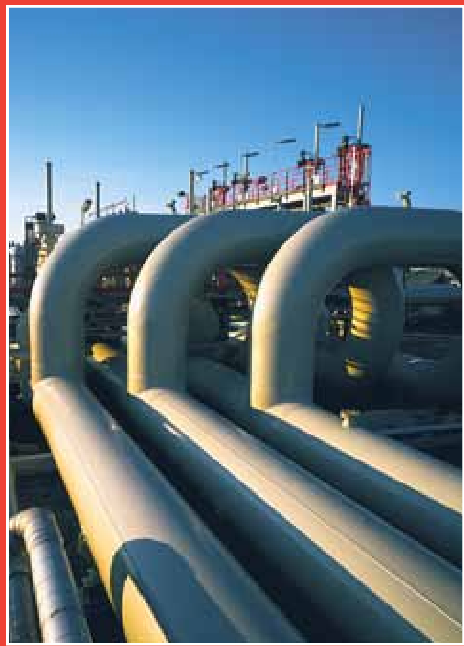


2014

Annual Report & Financial Statements

KENYA PIPELINE COMPANY LIMITED

Kenya Pipeline Company Limited
Annual Report and Financial Statements For the Year Ended 30 June 2014

CORPORATE INFORMATION

DIRECTORS

Mr. John Ngumi - Chairman
Eng. Joseph K. Njoroge - PS, Min. of Energy & Petroleum
Dr. Kamau Thugge - PS, National Treasury
Mrs. Flora Okoth - Acting Managing Director
Mr. Austin Kapere
Mrs. Faith Jepkemboi Bett - Boinett
Mr. Marwa Kemero Maisori
Mr. Jeremiah Ndambuki Simu
Ms. Felicity N. Biriri
Mrs. Habon Billow Farah
Mr. Francis Ongaki - (Alternate to PS, Min. of Energy & Petroleum)
Dr. Geoffrey Mwau - (Alternate to PS, National Treasury)

COMPANY SECRETARY

Mr. Stanley Manduku - Acting Company Secretary
Kenya Pipeline Company Ltd
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 BANKERS

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

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

CfC Stanbic Bank Limited
CfC Centre Chiromo Road
P. O. Box 72833 - 00200
Nairobi.

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

PRINCIPAL ADVOCATES

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

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

Table of Contents

Our **Vision** and **Mission** Statement

Vision

Africa's premier oil and gas company

Mission

Transforming lives through safe and efficient delivery of quality oil and gas from source to customer

Core Values

Integrity

Transparency

Accountability

Diligence

Team Spirit

Loyalty

Care for the Environment

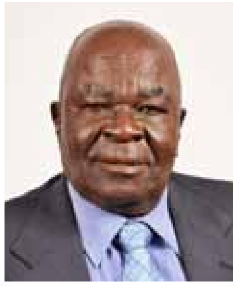
Board of **Directors**

Mr. John Ngumi
Chairman

Eng. Joseph Njoroge
P.S-Min. of Energy & Petroleum

Dr. Kamau Thugge
PS-National Treasury

Mrs. Flora Okoth
Acting Managing Director



Mr. Austin Kapere

Mrs. Faith J. Bett - Boinett

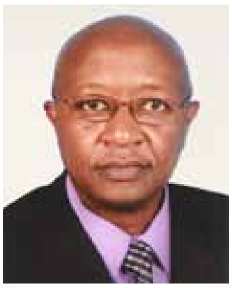
Mr. Marwa Kemero Maisori

Mr. Jeremiah Simu

Ms. Felicity N. Biriri

Mrs. Habon Billow Farah

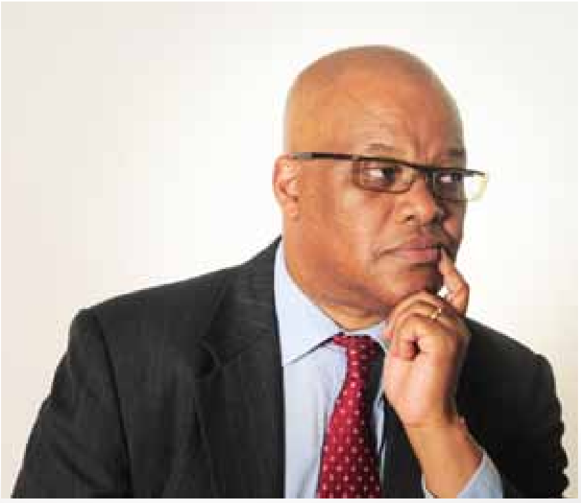
Mr. Francis Ongaki
Alternate-Min. of Energy & Petroleum



Dr. Geoffrey Mwau
Alternate-National Treasury

Mr. Stanley Manduku
Acting Company Secretary

The **Chairman's** Statement



JOHN NGUMI
Chairman

Dear Shareholders,

"ON BEHALF OF THE BOARD OF DIRECTORS, IT IS MY PLEASURE TO PRESENT TO YOU THE ANNUAL REPORT AND FINANCIAL STATEMENTS OF THE COMPANY FOR THE YEAR ENDED 30TH JUNE, 2014.

THIS BEING MY FIRST ANNUAL GENERAL MEETING AS CHAIRMAN OF THE KENYA PIPELINE COMPANY, I AM HAPPY TO ANNOUNCE THAT THE COMPANY HAS CONTINUED TO REGISTER PROFITABILITY AND THIS IS A FIRM CONFIRMATION OF OUR COMMITMENT TO GENERATING VALUE FOR OUR SHAREHOLDERS."

Business Environment

The energy sector both in Kenya and the region has witnessed significant developments over the last five years, particularly related to oil and gas explorations. Oil discoveries have been made in parts of North Western Kenya and in the Albertine Basin in Uganda whereas gas has been discovered in Tanzania and Kenya. The Governments are keen to exploit these discoveries as a way of accelerating the economic development of their respective countries from the anticipated revenues. This therefore means that the two countries will, in the foreseeable future, cease to be entirely dependent on oil imports.

It is also worth noting that economic climate in Kenya in the period under review was fairly stable, particularly in terms of interest and currency exchange rates which fluctuated marginally.

This has enabled the Company to begin reaping from recent heavy investments in the enhancement of its pumping and pipeline capacities, all geared at increasing the company's throughput in order to serve the country and the Eastern Africa region better.

I am happy to report that KPC has embarked on intensive engagements with stakeholders, including County Governments, to gain buy-in into its pipeline expansion and storage strategy across the country. This strategy is designed to meet KPC's mandate of transporting and storing petroleum products safely across the country, thereby supporting the Government's agenda of delivering affordable and accessible energy to Kenyans to facilitate business and economic growth. We are proud to be playing this role in Kenya's transformational economic agenda.

Strategic Focus

To help KPC grow in line with the Country's agenda, the Company adopted a new strategic plan dubbed KPC Vision 2025.

The **Chairman's** Statement

The new strategy is a 10-year transformational plan geared towards creating a world class oil and gas organization anchored on the Vision of Africa's premier Oil and Gas Company. In crafting this strategy, we had a comprehensive look at our current business model and noted that since inception, the Company has never diversified and or grown beyond its national borders. It was thus evident that we needed to focus on investments in new business areas in Kenya and beyond hence the deliberate focus on strategic investments in East and Central Africa over the next 10 years. The Company seeks to widen its business focus and enter into upstream, midstream and downstream activities. The KPC Vision 2025 has identified five key strategic pillars that will drive the Company's future developments. These include:

i. Business Leadership in Kenya

Under this pillar, the company plans to pursue business growth, expansion and diversification within Kenya. Some of the key projects within Kenya include:

- The new 20-inch 450-km ultra-modern petroleum products pipeline ('Line V') from Mombasa to Nairobi. The new line will enhance product flow of 730 thousand litres per hour on the existing pipeline to 1 million litres per hour to meet growing local and regional demand.
- The 10-inch 122-kilometre pipeline ('Line VI') from Sinendet in Nakuru to Kisumu, which is intended to increase volumes of product moved by an additional 360 thousand litres per hour.
- The Hoima - Lokichar - Lamu Crude Oil Pipeline for which the company expects to be the government's implementing agency for its construction and operation.
- The Liquefied Petroleum Gas (LPG) Project which will involve the construction of an inland distribution depot intended to make access to cooking gas affordable to more Kenyans.

These projects are not only critical in achieving the government's Vision 2030 but will also contribute tremendously towards improving the living standards of the people of Kenya.

ii. Geographic Expansion

KPC has developed a comprehensive strategy to drive geographic expansion in the Eastern Africa region that is served through petroleum exports transiting through the pipeline depots in Kisumu and Eldoret. In efforts to expand our regional reach, the company has plans to establish points of presence in the East and Central African region through regional pipelines, and oil and gas handling facilities in selected towns in line with the East African integration initiatives.

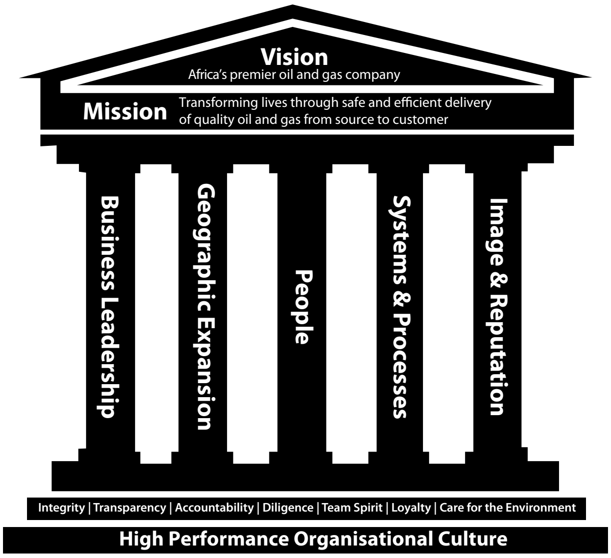
iii. People

The human resource remains an integral part of our new growth strategy. Investment in the improvement of business systems and processes inevitably goes with a corresponding investment in manpower development. The Company therefore has plans to develop a comprehensive human resource base that will drive Vision 2025 to fruition.

iv. Systems and Processes

KPC's vision of Africa's Premier Oil and Gas Company automatically demands operational excellence to deliver high quality services. In line with this, the Company has a continuous strategy of enhancing the application of modern technology as a business driver.

