KPC

ANNUAL REPORT & FINANCIAL STATEMENTS 2013

KENYA PIPELINE COMPANY LIMITED

Kenya Pipeline Company Limited Corporate Information

Directors	Mr. Daniel K. Wamahiu	Chairman - Appointed on 10th January 2014
	Mr. Samuel Manzi Maliki	Chairman - Retired on 10th January 2014
	Mr. Charles K. Tanui	Managing Director - Appointed 3rd January 2014
	Mr. Selest N. Kilinda	Managing Director Retired 26th June 2013
	Mr. Waithaka Kioni	Appointed 12th April 2012
	Mr. Joseph I. Kinyua	Retired 25th January 2013
	Mrs. Faith Jepkemboi Bett - Boinett	Appointed 12th April 2012
	Mrs. Nuru Bwanakombo Mzee	Appointed 12th April 2012
	Mrs. Habon Billow Farah	Appointed 13th November 2012
	Mr. Austin Kapere	Appointed 13th November 2012
	Mrs. Felicity N. Biriri	Appointed 25th January 2013
	Principal Secretary, National Treasury	Alternate - Geoffrey Mwau
	Principal Secretary, Energy & Petroleum	Alternate – Francis Ongaki
Company Secretary	Mrs. Flora Okoth P.O. Box 73442 - 00200 Nairobi	

Registered Office

Kenpipe Plaza, Sekondi Road
Off Nanyuki Road, Industrial Area
P.O.Box 73442 -00200, Nairobi

Auditors

The Auditor General
Kenya National Audit Office
P.O.Box 30084 – 00100, Nairobi

Principal Advocates

Mohamed Muigai Advocates
MM Chambers 4th Floor
P. O. Box 61323-00200, Nairobi

Ochieng, Onyango, Kibet & Ohaga
5th Floor Block C, ACK House
1st Ngong Avenue, Off Bishop's Road
P. O. Box 43170- 00100, Nairobi

Principal Bankers

Commercial Bank of Africa Limited
Wabera Street
P.O.Box 30437 – 00100, Nairobi

CfC Stanbic Bank Limited
CFC Centre Chiromo Road
P.O.Box 72833 – 00200, Nairobi

Equity Bank
Kenpipe Plaza, Sekondi Road
Off Lunga Lunga Road
P.O.Box 78569-00507, Nairobi

Citibank, N.A.
Citibank House, Upper Hill Road
P.O.Box 30711-00100, Nairobi

Table of Content

Vision

To be a globally predominant petroleum products handling and related services provider.

Mission

We efficiently receive, store, transport and deliver petroleum products and provide related services while adhering to international standards, exceeding customer expectations and optimising value through continuous innovation.

Motto

'To do our best always.'

Core Values

KPC fraternity shares the following core values:

Integrity
To maintain high standards of trust and honesty.

Transparency
To uphold openness in procedures and communication.

Accountability
To take responsibility for functions and actions.

Diligence
To work with zeal.

Team Spirit
Co-operation within the company and with the stakeholders.

Loyalty
Devotion to the organization.

Care for the Environment
To abide by stipulated environmental laws and regulations.

Board of Directors

Daniel K. Wamahiu - Chairman

Charles K. Tanui - Managing Director

Waithaka Kioni - Director

Nuru Bwanakombo - Director

Faith Jepkemboi Bett - Director

Felicity N. Biriri - Director

Habon Billow Farah - Director

Austin Kapere - Director

Eng. J. Njoroge - Principal Secretary, Energy and Petroleum

Kamau Thugge - Principal Secretary, National Treasury

Francis Ongaki - Alternate Director, Ministry of Energy and Petroleum

Geoffrey Mwau - Alternate Director, National Treasury

Flora Okoth - Company Secretary

Management Team

1. **Elias Karumi**
   Chief Manager-Technical

2. **Philip Kimelu**
   Operations Manager

3. **Bramwel Wanyalikha**
   Engineering Manager

4. **Felix Lerimoi**
   Internal Audit Manager

5. **Nicholas Gitobu**
   Procurement Manager

6. **Henry Lenairoshi**
   Ag HR Manager

7. **Tom Mailu**
   Corporate Planning Manager

8. **Jacinta Ochieng**
   Chief Corporate Communications Officer

9. **Jane Nakodony**
   Administration Manager

10. **David Keino**
   Chief Security Officer

11. **Francis Muraya**
   ICT Manager

12. **Charles Tanui**
   Managing Director

13. **Samuel Odoyo**
   Ag.Chief Manager, Finance & Strategy

14. **John Kithete**
   Business Development Manager

15. **Flora Okoth**
   Company Secretary

Not in Picture: Rose Ng'inja - Chief Manager, Administration and Human Resource

Chairman's Statement

Opening Remarks

I am privileged and honoured to present to you the Kenya Pipeline Company Limited (KPC) annual report for the period ended 30th June 2013. Noting that this is my first time to present this report as the Board Chairman of this strategic company, I wish to salute my predecessors for laying solid foundations of growth. Based on key performance indicators, it is evident that the Company has started reaping the benefits of the recent heavy investments in capacity enhancement projects, geared at increasing the Company's throughput.

During my tenure, I intend not only sustain to this momentum of growth, but also oversee enhanced capital projects implementation which will ensure KPC continues to play its strategic role of fuelling economic development in the country and beyond. I can therefore confidently state that the future outlook of the Company is exciting. Together with my team, we are committed in ensuring that customers' and shareholders' expectations are not only met but exceeded.

Macroeconomic View of the Economy

In the year under review, the Kenya economy was fairly stable, particularly in terms of interest and currency exchange rates which fluctuated marginally. With the recent oil and gas discoveries in Kenya and expected commercial exploitation, the Company has positioned itself to exploit the business opportunities that will arise from oil discoveries especially in infrastructural developments in the downstream market.

Company's Strategic Direction

In my tenure, I intent to have a paradigm shift in the strategic direction the Company would pursue in the medium and long term with an ultimate aim of seeing KPC as a premier oil and gas company in the world. This may sound ambitious but it is attainable. The Company intends to deliver its key strategies in geographical expansion and business leadership. This will be achieved by applying a market penetration strategy to increase its market share in petroleum transportation among other strategies. Further, the company intends to expand its services into new markets in line with the emerging developments in the oil and gas industry. Finally, the company will pursue an aggressive diversification strategy into new business lines.

In order to ensure these strategies succeed, we will endeavor to deepen modernization of systems and processes manned by skilled and professional human resource. Ultimately, we intend to create a KPC brand image which is reputable and bankable.

The Company has embarked on key capital projects, which, when completed, will be *"a game changer"* with an aim of enhancing its infrastructural capacity to meet the increased demand of refined petroleum in Kenya and beyond up to the year 2044. The realisation of these projects will play a significant role in the realisation of the Government's Vision 2030. Other projects are geared towards enhancing operational efficiency and technology upgrades.

Corporate Social Investment (CSI)

The company's CSI has been vibrant and as we move forward, this will be enhanced so as to adequately support projects and programmes that impact positively on all communities in its right of way in the fourteen (14) counties the pipeline system traverses. The CSI fund will be 1% of the company's pre-tax profits in the coming years.

Conclusion

In conclusion, I would like to express my sincere gratitude and appreciation to the Board of Directors, Management and the entire staff of KPC for their dedication and commitment in ensuring that the Company delivers on its objectives. Further, I wish to recognize the cordial working relationship with our key stakeholders.

Finally, I am grateful to all arms of the Government and especially the Ministry of Energy and Petroleum for their immense support which has led to the success of the Company, witnessed in the financial year under review.

Daniel Wamahiu Kiongo
Board Chairman.

Managing Director's Statement

Preamble

It gives me much pleasure to present to you the Kenya Pipeline Company annual report and operating results for the year ended 30th June, 2013. KPC is a strategic state corporation which plays a great role in both the local and regional economies based on our core mandate which is to receive, transport, and dispense petroleum products through a pipeline system.

I am pleased to note that the Company has continued to record impressive financial performance in the year under review due to prudent financial management, dedicated staff and effective guidance from the board of directors. Further, the company realised full utilization of the Nairobi-Eldoret parallel pipeline which enhanced product availability and reliability in Western Kenya depots.

The highlights of the key performance indicators is as presented below:

Financial Performance

The Company posted a **2.5%** growth in Pre-Tax Profit of **Kshs. 8 billion** for the financial year ended 30th June 2013 compared to **Kshs 7.8 billion** in FY 2011/12.

Throughput

During the period under review, the Company recorded a significant growth in domestic throughput volumes to **5,055, 838 m3** in FY 2012/13 from **4, 536,097m3** in FY 2011/12 equivalent to a growth of **11.5%.**
With respect to domestic throughput, it increased from **3,031,590m3** for the year ended 30th June 2012 to **3,086,607m3** for the year ended 30th June 2013.
Export throughput increased from **1,504,507m3** for the year ended 30th June 2012 to **1,969,231m3** for the year ended 30th June 2013. The increased throughput is attributable to both investments in the enhancement of pipeline infrastructure and improved operational efficiency.

