

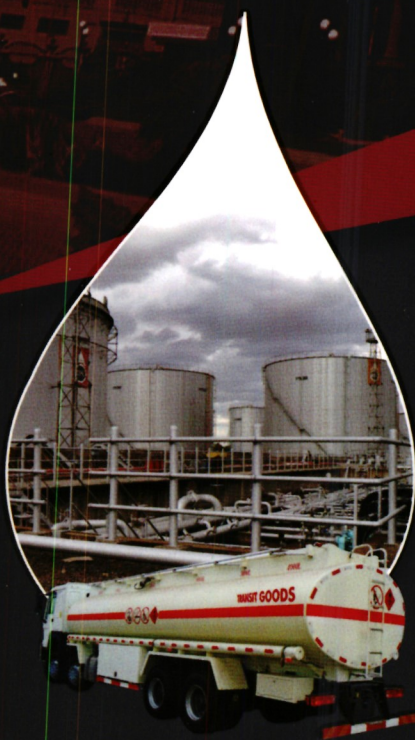


Kenya  
Pipeline  
Company

# ANNUAL REPORT & FINANCIAL STATEMENTS

30 JUNE, 2017

# 2017



Prepared in accordance with the  
Accrual Basis of Accounting Method  
under the International Financial  
Reporting Standards (IFRS)

# KENYA PIPELINE COMPANY LIMITED

FOR THE YEAR ENDED 30TH JUNE 2017

## BACKGROUND INFORMATION

Kenya Pipeline Company Limited (KPC) is a State Corporation wholly owned by the Government of Kenya (GoK) with 18,172,979 shareholding by The National Treasury and less than 1% by the Ministry of Energy and Petroleum. KPC was incorporated in 1973 under the Companies Act, Cap 486 of the Laws of Kenya and commenced commercial operations in February 1978. At cabinet level, KPC is represented by the Cabinet Secretary for Energy and Petroleum who is responsible for the company's general policy and strategic direction.

The main objective of the Company is to provide efficient, reliable, safe and cost effective means of transporting petroleum products from Mombasa to the hinterland. In pursuit of this objective, the Company has constructed a pipeline network, storage and loading facilities for transportation, storage and distribution of petroleum products. The current installed system consists of 1342 kilometres of pipeline with capacity to handle about 6.9 billion litres of petroleum products annually.

The pipeline infrastructure plays a key role in spurring economic growth and development in the East African region. To this end, KPC has developed a Corporate Strategic Plan (CSP) dubbed KPC Vision 2025 with the aim of transforming the Company into Africa's Premier Oil and Gas entity. The mission of the Company is to transform lives through safe and efficient delivery of quality oil and gas from source to customer. The CSP is anchored on five key pillars: -

- Business leadership - Winning/leading the market in Kenya.
- Geographic expansion - Leadership in greater Eastern Africa Region.
- People - Amazing performance by all KPC employees.
- Systems and processes - Reliable and best in the world technology and systems .
- Image and reputation - Amazing relationships with all our stakeholders .

### COMPANY SECRETARY

Gloria Khafafa

### REGISTERED OFFICE

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

### PRINCIPAL AUDITORS

Office of the Auditor General  
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

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

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

Standard Chartered Bank  
Stanchart Chiromo  
P.O. Box 30003 - 00100  
Nairobi

Co-operative Bank of Kenya  
Co-operative House Branch - Nanyuki Road  
P.O. Box 67881 - 00200  
Nairobi.

### PRINCIPAL ADVOCATES

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

TripleOK Law  
5<sup>th</sup> Floor Block C, ACK House  
1<sup>st</sup> Ngong Avenue, Bishop's Road  
P. O. Box 43170 - 00100 Nairobi

## VISION STATEMENTS



### OUR VISION

Africa's Premier Oil & Gas Company

### OUR MISSION

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

### OUR CORE VALUES

Integrity  
Transparency  
Accountability  
Diligence  
Team Spirit  
Loyalty  
Care for the Environment

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A large yellow Komatsu excavator is the central focus of the page. The name 'KOMATSU' is printed in blue on the side of the boom. The excavator is positioned on a dirt path, with a worker in a yellow hard hat and high-visibility vest in the foreground. In the background, there is a field of tall, thin trees and a line of people. The sky is bright and clear.

**KOMATSU**

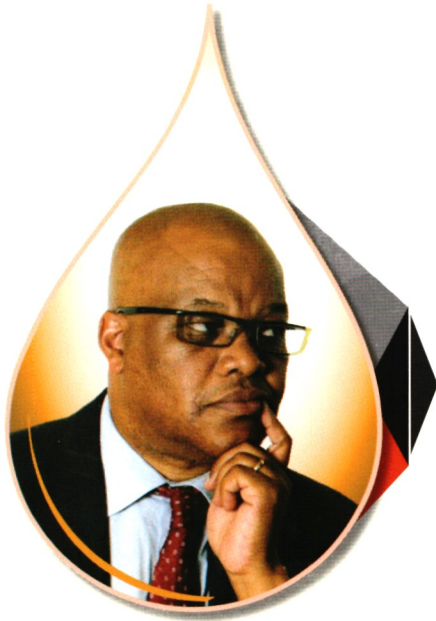
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## BOARD OF DIRECTORS



**JOHN NGUMI**  
Board Chairman

John Ngumi was appointed the Chair of the Kenya Pipeline Company (KPC) Board of Directors on 17th April 2015. Previous to this appointment, he served as the inaugural Chair of the Board of Directors at Konza Technopolis Development Authority. A leading investment banker, he has been at the heart of key developments in Kenya's financial sector, including arranging financing for KPC's last two major projects: Line 4 in 2010 (Kshs 8.2 billion) and Line 5 in 2015 (Kshs 35 billion). His last banking position before retiring in 2014 was Head, Investment Banking Coverage for East Africa for Standard Bank, the parent bank of Stanbic Bank Kenya Limited. He also worked in various capacities at Citibank, Barclays, Grindlays, and National Westminster Bank. He currently sits on the Boards of, among others, ARM Cement and Base Titanium. He holds a BA (1st Class Honours) in Philosophy, Politics and Economics from St. Peter's College, University of Oxford, UK.

**JOE SANG**  
Managing Director

Joe Sang was appointed Managing Director of Kenya Pipeline Company on 7th April 2016. A certified public accountant with CPA(K), he is a member of ICPAK and holds a Bachelor of Arts in Economics and a Master of Business Administration in Strategy both from the University of Nairobi. Joe has over 16 years' hands-on experience gained in a variety of senior positions in private and public sector organizations, including being General Manager Finance and Strategy at KPC, Group Head of Business Performance & Planning at East African Breweries Limited and Finance Director at East African Maltings Limited. He has also worked for Unga Group and National Oil Corporation of Kenya (NOCK). Equipped with a strategic mindset, he believes that his philosophy of developing others to deliver great business performance is critical as KPC transforms to Africa's Premier Oil & Gas Company.



**HENRY ROTICH**  
Cabinet Secretary  
The National Treasury

Henry Rotich is the Cabinet Secretary for the National Treasury. He holds a Master's Degree in Economics and a Bachelor's Degree in Economics (First Class Honours), both from University of Nairobi. He also holds a Master's Degree in Public Administration (MPA) from Harvard University. Prior to this appointment, Mr. Rotich was the head of Macroeconomics at the Treasury, Ministry of Finance, since March 2006. Under this capacity, he was involved in formulation of macroeconomic policies that ensured an affordable and sustainable path of public spending aimed at achieving the Government's development priorities. Prior to joining the Ministry of Finance, Mr. Rotich worked at the Research Department of the Central Bank of Kenya from 1994. Between 2001 and 2004, he was attached to the International Monetary Fund (IMF) local office in Nairobi as an economist.



## BOARD OF DIRECTORS (continued)



**ANDREW N. KAMAU**  
Principal Secretary  
State Department of Petroleum

Andrew Kamau is an alumni of University of Nairobi where he studied Chemistry. He has wide experience in petroleum energy gained from several years in leadership positions in the private sector. Prior to his appointment as Principal Secretary for Petroleum, he was the Chief Executive Officer of Bracewell Energy which has interests in mining, energy and natural resources. He has also served in senior positions in various companies with interests in mining, energy and natural resources including MAG Industries Limited, Engen Kenya Limited and Esso Kenya Limited. Andrew Kamau joined the Kenya Pipeline Company Board on 13th November 2015.