The **Chairman's** Statement



KPC Vision 2025 Strategic Pillars

Thus, the Company plans to improve internal and external communication, while also pursuing the integration and optimization of the different information application systems and technology platforms for ultimate operational efficiency.

v. Image and Reputation

As a Premier institution, we would like to be known and felt nationally and regionally for the first class services that we render to the national and regional economies. Our Mission is to transform lives through safe and efficient delivery of quality Oil and Gas from source to customer. This is why we elect to continue promoting our corporate brand that is aligned to our business goals. In the past, the Company's image has been dented by bad publicity related to irregular management practices and by isolated accidents. The new strategy calls for structured proactive engagement with all our stakeholders so as to change our image through building a strong culture of good corporate governance. We expect to do this by engaging in strategic Corporate Social Responsibility interventions focusing on various social and charitable causes. The Company will also reach out to players in the energy sector for strategic partnerships that will ensure our interactions with stakeholders are mutually beneficial.

Appreciation

In conclusion, I wish to express gratitude to my fellow directors for their commitment, support and guidance throughout the year. I also extend heartfelt thanks to the management and staff for their commitment and selfless service to KPC.

On behalf of the Board, management and staff of KPC, I wish to sincerely thank our customers and various government agencies for choosing to partner with us.

Finally, to our esteemed shareholders, I am most grateful to your continued encouragement and unwavering support during the year.

JOHN NGUMI
BOARD CHAIRMAN

The **Managing Director's** Statement

FLORA OKOTH
Acting Managing Director

"I AM DELIGHTED TO PRESENT TO YOU THE KENYA PIPELINE COMPANY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2014. IT GIVES ME GREAT PLEASURE, YET AGAIN, TO REPORT THAT KPC HAS RECORDED ANOTHER YEAR OF IMPRESSIVE FINANCIAL PERFORMANCE. THIS DEMONSTRATES THAT THE COMPANY IS HEALTHY WITH A GROWING BUSINESS PORTFOLIO WHOSE CAPACITY TO CONTRIBUTE SUBSTANTIAL GAINS TO THE LOCAL AND REGIONAL ECONOMIES THROUGH OUR CORE MANDATE OF RECEIVING, TRANSPORTING, AND DISPENSING PETROLEUM PRODUCTS THROUGH A PIPELINE SYSTEM IS SOUND."

This robust performance has been driven by prudent financial management, dedicated staff and effective guidance from the Board of Directors. We partnered with our customers and other stakeholders to become more customer focussed and more efficient in our operations to ensure security of petroleum product supplies to the people of Kenya and those in the neighbouring landlocked partner states.

In 2013-14, our dedication to operational excellence yielded a strong set of financial results. Following are some of our critical highlights of the key performance indicators that capture the year under review:

FINANCIAL PERFORMANCE

The Company posted a 26.0% growth in Pre-Tax Profit to Kshs. 10.2 billion for the financial year ended 30th June 2014 compared to Kshs 8.1 billion in FY 2012/13.

Throughput

During the period under review, the Company recorded a significant growth in domestic throughput volumes to 5,592,490m^3 from 5,179,934m^3 in FY 2012/13. This is equivalent to a growth of 7.9%.

Domestic throughput also increased from 2,359,970m^3 for the year ended 30th June 2013 to 2,863,969m^3 for the year ended 30th June 2014.

On the other hand, export throughput dropped marginally from 2,819,964m^3 for the year ended 30th June 2013 to 2,728,530m^3 for the year ended 30th June 2014. This drop is attributable to increased competition from the central corridor route from the port of Dar es salaam to Rwanda, Burundi and the Democratic Republic of Congo.

Revenue

Throughput revenue increased to Kshs 20.1 billion in the year under review from Kshs 18.5 billion recorded in FY 2012/13, equivalent to an 8.4% increase.

The **Managing Director's** Statement

Operating Expenditure

While the company operated within the budgeted expenditure during the year, total operating expenditure reduced marginally by 2.8% to Kshs 10.4 billion from the previous year's Kshs 10.7 billion. The decrease in the operating expenditure is as a result of the reduction in an earlier provision made for review of staff salaries.

Financial Position

The Company closed with cash reserves of Kshs 11.1 billion compared to Kshs 4.3 billion at the end of the previous year. This strong financial position and robust cash flow will support the planned capacity enhancement projects which include Line 1 replacement.

The Company met all its statutory obligations during the year under review and in particular remitted Kshs 1.9 billion to the Kenya Revenue Authority in corporation tax payments.

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 diameter pipeline which has been in existence for over 37 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 diameter 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 2015/2016.

3. 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.

4. Construction of Additional Loading Arms in 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.

5. Proposed Jet A1 Depot within Jomo Kenyatta International Airport: This will entail construction of a completely new independent terminal away from the existing pump station at Embakasi in line with the expansion of the Jomo Kenyatta International Airport.

6. 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.

The **Managing Director's** Statement

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

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

9. 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.

As KPC, we shall continue to build on the growth momentum we have established, remain focused on executing our strategy and drive the organizational changes needed to realize our goal of transforming KPC into *Africa's Premier Oil and Gas Company.*

Our commitment to changing lives remains strong and with our strategy in place, we are confident that we shall continue creating value for our shareholders.

Appreciation

Let me conclude by thanking our Shareholders; The Ministry of Energy and Petroleum and the National Treasury for their distinguished role in helping us achieve this success. I would also like to appreciate the Chairman and the Board of Directors for the support and guidance they provided to the Management throughout the year. To our customers, it is a big thank you for choosing to maintain your business with us and certainly without your support, these results could not have been possible.

Finally, I wish to thank all the KPC staff for working tirelessly to deliver this great performance.

FLORA OKOTH

ACTING MANAGING DIRECTOR

Senior **Management**

Flora Okoth
Acting Managing Director

Joe Sang
General Manager-Finance

Elias Karumi
Chief Manager-Technical

Phillip Kimelu
Operations Manager

Jane Nakodony
Administration Manager

Samuel Odoyo
Finance Manager

Thomas Ngira
Human Resources Manager

Nicholas Gitobu
Procurement Manager

Beatrice Orgut
Safety, Health, Environment & Quality Assurance Manager

Senior **Management**

Bramwel Wanyalikha
Engineering Manager

Jason Nyantino
Corporate Communications Manager

Tom Mailu
Corporate Planning Manager

Gabriel Kiama
Projects Manager

Francis Muraya
ICT Manager

Harry Kithinji
Security Manager

John Kithete
Business Development Manager

Felix Rerimoi
Internal Audit Manager

Stanley Manduku
Acting Company Secretary

Social Investments

Investing in Communities

For KPC, reaching out to the communities along the pipeline Right of Way (RoW) through actively contributing to their socio-economic development constitutes our core agenda.

Our Corporate Social Responsibility (CSR) program is alive to this fact and over the years we have supported weaker sections of society in a bid to raise the country's human development index. Our CSR areas of focus are Empowerment of Youth, Women and persons with disabilities; Education; Health and Sanitation; Provision of Clean Water; Sports; Energy Conservation and Environmental Restoration and Emergencies. The KPC fraternity has also continually engaged in the Company's activities by volunteering their skills, time and funds towards community projects.

Education

Our endeavour is to spark the desire for learning and knowledge at every stage through scholarships, learning equipment and infrastructure.

Cheque presentation at Mukuru Promotional Centre for KPC Mukuru Secondary School Sponsorship Programme

Donation of Kshs 2 million worth of exercise books to schools along the Right of Way

Environmental Conservation

Volleyball Tournament in Nakuru

Environment

We support protection and conservation programs through reforestation, waste management and protection of ecosystems.

Sports

The KPC volleyball team remains the Company's signature CSR project. The volleyball queens have helped place the Company and the country on the world map through their various achievements in both local and international tournaments. In building this team, we utilize the raw volleyball talent in the country and commit to nurture and grow it through the trailblazing volleyball team.

The sports ladies are accorded space to continue with their passion for sport while creating for them other opportunities for growth. Indeed, our volleyball team has not only galvanized the KPC family but has also been a source of national pride for Kenya and Africa.

Report
of the Directors

The Directors present their report together with the audited financial statements for the year ended 30 June 2014.

ACTIVITIES

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

RESULTS	Kshs'000
Profit before Taxation	10,222,945
Taxation Charge	(3,120,162)
Profit for the year transferred to retained earnings	**7,102,783**

DIVIDENDS

The Directors do not recommend payment of a dividend in respect of the year (2013 - Nil).

DIRECTORS

The current Board of Directors is shown on Page 2 of the Report. Mr. John Ngumi was appointed Chairman of the Board on 17th April 2015 to replace Mr. Daniel K. Wamahiu whose term came to an end on 8th January 2015. Mrs. Flora Okoth, the Company Secretary, was appointed as Acting Managing Director on 31st March 2015 to replace Mr. Charles Tanui who stepped aside. Mr. Stanley Manduku was appointed as Acting Company Secretary on 7th April 2015. Mr. Waithaka Kioni and Mrs. Nuru Bwanakombo retired as Directors on 11th April 2015 and Mr. Marwa Kemero Maisori and Mr. Jeremiah Ndambuki Simu were appointed as Directors of the company with effect from 17th April 2015.

AUDITORS

The Auditor General is responsible for the statutory audit of the company's financial statements in accordance with Section 14 of the Public Audit Act, 2003. Section 39 (1) of the Act empowers the Auditor General to appoint other auditors to carry out the audit on his behalf. Accordingly, Deloitte & Touche were appointed during the year to carry out the audit for the year ended 30 June 2014.

BY ORDER OF THE BOARD

COMPANY SECRETARY

Nairobi, 31 March 2015

Statement **of Directors'** Responsibilities

The Companies Act requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its operating results for that year. It also requires the Directors to ensure that the 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 judgements 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 for the year then ended. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of the financial statements as well as on the adequacy of the systems of internal financial controls.

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
31st March 2015

Director
31st March 2015

REPUBLIC OF KENYA

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Fax: +254-20-311482
E-Mail: oag@oagkenya.go.ke
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P.O. Box 30084-00100
NAIROBI

HARAMBEE

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA PIPELINE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Kenya Pipeline Company Limited set out on pages 22 to 72 , which comprise the statement of financial position as at 30 June 2014, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes have been audited on my behalf by Deloitte and Touche, auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Management's responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements 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 for audit in accordance with 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 of Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on 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 management, as well as evaluating the overall presentation of the financial statements.

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

Basis of Qualified Opinion

1. Impairment of long outstanding and disputed trade and other receivables

Trade and other receivables balance of Kshs.9,558,746,000 (2013 – Kshs.7,893,802,000), disclosed in note 20 to the financial statements includes:

(i) An amount of Kshs.3,788,457,569 (2013 – Kshs.3,788,457,569) due from an oil marketing company, dating back to year 2009 which has been the subject of a court case. As at the time of finalization of this audit exercise, the court proceedings were still going on but there was no bad debt provision in the financial statements.

(ii) Also, the trade and other receivables balance includes an amount of Kshs.414,446,165 in respect of long outstanding receivables which are not supported with documentations.
Under the circumstances, it was not possible to confirm whether the trade and other receivables balance of Kshs.9,558,746,000 shall be realized.

