27,017           | 27,017           | 27,017           |
| Carried interest liability          | 29    | -                | 52,177           | -                | 52,177           |
| Borrowings                          | 30    | 2,676,947        | 2,634,099        | 2,676,947        | 2,634,099        |
| Government grant                    | 31    | 30,252           | 30,746           | 30,252           | 30,746           |
| Asset retirement obligation         | 32    | 3,434            | 3,102            | 3,434            | 3,102            |
|                                     |       | <b>2,737,650</b> | <b>2,747,141</b> | <b>2,737,650</b> | <b>2,747,141</b> |
| <b>Current liabilities</b>          |       |                  |                  |                  |                  |
| Borrowings                          | 30    | 423,917          | 327,029          | 423,917          | 327,029          |
| Carried interest liability          | 29    | 39,841           | 23,550           | 39,841           | 23,550           |
| Trade and other payables            | 33    | 321,610          | 260,526          | 328,097          | 266,873          |
| Income tax payable                  |       | 21,874           | 20,255           | 21,874           | 20,255           |
|                                     |       | <b>807,242</b>   | <b>631,360</b>   | <b>813,729</b>   | <b>637,707</b>   |
| <b>Total liabilities</b>            |       | <b>3,544,892</b> | <b>3,378,501</b> | <b>3,551,379</b> | <b>3,384,848</b> |
| <b>Total equity and liabilities</b> |       | <b>3,169,756</b> | <b>3,056,169</b> | <b>3,176,256</b> | <b>3,062,669</b> |

The consolidated and separate financial statements on pages 25 to 91 were approved by the Board of Directors on 13<sup>th</sup> February 2019 and signed on its behalf by: -

Chairman: Prof. Sufian H. Bukurura

Acting Managing Director:  
Eng. Kapuulya A. Musomba

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

**CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION  
AS AT 30 JUNE 2018**

|                                     | Note  | Consolidated     |                  | Separate         |                  |
|-------------------------------------|-------|------------------|------------------|------------------|------------------|
|                                     |       | 2018             | 2017             | 2018             | 2017             |
| <b>Assets</b>                       |       | <b>Tzs 'm</b>    | <b>Tzs 'm</b>    | <b>Tzs 'm</b>    | <b>Tzs 'm</b>    |
| <b>Non-current assets</b>           |       |                  |                  |                  |                  |
| Property, plant and equipment       | 16    | 2,249,421        | 2,331,275        | 2,249,421        | 2,331,275        |
| Natural gas properties              | 17    | 61,378           | 63,313           | 61,378           | 63,313           |
| Investment properties               | 18    | 1,682            | 1,682            | 1,682            | 1,682            |
| Intangible assets                   | 19    | 13,438           | 14,263           | 13,438           | 14,263           |
| Investment in subsidiaries          | 20    | -                | -                | 6,500            | 6,500            |
| Investment in associate             | 21    | 49,246           | 51,836           | 49,246           | 51,836           |
| Other investments                   | 22    | -                | -                | -                | -                |
| Escrow funds                        | 23    | 136,713          | 134,568          | 136,713          | 134,568          |
|                                     |       | <b>2,511,878</b> | <b>2,596,937</b> | <b>2,518,378</b> | <b>2,603,437</b> |
| <b>Current assets</b>               |       |                  |                  |                  |                  |
| Inventories                         | 25    | 2,465            | 5,282            | 2,465            | 5,282            |
| Trade and other receivables         | 26    | 606,101          | 437,031          | 606,103          | 437,031          |
| Cash and cash equivalents           | 27    | 49,312           | 16,919           | 49,310           | 16,919           |
|                                     |       | <b>657,878</b>   | <b>459,232</b>   | <b>657,878</b>   | <b>459,232</b>   |
| <b>Total assets</b>                 |       | <b>3,169,756</b> | <b>3,056,169</b> | <b>3,176,256</b> | <b>3,062,669</b> |
| <b>Equity and Liabilities</b>       |       |                  |                  |                  |                  |
| <b>Equity</b>                       |       |                  |                  |                  |                  |
| 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                   |       | (701,197)        | (648,393)        | (701,184)        | (648,240)        |
| <b>Total equity</b>                 |       | <b>(375,136)</b> | <b>(322,332)</b> | <b>(375,123)</b> | <b>(322,179)</b> |
| <b>Liabilities</b>                  |       |                  |                  |                  |                  |
| <b>Non-current liabilities</b>      |       |                  |                  |                  |                  |
| Deferred tax liability              | 24    | 27,017           | 27,017           | 27,017           | 27,017           |
| Carried interest liability          | 29    | -                | 52,177           | -                | 52,177           |
| Borrowings                          | 30    | 2,676,947        | 2,634,099        | 2,676,947        | 2,634,099        |
| Government grant                    | 31    | 30,252           | 30,746           | 30,252           | 30,746           |
| Asset retirement obligation         | 32    | 3,434            | 3,102            | 3,434            | 3,102            |
|                                     |       | <b>2,737,650</b> | <b>2,747,141</b> | <b>2,737,650</b> | <b>2,747,141</b> |
| <b>Current liabilities</b>          |       |                  |                  |                  |                  |
| Borrowings                          | 30    | 423,917          | 327,029          | 423,917          | 327,029          |
| Carried interest liability          | 29    | 39,841           | 23,550           | 39,841           | 23,550           |
| Trade and other payables            | 33    | 321,610          | 260,526          | 328,097          | 266,873          |
| Income tax payable                  |       | 21,874           | 20,255           | 21,874           | 20,255           |
|                                     |       | <b>807,242</b>   | <b>631,360</b>   | <b>813,729</b>   | <b>637,707</b>   |
| <b>Total liabilities</b>            |       | <b>3,544,892</b> | <b>3,378,501</b> | <b>3,551,379</b> | <b>3,384,848</b> |
| <b>Total equity and liabilities</b> |       | <b>3,169,756</b> | <b>3,056,169</b> | <b>3,176,256</b> | <b>3,062,669</b> |

The consolidated and separate financial statements on pages 25 to 91 were approved by the Board of Directors on 13<sup>th</sup> February 2019 and signed on its behalf by: -

  
Chairman: Prof. Sufian H. Bukurura

  
Acting Managing Director:  
Eng. Kapuulya A. Musomba



**TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

**CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2018**

| <b>Consolidated</b>               | <b>Share<br/>capital<br/>Tzs 'm</b> | <b>Equity<br/>contribution<br/>government<br/>Tzs 'm</b> | <b>Revaluation<br/>reserve<br/>Tzs 'm</b> | <b>Retained<br/>earnings<br/>Tzs 'm</b> | <b>Total<br/>Tzs 'm</b> |
|-----------------------------------|-------------------------------------|----------------------------------------------------------|-------------------------------------------|-----------------------------------------|-------------------------|
| Balance at 1 July 2016            | 2,208                               | 184,139                                                  | 139,714                                   | (511,640)                               | (185,579)               |
| <b>Total comprehensive income</b> |                                     |                                                          |                                           |                                         |                         |
| Loss for the year                 | -                                   | -                                                        | -                                         | (136,753)                               | (136,753)               |
| Other comprehensive income        | -                                   | -                                                        | -                                         | -                                       | -                       |
| <b>Balance at 30 June 2017</b>    | <b>2,208</b>                        | <b>184,139</b>                                           | <b>139,714</b>                            | <b>(648,393)</b>                        | <b>(322,332)</b>        |
| At 1 July 2017                    | 2,208                               | 184,139                                                  | 139,714                                   | (648,393)                               | (322,332)               |
| <b>Total comprehensive income</b> |                                     |                                                          |                                           |                                         |                         |
| Loss for the year                 |                                     |                                                          |                                           | (52,804)                                | (52,804)                |
| Other comprehensive income        | -                                   | -                                                        | -                                         | -                                       | -                       |
| <b>Balance at 30 June 2018</b>    | <b>2,208</b>                        | <b>184,139</b>                                           | <b>139,714</b>                            | <b>(701,197)</b>                        | <b>(375,136)</b>        |

| <b>Separate</b>                   | <b>Share<br/>capital<br/>Tzs 'm</b> | <b>Equity<br/>contribution<br/>government<br/>Tzs 'm</b> | <b>Revaluation<br/>reserve<br/>Tzs 'm</b> | <b>Retained<br/>earnings<br/>Tzs 'm</b> | <b>Total<br/>Tzs 'm</b> |
|-----------------------------------|-------------------------------------|----------------------------------------------------------|-------------------------------------------|-----------------------------------------|-------------------------|
| Balance at 1 July 2016            | 2,208                               | 184,139                                                  | 139,714                                   | (511,487)                               | (185,426)               |
| <b>Total comprehensive income</b> |                                     |                                                          |                                           |                                         |                         |
| Loss for the year                 | -                                   | -                                                        | -                                         | (136,753)                               | (136,753)               |
| Other comprehensive income        | -                                   | -                                                        | -                                         | -                                       | -                       |
| <b>Balance at 30 June 2017</b>    | <b>2,208</b>                        | <b>184,139</b>                                           | <b>139,714</b>                            | <b>(648,240)</b>                        | <b>(322,179)</b>        |
| At 1 July 2017                    | 2,208                               | 184,139                                                  | 139,714                                   | (648,240)                               | (322,179)               |
| <b>Total comprehensive income</b> |                                     |                                                          |                                           |                                         |                         |
| Loss for the year                 |                                     |                                                          |                                           | (52,944)                                | (52,944)                |
| Other comprehensive income        | -                                   | -                                                        | -                                         | -                                       | -                       |
| <b>Balance at 30 June 2018</b>    | <b>2,208</b>                        | <b>184,139</b>                                           | <b>139,714</b>                            | <b>(701,184)</b>                        | <b>(375,123)</b>        |

The notes on pages 29 to 91 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 2018**

|                                                                 | Note | Consolidated   |                 | Separate       |                 |
|-----------------------------------------------------------------|------|----------------|-----------------|----------------|-----------------|
|                                                                 |      | 2018<br>Tzs 'm | 2017<br>Tzs 'm  | 2018<br>Tzs 'm | 2017<br>Tzs 'm  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |      |                |                 |                |                 |
| Cash generated from / (used in) operating activities            | 35   | 22,330         | (31,027)        | 22,328         | (31,027)        |
| Interest paid                                                   |      | -              | (5,459)         | -              | (5,459)         |
| Tax paid                                                        |      | (2,732)        | -               | (2,732)        | -               |
| <b>Net cash generated from / (used in) operating activities</b> |      | <b>19,598</b>  | <b>(36,486)</b> | <b>19,596</b>  | <b>(36,486)</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |      |                |                 |                |                 |
| Acquisition of property, plant & equipment                      |      | (2,828)        | (5,088)         | (2,828)        | (5,088)         |
| Proceeds from disposal of assets                                |      | 271            | -               | 271            | -               |
| Acquisition of intangible assets                                |      | (28)           | (5,429)         | (28)           | (5,429)         |
| Additions to natural gas properties                             |      | (1,981)        | (1,585)         | (1,981)        | (1,585)         |
| Dividends received                                              |      | 17,405         | 8,486           | 17,405         | 8,486           |
| <b>Net cash generated from / (used in) investing activities</b> |      | <b>12,839</b>  | <b>(3,616)</b>  | <b>12,839</b>  | <b>(3,616)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                     |      |                |                 |                |                 |
| Escrow funds                                                    |      | (44)           | -               | (44)           | -               |
| Proceeds from borrowings                                        |      | -              | 26,764          | -              | 26,764          |
| <b>Net cash (used in) / generated from financing activities</b> |      | <b>(44)</b>    | <b>26,764</b>   | <b>(44)</b>    | <b>26,764</b>   |
| <b>Net increase / (decrease) in cash and cash equivalents</b>   |      | <b>32,393</b>  | <b>(13,338)</b> | <b>32,391</b>  | <b>(13,338)</b> |
| <b>Movement in cash and cash equivalents</b>                    |      |                |                 |                |                 |
| Cash and cash equivalents at beginning of year                  |      | 16,919         | 30,257          | 16,919         | 30,257          |
| Increase/(decrease) during the year                             |      | 32,393         | (13,338)        | 32,391         | (13,338)        |
| <b>Cash and cash equivalents at end of year</b>                 |      | <b>49,312</b>  | <b>16,919</b>   | <b>49,310</b>  | <b>16,919</b>   |

**Significant non-cash transactions**

Significant non-cash transaction which is not included under financing activity is as follows:

|                                        | Consolidated   |                | Separate       |                |
|----------------------------------------|----------------|----------------|----------------|----------------|
|                                        | 2018<br>Tzs 'm | 2017<br>Tzs 'm | 2018<br>Tzs 'm | 2017<br>Tzs 'm |
| Decrease in carried interest liability | (40,420)       | (15,476)       | (40,420)       | (15,476)       |

The notes on pages 29 to 91 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 2018**

#### **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 2018 comprise the Corporation and its subsidiaries GASCO and TANOIL (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, 1992.