Revenue

Throughput revenue increased to **Kshs 18.5 billion** in the year under review from **Kshs 16.5 billion** recorded in FY 2011/12 equivalent to a significant **12%** increase.

Operating Expenditure

While the company operated within the budgeted expenditure during the year, total operating expenditure rose by **12%** to **Kshs. 11 billion** from the previous year's **Kshs 9.6 billion**. The apparent increase in the operating expenditure is as a result of high depreciation charges arising from the revaluation of the fixed assets. In addition, the general increase in inflation levels impacted general operations, maintenance and employee expenses.

Financial Position

IIn spite of heavy cash outflows during the year, the company closed with cash reserves of **Kshs 4.4 billion**. The company fast-tracked the repayment of **Kshs 8.2 billion** loan taken earlier in 2010 for the construction of the Nairobi -Eldoret parallel pipeline and the loan repayment was completed in June 2013 ahead of the scheduled completion time.

The company's strong financial position, robust cash flow and zero leverage will support the planned capacity enhancement projects.

The company met all its statutory requirements during the year under review and in particular remitted **Kshs 2.5 billion** to the Kenya Revenue Authority in corporation tax payments. In addition, the Company paid dividends to the National Treasury amounting to **Kshs 680 million** for the two years i.e. FY2010/2011 and FY2011/2012.

Key Capital Projects

During the period under review, the company laid firm measures for the implementation of key capital projects whose status is given below:

1. Replacement of the Mombasa–Nairobi Pipeline (Line 5): This is a 20 inch diameter pipeline which will replace the existing 14 inch pipeline which has been in existence for over 36 years to meet projected demand up to the year 2044. The project is expected to be completed in FY 2016/2017.

2. Construction of a Parallel Pipeline from Sinendet to Kisumu: This is a 10 inch pipeline measuring about 122km from Sinendet to Kisumu which will be operating parallel to the existing 6 inch diameter pipeline (Line 3). It will tee-off at Sinendet and is expected to increase product supply to Kisumu depot. The project is expected to be completed in FY 2016/2017.

3. The Nairobi Liquefied Petroleum Gas (LPG) Storage and Bottling Facility: This is one of the key flagship projects to be implemented under the Kenya Vision 2030. The development of the Nairobi LPG facility will include construction of LPG storage facility with a net storage capacity of 2,220MT, with provision for future expansion of the storage capacity to 4,520MT, cylinder filling plant and associated facilities. The project will enhance LPG storage and distribution in Nairobi and ensure availability and accessibility to LPG at cost effective prices, promote use of LPG as a house hold fuel among the urban poor and the rural population and enhance socio-economic development. Sourcing of the land is at advanced stage.

4. Off taking of Liquefied Natural Gas (LNG) for Electricity Generation: KPC has been mandated by the Government of Kenya to purchase LNG from Qatar and sell it to independent power producers. The project is aimed at producing additional 1,050 megawatts towards achieving the target of 5,000 megawatts in the National Grid by 2016. Currently, discussions and negotiations for the price of the LNG are ongoing which are to be undertaken in tandem with the receiving tanks at Dongo Kundu, Mombasa.

5. Construction of Additional Storage Tanks at Nairobi Terminal: This will involve construction of two additional tanks for diesel to provide sufficient capacity for receipt of higher volumes of Automotive Gas Oil (AGO), Motor Spirit Premium (MSP) and Jet A-1 products. The project will enhance operational flexibility, capacity of the product receipt and evacuation in Nairobi.

6. Construction of Additional Loading Arms at Eldoret: KPC is installing additional truck loading facilities at Eldoret Depot to cope with the rising demand for petroleum products in the Great Lakes Region. The objective is to enhance the supply of petroleum products for Western Kenya and the neighbouring countries.

7. Proposed Jet A1 Depot within Jomo Kenyatta International Airport: This entails construction of a completely new independent terminal away from the existing depot at Embakasi in line with the expansion of the Jomo Kenyatta International Airport (JKIA).

8. Hydrant Monitoring System at Jomo Kenyatta International Airport and Moi International Airport: In efforts to ensure the accuracy and reliability of product deliveries at the local international airports, KPC is in the process of rolling out a system that will be used to monitor and account for fuel uplifts at the dispensers real-time.

9. Security Enhancement Project (SEP): KPC is enhancing security of all its installations through increased use of technology.

10. Transport and Schedulers Workbench (TSW): KPC has embarked on modernizing and automating the pipeline processes and integrating existing systems through SAP Mobility Solutions.

11. Eldoret-Kampala-Kigali Refined Petroleum Products Pipeline: The Government of Kenya (GoK), Government of Rwanda (GoR) and the Government of Uganda (GoU) intend to develop a pipeline between Eldoret in Kenya to Kigali in Rwanda through Kampala in Uganda for transportation of petroleum products. KPC is part of the technical team.

12. Proposed-Hoima-Lokichar-Lamu Crude Oil Pipeline: The proposed Hoima-Lokichar-Lamu Crude Oil Pipeline is to be implemented jointly by the governments of Kenya, Uganda and Rwanda. KPC is involved as an experienced partner in pipeline management to ensure early monetization of the commercial discoveries of crude oil in Lokichar Basin in Turkana County.

Appreciation

On behalf of the Board and management team, I would like to extend my deepest gratitude to all our business partners for their role in the achievement of the year's performance and especially the oil marketers without whose patronage these results could not have been possible. I also take this opportunity to appreciate government departments like the Ministry of Energy and Petroleum and the National Treasury for their support in our business operations. The Board and staff of the Kenya Pipeline Company cannot go unmentioned; they have worked tirelessly to ensure services were delivered at all times

Conclusion

The company remains committed to ensuring reliable and ample supply of white petroleum products in Kenya and the region at large and will face the future with renewed vigour, focus and total commitment to achieve our set goals and objectives.

Charles K. Tanui
Managing Director

Report of the Directors

The directors present their report together with the audited financial statements for the year ended 30th June 2013.

Activities

The principal activity of the company is transportation and storage of refined petroleum products.

Results	**Ksh'000'**
Profit Before Taxation	8,048,789
Tax Charge	**(1,843,274)**
Profit For The Year Transferred To Revenue Reserve	6,205,515

Dividend

The directors do not recommend payment of a dividend in respect of the year because the return on investment was below 15% (2012 – Ksh 380,000,000). Further, the Company is undertaking major capital projects which require significant cash out flow.

Directors

The current Board of Directors is shown on page 5.

Auditors

The Auditor General, Kenya National Audit Office.

By Order of the Board

Flora Okoth
Company Secretary
Nairobi 2014

Statement of Directors' Responsibilities

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

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or errors, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

.... Director

.... Director

Corporate Governance Statement

Kenya Pipeline Company Limited is committed to implementing good corporate governance principles and adheres to integrity, high ethical values and professionalism in all of its activities. As at 30th June 2013, the Board was made up of ten (10) members comprising of a non-executive Chairman, the Principal Secretary, Treasury, the Principal Secretary, Ministry of Energy, the Chief Executive Officer and six (6) independent directors with various professional backgrounds, vast experience and expertise. The Non-Executive Directors are independent of Management. The Board has four committees that exercise delegated responsibilities, namely the Audit, Human Resource, Technical and Finance Committees.

The Boards' skills and collective experience engenders healthy oversight over Management. The division of responsibilities between the Chairman and the Chief Executive is clearly established and adhered to. The Board members are provided with necessary resources to undertake their duties. Appropriate training is available to all Directors on appointment and on an on-going basis as required. The Terms of Reference for each of the Board Committees are available.

Board and Committee papers are supplied to members on time; in appropriate form and quality to facilitate effective deliberations. Directors have access to relevant information through the office of the Chief Executive and the Company Secretary.

Board meetings are held in line with the annual calendar except when critical business necessitates ad hoc meetings. The following meetings were held during the year ending 30th June 2013.

Meeting	No. of Meetings	Membership	Average Attendance %
Full Board Meeting	9	10	94
Finance Committee	4	5	100
Human Resource Committee	6	5	90
Technical Committee	5	5	100
Audit Committee	9	5	80

To the best of our knowledge, no situations of conflict arose at the Board.

Flora Okoth

Company Secretary

Truck loading at Kisumu Depot

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON KENYA PIPELINE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2013

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Pipeline Company Limited set out on pages 1 to 56, which comprise the statement of financial position as at 30 June 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public audit Act, 2003.