2. Fuel Inventory Deficit

As explained under note 31 to the financial statements, the third party fuel stock held by the company have significant deficit between the records and the physical quantities ascertained through the annual fuel dip procedures by 12,968M^3 (2013 – 29,964M^3) which represents a Hydro-Carbon Value (HCV) of Kshs.906,579,768 (2013 – Kshs.1,962,350,945). No provision has been made for the shortfall as reconciliation was explained to be underway. Consequently, it is not possible to confirm the carrying value of the fuel stock held on behalf of the oil companies.

3. Property, Plant and Equipment and Leasehold Land

(i) Included in the property, plant and equipment balance of Kshs.41,264,151,000 is an amount of Kshs.3,880,310,000 relating to capital work in progress out of which Kshs.1,746,473,000 relates to old/stalled projects, some dating back to year 2007 and are therefore likely to impared.

(ii) A valuation of the company's property, plant and equipment and leasehold land was carried out as at 30 June 2013. However, the valuation report was not reconciled to the fixed assets register and as a result:

(a) Assets valued at Kshs.754,516,200 as per the valuer's report are yet to be uploaded into the fixed asset register and are thus not included in these financial statements.

(b) Included in the property, plant and equipment and leasehold land is a net revaluation deficit of Kshs.179,177,000 and a revaluation surplus of Kshs.340,000,000 respectively which have been reported in the financial statements without necessary supporting schedules of the assets to which the balances relate.

(c) There was an unreconciled difference of Kshs.20,468,199 between the detailed fixed asset register and the property, plant and equipment balance as reflected in these financial statements with the register reflecting a higher balance.

(d) Included in the company's records as at 30 June 2014 was a lease land property – Embakasi depot plot LR 9042/225 carried in the book at a net book value of Kshs.899,242,424. However, the company does not have title documents for the property other than an allotment letter issued in 1994. Information available indicates the title deed was given to Kenya Airports Authority. In absence of a title deed, it is not possible to ascertain the beneficial ownership of the property by the company.

Consequently, in light of the above paragraphs, it was not possible to ascertain whether the property, plant and equipment and leasehold land balance is accurate.

4. Late Submission of the Financial Statements

The company's financial statements for the financial year 2013/2014 were signed by the Directors and submitted for audit on 31 March 2015, six months after the statutory deadline date of 30 September 2014. The Company is therefore in breach of Section 13 of the Public Audit Act, 2003.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2014, 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 Kenyan 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 is in agreement with the books of account.

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

15 May 2015

Financial Statements

Statement of Profit or Loss and other Comprehensive Income
For the Year Ended 30 June 2014

	Note	2014	2013 (Restated)
		Kshs' 000	Kshs' 000
Revenue	5	20,055,532	18,487,065
Direct Costs	6	(6,912,545)	(6,947,721)
Gross Profit		**13,142,987**	**11,539,344**
Other Income	7	283,926	247,891
Finance Income	8 (a)	156,905	366,723
Foreign Exchange Gain/(Losses)	8 (b)	101,511	(64,534)
Finance Costs	8 (c)	-	(240,677)
Administration Expenses	9	(3,462,384)	(3,737,630)
Profit Before Taxation		**10,222,945**	**8,111,117**
Taxation Charge	11 (a)	(3,120,162)	(1,381,198)
Profit After Taxation		**7,102,783**	**6,729,919**

Statement of Profit or Loss and other Comprehensive Income
For the Year Ended 30 June 2014

		2014	2013 (Restated)
	Note	Kshs' 000	Kshs' 000
Other Comprehensive Income			
Items that will not be reclassified subsequently to profit or loss;			
Surplus on revaluation of property and equipment		-	16,941,791
Deffered tax on revaluation surplus (Note 33 (iii))		-	(5,082,537)
Adjustment in surplus on revaluation of property and equipment		40,367	-
Deferred Tax on Adjustment on revaluation of property and equipment		(12,110)	-
		28,257	**11,859,254**
Remeasurement of defined benefit obligation	18 (b)	(51,095)	609,983
Deferred tax relating to remeasurement of defined benefit obligation		15,329	(182,995)
		(35,766)	**426,988**
Total Other Comprehensive Income		**(7,509)**	**12,286,242**
Total Comprehensive Income for the Year		**7,095,275**	**19,016,161**
		KShs	KShs
Earnings Per Share	12	**391**	**370**

Statement of Financial Position
As at 30 June 2014

		2014	2013 (Restated)	1 July 2012 (Restated)
ASSETS	Note	Kshs' 000	Kshs' 000	Kshs' 000
Non-Current Assets				
Property, Plant and Equipment	14	41,264,151	40,333,480	29,985,536
Leasehold Land	15	5,127,880	5,217,229	38,223
Intangible Assets	16	2,985	6,910	109,392
Investments	17	67,032	67,032	67,032
Retirement Benefit Recoverable	18	1,407,397	1,320,984	648,673
Trade and Other Receivables	20	118,293	159,107	155,475
Total non-Current Assets		**47,987,738**	**47,104,742**	**31,004,331**
Current Assets				
Inventories	19	1,443,982	1,128,042	1,025,571
Trade and Other Receivables	20	9,440,453	7,824,695	6,474,012
Taxation Recoverable	11(c)	-	991,313	46,719
Government Securities	21	104,316	100,000	100,000
Short Term Deposits	22 (a)	5,938,961	1,982,203	3,567,069
Bank and Cash Balances	22 (b)	5,143,892	2,336,745	3,977,012
Total Current Assets		**22,071,604**	**14,362,998**	**15,190,383**
Non-Current Assets Classified as Held For Sale	23	-	23,255	35,361
Total Assets		**70,059,342**	**61,490,995**	**46,230,075**

Statement of Financial Position
As at 30 June 2014

SHAREHOLDER'S FUNDS AND LIABILITIES	Note	2014 Kshs' 000	2013 (Restated) Kshs' 000	1 July 2012 (Restated) Kshs' 000
Capital and Reserves				
Share Capital	24	363,466	363,466	363,466
Share Premium		512,289	512,289	512,289
Retained Earnings		47,394,969	40,327,952	33,551,045
Revaluation Reserve		11,887,512	11,859,254	-
		60,158,236	**53,062,961**	**34,426,800**
Non - Current Liabilities				
Deferred Taxation	25	5,913,210	5,882,037	826,886
Long Term Loan	27 (c)	-	-	6,450,541
Total Non-Current Liabilities		**5,913,210**	**5,882,037**	**7,277,427**
Current Liabilities				
Trade and Other Payables	26 (a)	3,465,254	2,243,391	2,095,555
Due to Related Parties	28 (c)	298,840	302,606	287,281
Dividend Payable	26 (b)	-	-	300,000
Long Term Loan	27 (c)	-	-	1,843,012
Tax Payable	11 (c)	223,802	-	-
		3,987,896	**2,545,997**	**4,525,848**
Total Shareholder's Funds and Liabilities		**70,059,342**	**61,490,995**	**46,230,075**

The financial statements on pages 22 to 72 were approved and authorised for issue by the Board of Directors on 31 March 2015 and signed on their behalf by:

Director

Director

Statement of Changes in Equity
For the Year Ended 30 June 2014

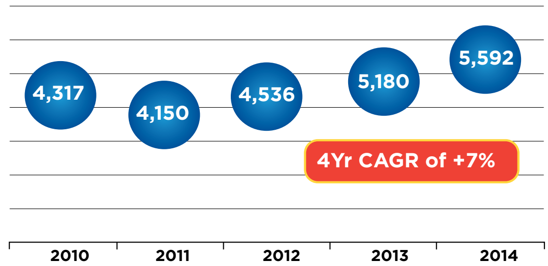
	Share Capital	Share Premium	Retained Earnings	Revaluation Reserve	Total Equity
	Kshs' 000	Kshs' 000	Kshs' 000	Kshs' 000	Kshs' 000
At 1 July 2012 (As previously reported)	363,466	512,289	33,249,174	-	34,124,929
Prior year adjustment on retirement benefit asset (Note 33 (i))	-	-	301,871	-	301,871
At 1 July 2012 (restated)	363,466	512,289	33,551,045	-	34,426,800
Profit for the year	-	-	6,729,919	-	6,729,919
Other Comprehensive Income	-	-	426,988	11,859,254	12,286,242
Total Comprehensive Income	-	-	7,156,907	11,859,254	19,016,161
Transfer of excess depreciation	-	-	-	-	-
Deferred tax on excess depreciation	-	-	-	-	-
Dividend Declared - 2012	-	-	(380,000)	-	(380,000)
At 30 June 2013 (restated)	**363,466**	**512,289**	**40,327,952**	**11,859,254**	**53,062,961**
At 1 July 2013 (As previously reported)	363,466	512,289	39,074,689	16,780,968	56,731,412
Prior year adjustment on retirement benefit asset (Note 33 (i))	-	-	772,489	-	772,489
Prior year adjustment on property, plant, equipment (Note 33 (ii))	-	-	-	(179,177)	(179,177)
Prior year adjustment on Leasehold land (Note 33 (ii))	-	-	-	340,000	340,000
Prior year adjustment on deferred tax on revaluation surplus (Note 33 (iii))	-	-	-	(5,082,537)	(5,082,537)
Prior year adjustment on deferred tax	-	-	480,774	-	480,774
At 1 July 2013 (restated)	**363,466**	**512,289**	**40,327,952**	**11,859,254**	**53,062,961**
Profit for the year	-	-	7,102,783	-	7,102,783
Other Comprehensive Income	-	-	(35,766)	28,257	(7,509)
Total Comprehensive Income	-	-	7,067,017	28,258	7,095,275
Transfer of excess depreciation	-	-	-	-	-
Deferred tax on excess depreciation	-	-	-	-	-
At 30 June 2014	**363,466**	**512,289**	**47,394,969**	**11,887,512**	**60,158,236**