The financial statements were authorised for issue by the Corporation's Board of Directors on 13<sup>th</sup> February 2019.

##### **Consolidation**

The Corporation owns 100% of the ordinary share capital of GASCO and TANOIL. The consolidated financial statements include the financial statements of Tanzania Petroleum Development Corporation and its subsidiaries all made up to 30 June 2018. 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 2018 (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. Certain comparative amounts have been reclassified to conform to the current year's presentation.

##### **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. Investment in subsidiaries are accounted for at cost in the separate financial statements.

###### **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 Group and Corporation's interests in equity-accounted investees comprise interests in associates.

An associate is an entity in which the Group and Corporation have 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 Group's and 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 2018 (CONTINUED)**

#### **5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **c) Joint operations and similar arrangements and joint ventures**

A joint arrangement is present where Group and Corporation hold a long-term interest which is jointly controlled by Group and Corporation 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 and Corporation in particular consider 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 and Corporation have 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 2018 (CONTINUED)**

#### **5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **d) Revenue (Continued)**

###### **PSA Revenue**

Revenues from the production of gas in which the Group and Corporation share an interest with other companies are recognised based on the Group's and Corporation'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 government shares are remitted to the government and downstream portion retained by the Group and Corporation as per the Oil and Gas Revenue Management Act, 2015 and provision of respective PSAs. Net PSA revenue for Songo Songo is arrived after deducting the adjustment factor as provided by the respective PSA.

##### **e) Foreign currency translations**

Transactions in foreign currencies are translated to the functional currency (Tanzanian Shilling – (Tzs) at the exchange rates at the dates of 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. Foreign currency differences relating to trading activities are recognised under operating expenses.

##### **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 2018 (CONTINUED)

#### 5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### f) Property, Plant and Equipment (Continued)

The estimated useful lives and residual values of property, plant and equipment are reviewed on an annual basis, and changes 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 amounts do 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 department 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              | 2% -3.33%      |
| Computer hardware                 | 25%            |

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 2018 (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 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***

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 2018 (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 2018 (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 data.

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.



## **TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

### **NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)**

#### **5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **m) Asset retirement obligations (ARO) (Continued)**

An obligation may also crystallise during 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 and Corporation 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 2018 (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 2018 (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 tax 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 classify 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 and Corporation 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 and Corporation 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.

## **TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

### **NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)**

#### **5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **s) Financial instruments (Continued)**

Loans 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 and Corporation classify non-derivative financial liabilities into other financial liabilities category. The Group's and Corporation'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 and Corporation 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 derecognise 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 and Corporation are recognised as a separate asset or liability.

The Group and Corporation derecognise 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 and Corporation currently have 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 2018 (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 and Corporation comprise of borrowing that have been issued at below market rates. The liability component is initially recognised at fair value and the equity 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.

##### **u) Impairment**

###### **i. Non-derivative financial assets**

Financial assets not classified at fair value through profit or loss, including 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 debtor;
- restructuring of an amount due to the Group and Corporation on terms that the Group and Corporation 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
- observable data indicating that there is a measurable decrease in the expected cash flows from a Group and Corporation of financial assets.

## TANZANIA PETROLEUM DEVELOPMENT CORPORATION

### NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

#### 5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### u) Impairment (Continued)

###### i. Non-derivative financial assets (Continued)

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 and Corporation consider 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 and Corporation use 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 and Corporation consider 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 2018 (CONTINUED)**

#### **5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **u) 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 had been recognised.

##### **v) Cash and cash equivalents**

Cash and cash equivalents include cash in hand and cash at bank. For the purpose of cash flows bank overdrafts that are repayable on demand 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 2018 (CONTINUED)**

#### **5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **w) Escrow funds**

The amount represent funds deposited into the Escrow Accounts opened at a 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.

##### **x) 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.

##### **y) 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.

##### **z) Government grant and assistance**

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 2018 (CONTINUED)**

#### **5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **z) Government grant and assistance (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.

##### **aa) 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, amnesty reversals and other miscellaneous income.

##### **bb) Finance cost**

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

##### **cc) 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.

##### **dd) 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.

##### **ee) The Group and Corporation have consistently applied the its accounting policies to all periods presented in these consolidated and separate financial statements,**

#### **6. GOING CONCERN**

The Group has incurred a net loss of Tzs 52,804 million (Corporation: Tzs 52,944 million) for the year ended 30 June 2018 (2017: Group incurred a net loss of Tzs 136,753 million and Corporation: Tzs 136,753 million). As at the reporting date the Group's liabilities exceeded its assets by Tzs 375,136 million (Corporation: Tzs 375,123 million) (2017: Group's total liabilities exceeded assets by Tzs 322,332 million and Corporation: Tzs 322,179 million).

## **TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

### **NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)**

#### **6. GOING CONCERN (CONTINUED)**

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

As stated in Note 30 (a), (b) and (c) to these financial statements, the Group and Corporation have defaulted in paying the interest for the loan which was received from TIB and 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 and Corporation 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 the 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 and Corporation 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 and Corporation.

The directors are of the opinion that the Government acknowledges the Group's and Corporation's financial difficulties and it will not recall its on-lent loan that the Group and Corporation have 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. Furthermore the Group and Corporation are renegotiating the terms of TIB loan, this is expected to reduce the interest payable and waive the penalties. After this is completed the Group and Corporation are expecting to start making repayments of amounts owed as they fall due.

In view of the above, the directors of the Corporation believe that the Group and Corporation 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, AMENDMENTS 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 2018 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.

| <b>New standards, amendments and interpretations</b>    | <b>Effective for annual periods<br/>beginning on or after</b> |
|---------------------------------------------------------|---------------------------------------------------------------|
| IFRS 9 Financial Instruments                            | 1 January 2018                                                |
| RS 15 Revenue from Contracts with Customers             | 1 January 2018                                                |
| IFRS 16 Leases                                          | 1 January 2019                                                |
| Transfer of investment property (Amendment to IAS 40)   | 1 January 2018                                                |
| Foreign currency transactions and advance consideration | 1 January 2018                                                |
| Uncertainty over income tax treatment (IFRIC 23)        | 1 January 2019                                                |



## **TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

### **NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (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 2018 (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 include 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 July 2018.

Given that majority of the receivable is from a Government debtor, TANESCO, with a very minimal credit risk then the potential impact of adopting this standard is not expected to be significant for this debtor. However, there may be a significant impact on allowance for doubtful debts relating to other trade debtors given the past credit history. The likely impact of the standard is still in the process of being finalized including the transitional adjustments for financial year 2018/19

##### **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



## **TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

### **NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)**

revenue recognition is deferred until the return period lapses or a reasonable estimate of returns can be made.

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

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

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 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**

When the group acts in a capacity of agent in certain transactions, commissions is earned.

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 July 2018. As a result, the Group and Corporation will not apply the requirements of IFRS 15 to the comparative period presented.

This new standard will most likely not have a significant impact on the Group given the business model of the Group. The Group's revenue arises mainly from sale of natural gas to customers. The gas is generally sold on their own in separately identified contracts with customers. The standard does potentially include a possible change in the timing of when revenue is recognised and the amount of revenue recognised. The Group is still performing a more detailed assessment of the impact of this standard on its financial statements for the 2018/19 year.

##### **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.

## **TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

### **NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)**

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

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

##### **C. IFRS 16 LEASES (CONTINUED)**

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.

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 July 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 July 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 July 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.

##### **D. TRANSFER OF INVESTMENT PROPERTY (AMENDMENT TO IAS 40)**

The IASB has amended the requirements in this standard on when an entity should transfer a property asset to, or from investment property. Under this requirement, a property is transferred when and only when there is an evidence of an actual change in its use. A change in management intention alone does not support a transfer. Effective for periods beginning on or after 1 January 2018.



## **TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

### **NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)**

No material impact is expected to the Group's and Corporation's financial statements on implementation of this amendment when it becomes effective.

#### **E. FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION (IFRIC 22)**

IFRIC 22 clarifies the exchange rate to be used for foreign currency transactions involving an advance payment or receipt. The transaction date is the date on which the entity initially

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

#### **E. FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION (IFRIC 22) (CONTINUED)**

recognises the prepayment or deferred income arising from the advance consideration. Effective for periods beginning on or after 1 January 2018.

No material impact is expected to the Group's and Corporation's financial statements on implementation of this interpretation when it becomes effective.

#### **F. UNCERTAINTY OVER INCOME TAX TREATMENTS (IFRIC 23)**

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. The key test is whether it is probable that the tax authority will accept the entity's chosen tax treatment. Effective for periods beginning on or after 1 January 2019.

No material impact is expected to the Group's and Corporation's financial statements on implementation of this interpretation when it becomes effective.

**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 and Corporation'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.

## **TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

### **NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)**

#### **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

#### **8. USE OF JUDGMENTS AND ESTIMATES (CONTINUED)**

##### **i. Key sources of estimation uncertainty (Continued)**

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 are 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 and Corporation's results are influenced by the level of production, which in the short term may be influenced by, for instance maintenance programmes or market bottleneck. 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.

##### **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



## **TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

### **NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)**

party has evaluated Group's and Corporation'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.

#### **8. USE OF JUDGMENTS AND ESTIMATES (CONTINUED)**

##### **i. Key sources of estimation uncertainty (Continued)**

##### **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 the 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 and Corporation's judgement of future economic conditions, from projects in operation or justified for development.

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 have 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



## **TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

### **NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)**

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 have significant obligations to decommission and remove onshore and offshore installations at the end of the production period. It is difficult to estimate the costs

### **8. USE OF JUDGMENTS AND ESTIMATES (CONTINUED)**

#### **i. Key sources of estimation uncertainty (Continued)**

##### **d. Asset retirement obligations (Continued)**

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 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**



## TANZANIA PETROLEUM DEVELOPMENT CORPORATION

### NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

A number of Group's and Corporation's accounting policies and disclosure require the measurement of fair values. Management has 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.

#### 9. USE OF JUDGMENTS AND ESTIMATES (CONTINUED)

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

The Group and Corporation have 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<br>amount<br>Tzs 'm | Fair<br>value<br>Tzs 'm | Level 1<br>Tzs 'm | Level 2<br>Tzs 'm | Level 3<br>Tzs 'm | Total<br>Tzs 'm |
|-----------------------------------|------------------------------|-------------------------|-------------------|-------------------|-------------------|-----------------|
| Available for sale<br>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  
FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)**

**9. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT**

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

**Financial instruments at amortized cost**

| <b>Consolidated</b>                                     | <b>Carrying<br/>amounts<br/>2018<br/>Tzs 'm</b> | <b>Carrying<br/>amounts<br/>2017<br/>Tzs 'm</b> |
|---------------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| <b>Financial assets not measured at fair value</b>      |                                                 |                                                 |
| Trade and other receivables                             | 543,954                                         | 377,639                                         |
| Escrow funds                                            | 136,713                                         | 134,568                                         |
| Cash and cash equivalents                               | 49,312                                          | 16,919                                          |
|                                                         | <b>729,979</b>                                  | <b>529,126</b>                                  |
| <b>Financial liabilities not measured at fair value</b> |                                                 |                                                 |
| Borrowings                                              | (3,100,864)                                     | (2,961,128)                                     |
| Trade and other payables*                               | (314,811)                                       | (236,733)                                       |
| Carried interest liability                              | (39,841)                                        | (75,727)                                        |
|                                                         | <b>(3,455,516)</b>                              | <b>(3,273,588)</b>                              |

\*these exclude VAT and payroll liabilities

**Financial instruments at amortized cost**

| <b>Separate</b>                                         | <b>Carrying<br/>amounts<br/>2018<br/>Tzs 'm</b> | <b>Carrying<br/>amounts<br/>2017<br/>Tzs 'm</b> |
|---------------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| <b>Financial assets not measured at fair value</b>      |                                                 |                                                 |
| Trade and other receivables                             | 543,956                                         | 377,639                                         |
| Escrow funds                                            | 136,713                                         | 134,568                                         |
| Cash and cash equivalents                               | 49,310                                          | 16,919                                          |
|                                                         | <b>729,979</b>                                  | <b>529,126</b>                                  |
| <b>Financial liabilities not measured at fair value</b> |                                                 |                                                 |
| Borrowings                                              | (3,100,864)                                     | (2,961,128)                                     |
| Trade and other payables*                               | (321,298)                                       | (243,080)                                       |
| Carried Interest liability                              | (39,841)                                        | (75,727)                                        |
|                                                         | <b>(3,462,003)</b>                              | <b>(3,279,935)</b>                              |

\*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 the fair values. Borrowing and carried interest liability have interest or Imputed interest approximate 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 2018 (CONTINUED)**

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

##### **(b) Financial risk management**

The Group and Corporation have 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 and Corporation's risk management policies are established to identify and analyse the risks faced by the Group and Corporation, 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 and Corporation, through their 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 and Corporation's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group and Corporation. The Group's and Corporation'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 and Corporation'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 and Corporation's objectives, policies and processes for measuring and managing risk, and the Group's and Corporation'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 and Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's and Corporation's trade and other receivables.