Auditor- General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 (2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229 (7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Trade and Other Receivables

As similarly reported in 2011/2012, and disclosed under Note 17 to the financial statements, the trade and other receivables balance of Kshs.7,893,802,000 recoverable within one year, includes an amount of Kshs.3.4 billion (2011/2012 – Kshs.3.4 billion) due from an oil marketing company and which amount has been subject of a court case. The case was determined in favour of the oil marketing company and an award of Kshs.1,864,494,783 and USD.37,909,879 granted in December 2009. However, the management on its part appealed against the judgement in the High Court. The Court in January 2012 ruled in favour of the Company and set aside the award and further ordered that the matter be referred back to the arbitrator's tribunal for re -consideration. However, each party decided to file an appeal in the Court of Appeal, both of which are pending hearing and determination. Until the matter is fully concluded, the recoverability of the amount of Kshs.3.4 billion remains doubtful.

2. Liability to Financiers

(i) As previously reported, following irregular release of products to one of the oil marketing companies, six financiers represented by four international creditors and two local banks have since lodged claims for stock totalling to 122,217.57 metric tons, with an estimated value of Kshs.7,600,000,000. According to information available, two cases were arbitrated and finalized in the year 2010 and awards of Kshs.1,875,271,636 and Kshs.195,033,364 both totalling Kshs.2,070,305,000 made. Other records indicate that out of the above amount of Kshs.2,070,305,000 only a sum of Kshs.2,011,423,642 was settled between July and November 2010.

(ii) Arising from the unresolved cases, and as reported in 2011/2012, the Company has disclosed under Note 30, a contingent liability totalling Kshs.1,545,442,000 pending law suits.

In the circumstances, it was not possible to confirm correctness of the total liabilities of the Company as at 30 June 2013.

3. Non-Current Assets

Included in the non-current assets balance of Kshs.45,622,950,000 as at 30 June 2013 is an amount of Kshs.1,746,473,000 in respect of capital work in progress. However, it was noted that the capital work in progress balance of Kshs.1,746,473,000 includes an amount of Kshs.1,585,351,341 or 90% which relates to projects which have since stalled. No explanation was given for starting projects which are subsequently abandoned before they are completed.

Further, assets valued at Kshs.1,852,856,200 as per the valuers report were not uploaded into the assets register and are omitted from the financial statements.

In the circumstances, it has not been possible to confirm correctness and accuracy of the non-current assets balance of Kshs.45,622,950,000 as at 30 June 2013.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for the Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2013, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap.486 of the Laws of Kenya.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenya Companies Act, I report based on my audit, that:

i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;

ii. In my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books; and,

iii. The Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

16 May 2014

Statement of Comprehensive Income for the Year Ended 30th June 2013

	Note	2013 Kshs '000'	2012 Kshs '000'
Revenue	4	18,487,064	16,480,628
Direct Costs	5	(7,230,469)	(6,537,834)
Gross Profit		**11,256,595**	**9,942,794**
Other Income	6	247,891	293,050
Administration Expenses	7	(3,517,209)	(3,072,106)
Operating Profit		**7,987,277**	**7,163,738**
Net Finance Income	9	61,512	687,091
Profit Before Taxation		**8,048,789**	**7,850,829**
Taxation Charge	10	(1,843,274)	(2,237,381)
Net Profit After Taxation		**6,205,515**	**5,613,448**
Earnings Per Share (Kshs)	11	341	309

Statement of Financial Position as at 30th June 2013

Assets	Note	2013 Kshs '000'	2012 Kshs '000'
Non-Current Assets			
Property, Plant and Equipment	13	40,512,672	29,985,536
Prepaid Operating Lease Rentals	14	4,877,229	38,223
Intangible Assets	15	6,910	109,393
Investments	16	67,032	67,032
Trade and Other Receivables	17	159,107	155,475
		45,622,950	**30,355,659**
Current Assets			
Inventories	18	1,128,027	1,025,571
Trade and Other Receivables	17	7,824,695	6,474,012
Taxation Recoverable	19	991,313	46,719
Retirement Benefit Recoverable	24	152,200	152,200
Government Securities	20	100,000	100,000
Short Term Deposits	21(a)	1,982,203	3,567,069
Bank and Cash Balances	21(b)	2,336,745	3,977,012
		14,515,183	**15,342,584**
Non-Current Assets Classified As Held For Sale	22	23,255	35,361
		14,538,438	**15,377,944**
Total Assets		**60,161,388**	**45,733,604**
Shareholder's Funds and Liabilities			
Capital and Reserves			
Share Capital	23	363,466	363,466
Share Premium		512,289	512,289
Revenue Reserve		39,074,689	33,249,174
Revaluation Reserve		16,780,968	-
		56,731,412	**34,124,929**
Non-Current Liabilities			
Deferred Taxation	25	883,979	632,284
Long Term Loan	26(c)	-	6,450,541
		883,979	**7,082,825**
Current Liabilities			
Trade and Other Payables	26(a)	2,545,997	2,382,838
Tax Payable	19	-	-
Dividend Payable	26(b)	-	300,000
Current Loan	26(c)	-	1,843,012
		2,545,997	**4,525,850**
Total Shareholder's Funds and Liabilities		**60,161,388**	**45,733,604**

The financial statements on pages 20 to 51 were approved by the Board of Directors on the 28th November 2013 and signed on their behalf by:

Director

Director

Statement of Changes in Equity for the Year Ended 30th June 2013

	Share Capital Kshs '000'	Share Premium Kshs '000'	Revaluation Reserve Kshs '000'	Revenue Reserve Kshs '000'	Total Equity Kshs '000'
At 1st July 2011	**363,466**	**512,289**	**-**	**27,634,101**	**28,509,856**
Profit For The Year				5,613,447	5,613,447
At 30th June 2012	**363,466**	**512,289**	**-**	**33,247,548**	**34,123,303**
Restatement: Overstated Depreciation Charge Prior Year FY2011	-	-	-	1,626	1,626
At 1st July 2012-Restated	**363,466**	**512,289**	**-**	**33,249,174**	**34,124,929**
Fixed Assets Revaluation	-	-	16,780,968	-	16,780,968
Profit For The Year - 2013	**-**	**-**	**-**	**6,205,515**	**6,205,515**
Prior Year Adjustment (Dividend Paid FY - 2012)	-	-	-	(380,000)	(380,000)
At 30th June 2013	**363,466**	**512,289**	**16,780,968**	**39,074,689**	**56,731,412**

Statement of Cash Flows
for the Year Ended 30th June 2013

	Note	2013 Kshs'000	2012 Kshs'000
OPERATING ACTIVITIES			
Cash Generated From Operations	27(a)	9,074,285	9,901,726
Corporation Taxes Paid	19	(2,536,172)	(2,919,990)
Net Cash Generated From Operating Activities		**6,538,113**	**6,981,736**
INVESTING ACTIVITIES			
Purchase Of Property, Plant and Equipment	13	(818,118)	(5,166,040)
Redemption/(Purchase) Of Government Securities –Net		-	-
Proceeds On Disposal Of Assets Held For Sale		8,760	9,100
Proceeds On Disposal Of Property, Plant and Equipment		16,319	27,292
Net Cash Flows Used In Investing Activities		**(793,039)**	**(5,129,648)**
FINANCING ACTIVITIES			
Dividends Paid		(680,000)	(150,000)
Dividends Received (Euro Bank)		-	3,000
Loans Received		-	-
Loans Repaid		(8,290,208)	(915,064)
Net Cash Flows Used In Financing Activities		**(8,970,208)**	**(1,062,064)**
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(3,225,135)	790,025
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		7,544,082	6,754,056
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	27(b)	**4,318,948**	**7,544,082**

Pipe stringing during Line 4 construction

Notes to the Financial Statements

1. Accounting Policies

a) Statement of Compliance

The Financial statements are prepared in accordance with and comply with International Financial Reporting Standards.

b) Basis of Accounting

The company prepares its financial statements under the historical cost convention. The principal accounting policies adopted in the preparation of these financial statements are set out below:

i. Revenue Recognition

Revenue represents invoiced value of services rendered during the year in relation to transportation and storage of petroleum products, net of value added tax.Local and export service fees are recognized based on deliveries made to customers on a monthly basis. The storage fee is recognized on an accrual basis once customer products are delivered to the company's storage facilities. Amounts become payable once sales invoices are raised and delivered to customers. Interest income is recognized as it accrues.

ii Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight line basis at annual rates estimated to write off carrying values of the assets over their expected useful lives. The annual depreciation rates used are:

Freehold Land	Nil
Buildings - Residential	3% or period of lease whichever is less
Buildings - Industrial	4% or period of lease whichever is less
Show Ground Pavilion, Wooden and Fences	20%
Pipeline and Tanks	4%
Pumps, Transformers and Switch-Gear	5%
Furniture, Fittings and Equipment	10%
Roads	20%
Helicopters	20%
Motor Vehicles	25%
Computers	33%

iii. Prepaid Operating Lease Rentals

Payments to acquire interests in leasehold land are treated as prepaid operating lease rentals. They are stated at historical cost and are amortized over the term of the related lease.

iv. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the company as the lessee. All other leases are classified as operating leases.
Rentals payable under operating leases are amortized on the straight line basis over the term of the relevant lease.