**FELICITY N. BIRIRI**  
Director

Felicity Biriri is a Human Resource professional with many years' experience in various sectors including banking, advertising and manufacturing. She was re-appointed to the Board of Kenya Pipeline Company on 26th January, 2016 where she serves as the Chair of the Human Resources Committee. She has sat in several Boards such as the Geothermal Development Company, Kenya Private Sector Alliance (KEPSA) Governing Council, COMESA-FEMCOM, the National Environmental Ombudsman NECC and Moi University Council. She is a governing council member at Meru University of Science and Technology and also a Trustee for the KEPSA Foundation and KPC Retirement Benefits Scheme. Felicity holds a Bachelor of Arts degree in Human Resource Management and a Master's degree in Conflict Resolution and Peace Management from Kenyatta University.



**MAJOR (RTD) ILTASAYON NEEPE**  
Director

Major (Rtd) Iltasayon Neepe was appointed to the Kenya Pipeline Company Board on 13th November, 2015. He served in the military for many years rising to the rank of Major where he also served as a pilot, a responsibility that saw him serve in the UN's air operations unit. Neepe, who holds a degree in Business Development Studies and a diploma in Armed Conflict and Peace Studies, has been honoured with Silver Star of Kenya. He is currently the Board Chair of Boma Fund, an NGO based in northern Kenya that empowers women with skills to fight extreme poverty.



## BOARD OF DIRECTORS (continued)



**WAHOME GITONGA**

Director ◀

Wahome Gitonga is a leading entrepreneur, businessman and director of several companies with diverse interests in Kenya and the region where he has been instrumental in accomplishing large projects in Rwanda and Tanzania, among other countries. His fascinating and inspiring thoughts on business and social enterprise have seen him support life changing social responsibility initiatives that have empowered needy Kenyans from disadvantaged backgrounds. He is a graduate of the University of Nairobi from where he attained a Bachelor of Arts degree in Economics and Sociology. Wahome joined the Kenya Pipeline Company Board of Directors on 13th November 2015.

**JERRY SIMU**

▶ Director

Jerry Simu is a banker with over 16 years of extensive pan-African corporate and investment banking experience covering East, West and Southern Africa. He has held senior positions including Managing Director and Head of Sub Sahara Representative Offices, HSBC Bank Plc and most recently as Director, Investment Banking, NIC Bank Group. Jerry joined the Kenya Pipeline Company Board of Directors on 17th April 2015 and is currently the Chair of the Board Audit Committee. He has an MSc in International Securities Investment and Banking from University of Reading, ICMA Centre. He is a member of the Institute of Bankers South Africa and a practicing Financial Advisor (FA) in Kenya.



**FAITH JEPKEMBOI BETT - BOINETT**

Director ◀

Faith Boinett is an advocate of the High Court of Kenya. She was re-appointed to the Board of Kenya Pipeline Company on the 17th April, 2015 where she doubles as the Chair of the Board Finance Committee. She is also a commission member with the Privatization Commission of Kenya. Her legal career spans over 10 years in litigation and conveyancing. A Managing Partner at Boinett & Bett Company Advocates, Faith holds a Bachelor of Law degree from Moi University, and a Post Graduate Diploma in Law from the Kenya School of Law. She has a host of other responsibilities namely council member of FIDA-Kenya, USAID-Kenya Women Voices and Chairperson of the Board of Management at Kerotet Girls High School. Formerly, Faith also sat in the Board of Directors of Nyayo Tea Zones Limited.



## BOARD OF DIRECTORS (continued)



**ERIC KORIR**

Alternate Director, The National Treasury

Eric Korir is a proficient supply chain practitioner with over 20 years' experience in both the public and private sector. He is currently the Ag. Director of Public Procurement at The National Treasury handling Policy, Research, Legal and Technical matters in the Public Sector Procurement for both National and County Governments. Eric holds a Bachelor of Arts degree from the University of Nairobi, a Master of Business Administration in Strategic Management from Moi University and a diploma in Supply Chain Management from the Chartered Institute of Purchasing and Supply (UK). He is a Member of the Chartered Institute of Purchasing and Supply, Kenya Institute of Supply Management and the Institute of Transport and Logistics.

**HUDSON ANDAMBI, OGW**

Alternate Director, State Department of Petroleum

Hudson Andambi has over 30 years' experience in Energy and Petroleum sectors where he has spearheaded numerous projects including geothermal mapping in Kenya's Central and Northern Rift, Mui Coal Basin, demarcation and classification of the new oil and gas exploration blocks, Upstream Petroleum Bill, the 2015 National Petroleum Master Plan, Technical Advice on the Maritime Boundary Dispute for Blocks to name but a few. Hudson is currently the senior Principal Superintending Geologist and Head of Upstream Petroleum Operations, Directorate of Petroleum. He is the focal point of the World Bank-funded Kenya Petroleum Technical Assistance Project (KEPTAP) for building capacity in the country's petroleum sector. He holds a Bachelor of Science (Hons) degree in Applied Geology, University of Plymouth, U.K. and a Master of Science degree in Petroleum Geology from Imperial College, University of London, UK. A member of Geological Society of Kenya (GSK) and the Geologists Registration Board (GRB) of Kenya, he was awarded the Honour of Order of the Grand Warrior (O.G.W) of Kenya by His Excellency Hon. President Uhuru Kenyatta.

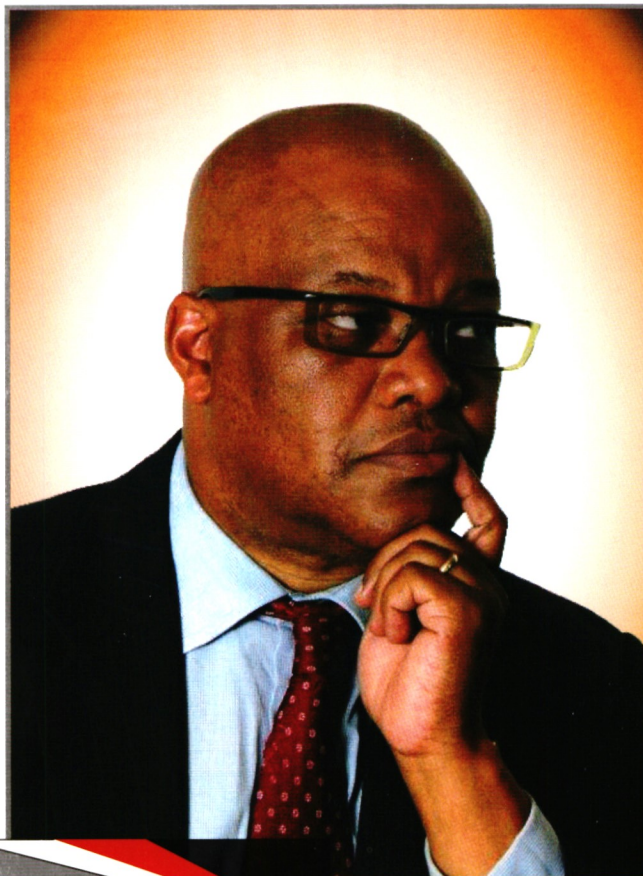


**GLORIA KHAFafa**

Company Secretary

Gloria Khafafa is an Advocate of the High Court of Kenya with over 14 years of extensive Litigation (Public Procurement) and Commercial Law experience. She has been with KPC since September 2010. Currently pursuing her Master of Law (Energy Law) at the University of London (External Programmes), Gloria has a Bachelor of Laws Degree from Moi University and a Postgraduate Diploma in Law from the Kenya School of Law. A Member of the Law Society of Kenya and the Institute of Certified Public Secretaries, Gloria is the Company Secretary at KPC.

## THE CHAIRMAN'S REPORT



JOHN NGUMI BOARD CHAIR



To enable KPC meet its revenue and growth targets, KPC is working with the Ministry of Energy and Petroleum to construct a common user LPG import terminal and storage facility.