# TANZANIA PETROLEUM DEVELOPMENT CORPORATION

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

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

#### (b) 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 (TR) and TANESCO to ensure gas sales proceeds are paid timeously. The Group and Corporation have 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       |                |
|---------------------------|----------------|----------------|----------------|----------------|
|                           | 2018           | 2017           | 2018           | 2017           |
|                           | Tzs 'm         | Tzs 'm         | Tzs 'm         | Tzs 'm         |
| Cash and cash equivalents | 49,312         | 16,919         | 49,310         | 16,919         |
| Trade receivables         | 543,954        | 377,639        | 543,956        | 377,639        |
| Escrow funds              | 136,713        | 134,568        | 136,713        | 134,568        |
|                           | <b>729,979</b> | <b>529,126</b> | <b>729,979</b> | <b>529,126</b> |

No collateral is held for any of the above assets. Analysis of trade and other receivables is provided in Note 26. At 30 June 2018, the aging of trade receivables that were not impaired was as follows:

|                                   | Consolidated   |                | Separate       |                |
|-----------------------------------|----------------|----------------|----------------|----------------|
|                                   | 2018           | 2017           | 2018           | 2017           |
|                                   | Tzs 'm         | Tzs 'm         | Tzs 'm         | Tzs 'm         |
| Neither past due nor impaired     | 77,654         | 45,942         | 77,654         | 45,942         |
| <b>Past due but not impaired:</b> |                |                |                |                |
| - by up to 30 days                | 27,995         | 45,148         | 27,995         | 45,148         |
| - by 31 to 60 days                | 37,765         | 28,245         | 37,765         | 28,245         |
| - by 61 to 90 days                | 46,405         | 29,024         | 46,405         | 29,024         |
| - Over 91 days                    | 354,137        | 229,280        | 354,137        | 229,280        |
| <b>Total unimpaired</b>           | <b>543,956</b> | <b>377,639</b> | <b>543,956</b> | <b>377,639</b> |
| Impaired                          | 33,134         | 32,327         | 33,134         | 32,327         |
| <b>Gross debtors</b>              | <b>577,090</b> | <b>409,966</b> | <b>577,090</b> | <b>409,966</b> |



# TANZANIA PETROLEUM DEVELOPMENT CORPORATION

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (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:

|                                            | Consolidated  | Separate      |
|--------------------------------------------|---------------|---------------|
|                                            | Tzs 'm        | Tzs 'm        |
| Balance at 1 July 2016                     | 44,526        | 44,526        |
| Utilization during the year                | (13,332)      | (13,332)      |
| Impairment loss recognized during the year | 1,133         | 1,133         |
| <b>Balance at 30 June 2017</b>             | <b>32,327</b> | <b>32,327</b> |
| <br><b>Balance at 1 July 2017</b>          | <br>32,327    | <br>32,327    |
| Utilisation during the year                | -             | -             |
| Impairment loss recognized during the year | 807           | 807           |
| <b>Balance at 30 June 2018</b>             | <b>33,134</b> | <b>33,134</b> |

#### *Cash and cash equivalents*

The Group held cash and cash equivalents of Tzs 49,312 million (Corporation: Tzs 49,310 million) at 30 June 2018 (30 June 2017: Tzs 16,919 million for Group and Tzs 16,919 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 Group and 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 2018 and 2017, TPDC had amounts due from one customer totalling approximately Tzs 374,815 million and Tzs 227,367 million respectively representing 65% and 55%, respectively of its total trade receivable. This customer also accounted for approximately Tzs 301,390 million and Tzs 213,210 in revenue, representing 82% and 89% of total sales for TPDC for the years ended June 30 June 2018 and 2017, respectively. Subsequent to the year end to the date of this report collection from this customer amounted to Tzs 234,530 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 and Corporation'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 and Corporation's reputation.

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

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)**

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

**(b) 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.

| <b>Consolidated</b>                         | <b>Carrying<br/>amount</b> | <b>Contractual<br/>cash flows</b> | <b>Up to and<br/>Less than<br/>1 year</b> | <b>Between<br/>1 and up<br/>to 2 years</b> | <b>Between 2<br/>and up to<br/>5 years</b> | <b>Over 5<br/>years</b> |
|---------------------------------------------|----------------------------|-----------------------------------|-------------------------------------------|--------------------------------------------|--------------------------------------------|-------------------------|
|                                             | <b>Tzs 'm</b>              | <b>Tzs 'm</b>                     | <b>Tzs 'm</b>                             | <b>Tzs 'm</b>                              | <b>Tzs 'm</b>                              | <b>Tzs 'm</b>           |
| <b>Non-derivative financial liabilities</b> |                            |                                   |                                           |                                            |                                            |                         |
| <b>At 30 June 2018</b>                      |                            |                                   |                                           |                                            |                                            |                         |
| Borrowings                                  | 3,100,874                  | 3,100,874                         | 423,917                                   | 136,690                                    | 706,982                                    | 1,833,285               |
| Carried interest liability                  | 39,841                     | 39,841                            | 39,841                                    | -                                          | -                                          | -                       |
| Trade and other payables                    | 314,811                    | 314,811                           | 314,811                                   | -                                          | -                                          | -                       |
|                                             | <b>3,455,526</b>           | <b>3,455,526</b>                  | <b>778,569</b>                            | <b>136,690</b>                             | <b>706,982</b>                             | <b>1,833,285</b>        |

| <b>Separate</b>                             | <b>Carrying<br/>amount</b> | <b>Contractual<br/>cash flows</b> | <b>Up to and<br/>Less than<br/>1 year</b> | <b>Between<br/>1 and up<br/>to 2 years</b> | <b>Between 2<br/>and up to<br/>5 years</b> | <b>Over 5<br/>years</b> |
|---------------------------------------------|----------------------------|-----------------------------------|-------------------------------------------|--------------------------------------------|--------------------------------------------|-------------------------|
|                                             | <b>Tzs 'm</b>              | <b>Tzs 'm</b>                     | <b>Tzs 'm</b>                             | <b>Tzs 'm</b>                              | <b>Tzs 'm</b>                              | <b>Tzs 'm</b>           |
| <b>Non-derivative financial liabilities</b> |                            |                                   |                                           |                                            |                                            |                         |
| <b>At 30 June 2018</b>                      |                            |                                   |                                           |                                            |                                            |                         |
| Borrowings                                  | 3,100,874                  | 3,100,874                         | 423,917                                   | 136,690                                    | 706,982                                    | 1,833,285               |
| Carried interest liability                  | 39,841                     | 39,841                            | 39,841                                    | -                                          | -                                          | -                       |
| Trade and other payables                    | 321,298                    | 321,298                           | 321,298                                   | -                                          | -                                          | -                       |
|                                             | <b>3,462,013</b>           | <b>3,462,013</b>                  | <b>785,056</b>                            | <b>136,690</b>                             | <b>706,982</b>                             | <b>1,833,285</b>        |



**TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)**

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

**(b) Financial risk management (Continued)**

**ii. Liquidity risk (Continued)**

| <b>Consolidated</b>                         | <b>Carrying amount</b> | <b>Contractual cash flows</b> | <b>Up to and Less than 1 year</b> | <b>Between 1 and up to 2 years</b> | <b>Between 2 and up to 5 years</b> | <b>Over 5 years</b> |
|---------------------------------------------|------------------------|-------------------------------|-----------------------------------|------------------------------------|------------------------------------|---------------------|
|                                             | <b>Tzs 'm</b>          | <b>Tzs 'm</b>                 | <b>Tzs 'm</b>                     | <b>Tzs 'm</b>                      | <b>Tzs 'm</b>                      | <b>Tzs 'm</b>       |
| <b>Non-derivative financial liabilities</b> |                        |                               |                                   |                                    |                                    |                     |
| <b>At 30 June 2017</b>                      |                        |                               |                                   |                                    |                                    |                     |
| 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                           | -                                  | -                                  | -                   |
|                                             | <b>3,273,588</b>       | <b>3,273,588</b>              | <b>587,312</b>                    | <b>102,775</b>                     | <b>431,736</b>                     | <b>2,151,765</b>    |

| <b>Separate</b>                             | <b>Carrying amount</b> | <b>Contractual cash flows</b> | <b>Up to and Less than 1 year</b> | <b>Between 1 and up to 2 years</b> | <b>Between 2 and up to 5 years</b> | <b>Over 5 years</b> |
|---------------------------------------------|------------------------|-------------------------------|-----------------------------------|------------------------------------|------------------------------------|---------------------|
|                                             | <b>Tzs 'm</b>          | <b>Tzs 'm</b>                 | <b>Tzs 'm</b>                     | <b>Tzs 'm</b>                      | <b>Tzs 'm</b>                      | <b>Tzs 'm</b>       |
| <b>Non-derivative financial liabilities</b> |                        |                               |                                   |                                    |                                    |                     |
| <b>At 30 June 2017</b>                      |                        |                               |                                   |                                    |                                    |                     |
| 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                           | -                                  | -                                  | -                   |
|                                             | <b>3,279,935</b>       | <b>3,279,935</b>              | <b>593,659</b>                    | <b>102,775</b>                     | <b>431,736</b>                     | <b>2,151,765</b>    |

**iii. 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 2018 (CONTINUED)

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

#### (b) Financial risk management (Continued)

##### iv. 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 rate fluctuations, primarily with respect to the USD.

Generally borrowings, major trade 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)*

| <b>Consolidated</b>                | <b>2018</b>        | <b>2017</b>        |
|------------------------------------|--------------------|--------------------|
| <b>Balances denominated in USD</b> | <b>Tzs 'm</b>      | <b>Tzs 'm</b>      |
| Trade and other receivables        | 531,460            | 377,353            |
| Cash and cash equivalents          | 28,164             | 4,735              |
| Escrow funds                       | 136,713            | 134,568            |
| Borrowings                         | (3,100,864)        | (2,961,128)        |
| Carried interest liability         | (39,841)           | (75,727)           |
| Trade and other payables           | (207,116)          | (97,500)           |
| <b>Net exposure</b>                | <b>(2,651,484)</b> | <b>(2,617,699)</b> |

| <b>Separate</b>                    | <b>2018</b>        | <b>2017</b>        |
|------------------------------------|--------------------|--------------------|
| <b>Balances denominated in USD</b> | <b>Tzs 'm</b>      | <b>Tzs 'm</b>      |
| Trade and other receivables        | 531,460            | 377,353            |
| Cash and cash equivalents          | 28,164             | 4,735              |
| Escrow funds                       | 136,713            | 134,568            |
| Borrowings                         | (3,100,864)        | (2,961,128)        |
| Carried interest liability         | (39,841)           | (75,727)           |
| Trade and other payables           | (207,116)          | (97,500)           |
| <b>Net exposure</b>                | <b>(2,651,484)</b> | <b>(2,617,699)</b> |

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

|         | <b>Average rate</b> |             | <b>Reporting rate</b> |             |
|---------|---------------------|-------------|-----------------------|-------------|
|         | <b>2018</b>         | <b>2017</b> | <b>2018</b>           | <b>2017</b> |
| Tzs/USD | 2,237.75            | 2,197.82    | 2,266.43              | 2,230.15    |



# TANZANIA PETROLEUM DEVELOPMENT CORPORATION

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

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

#### (b) Financial risk management (Continued)

##### iii. Market risk (Continued)

##### Foreign exchange risk

##### Sensitivity analysis

The table below shows the Group's and Corporation's sensitivity to foreign exchange rates on its US dollar financial instruments excluding obligations which do not present a material exposure. The Group and Corporation have 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* |
| <b>30 June 2018</b>            |                |           |                |         |
| USD - 10% movement (Loss)/gain | (265,148)      | (185,604) | 265,148        | 185,604 |
| <b>30 June 2017</b>            |                |           |                |         |
| USD - 10% movement (Loss)/gain | (261,770)      | (183,239) | 261,770        | 183,239 |
| Separate                       | Strengthening  |           | Weakening      |         |
|                                | Profit or loss | Equity*   | Profit or loss | Equity* |
| <b>30 June 2018</b>            |                |           |                |         |
| USD - 10% movement (Loss)/gain | (265,148)      | (185,604) | 265,148        | 185,604 |
| <b>30 June 2017</b>            |                |           |                |         |
| USD - 10% movement (Loss)/gain | (261,770)      | (183,239) | 261,770        | 183,239 |

\*Figures are presented net of tax.