Notes to the Financial Statements

v. Impairment

At each balance sheet date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

vi. Assets Held for Sale

Assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Assets (and disposal groups) classified as held for sale are measured at the lower of the assets previous carrying amount and fair value less costs to sell.

vii. Inventories

Inventories are valued at the lower of cost and net realizable value. Cost comprises expenditure incurred in the normal course of business, including direct material costs on a weighted average basis. Net realizable value is the price at which the stock can be realized in the normal course of business after allowing for the costs of the realization and, where appropriate, the cost of conversion from its existing state to a realizable condition. Provision is made for obsolete, slow moving and defective stocks as and when determined. Fuel stocks belong to the shippers as per Transportation and Storage Agreement signed between company and the shippers. Fuel stocks are therefore not included in the financial statements.

viii. Intangible Assets

Expenditure on acquired computer software programs is capitalized and amortized on the straight-line basis over their expected useful lives, normally not exceeding three years.

ix. Retirement Benefit Obligation

Until 30 June 2006, the company operated a defined benefit contribution pension scheme for eligible employees. With effect from 1 July 2006, the scheme was closed to new members and a defined contribution pension scheme was established.

The assets of these schemes are held in separate trustee administered funds. The defined contribution scheme is funded by contributions from both the employees and employer. For the defined contribution pension scheme, the cost of providing benefits is limited to the company contributions.

Notes to the Financial Statements

For the defined benefit pension scheme, the cost of providing benefits was determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial surpluses and deficits which exceed 10 per cent of the greater of the present value of the Company's pension obligations and the fair value of plan assets were amortized over the expected average-remaining working lives of the participating employees. Past service cost was recognized immediately to the extent that the benefits are already vested, otherwise it was amortized on the straight-line basis over the average period until the amended benefits become vested.

The amounts recognized in the balance sheet represent the present value of the defined benefit obligations as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and reduced by the fair value of plan assets. The company's contributions in respect of retirement benefit costs are charged to the income statement in the year to which they relate. The company also makes contributions to National Social Security Fund, a statutory defined contribution pension scheme. The company's obligations under the scheme are limited to specific contributions legislated from time to time and are currently limited to a maximum of Kshs 200 per month per employee.

x. Taxation

Current taxation is provided on the basis of operating results for the year as shown on the financial statements adjusted in accordance with the tax legislation. Deferred taxation is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred taxation. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized.

xi. Dividends

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established. Dividends payable are charged to equity in the period in which they are declared. Proposed dividends are not accrued for until ratified in an annual general meeting.

xii. Financial Instruments

Investments

Investments are initially measured at fair value, plus directly attributable transaction costs. At subsequent reporting dates, debt securities that the Company has the express intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortized cost using the effective interest rate methods, unless any impairment loss is recognized to reflect irrecoverable amounts. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired.

Notes to the Financial Statements

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For sale investments, gains and losses arising from changes in fair value are recognized directly to equity, until the available for security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to any insignificant risk of changes in value.

Financial Liabilities and Equity

Financial liabilities and equity instruments issued by the company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

a. Borrowings

Interest-bearing loans and bank overdrafts are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized over the term of the borrowings in accordance with the company's accounting policy for borrowing costs.

b. Trade Payables

Trade payables are stated at their nominal value.

c. Equity Instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

xiii. Provision for Liabilities and Charges

Employees' entitlements to annual leave are recognized when they accrue to employees. Provision is made for the estimated liability in respect of annual leave on the balance sheet date.

xiv. Currency Translations

Assets and liabilities that are denominated in foreign currencies are translated into Kenya Shillings at the rates of exchange ruling on the balance sheet date. Transactions during the year, which are expressed in foreign currencies, are translated at the rates ruling on the dates of the transactions.
Gains and losses on exchange are dealt with in the income statement.

Notes to the Financial Statements
2. Financial Risk Management Objectives and Policies

Capital Risk Management

The company manages its capital to ensure that it is able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the company consists of cash and cash equivalents and equity attributed to equity holders comprising issued capital, share premium and revenue reserves.

Gearing ratio

The gearing ratio at the end of the year was as follows;

As of 30th June	2013 Kshs '000'	2012 Kshs '000'
Borrowings	-	(8,293,553)
Bank And Cash Balances	2,336,745	3,977,012
Net Borrowings	2,336,745	(4,316,541)
Equity	56,281,480	34,423,303
Net Debt To Equity Ratio	N/A	-12.5%

Financial Risk Management Objectives

The company's Treasury function provides services to the business, co-ordinates access to domestic financial markets, monitors and manages the financial risks relating to the operations of the company. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis.
The company's Treasury Function, headed by the Chief Accountant - Finance and reporting to the Finance Manager, develops and monitors risks and policies implemented to mitigate risk exposures.

Market Risk

The activities of the company expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk.

Notes to the Financial Statements

Foreign Currency Risk Management

Exposure to exchange rate fluctuations arising from international trading commitments is minimized by utilizing foreign currency reserves to settle maturing obligations. Revenue is spread on a 50-50 basis in local and foreign currencies (USD). As at end of the year, the carrying amounts of the company's foreign currency denominated monetary assets and monetary liabilities are as follows:

	Liabilities		Assets	
	2013 Kshs'000'	2012 Kshs'000'	2013 Kshs'000'	2012 Kshs'000'
US Dollars	910,635	80,068	4,333,746	5,017,561
British Pound	2,508	10,027	-	-
HKD	195	198	-	-
Euro	35,353	2,044	-	-
ZAR	-	16	-	-

Foreign Currency Sensitivity Analysis

The main currency exposure that the company is exposed to relates to the fluctuation of the Kenya Shillings exchange rates with the US Dollar and Euro currencies. The table below details the company's sensitivity to a 10% increase and decrease in the Kenya Shilling against the relevant foreign currencies. The sensitivity analysis includes only the outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the Kenya Shilling strengthens 10% against the relevant currency. For a weakening shilling against the relevant currency, there would be an equal opposite impact on the profit and other equity, and the balances below would be negative.

	USD		EURO		TOTAL	
Foreign Currency Sensitivity Analysis	2013 Kshs'000'	2012 Kshs'000'	2013 Kshs'000'	2012 Kshs'000'	2013 Kshs'000'	2012 Kshs'000'
Profit or Loss (With 10% change)	433,374	493,749	-	204	433,374	493,953

The US Dollar impact is mainly attributed to the exposure on outstanding US Dollar receivables at year end while the Euro impact arises from the exposure on outstanding payables at the year end. The sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Notes to the Financial Statements

Interest Risk Management

The company is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by the company by maintaining an appropriate mix between fixed and floating rate borrowings.

Interest Rate Sensitivity Analysis

The analysis is prepared assuming the amount of liability outstanding at the Statement of Financial Position date was outstanding for the whole year. If interest rates had been 0.5% higher/lower and all other variables were held constant, the company's profit before tax for the year ended 30th June 2013 would decrease/increase by Kshs 4 million (2012 – Kshs 41 million).

Credit Risk Management

Credit risk refers to the risk of financial loss to the company arising from a default by counterparty on its contractual obligations. The company's policy requires that it deals only with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The company also uses other publicly available financial information and its own trading records to rate its major customers. The company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by debt control unit.

Trade receivables consist of major players in the petroleum oil industry. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee is requested.

The company is exposed to a significant credit risk by a single counterparty as disclosed in Note 17. The credit risk on liquid funds and derivative financial instruments is however limited because the counterparties are banks with high credit-ratings.

The company's maximum exposure to credit risk as at 30^{th} June 2013 is analyzed in the table below:

	Fully Performing Kshs '000'	Past due Kshs '000'	Impaired Kshs '000'	Gross Total Kshs '000'
Trade Receivables	1,820,076	4,041,066	211,161	6,072,303
Other Receivables	1,271,934	850,726	-	2,122,660
	3,092,010	**4,891,792**	**211,161**	**8,194,963**

Notes to the Financial Statements

The company's maximum exposure to credit risk as at 30 June 2012 is analysed in the table below:

	Fully Performing Kshs '000'	Past due Kshs '000'	Impaired Kshs '000'	Gross Total Kshs '000'
Trade Receivables	1,522,591	3,911,599	(210,565)	5,223,625
Other Receivables	1,498,019	118,408	-	1,616,427
	3,020,610	**4,030,007**	**(210,565)**	**6,840,052**

The default risk on the customers under the fully performing category is very low as they are active in paying their debts as they continue trading. The past due amounts have not been provided for because management and the board believe the amounts are recoverable.

Liquidity Risk Management

The company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in financing facilities section of this note, is a listing of additional un-drawn facilities that the company has at its disposal to further reduce liquidity risk.