### DEAR SHAREHOLDERS,

On behalf of the KPC Board of Directors, I am proud to present to you the Annual Report and Financial Statements of the Kenya Pipeline Company Limited for the Fiscal Year ended 30th June, 2017. During the year under review, KPC began its transformation from a pipeline and storage infrastructure company into Africa's premier oil and gas distributor by laying the foundation for its diversification and expansion into both maritime transport and crude oil exports. This marks a significant milestone towards the achievement of our 2015/25 10-year Corporate Strategic Plan ('Vision 2025'), which aims at transforming KPC into a world-class diversified oil & gas company.

At the beginning of FY 2016/17 and in line with our Corporate Strategic Plan, we set various targets aimed at advancing the organization and laying the foundation for the realization of our Vision 2025. My statement focuses on these targets and their strategic impact on KPC's future.

## THE CHAIRMAN'S REPORT *(continued)*



### External Environment

Over the last year, there has been a marked decrease in investment into East Africa's oil and gas exploration, a factor that is attributed to a decline in global oil prices. Despite this decline, existing exploratory activities have continued pegged on the long-term view adopted by investors who have already struck oil and gas reserves in Kenya, Uganda and Tanzania. Kenya and Uganda are expected to begin the commercialisation of oil very soon, while Tanzania's dream of producing gas is expected to kick-off in 2019. In March 2017, KPC and KPRL entered into a three year leasing agreement to enable KPC leverage on KPRL's existing infrastructure and technical expertise to enable the export of crude oil under the Kenya government's early oil program.

### Strategic Focus

In keeping with our Corporate Strategic Plan, KPC has made significant investments to not only expand its pipeline network and storage capacity, but also secure and ensure adequate supplies for Kenya and the wider East African region. To this end, our lease agreement with KPRL will enable KPC increase the country's strategic petroleum reserves from 30 days to 3 three months. The increased storage capacity will enhance the country's ullage which will, in effect, create enough capacity for berthing vessels

to discharge fuel into KPC's system thereby reducing vessel turnaround time. This will in turn enable our customers to save billions of shillings in costs incurred in demurrage charges every year by fuel vessels docking at the port of Mombasa, a factor that could significantly reduce the cost of fuel to the end user.

To enable KPC meet its revenue and growth targets, KPC is working with the Ministry of Energy and Petroleum to construct a common user LPG import terminal and storage facility. The LPG facility is to be constructed under the lease agreement with KPRL, utilizing KPRL's available land.

### Regional Expansion

In January 2017, KPC successfully placed a contract for the construction of the Kisumu Oil Jetty on the shores of Lake Victoria. The jetty, once completed, will mark a critical milestone for KPC as it opens up maritime transport, and help further unlock key export markets in Northern Tanzania, Uganda, Rwanda, Burundi and Eastern DRC. The jetty, which is being constructed alongside KPC's Kisumu depot, will be supported by the newly constructed Sinendet-Kisumu pipeline, which has already boosted throughput to Kisumu to over 460,000 litres per hour. The jetty has the potential to turn Kisumu into a focal point for oil and gas commerce in the region, thereby transforming it

into one of the busiest inland ports in Africa. By extension, this will also raise Kenya's profile as a strong partner in regional and intra-Africa trade.

### Devolution of the Pipeline Network to Counties

To ensure that it retains and expands its domestic and regional markets, KPC undertook a comprehensive feasibility study and Preliminary Engineering Design for development of pipeline network to the Counties. The scope of the assignment covered, among others, market mapping in various regions that are economically endowed but are currently not served by the existing pipeline network. As a result of the findings, KPC is now set to extend the pipeline from Nakuru through Nanyuki to Isiolo to serve the Central and Northern parts of the country, and neighbouring countries.

### People

During the FY 2015/16 financial year, KPC embarked on exercises in job analysis & profiling, job rotation and right sizing key departments to make them fit-for-purpose. As part of the exercise, KPC finalized the recruitment of new General Managers to form the executive committee to oversee all operations. Following the conclusion of the exercise, we are proud to note that two of the six General Managers who form the executive committee are internal hires, setting the pace for the

## THE CHAIRMAN'S REPORT (continued)



I am truly honoured to serve alongside you as we strive to redefine the role played by KPC and drive the Company towards the realization of its strategic goals and objectives.



promotion and recognition of our own staff. To this end, KPC will continue to invest in on-the-job and campus training to position our staff to take up any additional opportunities that may arise in the future.

### Appreciation

KPC has over the last year introduced several new initiatives and measures to make our services more efficient and accessible. I take this opportunity to thank our customers for their continued support and partnership in the realization of KPC's mandate which is to provide the Kenyan economy with the most efficient, reliable, safe and most competitive means of transporting petroleum products.

On behalf of KPC's Board, Management and Staff, I would also like to recognize

the support accorded to KPC, by the National Treasury & the Ministry of Energy & Petroleum. In particular, we are grateful for the role played by the government in securing an agreement between KPRL and KPC towards the expansion of our storage capacity and our venture into upstream activities. We look forward to your continued support as we venture into this uncharted territory.

To management and staff: on behalf of the Board of Directors, I commend you all for your tireless effort and commitment to the attainment of KPC's set targets and goals. We work in a challenging and highly volatile industry, and your dedication and commitment to playing your individual roles has not only enabled the company remain profitable, but also ensured

that the country and the region have a steady and uninterrupted supply of fuel. As part of the country's strategic infrastructure, KPC's pipeline network is crucial to maintaining the country's economic growth.

Finally, I want in a very special way to appreciate my fellow Directors on the Board. Over the last year, KPC like all other State Corporations, has come under increased scrutiny with both the Company and your own personal integrity being called into question. It takes great determination and strength of character to weather such storms and remain resilient and focused on delivering KPC's mandate.

Public service, especially as a non-executive director of a state corporation, requires commitment and great sacrifices in both time and personal resources. You often have to risk your own reputation and shoulder the burden of the image of the corporation. I am truly honoured to serve alongside you as we strive to redefine the role played by KPC and drive the Company towards the realization of its strategic goals and objectives.

**JOHN NGUMI**  
BOARD CHAIR



(L-R) KPC MD Joe Sang, KPC Director Neepee Ittasayon, Cabinet Secretary for Energy and Petroleum Charles Keter and KPC Chairman John Ngumi during the Commissioning of Line VI earlier this year.

## CORPORATE GOVERNANCE STATEMENT



Kenya Pipeline Company (KPC) has engrained the principles of Corporate Governance in its institutional framework and is committed to consistently promoting the highest standards of governance which take into account the interest of all stakeholders, strengthens Board and Management accountability and helps build public trust in the Company.

The Board of KPC has overall responsibility for overseeing the effective management and control of the Company on behalf of KPC's shareholders and supervising executive management's conduct of the Company's affairs within a laid down framework, which is designed to enable effective risk assessment and monitoring.

In implementing the Corporate Governance tenets, the Board seeks to add value through constructive dialogue and engagement with stakeholders as well as management with a strong focus on the Company's strategic agenda. The Board embraces and recognizes the benefits of

diversity in skills and experience in its compositions and this engenders the effective discharge of the Boards strategic oversight function.

As at 30th June 2017, the Board was made up to (10) members comprising of a non-executive Chairman, the Permanent Secretary, National Treasury, the Permanent Secretary Ministry of Energy and Petroleum, the Managing Director and six (6) independent directors of various backgrounds. The non-executive directors are independent of management.

The Board has established four Committees with specific terms of reference to exercise delegated responsibilities. The Committees are namely the Audit, Human Resources, Technical and Finance Committees. Board meetings are held in accordance with the annual calendar and with the exception of instances critical business matters arise.

The following meetings were held during the Year ending 30th June 2017.

	MEETING	NO. OF MEETINGS	MEMBERSHIP	AVERAGE ATTENDANCE %
1	Full Board Meeting	9	10	90%
2	Board Finance Meeting	15	5	95%
3	Board Human Resource Meeting	19	5	98%
4	Board Technical Meeting	11	5	90%
5	Board Adhoc Meeting	11	10	95%
6	Annual General Meeting	1	12	100%
7	Board Audit Meeting	4	5	98%

**GLORIA KHAFafa**  
COMPANY SECRETARY

# Vision 2025

The journey continues...

“We will either find a way, or make one”  
- *Hannibal*



## MANAGING DIRECTOR'S REPORT



**JOE SANG** Managing Director



All our investments are anchored on Vision 2030 and guided by KPC's 10-year Corporate Strategic Plan 'Vision 2025' which aims at transforming KPC into a world-class diversified oil & gas company.