Statement of Cash Flows
For the Year Ended 30 June 2014

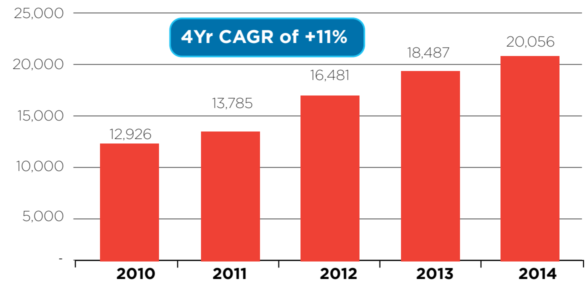
	Note	2014 Kshs' 000	2013 Kshs' 000
Cash Flows From Operating Activities			
Cash generated from operations	27 (a)	11,582,002	8,948,241
Interest received	8 (a)	152,592	366,723
Interest expense	8 (c)	-	(240,677)
Income tax paid	11 (c)	(1,823,764)	(2,513,264)
Withholding tax paid	11 (c)	(46,891)	(22,909)
Net cash generated from operating activities		**9,863,939**	**6,538,114**
Cash Flows From Investing Activities			
Purchase of property, plant and equipment	14	(3,139,984)	(813,445)
Proceeds from disposal of assets held for sale	23	23,255	12,106
Proceeds from disposal of property, plant and equipment		16,695	8,300
Net cash flows used in investing activities		**(3,100,034)**	**(793,039)**
Cash Flows From Financing Activities			
Dividends paid	26 (b)	-	(680,000)
Repayment of borrowings	27 (c)	-	(8,290,208)
Net cash flows used in financing activities		-	**(8,970,208)**
Net increase/(decrease) in cash and cash equivalents		6,763,905	(3,225,133)
Cash and cash equivalents at beginning of the period		4,318,948	7,544,082
Cash and Cash Equivalents at End of the Year	27 (b)	**11,082,853**	**4,318,948**

Company **Performance** Indicators

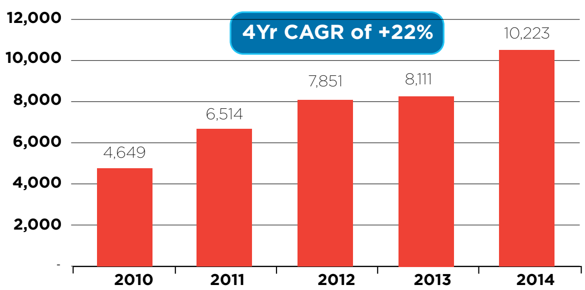
Throughput - 000s m³



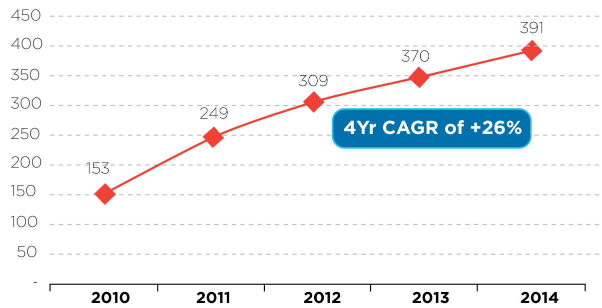
Revenues - Kshs. Million



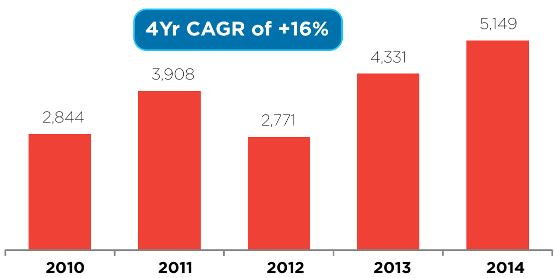
Profit Before Tax - Kshs. Million



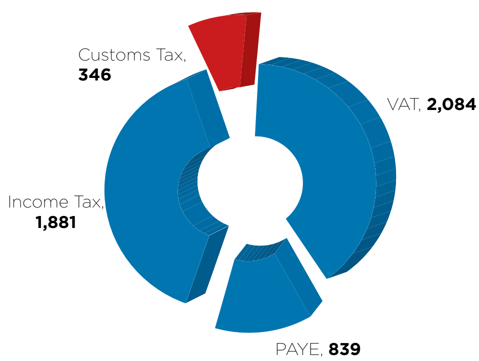
EPS - Kshs.



Total Taxes Paid to GoK. Kshs. Million



2014 Taxes Paid - Kshs. Million



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2014

1. ACCOUNTING POLICIES

a. Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards. For the Kenyan Companies Act reporting purposes, in these financial statements, the balance sheet is represented by/equivalent to the statement of financial position and the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

Adoption of new and revised International Financial Reporting Standards (IFRSs)

(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2014

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

Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities	The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. The application of the amendment had no effect on the company's financial statements as the company did not have any offsetting arrangements in place.
New and revised standards on consolidation and joint arrangements, associates and disclosures	In May 2011, a package of five standards in consolidation and joint arrangements, associates and disclosure was issued comprising IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IASs 27 (as revised in 2011) Separate Financial Statements and IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures. Subsequent to the issue of these standards, amendment to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain guidance on first application of the standards. The application of the new standard has not had any impact on the disclosures or the amounts recognized in these financial statements as the company does not have any joint arrangements.
IFRS 13 Fair Value Measurement	The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

Adoption of new and revised International Financial Reporting Standards (IFRSs)

(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2014

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique.
Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 Fair Value Measurement

IFRS 13 requires prospective application from 1 January 2013.
In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the standard. In accordance with these transitional provisions, the company has not made any new disclosures required by IFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognized in the financial statements.

Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012)

The annual improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the company are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

In the current year, the company has restated the retirement benefit asset as it adopted the revised IAS 19 standard, which has resulted in material effects on the information in the statement of financial position as at 1 July 2012. The company also restated the property, plant and equipment balances for which the balances as at 30 June 2013 did not include the full impact of the valuation carried out on the company's assets. In accordance with the amendments to IAS 1, the company has presented a third statement of financial position as at 1 July 2012 without the related notes except for the disclosure requirements relating to the impact on the application of the new standard.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 30 June 2014

Adoption of new and revised International Financial Reporting Standards (IFRSs)

(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2014

IAS 19 Employee Benefits (as revised in 2011)

IAS 19, (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, hence eliminate the 'Corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.

IAS 19 Employee Benefits (as revised in 2011)

The above amendments are generally effective for annual periods beginning on or after 1 January 2013. Specific transitional provisions are applicable to first-time application of IAS 19 (as revised in 2011). The company has applied the relevant transitional provisions and restated the comparative amounts on a retrospective basis.

(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2014 New and Amendments to standards

	Effective for annual periods beginning on or after
IFRS 9	1 January 2018
Amendments to IFRS 9 and IFRS 7	1 January 2015
Amendments to IFRS 10, IFRS 12 and IAS 27	1 January 2014
Amendments to IAS 32	1 January 2014
Amendments to IAS 36	1 January 2014
Amendments to IAS 39	1 January 2014

IFRS 9 Financial Instruments

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

Adoption of new and revised International Financial Reporting Standards (IFRSs)

(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2014 New and Amendments to standards

Key Requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of change in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.
  Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The Directors of the company anticipate that the application of IFRS 9 in the future may not have a significant impact on amounts reported in respect of the company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contacts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Adoption of new and revised International Financial Reporting Standards (IFRSs)

(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2014 New and Amendments to standards

Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

The Directors of the company do not anticipate that the application of the standard will have a significant impact on the company's financial statements.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The Directors of the company do not anticipate that the application of these amendments to IAS 32 will have a significant impact on the company's financial statements as the company does not have any significant financial assets and financial liabilities that qualify for the offset.

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

Amends IAS 36 Impairment of assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended 30 June 2014

1. **ACCOUNTING POLICIES (CONTINUED)**

Adoption of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(ii) Relevant new standards and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2014 (Continued)

Recoverable amount Disclosures for Non-Financial Assets (Amendments to IAS 36) Continued)

The Directors of the company do not anticipate that the application of these amendments to IAS 36 will have significant impact on the company's financial statements as the company does not have any significant financial assets and financial liabilities that qualify for the offset.

Annual Improvements 2010 - 2012 Cycle

The annual improvements 2010 - 2012 cycle makes amendments to the following standards;

IFRS 2	Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'.
IFRS 3	Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.
IFRS 8	Requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly.
IFRS 13	Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only).
IAS 16 and IAS 38	Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount.
IAS 24	Clarify how payments to entities providing management services are to be disclosed.
IFRS 1	Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only).
IFRS 3	Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangements itself.
IFRS 13	Clarify the scope of the portfolio exception in paragraph 52.
IAS 40	Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

These IFRS improvements are effective for accounting periods beginning on or after 1 January 2014. The Directors of the company do not anticipate that the application of these improvements to IFRSs will have a significant impact on the company's financial statements.

(iii) Early adoption of standards

The company did not early-adopt new or amended standards in 2014.

Basis of Preparation

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

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 services 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.

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 rate 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%

1. ACCOUNTING POLICIES (CONTINUED)

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.

Impairment

At each balance sheet date, the company reviews the carrying amounts of its tangible an intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indications 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.

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.

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 company's statement of financial position but are disclosed separately per note 31.

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.

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.

For defined retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as service costs (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), net interest expense or income and remeasurements.

The company presents the first two components of defined benefit costs in profit or loss in the line item of pension cost-defined benefit scheme (included in staff costs). Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the statement of financial position represents the actual deficit or surplus in the company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

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

1. ACCOUNTING POLICIES (CONTINUED)

Taxation

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

(i) Current Tax

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

(ii) Deferred Tax

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

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

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 by the shareholders.

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 method, less any impairment loss recognized to reflect irrecoverable amounts. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired.

1. ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (Continued)

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 available for sale investments, gain and losses arising from changes in fair value are recognized through other comprehensive income and accumulated in revaluation reserve, until the available for sale 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.

Unquoted investments are classified as available for sale and are stated at cost as the fair value cannot be reliably determined.

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 Instruments
Financial liabilities and equity instruments issued by the company are classified according to the substance of the contractual arrangements entered into and the definition 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.

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 borrowing is recognized over the term of the borrowings in accordance with the company's accounting policy for borrowing costs.

Trade Payables
Trade payables are stated at their nominal value

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

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 reporting date.

Currency Translations

Assets and liabilities that are denominated in foreign currencies are translated into Kenya Shillings at the rate of exchange ruling on the reporting 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 profit or loss.

Accounting for Leases

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

The Company as Lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

The Company as Lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Provisions

Provisions are recognized when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, comparatives have been adjusted to comply with IAS 19 Employee Benefits (as revised in 2011).

2. 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 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. The company had nil debt as at 30 June 2014 (2013 - Nil)

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Introduction and Overview

The company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the company's business and the operational risks are an inevitable consequence of being in business. The company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance. The key types of risks include:

- Market risk - includes currency and interest rate risk.
- Credit risk
- Liquidity risk.

The company's overall risk management programme focuses on the unpredictability of changes in the business environment and seeks to minimise potential adverse effects of such risks on its financial performance within the options available by setting acceptable levels of risks.

The Board of Directors has overall responsibility for the establishment and oversight of the company's risk management framework.

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.

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.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

a) 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.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the company's income or the value of its holding of financial instruments. The objective of the market risk management is to manage and control, market risk exposures within acceptable parameters, while optimizing the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

(i) 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.