##### Cash flow and fair value interest rate risk

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

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

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)**

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

**(b) Financial risk management (Continued)**

**iii. Market risk (Continued)**

**Profile**

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

|                                  | <b>Consolidated</b>    |                    | <b>Separate</b>        |                    |
|----------------------------------|------------------------|--------------------|------------------------|--------------------|
|                                  | <b>Carrying amount</b> |                    | <b>Carrying amount</b> |                    |
|                                  | <b>2018</b>            | <b>2017</b>        | <b>2018</b>            | <b>2017</b>        |
|                                  | <b>Tzs 'm</b>          | <b>Tzs 'm</b>      | <b>Tzs 'm</b>          | <b>Tzs 'm</b>      |
| <b>Fixed rate instruments</b>    |                        |                    |                        |                    |
| Financial assets                 | -                      | -                  | -                      | -                  |
| Financial liabilities            |                        |                    |                        |                    |
| - Borrowings                     | (2,261,432)            | (2,180,591)        | (2,261,432)            | (2,180,591)        |
|                                  | <u>(2,261,432)</u>     | <u>(2,180,591)</u> | <u>(2,261,432)</u>     | <u>(2,180,591)</u> |
| <b>Variable rate instruments</b> |                        |                    |                        |                    |
| Financial assets                 | -                      | -                  | -                      | -                  |
| Financial liabilities            |                        |                    |                        |                    |
| -Borrowings                      | (839,432)              | (717,809)          | (839,432)              | (717,809)          |
| -Carried interest liability      | (39,841)               | (75,727)           | (39,841)               | (75,727)           |
|                                  | <u>(879,273)</u>       | <u>(793,536)</u>   | <u>(879,273)</u>       | <u>(793,536)</u>   |

*Fair value sensitivity analysis for fixed rate instruments*

The Group and Corporation do 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.

|                           | <b>Consolidated</b>   |                 | <b>Separate</b>       |                 |
|---------------------------|-----------------------|-----------------|-----------------------|-----------------|
|                           | <b>Profit or loss</b> |                 | <b>Profit or loss</b> |                 |
|                           | <b>100 bp</b>         | <b>100 bp</b>   | <b>100 bp</b>         | <b>100 bp</b>   |
|                           | <b>increase</b>       | <b>decrease</b> | <b>increase</b>       | <b>decrease</b> |
|                           | <b>Tzs 'm</b>         | <b>Tzs 'm</b>   | <b>Tzs 'm</b>         | <b>Tzs 'm</b>   |
| <b>2018</b>               |                       |                 |                       |                 |
| Variable rate instruments | (8.79)                | 8.79            | (8.79)                | 8.79            |
| <b>2017</b>               |                       |                 |                       |                 |
| Variable rate instruments | (7.94)                | 7.94            | (7.94)                | 7.94            |



# TANZANIA PETROLEUM DEVELOPMENT CORPORATION

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

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

#### (b) Financial risk management (Continued)

##### iii. Market risk (continued)

The Group and Corporation have 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 2018, 30 June 2017 were as follows:

|                                 | Consolidated  |               | Separate      |               |
|---------------------------------|---------------|---------------|---------------|---------------|
|                                 | 2018          | 2017          | 2018          | 2017          |
|                                 | Tzs 'm        | Tzs 'm        | Tzs 'm        | Tzs 'm        |
| Total borrowings                | 3,100,864     | 2,961,128     | 3,100,864     | 2,961,128     |
| Less: cash and cash equivalents | (49,312)      | (16,919)      | (49,310)      | (16,919)      |
| Net debt                        | 3,051,552     | 2,944,209     | 3,051,554     | 2,944,209     |
| Total equity                    | (375,136)     | (322,332)     | (375,123)     | (322,179)     |
| Gearing ratio                   | <u>1.14:1</u> | <u>1.12:1</u> | <u>1.14:1</u> | <u>1.12:1</u> |

### 10. REVENUE

|                               | Consolidated   |                | Separate       |                |
|-------------------------------|----------------|----------------|----------------|----------------|
|                               | 2018           | 2017           | 2018           | 2017           |
|                               | Tzs 'm         | Tzs 'm         | Tzs 'm         | Tzs 'm         |
| Net PSA revenue – Songo Songo | 19,899         | -              | 19,899         | -              |
| PSA revenue - Mnazi Bay       | 26,926         | 14,469         | 26,926         | 14,469         |
| Sale of natural gas           | 301,390        | 213,210        | 301,390        | 213,210        |
| Sale of protected gas         | 21,262         | 20,417         | 21,262         | 20,417         |
| Sale of Data                  | -              | 8,270          | -              | 8,270          |
|                               | <u>369,477</u> | <u>256,366</u> | <u>369,477</u> | <u>256,366</u> |

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)**

**11. COST OF SALES**

|                                                 | <b>Consolidated</b>   |                       | <b>Separate</b>       |                       |
|-------------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                                 | <b>2018</b>           | <b>2017</b>           | <b>2018</b>           | <b>2017</b>           |
|                                                 | <b>Tzs 'm</b>         | <b>Tzs 'm</b>         | <b>Tzs 'm</b>         | <b>Tzs 'm</b>         |
| Purchase of natural gas                         | 186,326               | 121,929               | 186,326               | 121,929               |
| Pipeline and plants maintenance                 | 29,068                | 25,836                | 29,068                | 25,836                |
| Depreciation of gas processing plant & pipeline | 81,157                | 80,864                | 81,157                | 80,864                |
| Depletion of natural gas properties             | 3,916                 | 346                   | 3,916                 | 346                   |
| PSA carried expenses                            | 4,340                 | 4,818                 | 4,340                 | 4,818                 |
|                                                 | <b><u>304,807</u></b> | <b><u>233,793</u></b> | <b><u>304,807</u></b> | <b><u>233,793</u></b> |

**12. OTHER INCOME**

|                                | <b>Consolidated</b>  |                      | <b>Separate</b>      |                      |
|--------------------------------|----------------------|----------------------|----------------------|----------------------|
|                                | <b>2018</b>          | <b>2017</b>          | <b>2018</b>          | <b>2017</b>          |
|                                | <b>Tzs 'm</b>        | <b>Tzs 'm</b>        | <b>Tzs 'm</b>        | <b>Tzs 'm</b>        |
| Training fees from contractors | 4,754                | 2,909                | 4,754                | 2,909                |
| Licence fees from contractors  | 843                  | 1,547                | 843                  | 1,547                |
| Sale of condensate             | 7,320                | -                    | 7,320                | -                    |
| Government revenue grant       | 12,093               | 11,990               | 12,093               | 11,990               |
| Gas project income             | 263                  | 231                  | 263                  | 231                  |
| Interest income                | 40                   | 82                   | 40                   | 82                   |
| House rent                     | 85                   | 80                   | 85                   | 80                   |
| Miscellaneous income           | 80                   | 43                   | 80                   | 43                   |
| Rent from petrol stations      | -                    | 18                   | -                    | 18                   |
| Amortisation of capital grants | 494                  | 495                  | 494                  | 495                  |
|                                | <b><u>25,972</u></b> | <b><u>17,395</u></b> | <b><u>25,972</u></b> | <b><u>17,395</u></b> |



**TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)**

**13. OPERATING EXPENSES**

|                                    | <b>Consolidated</b> |               | <b>Separate</b> |               |
|------------------------------------|---------------------|---------------|-----------------|---------------|
|                                    | <b>2018</b>         | <b>2017</b>   | <b>2018</b>     | <b>2017</b>   |
|                                    | <b>Tzs 'm</b>       | <b>Tzs 'm</b> | <b>Tzs 'm</b>   | <b>Tzs 'm</b> |
| Provision for doubtful receivables | 807                 | 1,349         | 807             | 1,349         |
| Staff costs**                      | 11,812              | 13,216        | 11,812          | 13,216        |
| Depreciation                       | 3,106               | 3,144         | 3,106           | 3,144         |
| Legal expenses                     | 21                  | 24            | 21              | 24            |
| Transport and travel expenses      | 812                 | 1,301         | 812             | 1,301         |
| Audit fees                         | 512                 | 690           | 512             | 690           |
| Insurance                          | 2,444               | 3,109         | 2,444           | 3,109         |
| Bank charges and commission        | 98                  | 336           | 98              | 336           |
| Foreign exchange differences       | (7,635)             | (2,432)       | (7,635)         | (2,432)       |
| Net PSA expense - Songo Songo      | -                   | 4,034         | -               | 4,034         |
| Other expenses                     | 12,568              | 10,691        | 12,708          | 10,691        |
| Amortisation of intangible         | 853                 | 804           | 853             | 804           |
|                                    | <b>25,398</b>       | <b>36,266</b> | <b>25,538</b>   | <b>36,266</b> |

\*\*Staff costs include social security contribution amounting to Tzs 1.17 billion (2017: Tzs 1.19 billion)

|                                                                  | <b>Consolidated</b> |               | <b>Separate</b> |               |
|------------------------------------------------------------------|---------------------|---------------|-----------------|---------------|
|                                                                  | <b>2018</b>         | <b>2017</b>   | <b>2018</b>     | <b>2017</b>   |
|                                                                  | <b>Tzs 'm</b>       | <b>Tzs 'm</b> | <b>Tzs 'm</b>   | <b>Tzs 'm</b> |
| <b>Depreciation on property, plant and equipment charged to:</b> |                     |               |                 |               |
| a. Cost of sales                                                 | 81,157              | 80,864        | 81,157          | 80,864        |
| b. Operating expenses                                            | 3,106               | 3,144         | 3,106           | 3,144         |
| <b>Total depreciation charge (Note 16)</b>                       | <b>84,263</b>       | <b>84,008</b> | <b>84,263</b>   | <b>84,008</b> |

**14. FINANCE COST**

|                                     |                |                |                |                |
|-------------------------------------|----------------|----------------|----------------|----------------|
| Interest expense - borrowings       | 90,364         | 87,134         | 90,364         | 87,134         |
| Interest expense – carried interest | 2,118          | 2,148          | 2,118          | 2,148          |
| Exchange loss on carried interest   | 2,416          | 2,052          | 2,416          | 2,052          |
| Exchange loss on loan revaluation   | 49,372         | 65,797         | 49,372         | 65,797         |
| ARO accretion                       | 332            | 72             | 332            | 72             |
|                                     | <b>144,602</b> | <b>157,203</b> | <b>144,602</b> | <b>157,203</b> |

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)**

**15. TAXATION**

|                                                                                                                              | <b>Consolidated</b> |              | <b>Separate</b> |              |
|------------------------------------------------------------------------------------------------------------------------------|---------------------|--------------|-----------------|--------------|
|                                                                                                                              | <b>2018</b>         | <b>2017</b>  | <b>2018</b>     | <b>2017</b>  |
|                                                                                                                              | <b>Tzs'm</b>        | <b>Tzs'm</b> | <b>Tzs'm</b>    | <b>Tzs'm</b> |
| Current tax credit                                                                                                           | 11,739              | -            | 11,739          | -            |
| Deferred income tax credit                                                                                                   | -                   | -            | -               | -            |
|                                                                                                                              | <b>11,739</b>       | <b>-</b>     | <b>11,739</b>   | <b>-</b>     |
| 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                                                                                                              | (64,543)            | (136,753)    | (64,683)        | (136,753)    |
| Tax credit calculated at a tax rate of 30% (2016: 30%)                                                                       | (19,363)            | (41,026)     | (19,405)        | (41,026)     |
| Expenditure permanently disallowed                                                                                           | 505                 | 2,546        | 505             | 2,546        |
| Deferred income tax movement not recognised (Note 24)                                                                        | 23,882              | 43,504       | 23,882          | 43,504       |
| Share of profit of equity accounted investee                                                                                 | (4,445)             | (5,024)      | (4,445)         | (5,024)      |
| Non taxable income                                                                                                           | (581)               | -            | (539)           | -            |
| Reversal of prior years' provision                                                                                           | 12,926              | -            | 12,926          | -            |
| Alternative Minimum Tax                                                                                                      | (1,185)             | -            | (1,185)         | -            |
|                                                                                                                              | <b>11,739</b>       | <b>-</b>     | <b>11,739</b>   | <b>-</b>     |



**TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)**

**16. PROPERTY, PLANT AND EQUIPMENT**

| <b>Consolidated</b>                                   | <b>Land</b>    | <b>Buildings</b> | <b>Motor vehicles</b> | <b>Furniture, fittings and equipment</b> | <b>Computer hardware</b> | <b>Gas pipeline**</b> | <b>Gas processing plant</b> | <b>Capital Work In Progress</b> | <b>Total</b>     |
|-------------------------------------------------------|----------------|------------------|-----------------------|------------------------------------------|--------------------------|-----------------------|-----------------------------|---------------------------------|------------------|
| <b>Cost/revaluation</b>                               | <b>Tzs 'm</b>  | <b>Tzs 'm</b>    | <b>Tzs 'm</b>         | <b>Tzs 'm</b>                            | <b>Tzs 'm</b>            | <b>Tzs 'm</b>         | <b>Tzs'm</b>                | <b>TZS 'm</b>                   | <b>Tzs 'm</b>    |
| 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            |
| Disposal                                              | -              | -                | -                     | -                                        | -                        | -                     | -                           | -                               | -                |
| <b>Balance at 30 June 2017</b>                        | <b>107,805</b> | <b>21,122</b>    | <b>3,583</b>          | <b>11,384</b>                            | <b>1,201</b>             | <b>1,900,420</b>      | <b>369,008</b>              | <b>760</b>                      | <b>2,415,283</b> |
| Balance at 1 July 2017                                | 107,805        | 21,122           | 3,583                 | 11,384                                   | 1,201                    | 1,900,420             | 369,008                     | 760                             | 2,415,283        |
| Additions                                             | -              | -                | -                     | 741                                      | 178                      | -                     | -                           | 1,909                           | 2,828            |
| Disposal                                              | -              | -                | (31)                  | -                                        | -                        | -                     | -                           | -                               | (31)             |
| Write off to expenses                                 | -              | -                | -                     | -                                        | -                        | -                     | -                           | (395)                           | (395)            |
| <b>Balance at 30 June 2018</b>                        | <b>107,805</b> | <b>21,122</b>    | <b>3,552</b>          | <b>12,125</b>                            | <b>1,379</b>             | <b>1,900,420</b>      | <b>369,008</b>              | <b>2,274</b>                    | <b>2,417,685</b> |
| <b>Accumulated depreciation and impairment losses</b> |                |                  |                       |                                          |                          |                       |                             |                                 |                  |
| Balance at 1 July 2016                                | -              | -                | -                     | -                                        | -                        | -                     | -                           | -                               | -                |
| Depreciation                                          | -              | 614              | 459                   | 1,001                                    | 1,069                    | 59,000                | 21,865                      | -                               | 84,008           |
| Disposal                                              | -              | -                | -                     | -                                        | -                        | -                     | -                           | -                               | -                |
| <b>Balance at 30 June 2017</b>                        | <b>-</b>       | <b>614</b>       | <b>459</b>            | <b>1,001</b>                             | <b>1,069</b>             | <b>59,000</b>         | <b>21,865</b>               | <b>-</b>                        | <b>84,008</b>    |
| Balance at 1 July 2017                                | -              | 614              | 459                   | 1,001                                    | 1,069                    | 59,000                | 21,865                      | -                               | 84,008           |
| Depreciation                                          | -              | 422              | 459                   | 1,916                                    | 310                      | 59,291                | 21,865                      | -                               | 84,263           |
| Disposal                                              | -              | -                | (7)                   | -                                        | -                        | -                     | -                           | -                               | (7)              |
| <b>Balance at 30 June 2018</b>                        | <b>-</b>       | <b>1,036</b>     | <b>911</b>            | <b>2,917</b>                             | <b>1,379</b>             | <b>118,291</b>        | <b>43,730</b>               | <b>-</b>                        | <b>168,264</b>   |
| Carrying Amounts;                                     |                |                  |                       |                                          |                          |                       |                             |                                 |                  |
| <b>At 30 June 2017</b>                                | <b>107,805</b> | <b>20,508</b>    | <b>3,124</b>          | <b>10,383</b>                            | <b>132</b>               | <b>1,841,420</b>      | <b>347,143</b>              | <b>760</b>                      | <b>2,331,275</b> |
| <b>At 30 June 2018</b>                                | <b>107,805</b> | <b>20,086</b>    | <b>2,641</b>          | <b>9,208</b>                             | <b>-</b>                 | <b>1,782,129</b>      | <b>325,278</b>              | <b>2,274</b>                    | <b>2,249,421</b> |

\*\* 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 2018 (CONTINUED)

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| Separate                                              | Land           | Buildings     | Motor vehicles | Furniture, fittings and equipment | Computer hardware | Gas pipeline**   | Gas processing plant | Capital Work In Progress | Total            |
|-------------------------------------------------------|----------------|---------------|----------------|-----------------------------------|-------------------|------------------|----------------------|--------------------------|------------------|
| Cost/revaluation                                      | Tzs 'm         | Tzs 'm        | Tzs 'm         | Tzs 'm                            | Tzs 'm            | Tzs 'm           | Tzs'm                | TZS 'm                   | Tzs 'm           |
| 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            |
| Disposal                                              | -              | -             | -              | -                                 | -                 | -                | -                    | -                        | -                |
| <b>Balance at 30 June 2017</b>                        | <b>107,805</b> | <b>21,122</b> | <b>3,583</b>   | <b>11,384</b>                     | <b>1,201</b>      | <b>1,900,420</b> | <b>369,008</b>       | <b>760</b>               | <b>2,415,283</b> |
| Balance at 1 July 2017                                | 107,805        | 21,122        | 3,583          | 11,384                            | 1,201             | 1,900,420        | 369,008              | 760                      | 2,415,283        |
| Additions                                             | -              | -             | -              | 741                               | 178               | -                | -                    | 1,909                    | 2,828            |
| Disposal                                              | -              | -             | (31)           | -                                 | -                 | -                | -                    | -                        | (31)             |
| Write off to expenses                                 | -              | -             | -              | -                                 | -                 | -                | -                    | (395)                    | (395)            |
| <b>Balance at 30 June 2018</b>                        | <b>107,805</b> | <b>21,122</b> | <b>3,552</b>   | <b>12,125</b>                     | <b>1,379</b>      | <b>1,900,420</b> | <b>369,008</b>       | <b>2,274</b>             | <b>2,417,685</b> |
| <b>Accumulated depreciation and impairment losses</b> |                |               |                |                                   |                   |                  |                      |                          |                  |
| Balance at 1 July 2016                                | -              | -             | -              | -                                 | -                 | -                | -                    | -                        | -                |
| Depreciation                                          | -              | 614           | 459            | 1,001                             | 1,069             | 59,000           | 21,865               | -                        | 84,008           |
| Disposal                                              | -              | -             | -              | -                                 | -                 | -                | -                    | -                        | -                |
| <b>Balance at 30 June 2017</b>                        | <b>-</b>       | <b>614</b>    | <b>459</b>     | <b>1,001</b>                      | <b>1,069</b>      | <b>59,000</b>    | <b>21,865</b>        | <b>-</b>                 | <b>84,008</b>    |
| Balance at 1 July 2017                                | -              | 614           | 459            | 1,001                             | 1,069             | 59,000           | 21,865               | -                        | 84,008           |
| Depreciation                                          | -              | 422           | 459            | 1,916                             | 310               | 59,291           | 21,865               | -                        | 84,263           |
| Disposal                                              | -              | -             | (7)            | -                                 | -                 | -                | -                    | -                        | (7)              |
| <b>Balance at 30 June 2018</b>                        | <b>-</b>       | <b>1,036</b>  | <b>911</b>     | <b>2,917</b>                      | <b>1,379</b>      | <b>118,291</b>   | <b>43,730</b>        | <b>-</b>                 | <b>168,264</b>   |
| Carrying Amounts;                                     |                |               |                |                                   |                   |                  |                      |                          |                  |
| <b>At 30 June 2017</b>                                | <b>107,805</b> | <b>20,508</b> | <b>3,124</b>   | <b>10,383</b>                     | <b>132</b>        | <b>1,841,420</b> | <b>347,143</b>       | <b>760</b>               | <b>2,331,275</b> |
| <b>At 30 June 2018</b>                                | <b>107,805</b> | <b>20,086</b> | <b>2,641</b>   | <b>9,208</b>                      | <b>-</b>          | <b>1,782,129</b> | <b>325,278</b>       | <b>2,274</b>             | <b>2,249,421</b> |

\*\*Gas pipeline assets include 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 2018 (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 2018.

### 17. NATURAL GAS PROPERTIES

|                                   | Consolidated<br>Tzs 'm | Separate<br>Tzs 'm |
|-----------------------------------|------------------------|--------------------|
| Balance at 1 July 2016            | 62,207                 | 62,207             |
| Additions                         | 1,897                  | 1,897              |
| <b>Balance as at 30 June 2017</b> | <b>64,104</b>          | <b>64,104</b>      |
| Cost as 1 July 2017               | 64,104                 | 64,104             |
| Additions                         | 1,981                  | 1,981              |
| <b>Balance at 30 June 2018</b>    | <b>66,085</b>          | <b>66,085</b>      |
| <b>Depletion and impairment</b>   |                        |                    |
| Balance at 1 July 2016            | 445                    | 445                |
| Charge for the year               | 346                    | 346                |
| <b>Balance at 30 June 2017</b>    | <b>791</b>             | <b>791</b>         |
| Balance at 1 July 2017            | 791                    | 791                |
| Charge for the year               | 3,916                  | 3,916              |
| <b>Balance at 30 June 2018</b>    | <b>4,707</b>           | <b>4,707</b>       |
| <b>Net book value:</b>            |                        |                    |
| <b>At 30 June 2017</b>            | <b>63,313</b>          | <b>63,313</b>      |
| <b>At 30 June 2018</b>            | <b>61,378</b>          | <b>61,378</b>      |

The Group and Corporation assessed triggers for impairment on the natural gas properties and determined that an impairment test was not required. The majority of the Group and 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 Group and 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 2018 (CONTINUED)**

**18. INVESTMENT PROPERTIES**

|                                | <b>Consolidated</b> |               | <b>Separate</b> |               |
|--------------------------------|---------------------|---------------|-----------------|---------------|
|                                | <b>2018</b>         | <b>2017</b>   | <b>2018</b>     | <b>2017</b>   |
|                                | <b>Tzs 'm</b>       | <b>Tzs 'm</b> | <b>Tzs 'm</b>   | <b>Tzs 'm</b> |
| Balance at 1 July              |                     |               |                 |               |
| - Petrol stations              | 1,682               | 709           | 1,682           | 709           |
|                                |                     | <b>709</b>    |                 | <b>709</b>    |
| Change in fair value           | -                   | 973           | -               | 973           |
| <b>Balance at 30 June 2018</b> | <b>1,682</b>        | <b>1,682</b>  | <b>1,682</b>    | <b>1,682</b>  |

Investment property comprises a number of petrol stations which have been leased out to private 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(j). Directors have assessed the fair value of investment property and concluded that they reflect the market conditions as at reporting date.

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.