### DEAR SHAREHOLDERS,

It is my pleasure to present to you the Kenya Pipeline Company Annual Report and Financial Statements for the year ended 30th June, 2017. Once again, the Company has registered another year of incredible financial performance in line with her long standing corporate history. KPC continues to make investments towards the attainment of its goal to become the continent's premier oil and gas distributor serving not only the country and the East African region but also the wider Sub-Saharan Africa. In this regard, we have invested in the expansion and rehabilitation of our pipeline-based petroleum distribution and storage networks to enable us recapture our lost market share across the region. These efforts have begun bearing fruit with a marked increase in exports during the last quarter of FY 2016/2017 reflecting our financial strength and strategic competitiveness.

As the region's premier petroleum and gas pipeline, KPC hosts some of the region's most vital and strategic infrastructure. The company currently has a combined asset base of Kshs 105.8 billion, ranking it among the largest firms in the region. During

## MANAGING DIRECTOR'S REPORT (continued)

the year under review, KPC maintained profitability despite its vast commercial commitments as captured in this report. The continued profitability is attributable to the judicious financial management, committed members of staff and proper steer from the Board of Directors. Our continued success is also attributable to KPC's commitment to forging strategic partnerships with various stakeholders and more so with Oil Marketing Companies, who are not only our customers but a crucial link between KPC and the end users of petroleum products.

In FY 2016/17, our commitment to building a strong reputation for excellence in petroleum supply logistics posted the following financial results. Below are some of the highlights of the key performance indicators that capture the year under review:

### FINANCIAL PERFORMANCE

The Company posted a 5% decline in Pre-Tax Profit to Kshs 11.5 billion for the financial year ended 30th June 2017 compared to Kshs 12.1 billion achieved in the previous financial year.

The decline in profitability is attributable to an increase in direct expenses which went up by Kshs 1.5 billion to meet the cost of Key initiatives: maintaining the aging Mombasa – Nairobi Pipeline, leasing of the Petrocity-Konza depot with depreciation cost also going up significantly after key capital intensive

projects including Line VI (Sinendet-Kisumu) were capitalized.

In addition to direct cost, there was a marked increase in litigation fees and compensation of one Triton related court case with additional costs allocated for activities such as advisory services for transaction advisors. There was also a marked increase in overhead costs due to the recruitment of new General Managers to form part of the company's Executive Committee.

### THROUGHPUT

During the year under review, KPC recorded a 5% growth in throughput volumes to 6,238,736 m<sup>3</sup> from 5,922,015 m<sup>3</sup> in FY 2015/16.

On the domestic throughput front, the figures went up by 9% from 3,181,608m<sup>3</sup> for the year ended 30th June 2016 to 3,463,003m<sup>3</sup> for the year ended 30th June 2017.

Export volumes made a slight recovery going up by 1% to 2,775,733m<sup>3</sup> for the year ended 30th June 2017 compared to 2,740,407m<sup>3</sup> for the year ended 30th June 2016. The marked increase is as a result of additional investment in improving product availability at the Kisumu depot after the construction of the new Sinendet-Kisumu line (Line VI). The increase was also attributable to a 30% discount on all transit products from KPC's Western Kenya depots introduced in April 2017 as part of our promotional tariff. The two measures coupled with the construction of the Kisumu Oil Jetty are expected to help

KPC recover its regional market share going forward.

### REVENUE

Throughput revenue was up by 9% to Kshs 25.1 billion in the year under review up from Kshs 23.0 billion recorded in FY 2015/16.

### OPERATING EXPENDITURE

In the FY 2016/17, KPC operated within the budgeted expenditure but the total operating expenditure increased by 23% to Kshs 14.6 billion from the previous year's Kshs 11.9 billion. The increase in expenditure comprising staff costs, pipeline rehabilitation, depreciation, facility leasing and legal costs as explained above.

### FINANCIAL POSITION

The Company closed with cash reserves of Kshs 7.5 billion compared to Kshs 11.9 billion at the end of the previous year. The cash position went down as a result of our outlay towards the payment of the Company's share of Line V construction which constituted 28% equity contribution. The finances also supported other capacity enhancement projects which included the on-going construction of the Kisumu Oil Jetty and the additional storage tanks at Nairobi Terminal.

During the year, the Company drew Kshs 17.4 billion from the Kshs 35 billion (USD 350 million) syndicated loan facility bringing the total amount drawn to Kshs 26.3 billion. Repayment of the facility commenced on the 17th June 2017 with KPC honouring the

## MANAGING DIRECTOR'S REPORT (continued)



### KEY CAPITAL PROJECTS

The period under review saw the Company continue to implement key capital projects whose status is given below:



**Replacement of the Mombasa–Nairobi Pipeline (Line 5):** This is a 20-inch diameter pipeline which will replace the existing 14-inch diameter pipeline and is set for completion in the first quarter of 2018. Once completed, it will meet projected petroleum demand up to the year 2044.



**Construction of the Kisumu Oil Jetty:** This project will see the construction of an oil jetty on the shores of Lake Victoria next to KPC's Kisumu depot enabling the loading of fuel vessels on the lake. It will enable KPC to export fuel to Uganda and onward to Rwanda, Burundi and South Sudan. The jetty will also serve as an expansion gateway into Northern Tanzania and onward into eastern DRC, Malawi and Zambia. With the vessel turnaround time set at three days, the jetty will boost throughput in Kisumu by 1 billion litres per year and is expected to hit 3 billion litres per year by 2028.



**Construction of Additional Storage Tanks at Nairobi Terminal:** This project involves construction of additional tanks to provide sufficient capacity for receipt of higher volumes of Automotive Gas Oil (AGO), Motor Spirit Premium (MSP) and Jet A-1 products. With completion expected in early 2018, the project will enhance operational flexibility, capacity of product receipt and evacuation in Nairobi once the new Mombasa-Nairobi pipeline is operationalized.



**Construction of Additional Loading Arms in Eldoret:** During the year under review, KPC successfully installed additional truck loading facilities at Eldoret depot to cope with the rising demand for petroleum products in the Great Lakes Region. The objective of this upgrade is to enhance the supply of petroleum products to Western Kenya and the neighbouring countries.

payment on the first repayment of the principal of Kshs 808 million (USD 7.8 million). The quarterly interest is set at an average of Kshs 380 million (USD 3.8 million) due to the rise in the LIBOR rate over the last one year to about 1.38%.

KPC was able to meet its statutory obligations during the year under review remitting Kshs 4.4 billion to the Kenya Revenue Authority in corporation tax payments.

Evidently, KPC is gearing up towards a brighter future with key investments in both upstream and downstream oil operations. Our key focus is on the expansion of our pipeline network and expansion of our storage capacity to meet both local and regional demand. All our investments are anchored on Vision 2030 and guided by KPC's 10-year Corporate



President Uhuru Kenyatta with Cabinet Secretary Ministry of Energy & Petroleum Charles Keter (l), Principal Secretary State Department of Petroleum, Andrew Kamau and KPC MD Joe Sang during the ground breaking for Kisumu oil jetty.

## MANAGING DIRECTOR'S REPORT (continued)



KPC is currently seeking to recapture its market share within the East African region and the KPC-KPRL partnership could not have come at a better time.



### KEY CAPITAL PROJECTS (continued)

Besides the above projects, the Company was also involved in the following critical initiatives during the FY 2016/17.



**Operationalization of Sinendet-Kisumu pipeline (Line VI):** Line VI was operationalized during the year under review and increased the fuel flow rate to western Kenya to 460,000 litres per hour. The line has also enabled the optimization of tank capacity at the Kisumu depot from 30% to 90% enabling KPC recapture some of its export market share during the last quarter.



**Leasing of Kenya Petroleum Oil Refineries Limited (KPRL):** Following the close of negotiations between the Ministry of Energy and Petroleum, KPC and KPRL on acquisition of the KPRL facilities by KPC, government took the decision to have KPC let the facilities as opposed to acquisition. KPC is converting KPRL's facilities into a crude oil storage and export facility towards the realization of the Government's early oil program. Under the agreement, KPC and KPRL signed a 3-year lease agreement.



Truck loading at the Leased Petrocity Facility in Konza.

## MANAGING DIRECTOR'S REPORT (continued)



Strategic Plan ('Vision 2025') which aims at transforming KPC into a world-class diversified oil & gas company.