	Within 12 Months Kshs '000'	Over 12 Months Kshs '000'	Total Kshs '000'
At 30 June 2013:			
Due to Related Parties	188,840	81,766	270,606
Trade Payables	1,526,993	-	1,526,993
Other Payables And Accruals	757,357	-	757,357
	2,473,190	**81,766**	**2,554,956**
At 30 June 2012:			
Due to Related Parties	154,819	81,766	236,585
Trade Payables	1,044,885	-	1,044,885
Other Payables And Accruals	1,101,368	-	1,101,368
	2,301,072	**81,766**	**2,382,838**

Notes to the Financial Statements

3. Critical Accounting Estimates and Judgments

In the process of applying the company's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within current and future financial years. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The critical areas of accounting estimates and judgments in relation to the preparation of these financial statements are as set out below:

Impairment of Assets

At each balance sheet date, the company reviews the carrying amount of its financial, tangible and intangible assets to determine whether there is any indication that the assets have suffered impairment. If any such indication exists, the assets recoverable amount is estimated and an impairment loss is recognized in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

Impairment Losses on Trade and Other Receivables

The company reviews its trade and other receivables to assess impairment regularly. In determining whether an impairment loss should be recorded in the income statement, the company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the receivables, before a decrease can be identified. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers or local economic conditions that correlate with defaults on assets in the company. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Notes to the Financial Statements

4. Revenue

	2013 Kshs'000'	2012 Kshs'000'
Local Service Fees	6,701,655	6,181,229
Export Service Fees	10,371,450	8,997,786
Kipevu Oil Storage Facility Fees	1,307,363	1,123,540
Penalties on Overstayed Product	106,597	178,073
	18,487,065	**16,480,628**

5. Direct Costs

	2013 Kshs '000'	2012 Kshs '000'
Pipeline Maintenance Staff Costs	1,746,507	1,612,682
Depreciation (Note 13)	2,220,770	1,965,844
Pipeline Maintenance Costs	958,040	765,239
Electricity and Fuel	1,915,984	1,826,270
Insurance	244,302	236,925
Other Maintenance Costs	30,209	22,500
Amortization of Prepaid Lease Rentals (Note 14)	7,502	741
Amortization of Intangible Assets(Note 15)	107,115	107,633
	7,230,469	**6,537,834**

6. Other Income

	2013 Kshs '000'	2012 Kshs '000'
Helicopter Income	-	3,509
Rent Income	63,720	71,335
Gain on Disposal of Property, Plant & Equipment & Leasehold Land	16,319	28,163
Hydrant Income	53,989	55,584
Income From Communication Equipment	450	2,283
Retirement Benefit Scheme Actuarial Surplus/(Deficit)	-	-
Miscellaneous Income	113,413	132,175
	247,891	**293,050**

Notes to the Financial Statements

7. Administration Expenses

	2013 Kshs '000'	2012 Kshs '000'
Administrative Staff Costs	2,873,680	2,285,082
Other Office and General Expenses	278,337	304,208
Travelling and Entertainment	22,601	18,256
Advertising and Printing Expenses	80,166	90,671
Rent and Rates	3,435	3,648
Consultancy Fees	21,466	80,837
Telephone and Postage	20,879	19,080
Legal and Professional Expenses	47,517	98,657
Court Awards	-	26,608
Licenses and Other Fees	75,654	-
Motor Vehicle Expenses	54,146	101,678
Buildings Repairs And Maintenance	3,246	1,300
Bank Charges	7,991	5,112
Auditors Remuneration	4,837	6,703
Prior Year Overprovision Reversed in Current Year	(4,851)	-
Directors: - Director's fee	7,560	8,400
- Other Emoluments (Including MD)	14,276	11,415
- Sitting /Duty Allowance	6,268	10,451
	3,517,208	**3,072,106**

Notes to the Financial Statements

8. Staff Costs

	2013 Kshs '000'	2012 Kshs '000'
Salaries and Wages	3,844,749	3,248,585
Group Life and Medical Cover	298,571	256,307
Pension-Company Contribution	245,331	218,297
Staff Welfare	156,831	120,474
Training	66,601	45,848
Recruitment Costs	655	506
NSSF-Company Contribution	4,247	4,165
Staff Uniforms	3,202	3,581
	4,620,187	**3,897,764**
Split As Follows:		
Direct Staff Costs (Note 5)	1,746,507	1,612,682
Administrative Staff Cost (Note 7)	2,873,680	2,285,082
	4,620,187	**3,897,764**

9. Net Finance Income

	2013 Kshs '000'	2012 Kshs '000'
Interest Income on Deposits	366,723	388,785
Foreign Exchange Gains/(Losses)	(64,534)	516,013
	302,189	**904,798**
Interest Expense:		
Loan Interest	(240,372)	(214,736)
Interest on Bank Overdraft	(305)	(2,970)
	(240,677)	**(217,706)**
	61,512	**687,092**

Notes to the Financial Statements

10. Taxation

a) Tax Charge	2013 Kshs '000'	2012 Kshs '000'
Current Taxation Based on Taxable Profit for the Year at 30% (Note 19)	2,212,670	2,226,914
Deferred Tax Charge (Note 25)	251,695	10,467
Prior Year Adjustment	-	-
Tax Overpayment from FY 2010 – Sect 90 Application	(621,091)	-
	1,843,274	**2,237,381**
b) Reconciliation Of Expected Tax Based On Accounting Profit To Tax		
Accounting Profit Before Tax	**8,048,789**	**7,850,829**
Tax at the Applicable Rate of 30%	2,414,636	2,355,249
Tax Effect of Expenses Not Deductible for Tax Purposes	1,350,397	136,920
Income not Subject to Tax	(1,214,338)	(209)
Prior Year Adjustments	(86,330)	(254,578)
Tax Overpayment from FY 2010 – Sect 90 Application	(621,091)	-
	1,843,274	**2,237,381**

11. Earnings Per Share – Basic and Diluted

	2013 Kshs'000'	2012 Kshs'000'
Net Profit After Taxation	6,205,515	5,613,447
Number of Ordinary Shares in Issue	18,173	18,173
Earnings Per Share - Kshs	341	309

Earnings per Share are calculated based on the profit attributable to shareholders divided by the number of ordinary shares in issue. Diluted Earnings per Share is the same as the Basic Earnings Per Share as there were no potentially dilutive instruments outstanding as at Statement of Financial Position date.

12. Dividends Per Share

Proposed dividends are not accounted for until they have been ratified at the Annual General Meeting. No dividend is to be proposed in respect of 2013 (2012 – Kshs. 380Million).

Notes to the Financial Statements

13. Property, Plant and Equipment

	Freehold Property	Buildings and Roads	Pipeline, Pumps & Tanks	Equipment, Furniture & Fittings	Helicopters	Motor Vehicles &Tractors	Capital Work-in-Progress	Total
Cost	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**
1st July 2011	**30,162**	**9,350,682**	**16,178,529**	**7,057,629**	**147,586**	**690,543**	**10,472,808**	**43,927,938**
Additions	-	-	65,658	84,624	-	93,682	4,922,075	5,166,040
Transfers from WIP	-	297,661	11,849,706	1,984,537	-	-	(14,131,904)	-
Disposals	-	-	-	-	-	(100,904)	-	(100,904)
30th June 2012	**30,162**	**9,648,343**	**28,093,893**	**9,126,791**	**147,586**	**683,321**	**1,262,979**	**48,993,074**
Restated: WIP Erroneously Depreciated	-	-	-	-	-	-	996	996
1st July 2012	**30,162**	**9,648,343**	**28,093,893**	**9,126,791**	**147,586**	**683,321**	**1,263,975**	**48,994,070**
Additions	-	-	100,879	146,362	-	83,706	482,498	813,445
Disposals	-	-	-	-	-	(9,605)	-	(9,605)
Revaluation	1,580	(3,492,268)	3,709,873	(4,735,092)	(22,586)	(81,837)	-	(4,620,331)
30th June 2013	**31,742**	**6,156,075**	**31,904,644**	**4,538,060**	**125,000**	**675,584**	**1,746,473**	**45,177,578**
Depreciation:								
1st July 2011	**-**	**3,720,005**	**8,055,255**	**4,741,462**	**147,586**	**477,753**	**-**	**17,142,194**
Charge for the Year	-	351,331	1,001,900	532,783	-	79,830	-	1,965,844
Eliminated on Disposal	-	-	-	-	-	(99,372)	-	(99,372)
30th June 2012	**-**	**4,071,468**	**9,057,155**	**5,274,246**	**147,586**	**458,211**	**-**	**19,008,665**
Restated: Overstated charge Prior year FY2011	-	(132)	-	-	-	-	-	(132)
1st July 2012	**-**	**4,071,337**	**9,057,155**	**5,274,246**	**147,586**	**458,211**	**-**	**19,008,534**
Charge for the Year	-	352,077	1,203,356	572,656	2,083	90,597	-	2,220,770
Eliminated on Disposal	-	-	-	-	-	(9,605)	-	(9,605)
Revaluation	-	(3,462,546)	(9,295,450)	(3,442,836)	(147,586)	(206,374)	-	(16,554,791)
30th June 2013	-	960,868	965,061	2,404,066	2,083	332,829	-	4,664,907
Net Book Value								
30th June 2013	**31,742**	**5,195,207**	**30,939,583**	**2,133,995**	**122,917**	**342,755**	**1,746,473**	**40,512,672**
30th June 2012	**30,162**	**5,577,007**	**19,036,738**	**3,852,545**	**-**	**225,110**	**1,263,975**	**29,985,536**

The Company commissioned M/S Tysons Limited to carry out a revaluation of all its assets in April 2012. The firm submitted its report in November 2012. According to their report, the value of assets was Kshs 42,236,955,600.00. As at 30th June 2013, the values incorporated in the Fixed Asset Register is Kshs 40,384,099,400.00 resulting in a net revaluation surplus of Kshs 16,780,968,000.00. The balance will be uploaded in the financial year 2013/2014.