**19. INTANGIBLE ASSETS**

| <b>Consolidated</b>                                   | <b>Exploration<br/>Software<br/>Tzs 'm</b> | <b>Accounts<br/>Software<br/>Tzs 'm</b> | <b>FTG*<br/>Project<br/>Tzs 'm</b> | <b>Total<br/>Tzs 'm</b> |
|-------------------------------------------------------|--------------------------------------------|-----------------------------------------|------------------------------------|-------------------------|
| Balance at 01 July 2016                               | 2,926                                      | 23                                      | 8,218                              | 11,167                  |
| Additions                                             | -                                          | 591                                     | 4,838                              | 5,429                   |
| <b>Balance at 30 June 2017</b>                        | <b>2,926</b>                               | <b>614</b>                              | <b>13,056</b>                      | <b>16,596</b>           |
| Balance at 01 July 2017                               | 2,926                                      | 614                                     | 13,056                             | 16,596                  |
| Additions                                             | -                                          | 28                                      | -                                  | 28                      |
| <b>Balance at 30 June 2018</b>                        | <b>2,926</b>                               | <b>642</b>                              | <b>13,056</b>                      | <b>16,624</b>           |
| <b>Accumulated amortisation and impairment losses</b> |                                            |                                         |                                    |                         |
| Balance at 01 July 2016                               | 1,505                                      | 23                                      | -                                  | 1,528                   |
| Amortisation                                          | 737                                        | 68                                      | -                                  | 805                     |
| <b>Balance at 30 June 2017</b>                        | <b>2,242</b>                               | <b>91</b>                               | <b>-</b>                           | <b>2,333</b>            |
| Balance at 01 July 2017                               | 2,242                                      | 91                                      | -                                  | 2,333                   |
| Amortization                                          | 684                                        | 169                                     | -                                  | 853                     |
| <b>Balance at 30 June 2018</b>                        | <b>2,926</b>                               | <b>260</b>                              | <b>-</b>                           | <b>3,186</b>            |
| <b>Carrying amounts</b>                               |                                            |                                         |                                    |                         |
| <b>At 30 June 2017</b>                                | <b>684</b>                                 | <b>523</b>                              | <b>13,056</b>                      | <b>14,263</b>           |
| <b>At 30 June 2018</b>                                | <b>-</b>                                   | <b>382</b>                              | <b>13,056</b>                      | <b>13,438</b>           |

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



**TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)**

**19. INTANGIBLE ASSETS (CONTINUED)**

| <b>Separate</b>                                           | <b>Exploration<br/>Software<br/>Tzs 'm</b> | <b>Accounts<br/>Software<br/>Tzs 'm</b> | <b>FTG*<br/>Project<br/>Tzs 'm</b> | <b>Total<br/>Tzs 'm</b> |
|-----------------------------------------------------------|--------------------------------------------|-----------------------------------------|------------------------------------|-------------------------|
| Balance at 01 July 2016                                   | 2,926                                      | 23                                      | 8,218                              | 11,167                  |
| Additions                                                 | -                                          | 591                                     | 4,838                              | 5,429                   |
| <b>Balance at 30 June 2017</b>                            | <b>2,926</b>                               | <b>614</b>                              | <b>13,056</b>                      | <b>16,596</b>           |
| Balance at 01 July 2017                                   | 2,926                                      | 614                                     | 13,056                             | 16,596                  |
| Additions                                                 | -                                          | 28                                      | -                                  | 28                      |
| <b>Balance at 30 June 2018</b>                            | <b>2,926</b>                               | <b>642</b>                              | <b>13,056</b>                      | <b>16,624</b>           |
| <b>Accumulated amortisation and<br/>impairment losses</b> |                                            |                                         |                                    |                         |
| Balance at 01 July 2016                                   | 1,505                                      | 23                                      | -                                  | 1,528                   |
| Amortisation                                              | 737                                        | 68                                      | -                                  | 805                     |
| <b>Balance at 30 June 2017</b>                            | <b>2,242</b>                               | <b>91</b>                               | <b>-</b>                           | <b>2,333</b>            |
| Balance at 01 July 2017                                   | 2,242                                      | 91                                      | -                                  | 2,333                   |
| Amortization                                              | 684                                        | 169                                     | -                                  | 853                     |
| <b>Balance at 30 June 2018</b>                            | <b>2,926</b>                               | <b>260</b>                              | <b>-</b>                           | <b>3,186</b>            |
| <b>Carrying amounts</b>                                   |                                            |                                         |                                    |                         |
| <b>At 30 June 2017</b>                                    | <b>684</b>                                 | <b>523</b>                              | <b>13,056</b>                      | <b>14,263</b>           |
| <b>At 30 June 2018</b>                                    | <b>-</b>                                   | <b>382</b>                              | <b>13,056</b>                      | <b>13,438</b>           |

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

**20. INVESTMENT IN SUBSIDIARY**

| <b>Consolidated</b>      | <b>2018<br/>Tzs 'm</b> | <b>2017<br/>Tzs 'm</b> |
|--------------------------|------------------------|------------------------|
| Investment in subsidiary | -                      | -                      |
| <b>Separate</b>          |                        |                        |
| Investment in TANOIL*    | 5,000                  | 5,000                  |
| Investment in GASCO**    | 1,500                  | 1,500                  |
|                          | <b>6,500</b>           | <b>6,500</b>           |

# TANZANIA PETROLEUM DEVELOPMENT CORPORATION

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 20. INVESTMENT IN SUBSIDIARY (CONTINUED)

\*TANOIL (formerly known as 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 period ended 30 June 2018, this is consistent with prior years.

|                                                                     | 2018<br>28.69%   | 2017<br>28.69%   |
|---------------------------------------------------------------------|------------------|------------------|
| Percentage ownership interest                                       |                  |                  |
|                                                                     | USD 'm           | USD 'm           |
| Non-current assets                                                  | 133              | 146              |
| Current assets                                                      | 86               | 140              |
| Non-current liabilities                                             | (93)             | (115)            |
| Current liabilities                                                 | (51)             | (87)             |
| <b>Net assets (100%)</b>                                            | <b>75</b>        | <b>84</b>        |
| Group's share of net assets (28.69%)                                | 21.5             | 24               |
| Foreign exchange rate                                               | 2,266.43         | 2,230.15         |
| <b>Group's share of net assets in associate (Tzs'm)</b>             | <b>48,728</b>    | <b>53,524</b>    |
| Foreign exchange differences (Tzs'm)                                | 518              | (1,688)          |
| <b>Carrying amount of interest in associate at 30 June (Tzs'm)</b>  | <b>49,246</b>    | <b>51,836</b>    |
| Revenue                                                             | 97.86            | 141.00           |
| Profit from continuing operations                                   | 23.08            | 26.56            |
| Groups share of net profit                                          | 6.62             | 7.62             |
| Exchange rate                                                       | 2237.73          | 2,197.82         |
| <b>Group's share of total comprehensive income (28.69%) (Tzs'm)</b> | <b>14,814.90</b> | <b>16,747.69</b> |



# TANZANIA PETROLEUM DEVELOPMENT CORPORATION

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (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      |               |
|--------------------------------------------|---------------|---------------|---------------|---------------|
|                                            | 2018          | 2017          | 2018          | 2017          |
|                                            | Tzs 'm        | Tzs 'm        | Tzs 'm        | Tzs 'm        |
| Carrying amount of interest in associate   | 51,836        | 43,574        | 51,836        | 43,574        |
| Share of profit from continuing operations | 14,815        | 16,748        | 14,815        | 16,748        |
| Dividends received                         | (17,405)      | (8,486)       | (17,405)      | (8,486)       |
|                                            | <u>49,246</u> | <u>51,836</u> | <u>49,246</u> | <u>51,836</u> |

### 22. OTHER INVESTMENTS

|                                     | Consolidated |          | Separate |          |
|-------------------------------------|--------------|----------|----------|----------|
|                                     | 2018         | 2017     | 2018     | 2017     |
|                                     | Tzs 'm       | Tzs 'm   | Tzs 'm   | Tzs 'm   |
| Equity security available-for-sale* | 1,500        | 1,500    | 1,500    | 1,500    |
| Less: Accumulated impairment loss   | (1,500)      | (1,500)  | (1,500)  | (1,500)  |
| Add: Fair value changes             | -            | -        | -        | -        |
|                                     | <u>-</u>     | <u>-</u> | <u>-</u> | <u>-</u> |

\*The Group and Corporation 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 2018 (CONTINUED)

### 23. ESCROW FUNDS (CONTINUED)

The escrow funds represents amounts deposited into the escrow accounts.

The balance of USD 60,320,710 (Tzs 136,713 million) as at 30 June 2018 (2017: USD 60,340,466 (Tzs 134,567 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. An amount of USD 19,806 was withdrawn during the year by EXIM bank of China as a penalty for Government's late repayment of due instalment. 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 into the escrow accounts as at the reporting period are shown below;

| Consolidated | Consolidated   |                | Separate       |                |
|--------------|----------------|----------------|----------------|----------------|
|              | 2018<br>Tzs' m | 2017<br>Tzs' m | 2018<br>Tzs' m | 2017<br>Tzs' m |
| Escrow funds | 136,713        | 134,568        | 136,713        | 134,568        |
|              | <u>136,713</u> | <u>134,568</u> | <u>136,713</u> | <u>134,568</u> |

### 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<br>Tzs 'm | Movement<br>Tzs 'm | At end of<br>year<br>Tzs 'm |
|----------------------------------------|----------------------------|--------------------|-----------------------------|
| <b>Year ended 30 June 2018</b>         |                            |                    |                             |
| <b>Consolidated</b>                    |                            |                    |                             |
| <i>Deferred income tax liabilities</i> |                            |                    |                             |
| Accelerated capital deductions         | 103,584                    | 17,297             | 120,881                     |
| Revaluations                           | 59,856                     | -                  | 59,856                      |
|                                        | <u>163,440</u>             | <u>17,297</u>      | <u>180,737</u>              |
| <i>Deferred income tax assets</i>      |                            |                    |                             |
| Tax loss carried forward               | (162,761)                  | (25,826)           | (188,587)                   |
| Provisions                             | (177,635)                  | (15,353)           | (192,988)                   |
|                                        | <u>(340,396)</u>           | <u>(41,179)</u>    | <u>(381,575)</u>            |
| <b>Net deferred tax asset</b>          | <u>(176,956)</u>           | <u>(23,882)</u>    | <u>(200,838)</u>            |
| Deferred tax asset not recognized      | (203,973)                  | (23,882)           | (227,855)                   |
| Deferred tax liability recognized      | 27,017                     | -                  | 27,017                      |
| <b>Net deferred tax asset</b>          | <u>(176,956)</u>           | <u>(23,882)</u>    | <u>(200,838)</u>            |



**TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)**

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

|                                        | At start of<br>year<br>Tzs 'm | Movement<br>Tzs 'm | At end of<br>year<br>Tzs 'm |
|----------------------------------------|-------------------------------|--------------------|-----------------------------|
| <b>Year ended 30 June 2018</b>         |                               |                    |                             |
| <b>Separate</b>                        |                               |                    |                             |
| <i>Deferred income tax liabilities</i> |                               |                    |                             |
| Accelerated capital deductions         | 103,584                       | 17,297             | 120,881                     |
| Revaluations                           | 59,856                        | -                  | 59,856                      |
|                                        | <b>163,440</b>                | <b>17,297</b>      | <b>180,737</b>              |
| <i>Deferred income tax assets</i>      |                               |                    |                             |
| Tax loss carried forward               | (162,761)                     | (25,826)           | (188,587)                   |
| Provisions                             | (177,635)                     | (15,353)           | (192,988)                   |
|                                        | <b>(340,396)</b>              | <b>(41,179)</b>    | <b>(381,575)</b>            |
| <b>Net deferred tax asset</b>          | <b>(176,956)</b>              | <b>(23,882)</b>    | <b>(200,838)</b>            |
| Deferred tax asset not recognized      | (203,973)                     | (23,882)           | (227,855)                   |
| Deferred tax liability recognized      | 27,017                        | -                  | 27,017                      |
| <b>Net deferred tax asset</b>          | <b>(176,956)</b>              | <b>(23,882)</b>    | <b>(200,838)</b>            |
|                                        |                               |                    |                             |
|                                        | At start of<br>year<br>Tzs 'm | Movement<br>Tzs 'm | At end of<br>year<br>Tzs 'm |
| <b>Year ended 30 June 2017</b>         |                               |                    |                             |
| <b>Consolidated</b>                    |                               |                    |                             |
| <i>Deferred income tax liabilities</i> |                               |                    |                             |
| Accelerated capital deductions         | 81,117                        | 22,467             | 103,584                     |
| Revaluations                           | 59,856                        | -                  | 59,856                      |
|                                        | <b>140,973</b>                | <b>22,467</b>      | <b>163,440</b>              |
| <i>Deferred income tax assets</i>      |                               |                    |                             |
| Tax loss carried forward               | (113,095)                     | (49,666)           | (162,761)                   |
| Provisions                             | (161,330)                     | (16,305)           | (177,635)                   |
|                                        | <b>(274,425)</b>              | <b>(65,971)</b>    | <b>(340,396)</b>            |
| <b>Net deferred tax asset</b>          | <b>(133,452)</b>              | <b>(43,504)</b>    | <b>(176,956)</b>            |
| Deferred tax asset not recognized      | (160,469)                     | (43,504)           | (203,973)                   |
| Deferred tax liability recognized      | 27,017                        | -                  | 27,017                      |
| <b>Net deferred tax asset</b>          | <b>(133,452)</b>              | <b>(43,504)</b>    | <b>(176,956)</b>            |