### APPRECIATION

In conclusion, I take this opportunity to express my sincere gratitude to our shareholders; the Ministry of Energy and Petroleum and The National Treasury for their distinguished role in helping us achieve our mandate through both policy and budgetary support.

On behalf of our Executive Management team, I would also like to thank the Chairman and the Board of Directors, for their continued support, visionary leadership and the guidance they provided to the new management team throughout the year.

I also wish to recognize the role played by our customers, who continue to support our various initiatives and take up our various product offerings. They remain a crucial stakeholder without whom we would not have achieved our set objectives and financial goals.

On behalf of the Board and Management of KPC, I take this opportunity to congratulate KPC's staff for delivering the above results and enabling the corporation remain profitable. It is through your tireless efforts and commitment that we have been able to record this remarkable performance. I would also like to welcome on board the former staff

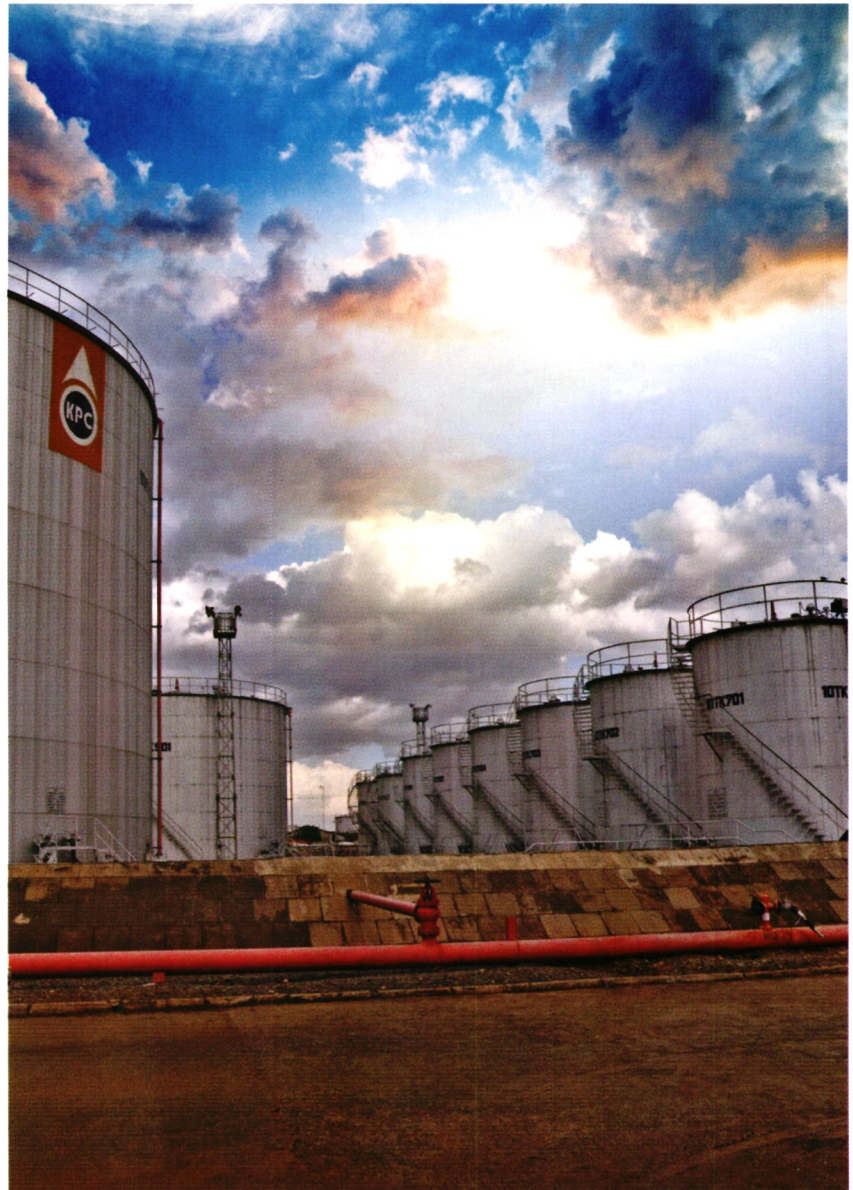
members of KPRL into the KPC family as we work towards the transformation of KPC's operations into the upstream oil and gas market. KPC is currently seeking to recapture its market share within the East African region and the KPC-KPRL partnership could not have come at a better time. In the course of the next one year, we will also make our contribution towards reshaping Kenya into a crude oil exporter through

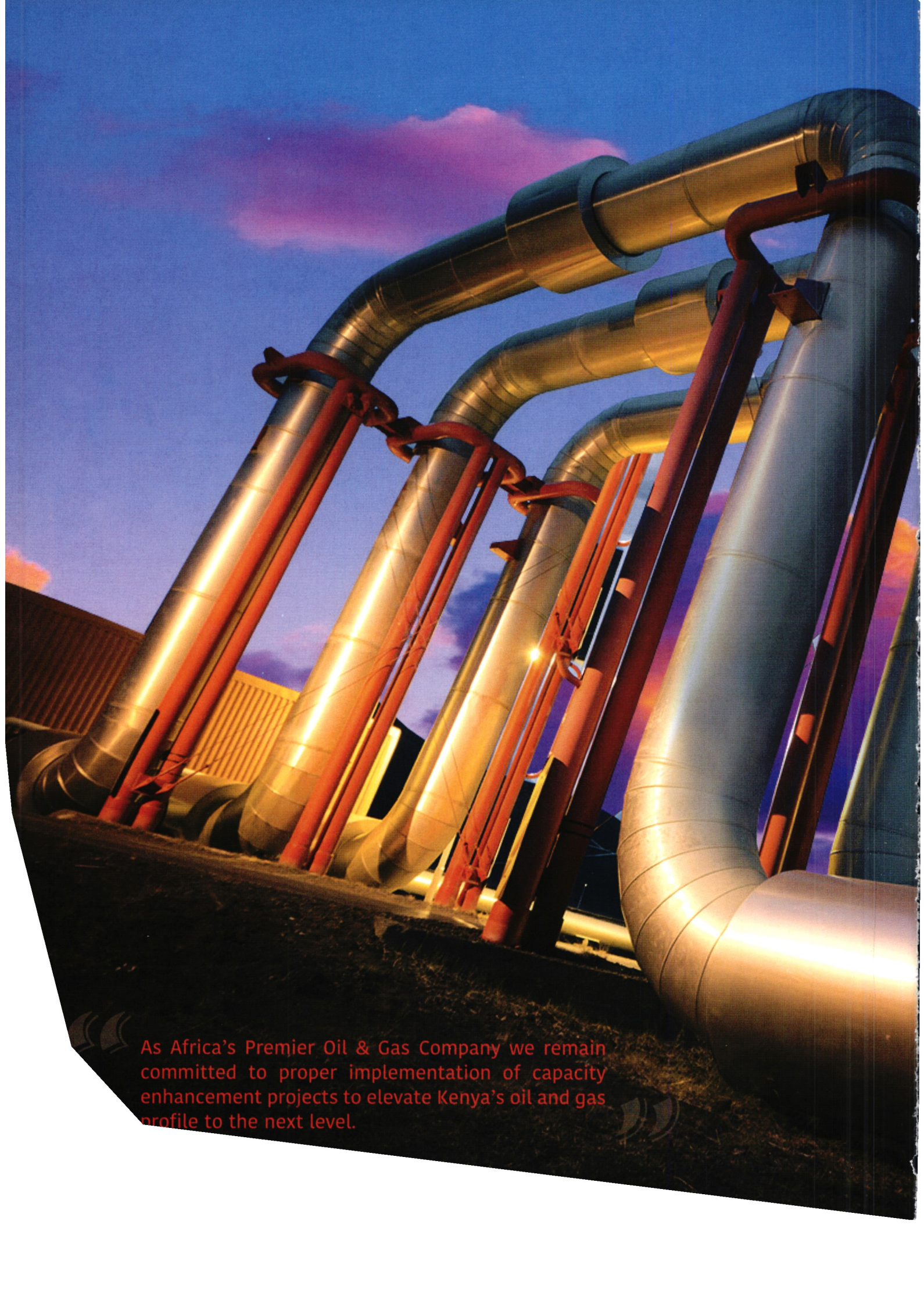
the Government's early oil program.