	GBP	EUR	USD	JPY	HKD
At 30 June 2014	Kshs' 000	Kshs' 000	Kshs' 000	Kshs' 000	Kshs' 000
Financial Assets					
Bank and cash balances	-	-	4,266,409	-	-
Short term deposits	-	767,422	5,610,900	-	-
Trade receivables	341	797,375	5,717,762	25,773	-
	341	**1,564,797**	**15,595,071**	**25,773**	-
Financial Liabilities					
Trade payables	(3,189)	(133,904)	(185,354)	-	-
Net exposure	**2,848**	**1,430,893**	**15,409,717**	**25,773**	-

a) Market Risk (Continued)

(i) Foreign Currency Risk Management (Continued)

	GBP	EUR	USD	JPY	HKD
At 30 June 2013	Kshs' 000	Kshs' 000	Kshs' 000	Kshs' 000	Kshs' 000
Financial Assets					
Bank and cash balances	-	-	2,130,861	-	-
Short term deposits	-	135,445	828,816	-	-
Trade receivables	302	134,356	5,021445	-	-
	302	**269,801**	**7,981,122**	-	-
Financial Liabilities					
Trade payables	(2,930)	(172,932)	(382,276)	-	(203)
Net exposure	**(2,930)**	**(172,932)**	**(382,276)**	-	**(203)**

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 country'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.

	2014 (Kshs' 000)		2013 (Kshs' 000)	
Currency - GB Pounds	**Effect on Profit**	**Effect on Equity**	**Effect on Profit**	**Effect on Equity**
+10 percentage point movement	353	247	262	184
-10 percentage point movement	(353)	(247)	(262)	(184)
Currency - US Dollars				
+10 percentage point movement	1,590,154	1,113,108	787,545	551,282
-10 percentage point movement	(1,590,154)	(1,113,108)	(787,545)	(551,282)
Currency - Euro				
+10 percentage point movement	13,689	9,582	17,402	12,182
-10 percentage point movement	(13,689)	(9,582)	(17,402)	(12,182)
Currency - JPY				
+10 percentage point movement	2,577	1,804	-	-
-10 percentage point movement	(2,577)	(1,804)	-	-
Currency - HKD				
+10 percentage point movement	-	-	20	14
-10 percentage point movement	-	-	(20)	(14)

a) Market Risk (Continued)

(i) Foreign Currency Risk Management (Continued)

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 of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

(ii) Interest Risk Management

The company is exposed to interest rate risk as it invests and 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 30 June 2014 would decrease/increase by Kshs 7 million (2013 - Kshs 4 million).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended 30 June 2014

b) Credit Risk Management

Credit 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 June 2014 and 30 June 2013 is analysed in the table below:

AT 30 JUNE 2014	Fully Performing	Past Due	Impaired	Gross Total
	Kshs' 000	Kshs' 000	Kshs' 000	Kshs' 000
Trade receivables	4,680,116	4,242,441	-	8,922,557
Other receivables	632,727	3,462	211,161	847,350
Bank balances	5,137,625	-	-	5,137,625
Short term deposits	5,938,961	-	-	5,938,961
Government securities	104,316	-	-	104,316
	16,493,745	**4,245,903**	**211,161**	**20,950,809**

AT 30 JUNE 2013	Fully Performing	Past Due	Impaired	Gross Total
	Kshs' 000	Kshs' 000	Kshs' 000	Kshs' 000
Trade receivables	2,031,237	4,041,066	-	6,072,303
Other receivables	1,060,773	850,726	211,161	2,122,660
Bank balances	2,333,295	-	-	2,333,295
Short term deposits	1,982,203	-	-	1,982,203
	7,407,508	**4,891,792**	**211,161**	**12,510,461**

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.

c) Liquidity Risk Management

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company'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 company's reputation.

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 undrawn facilities that the company has at its disposal to further reduce liquidity risk.

The table below analyses the company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

	Within 12 months	Over 12 months	Total
AT 30 JUNE 2014	Kshs' 000	Kshs' 000	Kshs' 000
Due to related parties	218,840	80,000	298,840
Trade payables	2,335,279	-	2,335,279
Other payables and accruals	1,757,185	-	1,757,185
	4,311,304	**80,000**	**4,391,304**
AT 30 JUNE 2013			
Due to related parties	220,840	81,766	302,606
Trade payables	1,297,194	-	1,297,194
Other payables and accruals	757,357	-	757,357
	2,275,391	**81,766**	**2,357,157**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 30 June 2014

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the company's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both currents and future periods. The critical areas of accounting estimates and judgements in relation to the preparation of these financial statements are as set out below:

a) Critical Judgements in Applying the Company's Accounting Policies

Held-to-Maturity Financial Assets

The Directors have reviewed the company's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the company's positive intention and ability to hold those assets to maturity. The carrying amount of the held-to maturity financial assets is Sh. 104 million (30 June 2013: Sh 100 million).

b) Key Sources of Estimation Uncertainty

Actuarial Valuation of Defined Benefits Plan

The liability due under the defined benefit scheme is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

Impairment of Assets

At each reporting 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.

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 judgements 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.

The 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 difference between loss estimates and actual loss experience.

5. REVENUE

	2014	2013
	Kshs' 000	Kshs' 000
Local service fees	7,382,754	6,701,655
Export service fees	11,098,107	10,371,450
Kipevu oil storage facility fees	1,490,949	1,307,363
Penalties on overstayed product	83,722	106,597
	20,055,532	**18,487,065**

6. DIRECT COSTS

	2014	2013
	Kshs' 000	Kshs' 000
Pipeline maintenance staff cost (Note 10)	1,786,794	1,746,507
Depreciation (Note 14)	1,860,264	1,938,025
Pipeline maintenance costs	790,217	958,040
Electricity and fuel	2,077,810	1,915,981
Insurance	218,433	244,302
Other maintenance costs	85,753	30,209
Amortization of prepaid lease rentals (Note 15)	89,349	7,502
Amortization of intangible assets (Note 16)	3,925	107,155
	6,912,545	**6,947,721**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 30 June 2014

7. OTHER INCOME

	2014	2013 (Restated)
	Kshs' 000	Kshs' 000
Helicopter income	12,741	-
Rent income	82,048	63,720
Gain on disposal of property, plant and equipment	8,872	16,319
Hydrant income	56,689	53,989
Income from communication equipment	1,050	450
Miscellaneous income	122,526	113,413
	283,926	**247,891**

8. (A) FINANCE INCOME

Interest income on deposits	156,905	366,723
(B) FOREIGN EXCHANGE GAINS / (LOSSES)	**101,511**	**(64,534)**
(C) FINANCE COSTS		
Interest expense	-	**240,677**

9. ADMINISTRATION EXPENSES

	2014	2013 (Restated)	1 July 2012 (Restated)
	Kshs' 000	Kshs' 000	Kshs' 000
Administrative staff costs	2,075,423	2,811,352	2,285,082
Depreciation (Note 14)	341,224	282,748	-
Other office and general expenses	515,437	273,488	304,208
Travelling and entertainment	27,860	22,601	18,256
Advertising and printing expenses	76,805	80,166	90,671
Rent and rates	7,537	3,435	3,648
Consultancy fees	46,012	21,466	80,837
Telephone and postage	23,109	20,879	19,080
Legal and professional expenses	209,922	47,517	98,657
Court awards	-	-	26,608
Licenses and other fees	40,078	75,654	-
Motor vehicle expenses	55,238	54,146	101,678

9. ADMINISTRATION EXPENSES (CONTINUED)

	2014	2013 (Restated)	1 July 2012 (Restated)
	Kshs' 000	Kshs' 000	Kshs' 000
Buildings repairs and maintenance	3,730	3,246	1,300
Bank charges	6,679	7,991	5,112
Penalties and interest on tax	1,018	-	-
Auditors remuneration	8,448	4,837	6,703
Directors: - Performance incentive	5,400	5,400	8,400
- Other emoluments	11,384	16,436	11,415
- Sitting / duty allowance	7,080	6,268	10,451
	3,462,384	**3,737,630**	**3,072,106**

10. STAFF COSTS

	2014	2013 (Restated)	1 July 2012 (Restated)
	Kshs' 000	Kshs' 000	Kshs' 000
Salaries and wages	3,259,947	3,844,749	3,248,585
Group life and medical cover	295,038	298,571	256,307
Pension company contribution	221,189	245,331	218,297
Defined benefit plan (Note 18 (b))	(137,508)	(62,328)	-
Staff Welfare	154,885	156,831	120,474
Training	60,012	66,601	45,848
Recruitment costs	3,610	655	506
NSSF - Company Contribution	3,374	4,247	4,165
Staff Uniforms	1,669	3,202	3,582
	3,862,216	**4,557,859**	**3,897,764**
Split as follows:			
Direct staff costs (Note 6)	1,786,794	1,746,507	1,612,682
Administrative staff costs (Note 9)	2,075,423	2,811,352	2,285,082
	3,862,217	**4,557,859**	**3,897,764**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 30 June 2014

11. TAXATION

(a) Tax Charge	2014	2013 (Restated)
	Kshs' 000	Kshs' 000
Current taxation based on taxable profit at 30%	3,002,751	2,212,670
Tax under/(overpayment) from year 2010	83,019	(621,091)
	3,085,770	**1,591,579**
Deferred tax charge (Note 25)	34,392	(124,051)
Prior year overprovision	-	(86,330)
	34,392	(210,381)
Total taxation charge	**3,120,162**	**1,381,198**
(b) Reconciliation of expected tax based on profit before taxation to taxation charge		
Profit before taxation	10,222,945	8,111,117
Tax at applicable rate of 30%	3,066,884	2,433,335
Tax effect of expenses not deductible for tax purposes	-	1,369,095
Income not subject to tax	(29,741)	(1,233,037)
Prior year overstatement	-	(86,330)
Prior year adjustment	-	(480,774)
Tax under/(overpayment) from year 2010	83,019	(621,091)
Total taxation charge	**3,120,162**	**1,381,198**

(c) Taxation (Payable) / Recoverable		
	Kshs' 000	Kshs' 000
Balance brought forward	991,313	46,719
Charge for the year (Note 11 (a))	(3,002,751)	(2,212,670)
Tax underpayment from year 2010	(83,019)	621,091
Installment tax payments in the year	1,823,764	2,513,264
Withholding tax paid on interest income	46,891	22,909
	(223,802)	**991,313**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended 30 June 2014

12. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares into ordinary shares.

There were no potentially dilutive ordinary shares outstanding as at 30 June 2014 and 30 June 2013. Diluted earnings per share are therefore same as basic earnings per share.