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)**

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

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

**25. INVENTORIES**

|                       | <b>Consolidated</b> |               | <b>Separate</b> |               |
|-----------------------|---------------------|---------------|-----------------|---------------|
|                       | <b>2018</b>         | <b>2017</b>   | <b>2018</b>     | <b>2017</b>   |
|                       | <b>Tzs 'm</b>       | <b>Tzs 'm</b> | <b>Tzs 'm</b>   | <b>Tzs 'm</b> |
| Stationery & supplies | 1,040               | 527           | 1,040           | 527           |
| Condensate            | 1,425               | 4,755         | 1,425           | 4,755         |
|                       | <u>2,465</u>        | <u>5,282</u>  | <u>2,465</u>    | <u>5,282</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 3,055 Million was charged as expense in the profit or loss during the year (2017: Tzs 243 Million)



**TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)**

**26. TRADE AND OTHER RECEIVABLES**

|                                                    | <b>Consolidated</b> |                 | <b>Separate</b> |                 |
|----------------------------------------------------|---------------------|-----------------|-----------------|-----------------|
|                                                    | <b>2018</b>         | <b>2017</b>     | <b>2018</b>     | <b>2017</b>     |
|                                                    | <b>Tzs'm</b>        | <b>Tzs'm</b>    | <b>Tzs'm</b>    | <b>Tzs'm</b>    |
| <b>Trade receivables</b>                           |                     |                 |                 |                 |
| Trade receivables due from related party (Note 38) | 423,578             | 293,541         | 423,578         | 293,541         |
| Other trade receivables                            | <u>153,510</u>      | <u>116,425</u>  | <u>153,512</u>  | <u>116,425</u>  |
|                                                    | <b>577,088</b>      | <b>409,966</b>  | <b>577,090</b>  | <b>409,966</b>  |
| Provision for trade receivables (impairment)       | <u>(33,134)</u>     | <u>(32,327)</u> | <u>(33,134)</u> | <u>(32,327)</u> |
| <b>Net trade receivables</b>                       | <b>543,954</b>      | <b>377,639</b>  | <b>543,956</b>  | <b>377,639</b>  |
| <b>Other receivables</b>                           |                     |                 |                 |                 |
| Prepayments                                        | 61,602              | 59,247          | 61,602          | 59,247          |
| Other debtors                                      | <u>802</u>          | <u>402</u>      | <u>802</u>      | <u>402</u>      |
|                                                    | <b>62,404</b>       | <b>59,649</b>   | <b>62,404</b>   | <b>59,649</b>   |
| Provision for other receivables (impairment)       | <u>(257)</u>        | <u>(257)</u>    | <u>(257)</u>    | <u>(257)</u>    |
| <b>Net other receivables</b>                       | <b>62,147</b>       | <b>59,392</b>   | <b>62,147</b>   | <b>59,392</b>   |
| <b>Net total debtors</b>                           | <b>606,101</b>      | <b>437,031</b>  | <b>606,103</b>  | <b>437,031</b>  |

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

**27. CASH AND CASH EQUIVALENTS**

|                   | <b>Consolidated</b> |               | <b>Separate</b> |               |
|-------------------|---------------------|---------------|-----------------|---------------|
|                   | <b>2018</b>         | <b>2017</b>   | <b>2018</b>     | <b>2017</b>   |
|                   | <b>Tzs'm</b>        | <b>Tzs'm</b>  | <b>Tzs'm</b>    | <b>Tzs'm</b>  |
| Bank balance -USD | 28,164              | 4,754         | 28,164          | 4,754         |
| Bank balance -TZS | <u>21,148</u>       | <u>12,165</u> | <u>21,146</u>   | <u>12,165</u> |
|                   | <b>49,312</b>       | <b>16,919</b> | <b>49,310</b>   | <b>16,919</b> |

# TANZANIA PETROLEUM DEVELOPMENT CORPORATION

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 28. CAPITAL AND RESERVES

#### (a) SHARE CAPITAL

|                                             | 2018<br>Tzs'm | 2017<br>Tzs'm |
|---------------------------------------------|---------------|---------------|
| <b>Authorised:</b>                          |               |               |
| 2,500 ordinary shares of Tzs 1,000,000 each | 2,500         | 2,500         |
| <b>Issued and fully paid:</b>               |               |               |
| 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 2018 represents net cash received from the Government of Tanzania as capital contribution to the petroleum/gas projects for TPDC.

|                              | Consolidated          |                       | Separate              |                       |
|------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                              | 2018<br>Tzs 'm        | 2017<br>Tzs 'm        | 2018<br>Tzs 'm        | 2017<br>Tzs 'm        |
| At start of year             | 184,139               | 184,139               | 184,139               | 184,139               |
| Received during the year     | -                     | -                     | -                     | -                     |
| Remittance to the government | -                     | -                     | -                     | -                     |
| <b>At end of year</b>        | <b><u>184,139</u></b> | <b><u>184,139</u></b> | <b><u>184,139</u></b> | <b><u>184,139</u></b> |

#### (c) REVALUATION RESERVE

The revaluation reserves amounting to Tzs 139.7 billion relates to the revaluation of property, plant and equipment (2017: Tzs 139.7 billion)

### 29. CARRIED INTEREST LIABILITY

Carried interest represents amounts payable to other partners in the Mnazi bay PSA in respect of the Corporation's 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**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)**

**29. CARRIED INTEREST LIABILITY (CONTINUED)**

|                               | <b>Consolidated</b> |               | <b>Separate</b> |               |
|-------------------------------|---------------------|---------------|-----------------|---------------|
|                               | <b>2018</b>         | <b>2017</b>   | <b>2018</b>     | <b>2017</b>   |
|                               | <b>Tzs'm</b>        | <b>Tzs'm</b>  | <b>Tzs'm</b>    | <b>Tzs'm</b>  |
| Cash call commitments payable | 23,645              | 61,649        | 23,645          | 61,649        |
| Interest payable              | 16,196              | 14,078        | 16,196          | 14,078        |
|                               | <b>39,841</b>       | <b>75,727</b> | <b>39,841</b>   | <b>75,727</b> |
| <b>Represented as:</b>        |                     |               |                 |               |
| Current                       | 39,841              | 23,550        | 39,841          | 23,550        |
| Non-current                   | -                   | 52,177        | -               | 52,177        |
|                               | <b>39,841</b>       | <b>75,727</b> | <b>39,841</b>   | <b>75,727</b> |

**30. BORROWINGS**

|                       | <b>Consolidated</b> |                  | <b>Separate</b>  |                  |
|-----------------------|---------------------|------------------|------------------|------------------|
|                       | <b>2018</b>         | <b>2017</b>      | <b>2018</b>      | <b>2017</b>      |
|                       | <b>Tzs'm</b>        | <b>Tzs'm</b>     | <b>Tzs'm</b>     | <b>Tzs'm</b>     |
| Loans                 | 3,100,864           | 2,961,128        | 3,100,864        | 2,961,128        |
| Less: Current portion | (423,917)           | (327,029)        | (423,917)        | (327,029)        |
| <b>Non-current</b>    | <b>2,676,947</b>    | <b>2,634,099</b> | <b>2,676,947</b> | <b>2,634,099</b> |

**As at 30 June 2018**

| <b>Consolidated and<br/>Separate (Amounts in<br/>Tzs'm)</b> | <b>Ref</b> | <b>Balance as at<br/>1 July 2017</b> | <b>Addition</b> | <b>Interest</b> | <b>Exchange<br/>losses</b> | <b>Principal<br/>and<br/>interest<br/>paid</b> | <b>Penalty<br/>on<br/>default</b> | <b>Balance as at<br/>30 June 2018</b> |
|-------------------------------------------------------------|------------|--------------------------------------|-----------------|-----------------|----------------------------|------------------------------------------------|-----------------------------------|---------------------------------------|
| Preferential buyer's<br>credit – Exim                       | (a)        | 2,180,592                            | -               | 44,787          | 36,054                     | -                                              | -                                 | 2,261,432                             |
| Buyer's credit – Exim                                       | (b)        | 717,819                              | -               | 38,054          | 12,167                     | -                                              | -                                 | 768,040                               |
| TIB Loan                                                    | (c)        | 62,717                               | -               | 2,705           | 889                        | -                                              | 5,080                             | 71,392                                |
|                                                             |            | <b>2,961,128</b>                     | <b>-</b>        | <b>85,546</b>   | <b>49,110</b>              | <b>-</b>                                       | <b>5,080</b>                      | <b>3,100,864</b>                      |

**As at 30 June 2017**

| <b>Consolidated and<br/>Separate (Amounts in<br/>Tzs'm)</b> | <b>Ref</b> | <b>Balance as at<br/>1 July 2016</b> | <b>Addition</b> | <b>Interest</b> | <b>Exchange<br/>losses</b> | <b>Principal<br/>and<br/>interest<br/>paid</b> | <b>Interest<br/>paid</b> | <b>Balance as at<br/>30 June 2017</b> |
|-------------------------------------------------------------|------------|--------------------------------------|-----------------|-----------------|----------------------------|------------------------------------------------|--------------------------|---------------------------------------|
| Preferential buyer's<br>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                                |
|                                                             |            | <b>2,784,850</b>                     | <b>26,764</b>   | <b>87,134</b>   | <b>67,839</b>              | <b>-</b>                                       | <b>(5,459)</b>           | <b>2,961,128</b>                      |

## **TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

### **NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (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% per annum) 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 and principal 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.

The loan is defaulted as no interest and principal has been paid to the lender, TIB.



# TANZANIA PETROLEUM DEVELOPMENT CORPORATION

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### GOVERNMENT GRANT

| Consolidated                         | Balance at<br>1 July | Additions | Amortisation | Balance at<br>30 June |
|--------------------------------------|----------------------|-----------|--------------|-----------------------|
| <b>2017</b>                          |                      |           |              |                       |
| (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                |
|                                      | <b>31,240</b>        | <b>-</b>  | <b>(494)</b> | <b>30,746</b>         |
| <b>2018</b>                          |                      |           |              |                       |
| (i) Benjamin William Mkapa tower A   | 4,278                | -         | (244)        | 4,034                 |
| (ii) Ministry of energy - World Bank | 1,468                | -         | (250)        | 1,218                 |
| (iii) Likong'o grant                 | 25,000               | -         | -            | 25,000                |
|                                      | <b>30,746</b>        | <b>-</b>  | <b>(494)</b> | <b>30,252</b>         |
| <b>Separate</b>                      |                      |           |              |                       |
| <b>2017</b>                          |                      |           |              |                       |
| (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                |
|                                      | <b>31,240</b>        | <b>-</b>  | <b>(494)</b> | <b>30,746</b>         |
| <b>2018</b>                          |                      |           |              |                       |
| (i) Benjamin William Mkapa tower A   | 4,278                | -         | (244)        | 4,034                 |
| (ii) Ministry of energy - World Bank | 1,468                | -         | (250)        | 1,218                 |
| (iii) Likong'o grant                 | 25,000               | -         | -            | 25,000                |
|                                      | <b>30,746</b>        | <b>-</b>  | <b>(494)</b> | <b>30,252</b>         |

### 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 2018 (CONTINUED)

### 31. 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(m).

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:

|                   | <b>Consolidated</b> |               | <b>Separate</b> |               |
|-------------------|---------------------|---------------|-----------------|---------------|
|                   | <b>2018</b>         | <b>2017</b>   | <b>2018</b>     | <b>2017</b>   |
|                   | <b>Tzs 'm</b>       | <b>Tzs 'm</b> | <b>Tzs 'm</b>   | <b>Tzs 'm</b> |
| Opening balance   | 3,102               | 2,193         | 3,102           | 2,193         |
| New provision     | -                   | 837           | -               | 837           |
| Accretion expense | 332                 | 72            | 332             | 72            |
|                   | <b>3,434</b>        | <b>3,102</b>  | <b>3,434</b>    | <b>3,102</b>  |

The ARO relates to the following assets:

|                                            | <b>Consolidated</b> |               | <b>Separate</b> |               |
|--------------------------------------------|---------------------|---------------|-----------------|---------------|
|                                            | <b>2018</b>         | <b>2017</b>   | <b>2018</b>     | <b>2017</b>   |
|                                            | <b>Tzs 'm</b>       | <b>Tzs 'm</b> | <b>Tzs 'm</b>   | <b>Tzs 'm</b> |
| Mnazi Bay gas fields                       | 1,999               | 1,793         | 1,999           | 1,793         |
| Natural gas processing plants and pipeline | 1,435               | 1,309         | 1,435           | 1,309         |
|                                            | <b>3,434</b>        | <b>3,102</b>  | <b>3,434</b>    | <b>3,102</b>  |

As disclosed in note 37, no provision has been made for decommissioning costs of plant and other assets at Songo Songo gas producing site.



**TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)**

**32. TRADE AND OTHER PAYABLES**

|                                                 | <b>Consolidated</b> |                | <b>Separate</b> |                |
|-------------------------------------------------|---------------------|----------------|-----------------|----------------|
|                                                 | <b>2018</b>         | <b>2017</b>    | <b>2018</b>     | <b>2017</b>    |
|                                                 | <b>Tzs 'm</b>       | <b>Tzs 'm</b>  | <b>Tzs 'm</b>   | <b>Tzs 'm</b>  |
| Trade payables due to related parties (Note 38) | 103,031             | 56,703         | 109,531         | 63,203         |
| Other trade payables                            | 118,165             | 75,539         | 118,165         | 75,386         |
|                                                 | <b>221,196</b>      | <b>132,242</b> | <b>227,696</b>  | <b>138,589</b> |
| Other payables:                                 |                     |                |                 |                |
| Accruals                                        | 93,615              | 104,491        | 93,602          | 104,491        |
| VAT Payable                                     | 4,917               | 16,456         | 4,917           | 16,456         |
| Payroll liabilities                             | 1,882               | 7,337          | 1,882           | 7,337          |
|                                                 | <b>321,610</b>      | <b>260,526</b> | <b>328,097</b>  | <b>266,873</b> |

**34. OPERATING LEASES**

**(a) Group and Corporation as a lessee**

The Group and Corporation lease 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 and Corporation 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 and Corporation do 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 2018, the future minimum lease payments under non-cancellable leases were payable as follows:

|                            | <b>Consolidated</b> |              | <b>Separate</b> |              |
|----------------------------|---------------------|--------------|-----------------|--------------|
|                            | <b>2018</b>         | <b>2017</b>  | <b>2018</b>     | <b>2017</b>  |
|                            | <b>Tzs'm</b>        | <b>Tzs'm</b> | <b>Tzs'm</b>    | <b>Tzs'm</b> |
| Less than one year         | 123                 | 183          | 123             | 183          |
| Between one and five years | 492                 | 732          | 492             | 732          |
| Beyond five years          | -                   | -            | -               | -            |
|                            | <b>615</b>          | <b>915</b>   | <b>615</b>      | <b>915</b>   |

**ii. Amounts recognised in profit or loss**

|               |     |     |     |     |
|---------------|-----|-----|-----|-----|
| Lease expense | 123 | 183 | 123 | 183 |
|---------------|-----|-----|-----|-----|

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018 (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 2018, the future minimum lease payments under non-cancellable leases were receivable as follows:

|                            | <b>Consolidated</b> |              | <b>Separate</b> |              |
|----------------------------|---------------------|--------------|-----------------|--------------|
|                            | <b>2018</b>         | <b>2017</b>  | <b>2018</b>     | <b>2017</b>  |
|                            | <b>Tzs'm</b>        | <b>Tzs'm</b> | <b>Tzs'm</b>    | <b>Tzs'm</b> |
| Less than one year         | 401                 | 329          | 401             | 329          |
| Between one and five years | -                   | -            | -               | -            |
| Beyond five years          | -                   | -            | -               | -            |
|                            | <b>401</b>          | <b>329</b>   | <b>401</b>      | <b>329</b>   |

**ii. Amounts recognised in profit or loss**

During 2018, rentals of Tzs 401 million (2017: Tzs 329 million) were included in "other operating income" (see Note 12).

**35. CASH GENERATED FROM OPERATIONS**

|                                                           |             | <b>Consolidated</b> |                 | <b>Separate</b> |                 |
|-----------------------------------------------------------|-------------|---------------------|-----------------|-----------------|-----------------|
|                                                           |             | <b>2018</b>         | <b>2017</b>     | <b>2018</b>     | <b>2017</b>     |
|                                                           | <b>Note</b> | <b>Tzs 'm</b>       | <b>Tzs 'm</b>   | <b>Tzs 'm</b>   | <b>Tzs 'm</b>   |
| <b>Operating activities</b>                               |             |                     |                 |                 |                 |
| Loss before tax                                           |             | (64,543)            | (136,753)       | (64,683)        | (136,753)       |
| <i>Adjustments for:</i>                                   |             |                     |                 |                 |                 |
| Depreciation –fixed assets                                | 16          | 84,263              | 84,008          | 84,263          | 84,008          |
| Depletion expense                                         |             | 3,916               | 346             | 3,916           | 346             |
| Fair value gain - investment property                     |             | -                   | (973)           | -               | (973)           |
| Gain on disposal of assets                                |             | (246)               | -               | (246)           | -               |
| CWIP write off                                            |             | 395                 | -               | 395             | -               |
| Interest expense                                          |             | 92,814              | 89,354          | 92,814          | 89,354          |
| Amortisation of intangible asset                          | 19          | 853                 | 805             | 853             | 805             |
| Amortisation of grants                                    | 31          | (494)               | (494)           | (494)           | (494)           |
| Share of profit of equity-accounted investees, net of tax |             | (14,815)            | (16,748)        | (14,815)        | (16,748)        |
| Impairment loss on receivables                            |             | 807                 | 1,133           | 807             | 1,133           |
| Net unrealized forex losses                               |             | 49,686              | 64,746          | 49,686          | 64,746          |
|                                                           |             | <b>152,636</b>      | <b>85,424</b>   | <b>152,496</b>  | <b>85,424</b>   |
| Changes in:                                               |             |                     |                 |                 |                 |
| - inventories                                             |             | 2,816               | (4,307)         | 2,816           | (4,307)         |
| - trade and other receivables                             |             | (210,297)           | (146,459)       | (210,299)       | (146,459)       |
| - trade and other payables                                |             | 77,175              | 34,315          | 77,315          | 34,315          |
| <b>Cash generated from/used in operations</b>             |             | <b>22,330</b>       | <b>(31,027)</b> | <b>22,328</b>   | <b>(31,027)</b> |



## **TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

### **NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)**

#### **36. COMMITMENTS**

During the year ended 30 June 2018 the Group and Corporation continued with the implementation of 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. The amount of capital commitment relating to this project as at 30 June 2018 was Tzs 2,536 Million.

##### **Other capital commitments**

Apart from the above mentioned commitment, the Group and Corporation had also entered into EPC contract for connection of the NNGI to Ubungu-Mikocheni Pipeline and Connection of new customers including Coca-cola Kwanza Ltd and BIDCO companies to the gas supply network. Sinoma International Engineering Co. Ltd is the EPC Contractor for this project. The commitment amount for this project as at 30 June 2018 is Tzs 2,760 Million.

#### **37. CONTINGENCIES- ASSETS AND LIABILITIES**

The following are contingent liabilities with respect to Group and Corporation affairs for the year ended 30 June 2018;

##### **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.



## **TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

### **NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)**

#### **37. CONTINGENCIES- ASSETS AND LIABILITIES (CONTINUED)**

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 have not made any provision against it.

#### **Relocation costs of Mtwara pipeline from Mtwara Airport land reserve**

In the year 2012 the Group and Corporation 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.

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.



# TANZANIA PETROLEUM DEVELOPMENT CORPORATION

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 37. CONTINGENCIES- ASSETS AND LIABILITIES (CONTINUED)

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.

### 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       |                 |
|------------------------------------------------------|----------------|-----------------|----------------|-----------------|
|                                                      | 2018           | 2017            | 2018           | 2018            |
|                                                      | Tzs 'm         | Tzs 'm          | Tzs 'm         | Tzs 'm          |
| <b>Transactions:</b>                                 |                |                 |                |                 |
| <b>Sales of goods and services</b>                   |                |                 |                |                 |
| Associate – SONGAS Limited                           | 21,262         | 20,417          | 21,262         | 20,417          |
| Government entity - TANESCO                          | 301,390        | 213,209         | 301,390        | 213,209         |
|                                                      | <u>322,652</u> | <u>233, 626</u> | <u>322,652</u> | <u>233, 626</u> |
| <b>Other</b>                                         |                |                 |                |                 |
| Government - Interest incurred on on-lent borrowings | 82,578         | 81,674          | 82,578         | 81,674          |
| TIB borrowing – Interest incurred                    | 7,786          | 5,459           | 7,786          | 5,459           |
| Associate - Dividend received                        | 17,405         | 8,486           | 17,405         | 8,486           |
| Grants received from government                      |                |                 |                |                 |
| - revenue grants                                     | 12,093         | 11,990          | 12,093         | 11,990          |

The Group and Corporation 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 2018 (CONTINUED)**

**38. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**

|                                                        | <b>Consolidated</b> |                  | <b>Separate</b>  |                  |
|--------------------------------------------------------|---------------------|------------------|------------------|------------------|
|                                                        | <b>2018</b>         | <b>2017</b>      | <b>2018</b>      | <b>2017</b>      |
|                                                        | <b>Tzs 'm</b>       | <b>Tzs 'm</b>    | <b>Tzs 'm</b>    | <b>Tzs 'm</b>    |
| <b>Outstanding balances (due from related parties)</b> |                     |                  |                  |                  |
| <b>Receivables and amounts owed by related parties</b> |                     |                  |                  |                  |
| Associate – SONGAS Limited                             | 48,763              | 66,174           | 48,763           | 66,174           |
| Government entity –TANESCO                             | 374,815             | 227,367          | 374,815          | 227,367          |
|                                                        | <b>423,578</b>      | <b>293,541</b>   | <b>423,578</b>   | <b>293,541</b>   |
| <b>Outstanding balances (due to related parties)</b>   |                     |                  |                  |                  |
| <b>Payables and amounts owed to related parties</b>    |                     |                  |                  |                  |
| Amounts payable to subsidiary – TANOIL                 |                     |                  | 5,000            | 5,000            |
| Amounts payable to subsidiary – GASCO                  |                     |                  | 1,500            | 1,500            |
| Royalty payable to Ministry of Energy and Minerals     | 21,923              | 23,275           | 21,923           | 23,275           |
| License fees payable to MEM                            | 2,606               | 2,606            | 2,606            | 2,606            |
| Training fees payable                                  | -                   | 746              | -                | 746              |
| Gas sale due to Government                             | 78,502              | 30,076           | 78,502           | 30,076           |
|                                                        | <b>103,031</b>      | <b>56,703</b>    | <b>109,531</b>   | <b>63,203</b>    |
| <b>Borrowings</b>                                      |                     |                  |                  |                  |
| TIB Loan (Note 30 (c))                                 | 71,392              | 62,727           | 71,392           | 62,727           |
| Government on-lent borrowings (Note 30 (a) and (b))    | 3,029,472           | 2,898,401        | 3,029,472        | 2,898,401        |
|                                                        | <b>3,100,864</b>    | <b>2,961,128</b> | <b>3,100,864</b> | <b>2,961,128</b> |

**Directors and key management personnel remuneration**

| <b>Consolidated</b> | <b>Salary and post-retirement benefits</b> |               | <b>Fees and Sitting allowances</b> |               | <b>Social security costs (defined contribution scheme)</b> |               |
|---------------------|--------------------------------------------|---------------|------------------------------------|---------------|------------------------------------------------------------|---------------|
|                     | <b>2018</b>                                | <b>2017</b>   | <b>2018</b>                        | <b>2017</b>   | <b>2018</b>                                                | <b>2017</b>   |
|                     | <b>Tzs 'm</b>                              | <b>Tzs 'm</b> | <b>Tzs 'm</b>                      | <b>Tzs 'm</b> | <b>Tzs 'm</b>                                              | <b>Tzs 'm</b> |
| Key management      | 548                                        | 795           | 197                                | -             | 82                                                         | 119           |
| Directors           | -                                          | -             | 127                                | 242           | -                                                          | -             |
| <b>Total</b>        | <b>548</b>                                 | <b>795</b>    | <b>324</b>                         | <b>242</b>    | <b>82</b>                                                  | <b>119</b>    |
| <b>Separate</b>     |                                            |               |                                    |               |                                                            |               |
| Key management      | 548                                        | 795           | 197                                | -             | 82                                                         | 119           |
| Directors           | -                                          | -             | 127                                | 242           | -                                                          | -             |
| <b>Total</b>        | <b>548</b>                                 | <b>795</b>    | <b>324</b>                         | <b>242</b>    | <b>82</b>                                                  | <b>119</b>    |

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 2018 (CONTINUED)**

#### **39. SUBSEQUENT EVENTS**

The Group and Corporation entered into a gas sale agreement with Dangote Cement Tanzania limited in August 2018 for supply of natural gas.

In August 2018 the Group and Corporation applied for tax amnesty from the Tanzania Revenue Authority (TRA) and received a waiver of interest and penalty amounting to 36,767 million on previous tax liabilities.

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.