I look forward to your continued support in making this dream a reality.

**JOE SANG**

MANAGING DIRECTOR





As Africa's Premier Oil & Gas Company we remain committed to proper implementation of capacity enhancement projects to elevate Kenya's oil and gas profile to the next level.

## THE EXECUTIVE TEAM



*(Seated)*

**Joe Sang** - Managing Director

*(Standing from left to right)*

**Dr. Jonah Aiyabei** - Director Morendat Institute of Oil & Gas (MIOG)

**Derek Okova** - Ag. General Manager - Operations and Maintenance

**Sharon Kisire** - General Manager - Human Resource & Administration

**Samuel Odoyo** - General Manager - Finance

**Anne Njuguna** - General Manager - Audit

**Billy Aseka** - General Manager - Infrastructure

**Vincent Cheruiyot** - General Manager - Supply Chain

**Disterius Nyandika** - Ag. General Manager - Strategy

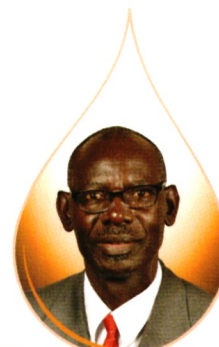
## THE MANAGEMENT TEAM



**PIUS MWENDWA**  
Corporate Finance Manager



**BEATRICE ORGUT**  
Health, Safety, Environment &  
Quality Assurance Manager



**EVANS NYANGAYA**  
Project Manager - Special Projects



**JASON NYANTINO**  
Corporate Communication  
Manager



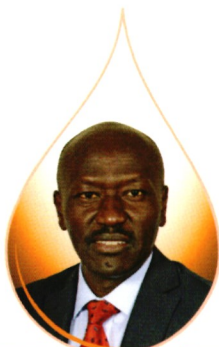
**MAJ. (RTD) HARRY KITHINJI**  
Security Manager



**GLORIA KHAFABA**  
Company Secretary



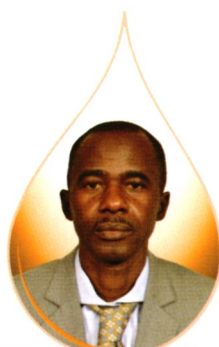
**PHILIP KIMELU**  
Project Manager - Crude Oil



**SAMSON SOIMO**  
Revenue Accounting Manager



**ZILPER MITCHELLE ABONGO**  
Customer Relations &  
Marketing Manager



**THOMAS NGIRA**  
Human Resource Manager



**PAUL NJUGUNA**  
Business Manager



**JOEL MBURU**  
Supply & Logistics Manager



**NICHOLAS GITOBU**  
Procurement Manager

## THE MANAGEMENT TEAM (continued)



**JOSEPH KONES**  
Projects Manager



**BERNICE LEMEDEKET**  
Foundation Manager



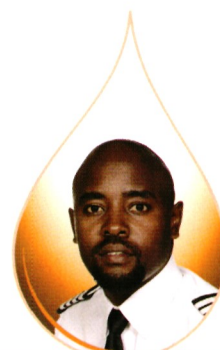
**JANE NAKODONY**  
Dep. Director- Curriculum MIOG



**TIMOTHY MUGAMBI**  
Quality Control Manager



**FRANCIS MURAYA**  
ICT Manager



**CAPT. BONIFACE NDAKA**  
Airwing Manager



**FELIX RERIMOI**  
Internal Audit Manager



**PROF. CATHERINE NGILA**  
Dep. Director - AT&T MIOG



**DISTERIUS NYANDIKA**  
Enterprise Risk Manager



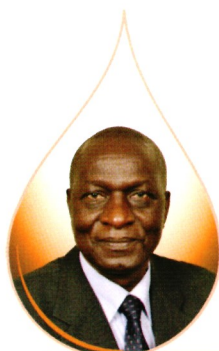
**TOM MAILU**  
Chief Manager - KPRL



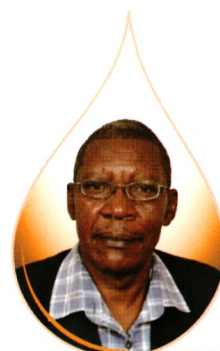
**ELIZABETH AKINYI**  
Ag. Corporate Planning Manager



**JOSHUA MUTEA**  
Ag. Operations Manager



**JAMES NYAMONGO**  
Ag. Administration Manager



**TIMOTHY KIIVA**  
Ag. Maintenance Manager

## INTEGRATED RISK MANAGEMENT REPORT FY 2016/2017

The Company has embraced the integrated risk management approach through the adoption of the Enterprise Risk Management (ERM) framework. This is in compliance with the Treasury Circular No. 3/2009 on the Development and Implementation of Institutional Risk Management Policy Framework and in adherence with best practices.

The Risk Philosophy of the Company is articulated in the ERM framework. The ERM approach is applied across all company activities and operations to identify potential events that may affect the company, and manage the risks to be within the risk appetite, while providing reasonable assurance regarding the achievement of company objectives. The risk appetite is operationalized through a determination of the risk tolerance limits for each risk identified. The company is cognizant of the fact that not all risks will be eliminated and that some level of risk will always exist. From the foregoing, the risk response options employed include: **risk acceptance, risk avoidance, risk reduction, risk transfer, risk termination, take opportunity and seeking additional information.**

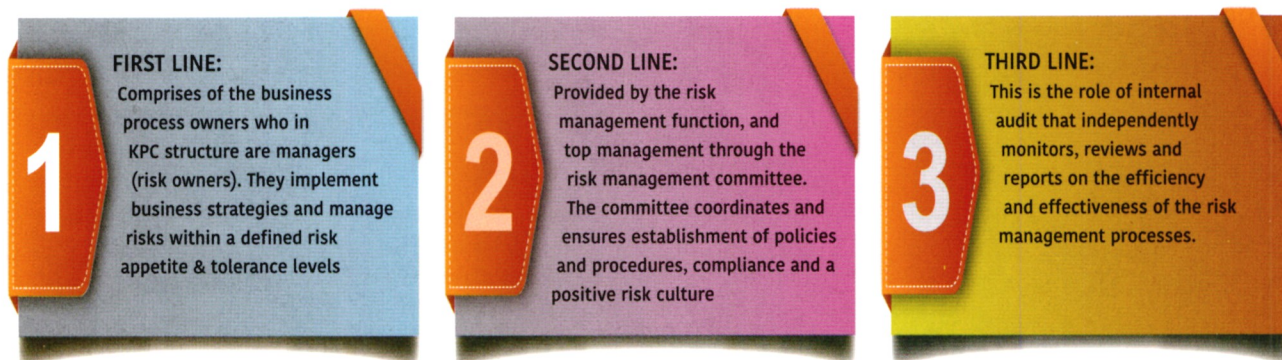


### Governance

The foundation of integrated risk management in the company is a governance structure that includes policies and procedures that are approved by the KPC Board of Directors whose objectives are to:

- a. Identify, measure and control risks that might impact the achievement of KPC objectives;
- b. Provide a framework for formulation of risk management strategies; Identify and harness opportunities;
- c. Protect and enhance reputation of the Company.