The following reflects the earnings and the share data used in the basic and diluted earnings per share computations:

	2014	**2013 (Restated)**
	Kshs	Kshs
Profit after taxation	7,102,783,000	6,729,919,000
Number of ordinary shares in issue	18,173,300	18,173,300
Basic and diluted earnings per share (in Kshs)	391	370

13. DIVIDENDS

Proposed dividends are not accounted for until they have been ratified at the Annual General Meeting. The Directors recommend a dividend of Kshs. 309.4 million for the year then ended (2013 - Nil).

14. PROPERTY, PLANT AND EQUIPMENT

Cost/Valuation	Freehold property	Buildings and roads	Pipeline, pumps and tanks	Equipment, furniture and fittings	Helicopters	Motor vehicles & tractors	Capital work -in-progress	Total
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
1 July 2012	30,162	9,648,343	28,093,893	9,126,791	147,586	683,320	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)	(81,838)	-	(4,620,331)
30 June 2013 (as previously reported)	31,742	6,156,075	31,904,645	4,538,061	125,000	675,583	1,746,473	45,177,579
Prior year adjustments*	200,600	(60,729)	(618,544)	(117,704)	-	(70,984)	-	(667,361)
30 June 2013 (restated)	**232,342**	**6,095,346**	**31,286,101**	**4,420,357**	**125,000**	**604,599**	**1,746,473**	**44,510,218**
1 July 2013 (as previously reported)	31,742	6,156,075	31,904,645	4,538,061	125,000	675,583	1,746,473	45,177,579
Prior year adjustments*	200,600	(60,729)	(618,544)	(117,704)	-	(70,984)	-	(667,361)
1 July 2013 (restated)	232,342	6,095,346	31,286,101	4,420,357	125,000	604,599	1,746,473	44,510,218
Additions	4,200	163,560	207,644	70,655	315,915	95,371	2,282,638	3,139,984
Transfers from WIP	-	-	-	148,801	-	-	(148,801)	-
Disposals	-	-	-	-	-	(11,118)	-	(11,118)
30 June 2014	**236,542**	**6,258,906**	**31,493,745**	**4,639,813**	**440,915**	**688,852**	**3,880,310**	**47,639,084**

*The prior year adjustment relates to the fair value gains and losses on assets that had been revalued as at 30 June 2013 but not uploaded into the fixed assets register at 30 June 2013. See Note 33 (ii).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended 30 June 2014

14. PROPERTY, PLANT AND EQUIPMENT

Depreciation	Freehold property	Buildings and roads	Pipeline, pumps and tanks	Equipment, furniture and fittings	Helicopters	Motor vehicles & tractors	Capital work -in-progress	Total
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
1 July 2012	-	4,071,229	9,057,156	5,274,299	147,586	458,210	-	19,008,550
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)
Eliminated on revaluation	-	(3,462,546)	(9,295,450)	(3,442,836)	(147,586)	(206,374)	-	(16,554,791)
30 June 2013 (as previously reported)	-	960,830	965,062	2,404,119	2,083	332,828	-	4,664,922
Prior year adjustment*	-	(207,164)	(56,371)	(125,434)	-	(99,215)	-	(488,184)
30 June 2013 (restated)	-	**753,666**	**908,691**	**2,278,685**	**2,083**	**233,613**	-	**4,176,738**
1 July 2013 (as previously reported)	-	960,830	965,062	2,404,119	2,083	332,828	-	4,664,922
Prior year adjustment*	-	(207,164)	(56,371)	(125,434)	-	(99,215)	-	(488,184)
1 July 2013 (restated)	-	753,666	908,691	2,278,685	2,083	233,613	-	4,176,738
Charge for the year	-	334,049	1,326,480	326,385	82,918	131,657	-	2,201,488
Eliminated on disposal	-	-	-	-	-	(3,295)	-	(3,295)
30 June 2014	-	**1,087,715**	**2,235,171**	**2,605,070**	**85,001**	**361,975**	-	**6,374,932**
Net Book Value								
30 June 2014	**236,542**	**5,171,191**	**29,258,574**	**2,034,743**	**355,914**	**326,877**	**3,880,310**	**41,264,151**
30 June 2013 (restated)	**232,342**	**5,341,680**	**30,377,410**	**2,141,672**	**122,917**	**370,986**	**1,746,473**	**40,333,480**

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 42,140,269,100. As at 30 June 2013, the values incorporated in the Fixed Assets Register was Kshs 40,361,075,400 resulting in a net revaluation surplus of KShs 16,780,968,000.

*The prior year adjustment relates to the elimination of accumulated depreciation on assets that had been revalued as at 30 June 2013 but not uploaded into the fixed assets register as at 30 June 2013. See Note 33 (ii)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Details of the company's property, plant and equipment and information about fair value hierarchy as at 30 June 2014 are as follows:

30 June 2014	**Level 1**	**Level 2**	**Level 3**	**Fair Value as at 30 June**
	Kshs' 000	Kshs' 000	Kshs' 000	Kshs' 000
Buildings and roads	-	-	5,171,191	5,171,191
Pipeline, pump and tanks	-	-	29,258,574	29,258,574
Equipment, furniture and fittings	-	-	2,034,743	2,034,743
Helicopters	-	-	355,914	355,914
Motor vehicles and tractors	-	-	326,877	326,877
	-	**-**	**37,147,299**	**37,147,299**
30 June 2013				
Buildings and roads	-	-	5,341,680	5,341,680
Pipeline, pump and tanks	-	-	30,377,410	30,377,410
Equipment, furniture and fittings	-	-	2,141,672	2,141,672
Helicopters	-	-	122,917	122,917
Motor vehicles and tractors	-	-	370,986	370,986
	-	**-**	**38,354,665**	**38,354,665**

If the property, plant and equipment were stated on historical cost basis, the amounts would be as follows:

	2014	**2013**
	Kshs' 000	Kshs' 000
Cost	49,723,216	48,735,030
Accumulated depreciation	(24,149,581)	(21,623,122)
Net Book Value	**25,573,635**	**27,111,908**

15. LEASEHOLD LAND

Cost/Valuation	2014	2013 (Restated)
	Kshs'000	Kshs'000
1 July	5,224,052	351,817
Revaluation	-	4,823,906
Impairment of leasehold land	-	(291,671)*
30 June (As previously reported)	5,224,052	4,884,052
Prior year adjustment**	-	340,000**
30 June (restated)	5,224,052	5,224,052
Amortization		
1 July	(6,823)	(21,923)
Revaluation	-	22,602
Charge for the year	(89,349)	(7,502)
30 June	(96,172)	(6,823)
Net Book Value	**5,127,880**	**5,217,229**

Payments to acquire leasehold interests in land are treated as prepaid lease rentals and amortized over the term of the lease. Leasehold land is held at valuation and categorized under level 3 fair value hierarchy.

*The impairment of leasehold land relates to land which is still gazetted as forest land and thus cannot be utilized or accessed by the company.

**The prior year adjustment relates to the fair value gains on leasehold land that had been revalued at 30 June 2013 but not uploaded into the fixed assets register. See note 33 (ii).

16. INTANGIBLE ASSETS

Cost	2014	2013
	Kshs'000	Kshs'000
1 July	365,041	360,368
Additions	-	4,673
30 June	365,041	365,041
Amortization		
1 July	(358,131)	(250,976)
Charge for the year	(3,925)	(107,155)
30 June	(362,056)	(358,131)
Net Book Value	**2,985**	**6,910**

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

17. INVESTMENT - AT COST

Unquoted investments	2014	2013
	Kshs'000	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:		
746,500 ordinary shares of Kshs 20 each	14,930	14,930
2,605,000 4% non cumulative irredeemable non-convertible preference shares at Kshs 20 each	52,100	52,100
	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 investments are stated at cost as fair value cannot be reliably determined.

18. RETIREMENT BENEFIT OBLIGATIONS

a) National Social Security Fund

This is a statutory defined contribution pension scheme in which both the employer and employee contribute equal amounts. The amount contributed during the year has been charged to the profit or loss for the year.

b) Defined Benefit Scheme (Closed)

The company's contribution to the scheme during the year amounted to Nil (2013 - Kshs 57,000,000). The most recent actuarial valuation of the scheme's assets and the present value of the defined benefits obligation as at 30 June 2014 were carried out in August 2014 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:

b) Defined Benefit Scheme (Closed) (Continued)

	2014	2013
Discount rate (s)	13.0%	12.5%
Future salary increases	5.0%	5.0%
Future pension increases	-	-
Mortality (pre-retirement)	A1949-1952	A1949-1952
Mortality (post-retirement)	a(55) m/f	a(55) m/f
Withdrawals	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Retirement Age	60 years	60 years

The amounts recognized in the statement of profit or loss and other comprehensive income in respect of these defined benefit plan are as follows:

	2014	2013
	Kshs'000	Kshs'000
Total service cost	25,991	17,653
Interest costs:		
Interest cost on defined benefit obligation	617,050	571,273
Interest income on plan assets	(780,549)	(651,254)
Net interest costs on balance sheet liability	(163,499)	(79,981)
Components of defined benefits plan recognized in profit or loss	137,508	62,328
Actuarial gain obligation	(50,916)	-
Return on plan assets (excluding amount in interest cost)	102,011	(609,983)
Components of defined benefits plan recognized in other comprehensive income	51,095	(609,983)
Total	**51,095**	**(609,983)**

The amount included in the statement of financial position arising from the entity's obligation in respect of it's defined benefit plans is as follows:

	2014	2013
	Kshs'000	Kshs'000
Present value of funded defined benefit obligation	5,398,734	5,040,205
Fair value of plan assets	(6,806,131)	(6,361,189)
Present value of unfunded defined benefit asset	**(1,407,397)**	**(1,320,984)**

The reconciliation of the amount included in the statement of financial position is as follows:

	2014	2013
	Kshs'000	Kshs'000
Net liability at the start of the year	(1,320,984)	(648,673)
Net expense recognized in the income statement	(137,508)	(62,328)
Employer contributions	-	-
Amount recognized in other comprehensive income	51,095	(609,983)
Present value of overfunded defined benefit asset	**(1,407,397)**	**(1,320,984)**

Movements in the present value of the defined benefit obligation in the current year were as follows:

	2014	2013
	Kshs'000	Kshs'000
Opening defined benefit obligation	5,040,205	4,671,434
Current service cost	25,991	17,653
Interest costs	617,050	571,273
Contributions from plan participants	-	-
Actuarial gain due to change in assumptions	(50,916)	-
Actuarial gain due to experience	-	-
Benefits paid	(233,596)	(220,155)
Closing defined benefit obligation	**5,398,734**	**5,040,205**

Movements in the present value of the plan assets in the current year were as follows:

	2014	2013
	Kshs'000	Kshs'000
Opening fair value of plan assets	(6,361,189)	(5,320,107)
Interest income on plan assets	(780,549)	(651,254)
Contributions from the employer	-	-
Employee contributions	-	-
Benefits paid	233,596	220,155
Return on plan assets	102,011	(609,983)
Closing fair value of plan assets	**(6,806,131)**	**(6,361,189)**

18. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

b) Defined Benefit Scheme (Closed) (Continued)

The fair value of the plan assets at the end of the reporting period for each category are as follows:

	2014	2013
	Kshs'000	Kshs'000
Equity instruments	2,074,457	1,549,486
Debt instruments	2,956,114	2,959,372
Property	1,548,478	1,544,502
Offshore investments	-	7,129
Cash	227,082	300,700
Total Scheme (Assets)	**6,806,131**	**6,361,189**

c) 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.:

19. INVENTORIES

	2014	2013
	Kshs'000	Kshs'000
Spare parts and consumables	1,610,358	1,294,418
Provision for obsolete stocks	(166,376)	(166,376)
	1,443,982	**1,128,042**

20. TRADE AND OTHER RECEIVABLES

	2014	2013
	Kshs'000	Kshs'000
Trade receivables	8,922,557	6,072,303
Staff loans and advances	212,767	211,663
Prepaid construction costs	106,656	106,656
Prepaid expenses	312,354	8,739
Refundable deposits	9,467	9,535
Other Debtors	206,106	1,786,067
	9,769,907	**8,194,963**
Provision for bad and doubtful debts	(211,161)	(211,161)
	9,558,746	**7,983,802**
Recoverable as follows:		
Within one year	9,440,453	7,824,695
After one year	118,293	159,107
	9,558,746	**7,983,802**

Included in trade receivables is Kshs 3.4 billion (2013 - Kshs 3.4 billion) due from an Oil Marketing Company that is subject to a court 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 the Kenya Revenue Authority every quarter.

21. GOVERNMENT SECURITIES

	2014	2013
	Kshs'000	Kshs'000
Treasury bonds held to maturity	**104,316**	**100,000**

The treasury bond matured on 21 July 2014. The effective interest rate on treasury bond as at 30 June 2014 was 9.75% p.a (2013 -9.75%).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 30 June 2014

22. CASH AND SHORT TERM DEPOSITS

(a) Short term deposits	2014	2013
	Kshs'000	Kshs'000
Bank guarantees	-	159,437
Fixed Deposits	5,938,961	1,822,766
	5,938,961	**1,982,203**

(b) Bank and cash balances		
Barclays Bank of Kenya	3,136	3,140
Commercial Bank of Africa (KES)	238,253	19,695
Commercial Bank of Africa (USD)	2,944,388	1,731,337
CfC Stanbic Bank (KES)	7,526	43,406
CfC Stanbic Bank (USD)	730,970	275,398
Citi Bank (KES)	149,779	79,028
Citi Bank (USD)	591,051	124,126
Cooperative Bank of Kenya	71,984	38,610
Equity Bank (KES)	49,162	17,359
Equity Bank (USD)	24,340	-
Kenya Commercial Bank	368	373
Standard Chartered Bank (KES)	19,992	-
Standard Chartered Bank (USD)	306,676	-
Petty Cash	6,267	4,273
	5,143,892	**2,336,745**

23. 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 sale was completed in the current year.

Cost	**2014**	**2013**
	Kshs'000	Kshs'000
At 1 July	32,953	71,431
Prior year adjustment	-	13,475
Eliminated on disposal - prior year	-	(39,847)
Eliminated on disposal - current year	(23,255)	(12,106)
At 30 June	**9,698**	**32,953**
Depreciation		
At 1 July and 30 June	(9,698)	(9,698)
Net Book Value	**-**	**23,255**

24. SHARE CAPITAL

	2014	**2013**
	Kshs'000	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

25. DEFERRED TAX LIABILITY

Deferred taxes are calculated on all temporary differences under the liability method using the applicable rate, currently at 30%. The make-up of the deferred tax liabilities in the year and the movement on the deferred tax account during the year are presented on the next page:

25. DEFERRED TAX LIABILITY (CONTINUED)

Deferred tax liability	**2014**	**2013 (Restated)**	**1 July 2012 (Restated)**
	Kshs'000	Kshs'000	Kshs'000
Accelerated capital allowances	456,415	452,850	827,809
Deferred tax on retirement benefit plan assets	422,219	396,295	194,602
Deferred tax on revaluation surplus	5,094,647	5,082,537	-
Unrealized exchange gains	32,784	959,693	183,786
	6,006,065	**6,891,375**	**1,206,197**
Deferred tax assets			
General inventory provisions	(49,913)	(49,913)	(49,913)
Provision for legal expenses	-	(28,358)	(11,041)
Leave pay provision	(37,778)	(30,939)	(34,731)
General bad debts provision	(5,164)	(4,847)	(4,847)
Unrealized exchange losses - trading	-	(895,281)	(278,779)
	(92,855)	(1,009,338)	(379,311)
Net deferred tax liability	**5,913,210**	**5,882,037**	**826,886**

The movement in deferred tax was as follows:

At 1 July	5,882,037	826,886	621,817
Deferred tax charge (note 11(a))	34,392	(124,051)	10,467
Deferred tax through other comprehensive income	(3,219)	5,265,532	194,602
Prior year overprovision (note 11(a))	-	(86,330)	-
At the end of the year	**5,913,210**	**5,882,037**	**826,886**

26. A) TRADE AND OTHER PAYABLES

	2014	2013
	Kshs'000	Kshs'000
Trade payables	2,335,279	1,297,194
Other payables	1,004,112	843,029
Catering, training & tourism development levy	114	39
Leave pay provision	125,749	103,129
	3,465,254	**2,243,391**

b) Dividends Payable

At the beginning of the year	-	300,000
Declared in the year	-	380,000
Dividends paid	-	(680,000)
	-	**-**

27. NOTES TO THE STATEMENT OF CASH FLOWS

a) Reconciliation of operating profit to cash generated from operations	2014	2013 (Restated)
	Kshs'000	Kshs'000
Profit before tax	10,222,945	8,111,117
Adjustments for:		
Depreciation (note 14)	2,201,488	2,220,770
Amortization of leasehold land (note 15)	89,349	7,502
Amortization of intangible assets (note 16)	3,925	107,155
Unsupported movements in revaluation reserve	40,367	-
Gain on disposal of property, plant and equipment	(8,872)	(16,319)
Interest income	(156,905)	(366,723)
Income expense	-	240,677
Operating profit before working capital changes	**12,392,297**	**10,304,179**
Increase in inventories	(315,940)	(102,456)
Increase in trade and other receivables	(1,574,944)	(1,354,315)
Increase in trade and other payables	1,221,863	149,836
Movement in related party balances	(3,766)	13,325
Movement in retirement benefit asset (note 18(b))	(137,508)	(62,328)
Cash generated from operations	**11,582,002**	**8,948,241**

b) Analysis of cash and cash equivalents		
Short term deposits (note 22 (a))	5,938,961	1,982,203
Bank and cash balances	5,143,892	2,336,745
	11,082,853	**4,318,948**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 30 June 2014

27. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

c) Borrowings

Loan movement	2014	2013
	Kshs'000	Kshs'000
At 1 July 2012	-	8,293,553
Loan repayment	-	(8,290,208)
Foreign exchange difference	-	(3,345)
At 30 June 2013	-	-

28. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. A party is related to an entity if directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries); has an interest in the entity that gives it significant influence over the entity: or has joint control over the entity; the party is an associate of the entity; the party is a joint venture in which the entity is a venture; the party is a member of the key management personnel of the entity or its parent; the party is a close member of the family of any individual referred to in the above definitions; the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in the above; or the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

a) Key Management Compensation

The remuneration of Directors and other members of key Management during the year were as follows:

	2014	2013
	Kshs'000	Kshs'000
Key management salaries and benefits	218,783	231,211
Directors' remuneration		
- Fees for services	7,080	6,268
- Other emoluments	16,401	21,836
	23,481	**28,104**

b) Related Party Transactions

In the normal course of business transactions are conducted with related parties at terms and conditions similar to those offered to other customers. Transactions with related parties during the year are disclosed as follows:

28. RELATED PARTIES (CONTINUED)

	2014	2013
	Kshs'000	Kshs'000
Services provided to National Oil Corporation (K)	876,478	1,067,057
Services received from Kenya Power & Lighting Co. Limited	2,071,796	1,909,030
Services received from Ministry of Energy & Petroleum	384,000	384,000
	3,332,274	**3,360,087**

c) Due to Related Parties

Ministry of Energy & Petroleum - LPG Project	80,000	80,000
Kenya Power & Lighting Co. Limited	218,840	188,840
Ministry of Finance	-	1,766
Ministry of Energy & Petroleum	-	32,000
	298,840	**302,606**

29. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

The Company as a Lessor	2014	2013
	Kshs'000	Kshs'000
Within one year	393,267	63,719
In the second to fifth year inclusive	1,573,067	254,878
	1,966,334	**318,597**

The lease rental income earned during the year in respect of company's property amounted to Kshs 82,122,000 (2013 Kshs 63,719,000)

The Company as a Lessee	2014	2013
	Kshs'000	Kshs'000
Within one year	82,122	63,719
In the second to fifth year inclusive	328,488	318,595
	410,610	**382,314**

The total rental expense incurred during the year amounted to Kshs 5,321,250 (2013 - Nil)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 30 June 2014

30. CONTINGENT LIABILITIES

	2014	2013
	Kshs'000	Kshs'000
Products held on behalf of shippers (note 31)	906,580	1,962,351
Pending law suits	25,455,857	1,545,442
Guarantees and letters of credit	1,276,660	1,212,901
	27,639,097	**4,720,694**

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 2014, the company held third party fuel stocks amounting to 366,939.88M^3 (2013 - 454,143M^3) with a Hydro-Carbon Value (HCV) of Kshs 26,222,679,445 (2013- Kshs 29,682,486,687).

Included in the fuel stocks is quantities of 12,968M^3 (2013 -29,964M^3) with a Hydro-Carbon Value (HCV) of Kshs 906,579,768 (2013 - Kshs 1,962,350,945) that represents differences noted between the quantities in the company's system and the quantities ascertained during the annual fuel dip procedures. As a result, the statements sent to the Oil Marketing Companies (OMCs) reflected an amount that was higher than the physical stock by 12,968M^3 (2013 29,964M^3). A reconciliation exercise was ongoing at the time of preparation of these financial statements to resolve the fuel stocks deficit valued at Kshs 906,579,768 (2013 - 1,962,350,945).