Nairobi Terminal product transfer lines to oil marketers' depot and fire-fighting water system

Notes to the Financial Statements

14. Prepaid Leasehold Land

COST	2013 Kshs '000'	2012 Kshs '000'
Beginning of the Year	351,817	351,817
Revaluation	4,823,906	-
Provision for Loss of Leasehold Land	(291,671)	(291,671)
Adjusted Cost at Beginning of the Year	**4,884,052**	**60,146**
Amortization		
Beginning of the Year	(21,923)	(21,182)
Revaluation	22,602	-
Charge for the Period	(7,502)	(741)
At the End of the Year	**(6,823)**	**(21,923)**
NET BOOK VALUE	**4,877,229**	**38,223**

15. Intangible Assets

COST	2013 Kshs '000'	2012 Kshs '000'
At the Beginning of the Year	360,368	360,368
Additions : From WIP	4,673	-
Direct Purchase	-	-
At the End of the Year	**365,041**	**360,368**
AMORTIZATION		
At the Beginning of the Year	(250,976)	(143,343)
Charge for the Period	(107,155)	(107,633)
At the End of the Year	**(358,131)**	**(250,976)**
NET BOOK VALUE 30TH JUNE	**6,910**	**109,392**

Intangible assets comprise cost of purchased computer software. Computer software costs are amortised over 3 years.

Notes to the Financial Statements

16. Investments

	2013 Kshs '000'	2012 Kshs '000'
Petroleum Institute of East Africa	2	2
Consolidated Bank of Kenya Limited	67,030	67,030
	67,032	**67,032**

Details of the investment in Consolidated Bank of Kenya Limited are shown below:

	2013	2012
746,500 Ordinary Shares of Kshs 20 each	14,930	14,930
2,605,000 4% Non-Cumulative Irredeemable Non-Convertible	52,100	52,100
Preference Shares of Kshs 20 each	-	-
	67,030	**67,030**

The investment in the Petroleum Institute of East Africa comprises one class "A" Redeemable Preference share of Kshs 2,000. The investment is stated at cost. Investments in Consolidated Bank of Kenya Limited are stated at cost.

17. Trade and Other Receivables

COST	2013 Kshs '000'	2012 Kshs '000'
Trade Receivables	6,072,303	5,652,079
Staff Loans and Advances	211,663	231,149
Vat Recoverable	-	-
Prepaid Construction Costs	106,656	106,656
Prepaid Expenses	8,739	8,338
Refundable Deposits	9,535	9,185
Other Debtors	1,786,067	832,645
	8,194,963	**6,840,052**
Provision for Bad and Doubtful Debts	(211,161)	(210,565)
	7,983,802	**6,629,487**
Recoverable as Follows:		
Within One Year	7,824,695	6,474,012
After One Year (Staff Loans)	159,107	155,475
	7,983,802	**6,629,487**

Notes to the Financial Statements

Trade receivables from the top five oil marketing companies, namely Total, Hashi, Vivo, Oil Libya, and NOCK were given as security for the loan financing the Line IV Nairobi – Eldoret parallel pipeline in 2009. The loan was fully repaid on 28th June 2013 and the discharge of the security is in progress.

Included in trade receivables is KShs 3.4 billion (2012-KShs 3.4 billion) due from an Oil Marketing Company that is in dispute.
No impairment loss has been recognized in respect of this amount as management has opted to wait for the final outcome of an appeal.

The amounts recoverable after one year relate to staff loans and advances. The interest rate on the staff loans and advances is as per prescribed basis of Fringe Benefits Tax as given by Kenya Revenue Authority every quarter.

18. Inventories

	2013 Kshs '000'	2012 Kshs '000'
Spare Parts and Consumables	1,294,403	1,191,947
Provision for Obsolete Stocks	(166,376)	(166,376)
	1,128,027	**1,025,571**

19. Taxation Payable/ (Recoverable)

	2013 Kshs '000'	2012 Kshs '000'
At Beginning of the Period	46,719	(646,356)
Charge for the Period (Note 10)	(1,843,274)	(2,237,381)
Installment Tax Payments in the Year	2,513,264	2,868,913
Withholding Tax on Interest Income	22,909	51,076
Deferred Tax Credit	251,695	10,467
At End of the Period	**991,313**	**46,719**

20. Government Securities

	2013 Kshs '000'	2012 Kshs '000'
Treasury Bonds Held to Maturity	100,000	100,000

The Treasury Bond matures in 2014. The interest rate on Treasury bond is 9.75% p.a.

Notes to the Financial Statements

21.Cash and Short Term Deposits

a) SHORT TERM DEPOSITS	2013 Kshs'000	2012 Kshs'000
Bank Guarantees	159,437	159,437
Fixed Deposits	1,822,766	3,407,632
	1,982,203	**3,567,069**

b) CASH BOOK BALANCES	2013 Kshs'000	2012 Kshs'000
Barclays Bank of Kenya	3,140	2,673
Commercial Bank of Africa (KES)	19,695	107,414
Commercial Bank of Africa (USD)	1,731,337	2,112,501
CFC Stanbic (KES)	43,406	242,034
CFC Stanbic (USD)	275,398	1,206,771
Citi Bank (KES)	79,028	51,241
Citi Bank (USD)	124,126	195,618
Coop-Bank	38,610	23,967
Equity Bank	17,359	31,125
Kenya Commercial Bank	373	378
Petty Cash	4,273	3,290
	2,336,745	**3,977,012**

Notes to the Financial Statements

22. Assets Held for Sale

In 2007, the directors resolved to dispose of some of the company's property and the leasehold land on which the properties stand. Negotiations with several interested parties took place and thus the properties were classified as held for sale. The proceeds of disposal were expected to exceed the net carrying amount of the property and, accordingly no impairment loss has been recognized on the classification of this property as held for sale. The assets held for sale comprise:

Assets Held For Sale **Cost**	**2013** **Kshs'000**	**2012** **Kshs'000**
At the Beginning of the Year	71,431	71,431
Prior Year Adjustment	13,474	13,474
Eliminated on Disposal-PY	(39,847)	(39,847)
Eliminated on Disposal-CY	(12,106)	-
	32,952	**45,058**
Depreciation		
At the Beginning of the Year	(9,698)	9,698
End of Year	**(9,698)**	**(9,698)**
Net Book Value		
At 30th June	**23,255**	**35,361**

23. Share Capital

	2013 **Kshs'000**	**2012** **Kshs'000**
Authorized:		
19,369,580 Ordinary Shares of Kshs 20 Each	387,392	387,392
Issued and Fully Paid:		
18,173,300 Ordinary Shares of Kshs 20 Each	363,466	363,466

Notes to the Financial Statements

24. Retirement Benefit Obligations

Defined Benefit Scheme (Closed)
The company's contribution to the scheme during the year amounted to NIL (2012- Kshs 57,000,000). The most recent actuarial valuation of the scheme's assets and the present value of the defined benefits obligation were carried out in October 2012 by the scheme's Actuaries, Alexander Forbes Financial Services (E.A) Limited. The principal assumptions used for the purpose of the actuarial valuation were as follows:

Discount Rate	12.5%,
Expected Rate of return on Plan Assets	10%
Expected Rate of Salary Increase	5%

The status of the scheme was determined to be as follows:

	2013 Kshs'000	2012 Kshs'000 Restated
Present Value of Funded Defined Benefit Obligations as Per 2012 Valuation	4,671,434	4,671,434
Fair Value of Plan Assets	6,361,189*	(5,320,107)
Actuarial Deficit/ (Surplus)	**(1,689,755)**	**(648,673)**

*Compliance with IAS 19 requires scheme assets to be stated at their market value; value of scheme assets in 2013 is based on the audited financial statements of the scheme. The surplus has not been recognized in the Statement of Comprehensive Income as it is not deemed to have a realizable benefit to the sponsor i.e. KPC.

In the interest of prudence, the amount included in the balance sheet as at 30th June 2013 has been maintained at the same level of the year 2012.

	2013 Kshs'000	2012 Kshs'000
Balance at the Beginning of the Year	(152,200)	(95,200)
Payments in the Year	-	(57,000)
Actuarial Deficit /(Surplus) (Note 6)	-	-
Balance at the End of the Year	**(152,200)**	**(152,200)**

Defined Contribution Scheme:
Contributions to the Kenya Pipeline Company Staff Retirement Benefits Scheme are at 6% and 12% from employee and employer respectively. The company's liability is limited to any unpaid contributions.