The company has embraced three lines of defense for integrated risk management as depicted below:



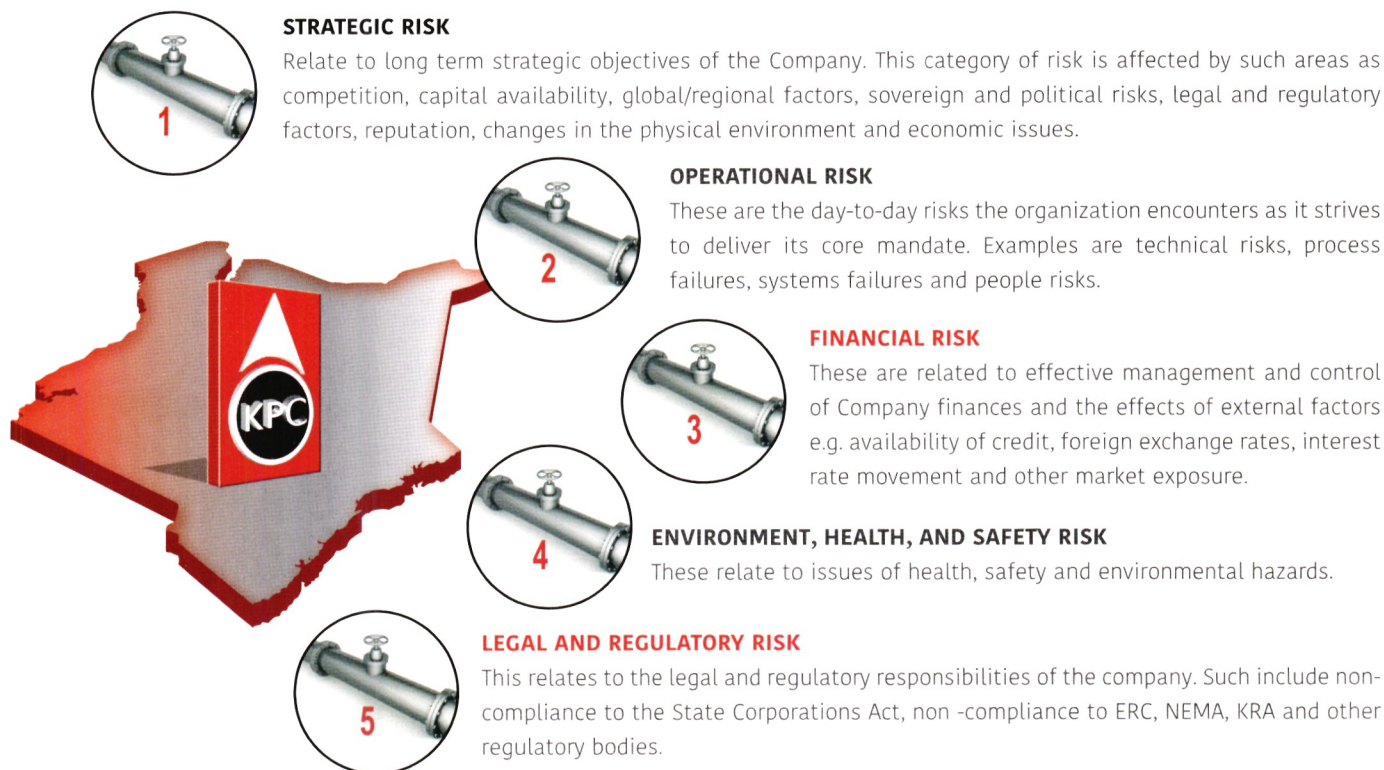
The KPC Board of Directors and Management have committed to the company's risk policy statement and to a process of risk management that is aligned to the principles of best practice in corporate governance. To affirm the foregoing commitment during the review period, the company elevated the Enterprise Risk Management function to a full department thus setting the right tone at the top of its strategic importance in the realization of the company objectives.



### Company Risk Universe

The Company has defined its risk universe in following five broad categories based on the business context and strategic orientation.

# INTEGRATED RISK MANAGEMENT REPORT FY 2016/2017



## 3.0 Corporate Risks and Key Interventions Implemented

The corporate risks are derived from an enterprise-wide risk assessment and ranking of risks on the ratings of likelihood and impact. The corporate risks therefore are the key risk management focus and require significant strengthening of risk controls. Below are the corporate risks for the 2016/2017 financial year and the key interventions that were implemented:

### Strategy Risk

**High Risk**  
**Decline in Market Share**

1. Prepared market intelligence reports on market share
2. Development of a business case for setting up of regional liaison office in Kigali with the aim of resolving customer issues promptly within the region
3. Implementation of promotional tariff

**High Risk**  
**Strategy Execution Control**

1. Development of departmental strategic plans aligned to KPC Vision 2025
2. Alignment of annual budget to strategic objectives
3. Monitoring and reporting on implementation of the strategic plan

**High Risk**  
**Adverse Publicity**

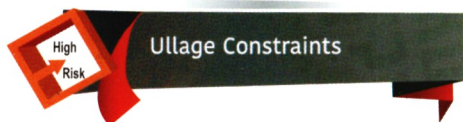
1. Initiation of corporate rebranding project
2. Proactive media and stakeholder engagement on various platforms

**Extreme Risk**  
**Project Delivery Constraints**

1. Restructuring of project management in the company and resourcing of the project management function

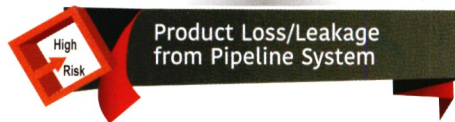
## INTEGRATED RISK MANAGEMENT REPORT FY 2016/2017 (continued)

### Operational Risk



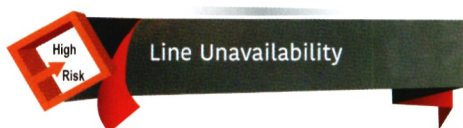
#### Ullage Constraints

1. Automation and roll out of capacity sharing
2. Stakeholder engagement adherence to product quality standards



#### Product Loss/Leakage from Pipeline System

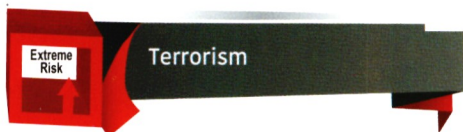
1. Line 1 inline Inspection.
2. Construction of Line 5 to replace the aging line 1 pipeline



#### Line Unavailability

1. 5% certification training of staff in relevant equipment maintenance annually
2. Enhanced engagements with KPLC on the management of unscheduled shut down due to power outage

### Environment, Health, and Safety Risk



#### Terrorism

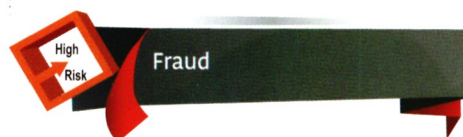
1. Upgrading of CCTV and implementations of ISS phase II.
2. Sensitization of staff on matters terrorism quarterly.
3. Lighting enhancement in KPC installations.



#### Fire

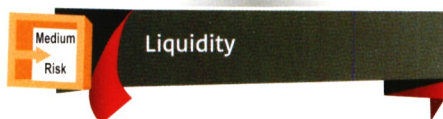
1. Advanced fire training for all firemen
2. Automation of fire system in depots
3. Implement recommendations of process equipment audit
4. Safety awareness week

### Financial Risk



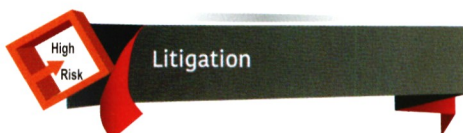
#### Fraud

1. Automation of overtime/shift payments
2. Periodic review of segregation of duties
3. All payment processes were automated.



#### Liquidity

1. Establishment of liquidity thresholds as key risk indicators
2. Monitoring and reporting on cash position



#### Litigation

1. Review Service Level Agreements with vendors
2. Sensitizations of all staff on Statutory obligations and litigation process – Legal Clinics
3. Proactive approach to manage potential breaches of regulation to prevent litigation



### Emerging Risks

During the financial year, the company monitored emerging and evolving risks, and their impact on company business. The summary of emerging risks and interventions measures are presented hereunder:

**Pipeline Gain Loss:** Continual variances on pipeline gain loss figures in our books and the pipeline system are a source of uncertainty. During the period, procedures for Operations, Supply Logistics and Product Accounting processes were reviewed and harmonized. To further strengthen the existing controls, the company developed a customized Gain/Loss SAP solution.

**Environmental Degradation:** Incidences of product leakages were reported along Line 1 due to the aging pipeline. This was a source of uncertainty with regard to the possible environmental damage, and health concerns to residents as a result of hydro-carbon release from the pipeline system. The company is constructing Line 5 pipeline which will replace the ageing pipeline and minimize this risk.

**System Risk:** Cybercrime incidences increased globally during the period. The company continued to test and maintain the operating systems and proactive review of softwares and access control reviews and updates.

**Acquisition & Merger Risk:** During the period, the company acquired the KPRL. The acquisition presented a major business risk for the company. The company undertook a due diligence report as a mitigation measure before a final investment decision was made.

**Political Risk:** The key concerns were the shifting of political interests in the region that led the planned construction of the Kenya -Uganda pipeline to collapse. The Company commenced the exercise of developing a blue print for geographical expansion that will inform the company's expansion into the region.