The variance has been further analyzed as follows;

	2014		2013	
	Cubic Meters (M^3)	Hydrocarbon Value Kshs'000	Cubic Meters (M^3)	Hydrocarbon Value Kshs'000
Quantity as per customer statement	366,940	26,222,679	454,143	29,682,487
Quantity as per fuel dip exercise	353,972	25,316,100	424,179	27,720,136
Deficit	**12,968**	**906,579**	**29,964**	**1,962,351**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended 30 June 2014

32. CAPITAL COMMITMENTS

	2014	2013
	Kshs'000	Kshs'000
Authorized and contracted for	1,559,377	1,211,040
Authorized but not contracted for	25,544,033	11,281,720*
	27,103,410	**12,492,760**

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

*The major item in prior year is the delayed Line 5 project.

33. PRIOR YEAR ADJUSTMENTS

(i) Retirement Benefits Restatement

In compiling the financial information included herein, the company has adopted the revised IAS 19. The company has applied the relevant transitional provisions and restated the comparative amounts on a retrospective basis. The impact of the changes on the total comprehensive income for the year, assets, liabilities and equity is shown below:

(a) Impact on assets, liabilities and equity as at 1 July 2012 of the application of the amendments to IAS 19 (as revised in 2011)

	As at 1 July 2012 (as previously reported)	IAS 19 adjustments	As at 1 July 2012 (as restated)
	Kshs'000	Kshs'000	Kshs'000
Retirement benefit obligation	152,200	496,473*	648,673
Deferred tax liabilities	-	(194,602)**	(194,602)
Retained earnings	**152,200**	**301,871**	**454,071**

*Represents the increase in the retirement benefit asset due to adoption of the revised IAS 19.

**Represents the movement in deferred tax due to the restated retirement benefit asset.

33. PRIOR YEAR ADJUSTMENTS (CONTINUED)

(b) Impact on assets, liabilities and equity as at 30 June 2013 of the application of the amendments to IAS 19 (as revised in 2011)

	As at 30 June 2013 (as previously reported)	IAS 19 adjustments	As at 30 June 2013 (as restated)
	Kshs'000	Kshs'000	Kshs'000
Retirement benefit obligation	152,200	1,168,784*	1,320,984
Deferred tax liabilities	-	(396,295)**	(396,295)
Retained earnings	**152,200**	**772,489**	**924,689**

*Represents the increase in the retirement benefit asset due to adoption of the revised IAS 19.

**Represents the movement in deferred tax due to the restated retirement benefit asset.

(c) Impact on total comprehensive income for the year on the application of IAS 19 (as revised in 2011)

Impact on profit for the year	Year ended 30 June 2013 (as previously reported)	IAS 19 adjustments	Year ended 30 June 2013 (as restated)
	Kshs'000	Kshs'000	Kshs'000
Profit before tax	8,048,789	62,328*	8,111,117
Taxation credit	(1,843,274)	(18,698)	(1,861,972)
Profit for the year	**6,205,515**	**43,630**	**6,249,145**

(i) Retirement benefits restatement (Continued)

Impact on other comprehensive income for the year	Year ended 30 June 2013 (as previously reported)	IAS 19 adjustments	Year ended 30 June 2013 (as restated)
	Kshs'000	Kshs'000	Kshs'000
Remeasurement of defined benefit liability	-	609,983	609,983
Deferred tax relating to items of other comprehensive income	-	(182,995)	(182,995)
Other comprehensive income for the year	-	426,988	426,988
Total comprehensive income	**6,205,515**	**470,618**	**6,676,133**

*Represents the component of defined benefits plan recognized in profit or loss. The impact has been reflected in the staff costs (note (10)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 30 June 2014

(ii) Property, plan & equipment and leasehold land restatement

(a) Impact on net book value of property, plant & equipment and leasehold land

Property, plant and equipment	As at 30 June 2013 (as previously reported)	Prior year adjustment	As at 30 June 2013 (as restated)
	Kshs'000	Kshs'000	Kshs'000
Cost (Note 14)	45,177,579	(667,361)*	44,510,218
Accumulated depreciation (note 14)	(4,664,922)	488,184**	(4,176,738)
Leasehold land			
Cost (note 15)	4,884,052	340,000*	5,224,052
Revaluation reserve	**54,726,553**	**160,823**	**53,911,008**

*Relates to the surplus on revaluation of assets that had been revalued as at 30 June 2013 but not uploaded into the fixed assets register. As at 30 June 2014, these additional items were uploaded. **Relates to the accumulated depreciation reversed for assets uploaded in the fixed assets register in the year ended 30 June 2014 that had been revalued as at 30 June 2013 but not uploaded in the year of revaluation.

(b) Impact on total comprehensive income for the year

Impact on other comprehensive income for the year	30 June 2013 (as previously reported)	Prior year adjustment	30 June 2013 (as restated)
	Kshs'000	Kshs'000	Kshs'000
Remeasurement of surplus on revaluation	16,780,968	160,823	16,941,791
Other comprehensive income for the year	16,780,968	160,823	16,941,791
Total comprehensive income	**16,780,968**	**160,823**	**16,941,791**

(iii) Deferred tax on revaluation surplus

Impact on total comprehensive income for the year

Remeasurement of surplus on revaluation	16,780,968	160,823*	16,941,791
Deferred tax	-	(5,082,537)**	(5,082,537)
Other comprehensive income for the year	16,780,968	(4,921,714)	11,859,254
Total comprehensive income	**16,780,968**	**(4,921,714)**	**11,859,254**

*Relates to the net impact on the surplus on revaluation of assets that had been revalued as at 30 June 2013 but not uploaded into the fixed assets register. As at 30 June 2014, these additional items were uploaded. This has been further explained per Note 33(ii).

**Relates to the deferred tax on the revaluation surplus on revalued assets that had not been taken into account in the financial statements of the year ended 31 June 2013.

34. INCORPORATION

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

35. CURRENCY

Financial Statements are presented in Kenya Shillings (Kshs'000)

5-YEAR FINANCIAL HIGHLIGHTS

Statement of Comprehensive Income for the Year Ended 30 June

	2014	2013	2012	2011	2010
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Revenue	20,055,532	18,487,065	16,480,628	13,784,557	12,925,838
Direct Costs	(6,912,545)	(6,947,721)	(6,537,834)	(5,144,740)	(5,115,235)
Gross Profit	**13,142,987**	**11,539,344**	**9,932,504**	**8,639,817**	**7,810,603**
Other Income	283,926	247,891	293,050	244,412	289,783
Administration Expenses	(3,462,384)	(3,737,630)	(3,072,107)	(2,448,009)	(4,380,299)
Pension Deficit(Provision) /Add-Back	-	-	-	27,100	288,500
Operating Profit	**9,964,529**	**8,049,605**	**7,163,736**	**6,463,320**	**4,008,587**
Net Finance Income	258,416	61,512	687,091	50,526	640,878
Profit Before Taxation	**10,222,945**	**8,111,117**	**7,850,828**	**6,513,846**	**4,649,465**
Taxation Charge	(3,120,162)	(1,381,198)	(2,237,381)	(1,991,889)	(1,862,777)
Net Profit After Taxation	**7,102,783**	**6,729,919**	**5,613,446**	**4,521,957**	**2,786,688**
Earnings Per share	391	370	309	249	153

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5-YEAR FINANCIAL HIGHLIGHTS

Statement of Financial Position as at 30 June

Non- Current Assets	2014	2013	2012	2011	2010
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Property, plant and equipment	41,264,151	40,333,480	29,985,536	26,785,743	21,617,989
Prepaid operating lease rentals	5,127,880	5,217,229	38,223	38,964	39,707
Intangible assets	2,985	6,910	109,392	216,529	19,272
Investments	67,032	67,032	67,032	67,032	67,032
Trade and other receivables	118,293	159,107	155,475	192,938	272,261
Retirement Benefit Recoverable	1,407,397	1,320,984	648,673	-	-
	47,987,738	**47,104,742**	**31,004,331**	**27,301,206**	**22,016,261**
Current Assets					
Inventories	1,443,982	1,128,042	1,025,571	1,018,713	911,972
Trade and other receivables	9,440,453	7,824,695	6,474,012	6,760,025	5,045,305
Taxation recoverable	-	991,313	46,719	-	-
Government securities	104,316	100,000	100,000	100,000	100,000
Short term deposits	5,938,961	1,982,203	3,567,069	4,327,685	1,676,334
Bank and cash balances	5,143,892	2336745	3,977,012	2,426,372	2,608,040
	22,071,604	14,362,998	15,190,384	14,632,795	10,341,651
Non Current Assets Classified as held for Sale	-	23,255	35,361	45,058	46,147
	22,071,604	14,386,253	15,225,745	14,677,853	10,387,798
Total Assets	**70,059,342**	**61,490,995**	**46,230,076**	**41,979,060**	**32,404,059**
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	47,394,969	40,327,952	33,551,045	27,934,101	23,412,143
Revaluation reserve	11,887,512	11,859,254	-	-	-
	60,158,236	**53,062,961**	**34,426,800**	**28,809,856**	**24,287,898**

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5-YEAR FINANCIAL HIGHLIGHTS

Statement of Financial Position as at 30 June

Non Current Liabilities	2014	2013	2012	2011	2010
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Retirement Benefit Obligation	-	-	-	-	178,900
Deferred taxation	5,913,210	5,882,037	826,886	621,817	779,104
Long term loan	-	-	6,450,541	8,847,938	1,612,143
	5,913,210	**5,882,037**	**7,277,427**	**9,469,755**	**2,570,147**
Current Liabilities					
Trade and other payables	3,764,094	2,545,997	2,382,836	2,015,189	4,738,278
Tax payable	223,802	-	-	646,356	657,736
Dividend Payable	-	-	300,000	150,000	150,000
Current Loan	-	-	1,843,012	983,104	-
	3,987,896	2,545,997	4,525,848	3,794,649	5,546,014
Total Shareholder's Funds and Liabilities	**70,059,342**	**61,490,995**	**46,230,075**	**42,074,260**	**32,404,059**

5-YEAR FINANCIAL HIGHLIGHTS

Statement of Cash Flows for the Year Ended 30 June

	2014	2013	2012	2011	2010
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Net cash generated from operating activities	11,582,002	8,948,241	6,981,736	1,931,625	6,762,413
Net cash from/(to) investing activities	(3,100,034)	(793,039)	(5,129,648)	(6,822,219)	(4,665,427)
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	**6,763,905**	**(3,225,133)**	**790,024**	**2,469,683**	**3,559,129**
Cash and Cash Equivalents at beginning of the period	4,318,949	7,544,082	6,754,057	4,284,374	725,245
Cash and Cash Equivalents at end of the Year	**11,082,854**	**4,318,949**	**7,544,082**	**6,754,057**	**4,284,374**

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