Notes to the Financial Statements

25. Deferred Tax

The Net Deferred Tax Liability is attributable to the following items:	2013 Kshs'000	2012 Kshs'000
Accelerated Capital Allowance on Property, Plant and Equipment	933,624	827,809
Deferred Tax Assets		
General Inventory Provisions	(49,913)	(49,913)
Provision for Legal Expenses	(28,358)	(11,041)
Leave Pay Provision	(30,939)	(34,731)
General Bad Debts Provision	(4,847)	(4,847)
Unrealized Exchange Losses - Trading	(895,281)	(278,779)
Unrealized Exchange Gains	959,693	183,786
	(49,645)	**(195,525)**
	883,979	**632,284**
The Movement in Deferred Tax was as Follows:		
At the Beginning of the Year	632,284	621,817
Prior Year Over / (Under) Provision		-
Restated at The Beginning of the Year	**632,284**	**621,817**
Statement of Comprehensive Income Debit (Note 10(A))	251,695	10,467
At End of the Year	**883,979**	**632,284**

Notes to the Financial Statements

26. Payables and Loans

	2013 Kshs'000	2012 Kshs'000
a) TRADE AND OTHER PAYABLES		
Trade Payables	1,518,034	1,281,470
Other Payables	864,043	898,816
Catering, Training & Tourism Development Levy	39	52
Leave Pay Provision	103,129	115,770
Withholding Tax Payable	(21,014)	4,964
Ministry of Energy-LPG Project	80,000	80,000
Ministry of Finance	1,766	1,766
	2,545,997	**2,382,838**
b) DIVIDEND PAYABLE		
Dividend Payable	-	300,000
	-	**300,000**
c) LOANS		
CFC Stanbic Bank Syndicated Loan -Cep Line 4	-	8,057,356
Loss /(Gain)on Valuation on 30th June.{ 2012 (Ex.R 84.2333); 2011(Ex.R 89.8639)	-	236,197
Loan Balance at Year End	-	**8,293,553**
Analyzed As:		
Long Term	-	6,450,541
Short Term	-	1,843,012
Loan Balance at Year End	-	**8,293,553**

The loan amount in 2012 represents the loan drawn down from a credit facility of USD 109,399,240 obtained from a consortium of banks with CFC Stanbic Bank as the Facility Agent, to finance the Line IV Capacity Enhancement Project. The loan is repayable in 20 quarterly instalments starting from March 2012, and is secured by receivables from the top five oil marketing companies. The loan was fully repaid during the year.

Notes to the Financial Statements

27. Notes to the Cash Flow Statement

	2013 Kshs'000	2012 Kshs'000
Reconciliation of Operating Profit to Cash Generated from Operations		
Profit Before Tax	8,048,789	7,850,829
Adjustments for:		
Depreciation	2,220,770	1,965,844
Amortization of Prepaid Leasehold Land	7,502	741
Amortization of Intangible Assets	107,155	107,633
Unrealized Foreign Exchange (Gain)/Loss	-	-
Gain on Asset Disposal	(16,319)	(28,163)
Property Plant and Equipment Write-Off (Note 13)	-	-
Understated Depreciation Charge Prior Year	-	-
Un-Posted Depreciation Charge on Assets Held for Sale(Prior Year)	-	-
Operating Profit Before Working Capital Changes	10,367,897	9,896,884
(Increase)/Decrease in Inventories	(102,455)	(6,858)
(Increase)/Decrease in Trade &Other Receivables	(1,354,315)	323,476
Increase/(Decrease) in Trade and Other Payables	163,159	(254,775)
Increase/(Decrease) in Retirement Benefit Obligations	-	(57,000)
Cash Generated From Operations	**9,074,285**	**9,901,727**
a) Analysis of Cash and Cash Equivalents		
Short Term Deposits (Note 21)	1,982,203	3,567,069
Cash at Bank and in Hand	2,336,745	3,977,012
	4,318,948	**7,544,081**

Notes to the Financial Statements

28. Related Parties

	2013 Kshs'000	2012 Kshs'000
Key Management Salaries and Benefits	231,211	277,712
Directors' Remuneration		
- Fees for Services	6,268	5,460
- Other Emoluments	21,836	24,806
	28,104	**30,266**
Value of Services Provided to National Oil Corporation (K) Ltd	1,067,057	1,109,566
Value of Services Received from KPLC Ltd)	1,909,030	1,821,651
Value of Services Received from Ministry of Energy	384,000	324,000
Due to Related Parties:		
- Ministry of Energy-LPG Project	80,000	80,000
- Kenya Power & Lighting Co. Ltd	188,840	178,515
- Ministry of Finance	1,766	1,766
- Ministry of Energy	32,000	27,000
	302,606	**287,281**

29. Future Rental Commitments under Operating Leases

	2013 Kshs'000	2012 Kshs'000
a. The Company as a Lessor:		
Within one Year	63,719	71,335
Between Two and Five Years	254,878	285,341
	318,597	**356,676**

The lease rental income earned during the year in respect of company property rental amounted to KShs 71,335,220 (2012 – KShs 66,888,061)

Notes to the Financial Statements

	2013 Kshs'000	2012 Kshs'000
b. The Company as a lessee:		
Within One Year	436	76
Between Two and Five Years	1,747	302
	2,183	**378**

There was no rental expense incurred during the year (2011-Nil)

30. Contingent Liabilities

	2013 Kshs'000	2012 Kshs'000
Products Held on Behalf of Shippers (Note 31)	27,719,227	23,356,422
Pending Law Suits	1,545,442	2,358,671
Guarantees and Letters of Credit	1,212,901	1,038,954
	30,477,570	**26,754,047**

Pending lawsuits relate to civil suits lodged against the company by various parties.

31. Fuel Stocks

Fuel stocks belong to the Oil Marketing Companies (OMCs) as per Transportation and Storage Agreement signed between the Kenya Pipeline Company Limited and the OMCs. Fuel stocks are therefore not included in the financial statements. As at 30 June 2013, the company held third party fuel stocks amounting to 424,179.400M3 (2012 – 331,790.78M3) with a Hydro-Carbon Value (HCV) of KShs 27,719,227,633.12 (2012- KShs 23,356,421,974).

32. Capital Commitments

	2013 Kshs'000	2012 Kshs'000
Authorized and Contracted for	1,211,040	3,288,532
Authorized but not Contracted for	11,281,720*	120,827
	12,492,760	**3,409,359**

The above amounts in respect of capital expenditure are included in the approved budget for the year.

* The major item is the delayed Line (4) project of Kshs. 12 billion.

Notes to the Financial Statements

33. Incorporation

The company is domiciled and incorporated in Kenya under the Companies Act (Cap 486).

34. Currency

Financial statements are presented in Kenya Shillings (KShs'000)

5-Year Financial Highlights

Kenya Pipeline Company Limited Statement of Comprehensive Income for the Year Ended 30th June

	2013 Ksh'000	2012 Ksh'000	2011 Ksh'000	2010 Ksh'000	2009 Ksh'000
Revenue	18,487,064	16,480,628	13,784,557	12,925,838	10,036,175
Direct Costs	(7,230,469)	(6,537,834)	(5,144,740)	(5,115,235)	(4,536,920)
Gross Profit	**11,256,595**	**9,942,794**	**8,639,817**	**7,810,603**	**5,499,254**
Other Income	247,891	293,050	244,412	289,783	302,165
Administration Expenses	(3,517,209)	(3,072,107)	(2,448,009)	(4,380,299)	(2,295,223)
Pension Deficit(Provision)/Add-Back	-	-	27,100	288,500	(59,845)
Operating Profit	**7,987,277**	**7,163,737**	**6,463,320**	**4,008,587**	**3,446,351**
Net Finance Income	61,512	687,091	50,526	640,878	405,935
Profit Before Tax	**8,048,789**	**7,850,828**	**6,513,846**	**4,649,465**	**3,852,286**
Taxation Charge	(1,843,274)	(2,237,381)	(1,991,889)	(1,862,777)	(1,460,067)
Net Profit After Tax	**6,205,515**	**5,613,447**	**4,521,957**	**2,786,688**	**2,392,219**
Earnings Per Share	341	309	249	153	132

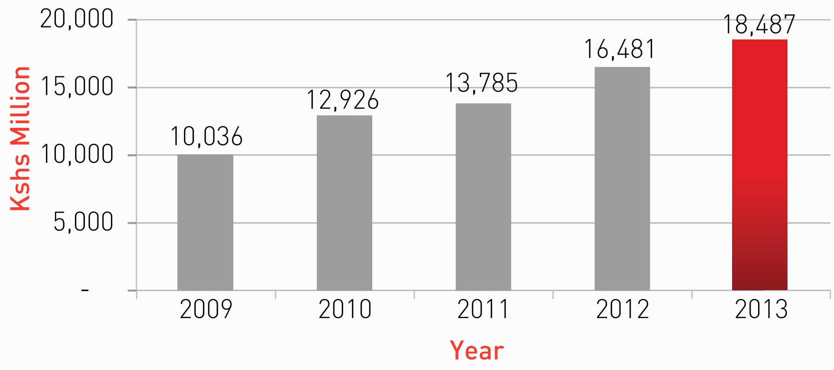
Kenya Pipeline Company Limited Statement of Cash Flows For The year Ended 30th June

	2013 Ksh'000	2012 Ksh'000	2011 Ksh'000	2010 Ksh'000	2009 Ksh'000
Net Cash Generated From Operating Activities	6,538,113	6,981,737	1,931,625	6,762,413	2,178,616
Net Cash from/(to) Investing Activities	(793,039)	(5,129,647)	(6,822,219)	(4,665,427)	(3,520,837)
Net Cash from/(to) Financing Activities	(8,970,208)	(1,062,064)	7,360,277	1,462,143	-
Net Increase/(Decrease) in Cash and Cash Equivalents	**(3,225,135)**	**790,026**	**2,469,683**	**3,559,129**	**(1,342,221)**

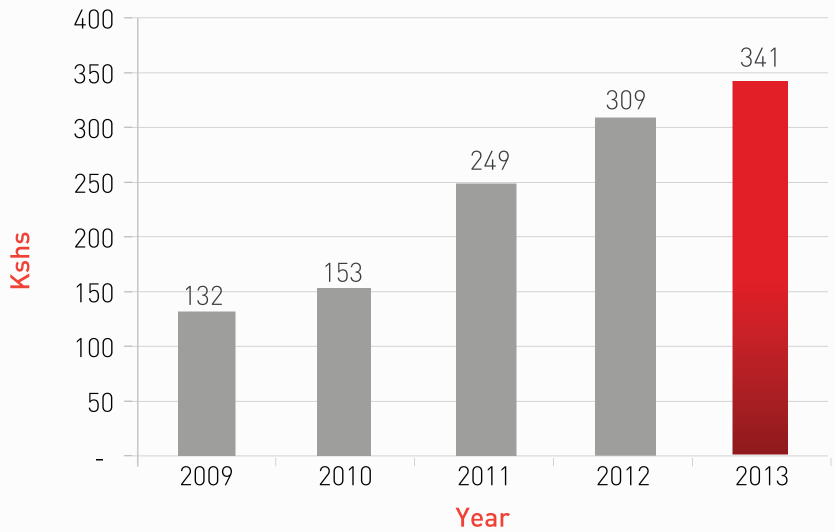
Kenya Pipeline Company Limited Statement of Financial Position

	2013 Ksh'000	2012 Ksh'000	2011 Ksh'000	2010 Ksh'000	2009 Ksh'000
Non- Current Assets					
Property, Plant and Equipment	40,512,672	29,984,407	26,785,743	21,617,989	18,339,756
Prepaid Operating Lease Rentals	4,877,229	38,223	38,964	39,707	40,447
Intangible Assets	6,910	108,896	216,529	19,272	-
Investments	67,032	67,032	67,032	67,032	4
Trade and other Receivables	159,107	155,475	192,938	272,261	225,769
	45,622,949	**30,354,033**	**27,301,206**	**22,016,261**	**18,605,976**
Current Assets					
Inventories	1,128,027	1,025,571	1,018,713	911,972	875,227
Trade and Other Receivables	7,824,695	6,474,012	6,760,025	5,045,305	2,985,383
Taxation Recoverable	991,313	46,719	-	-	-
Retirement Benefit Recoverable	152,200	152,200	95,200	-	-
Retirement Benefit Recoverable	152,200	152,200	95,200	-	-
Government Securities	100,000	100,000	100,000	100,000	103,597
Short Term Deposits	1,982,203	3,567,069	4,327,685	1,676,334	483,596
Bank And Cash Balances	2,336,745	3,977,012	2,426,372	2,608,040	241,649
	14,515,183	15,342,584	14,727,995	10,341,651	4,689,452
Non Current Assets Classified as Held for Sale	23,255	35,361	45,058	46,147	46,147
	14,538,439	**15,377,945**	**14,773,053**	**10,387,798**	**4,735,599**
Total Assets	**60,161,388**	**45,731,978**	**42,074,260**	**32,404,059**	**23,341,575**
Shareholders Funds and Liabilities					
Capital And Reserves					
Share Capital	363,466	363,466	363,466	363,466	363,466
Share Premium	512,289	512,289	512,289	512,289	512,289
Revenue Reserve	39,074,689	33,247,548	27,934,101	23,412,143	20,775,458
Revaluation Reserve	16,780,968	-	-	-	-
	56,731,412	**34,123,303**	**28,809,856**	**24,287,898**	**21,651,213**
Non Current Liabilities					
Retirement Benefit Obligation	-	-	-	178,900	695,400
Deferred Taxation	883,979	632,284	621,817	779,104	842,648
Long Term Loan	-	6,450,541	8,847,938	1,612,143	
	883,979	7,082,825	9,469,755	2,570,147	1,538,048
Current Liabilities					
Trade And Other Payables	2,545,997	2,382,838	2,015,189	4,738,278	140,306
Tax Payable	-		646,356	657,736	12,008
Dividend Payable	-	300,000	150,000	150,000	
Current Loan	-	1,843,012	983,104		
	2,545,997	4,525,850	3,794,649	5,546,014	152,314
Total Shareholder's Funds and Liabilities	**60,161,388**	**45,731,978**	**42,074,260**	**32,404,059**	**23,341,575**

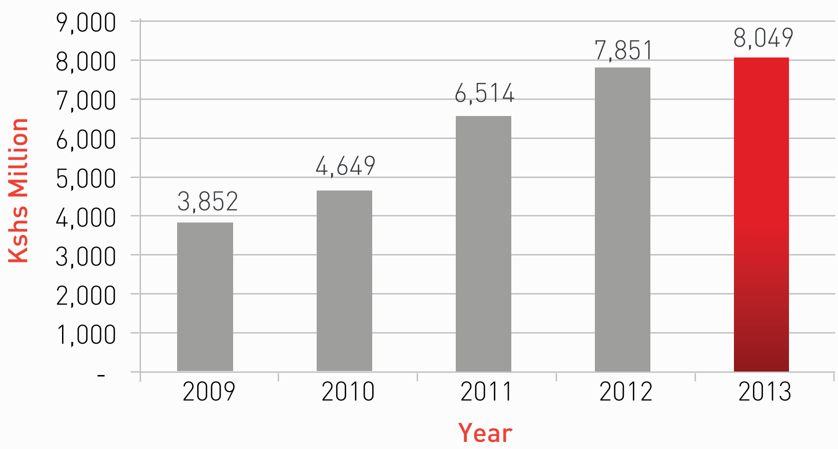
TURNOVER KSHS MILLION



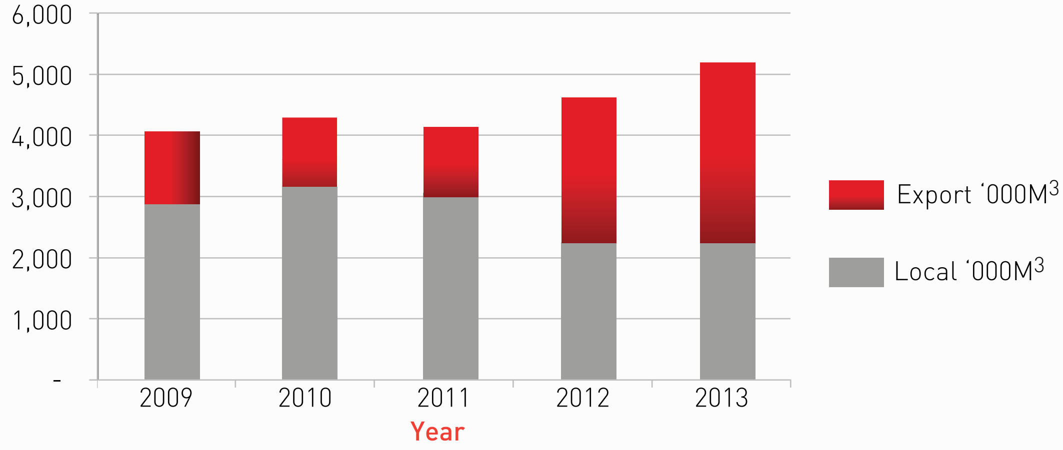
EARNINGS PER SHARE



PROFIT BEFORE TAX



THROUGHPUT VOLUME (000' M3)



Year	2009	2010	2011	2012	2013
Local '000M3	2,883	3,134	3,074	2,248	2,360
Export '000M3	1,164	1,184	1,076	2,354	2,820
Total	**4,047**	**4,318**	**4,150**	**4,602**	**5,180**

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