### Business Continuity Management

Business Continuity Management (BCM) is a core component of good corporate governance and is an integral part of integrated risk management in the company. The company aims to always maintain appropriate business continuity strategies commensurate with the criticality of its functions. During the financial year, the company initiated the process of reviewing the Business Continuity Plans (BCP) that are applicable to all mission critical business units in the organization. The exercise will be completed during the 2017/2018 financial year.



### Conclusion

During the financial year, the business context report was re-evaluated and a formal risk assessment undertaken across all business units. The monitoring exercise is undertaken quarterly during which controls of each corporate risk are assessed to evaluate their effectiveness. Quarterly reports were prepared and escalated as per policy. The company considers integrated risk management as a strategic tool as evidenced through the implementation of measures aimed at strengthening risk management stewardship.

In conclusion, during the financial year, risk management in the company was proactive and integrated, whereas decision making in the company were aligned to risk based thinking thus providing reasonable assurance regarding the realization of company objectives.

## CORPORATE SOCIAL INVESTMENT (CSI) REPORT FY 2016/17

KPC is committed to transforming the lives of needy sections of society through an elaborate Corporate Social Investment (CSI) program. The program constitutes various projects geared towards improving the lives of communities in different parts of Kenya.

The company has committed to spend up to 1% of the company's Profit After Tax on CSI activities. KPC is indeed enthusiastic about making communities prosperous, safer, healthier and better educated, through its CSI agenda in sync with the fabric of our corporate motto: *'Transforming Lives'*.

Whereas the company conducts its business ethically and adheres to existing laws and regulations, emphasis is given to interventions that directly transform livelihoods of communities to empower them as they strive for a better quality of life. To this end, the company's Corporate Social Investment (CSI) initiatives provide communities with opportunities for engagement in the following thematic areas:

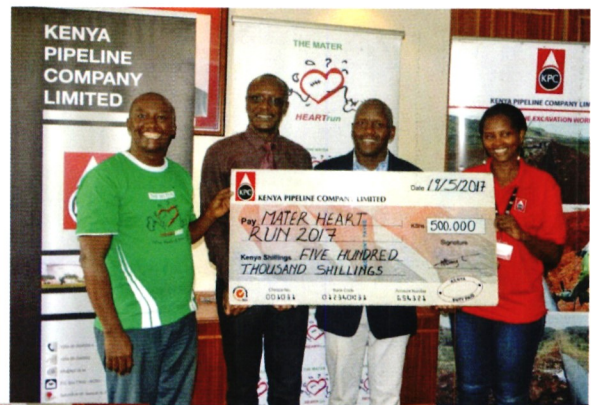
- i. Education
- ii. Health and Sanitation
- iii. Sports
- iv. Empowerment of Youth, Women and Persons with Disabilities
- v. Energy Conservation and Environmental Restoration
- vi. Provision of Clean Water
- vii. Emergency Response

The company closely collaborates with key stakeholders, including government agencies and non-profit organizations, to strengthen its community engagements. During the FY 2016-2017, KPC initiated projects to the tune of Kshs 135,508,539 as part of the company's Corporate Social Investment.

### Partnership Collaboration

Partnership collaboration is an essential pillar of KPC's CSI strategy. In line with this, the company partners with players in the development sector to promote quality lives for all Kenyans. During the year under review, we partnered with The Mater Cardiac Program in the successful operation of a child with a heart condition.

Some of the CSI initiatives undertaken during the year under review include the following:



*The Mater Heart Run: KPC Foundation Manager Bernice Lemedeket (far right) and KPC Managing Director Joe Sang (second right) present a donation of Kshs 500,000 to officials of the Mater Heart Run Foundation.*



*KPC Management team led by company MD Joe Sang hands over a dummy cheque of Kshs 2,000,000 to the Mount Kenya University for the International Conference on Peace, Security and Social Enterprise*



### Kaminjeiwet Resource Centre – Education

The Kaminjeiwet Resource Centre is in Kericho County. The Resource Centre has been funded by KPC to the tune of Kshs 9,000,000.00. It will benefit close to 12,500 students from nearby schools.

This project will have a huge impact on the improvement of education standards in this area. It is important to note that this is the only resource center of its kind within Kericho County. The project is nearing completion (95%) and has progressed impressively bearing in mind the ground breaking of the project took place on 23rd December 2016.



*Kaminjeiwet Resource Centre in Kericho County that has been constructed by KPC Foundation.*



*Ongoing construction works at Simbi Secondary School.*

### Simbi Secondary School Science Laboratory – Education

Simbi Secondary School Science Laboratory project, also fully funded by KPC, will be impactful to the school especially in relation to science subjects. The school, located in Homabay County, does not have a science laboratory, a fact that has negatively impacted on the school's performance in the science subjects. The school has recorded poor results in national examinations due to poor infrastructure. Once complete, the project will transform lives of 240 students in this school.

### Masangora Girls Secondary School – Education

Students from Masangora Girls Secondary School in Kuria East Constituency, Migori County, have a reason to smile after KPC funded the construction of classes and an administration block in the girls' school to boost learning. The project will not only empower the girl child in this area but will also improve the education standards in Kuria, a place that has had high levels of illiteracy and poverty. Once completed, the students who currently have their classes in the adjacent primary school will occupy the new classes giving them a conducive environment they need for learning.



*Ongoing construction of administration block and classes at Masangora Girls Secondary School.*

## CORPORATE SOCIAL INVESTMENT (CSI) REPORT FY 2016/17 (continued)



KPC Foundation Manager, Bernice Lemedeket (3rd from Left) pose for a photo with Kamondi Primary School Management.



One of the classes that has been constructed in Kamondi Primary School by KPC Foundation.

### Kamondi Primary School – Education

Through KPC CSI agenda, Kamondi Primary School in Migori County will effectively roll out the digital training program for Class One pupils that has been initiated by the national government. KPC funded the construction of a computer laboratory and classrooms in the school. The school has already received the digital learning tablets from the government after the Ministry of Education officials were satisfied with the security and learning standards of the laboratory. The project, which is now complete and is in use, will benefit a population of 925 pupils.

### Akithii Secondary School – Provision of Water

Akithii Girls' Secondary School, located about 20Kms from Meru town, has benefited from the generosity of KPC's CSI program. The school, with a student population of 734 students, lacks reliable running water and this has posed a huge challenge to the management of the school due to the fact that it is a boarding school. The drilling of a borehole, fully funded by KPC, is set to be the game changer.

The project has progressed well and is half-way complete, with piping and installation of a submersible water pump and tanks remaining.



KPC Foundation Manager Bernice Lemedeket (L) hands over a dummy Cheque to Akithii Girls Secondary School Principal Ms. Hellen Nyaga.



Students from Akithii Girls' Secondary School in Meru County entertain KPC staff during a project tour of the borehole.



### Sports Philanthropy

The company has also used sports to touch the lives of the various sections of society. The KPC ladies' volleyball team remains the Company's signature initiative that has spanned decades of sporting excellence. The gallant girls, many from disadvantaged backgrounds, have helped place KPC and the country on the world map through their various achievements in both local and international tournaments. The team has not only galvanized the KPC family but has also been a source of national pride for Kenya and Africa. In addition, the company organised other successful sports initiatives such as the annual 10-km Kibwezi race, a youth cycling event in Eldoret, a football tournament for the elderly in Nakuru among other interventions.



Ag. Chief Corporate Communications Officer Bernard Barasa, flags off cyclist in Uasin Gishu County in an event sponsored by KPC.



Phyllis Kandie (Right In glasses) and Baringo County Governor Stanely Kiptis (Left in a white Cap) takes part in Chemususu Dam Half Marathon that was sponsored by KPC.

### Community Engagement Forums

KPC acknowledges the role of communities not just as recipients of services but also as valued stakeholders. The company conducts quarterly Right of Way (ROW) public barazas as a way of involving communities in decision making, and getting their support in protecting KPC's interests.



Mr. Benson Mulili, a village elder expresses community concerns to KPC representatives at a Right of Way public baraza in Makindu

## REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of Kenya Pipeline Company Limited for the year ended 30th June 2017, which disclose the Company's state of affairs.

### ACTIVITIES

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

<b>RESULTS</b>	<b>KShs</b>
Profit before taxation	11,478,440,653
Taxation charge	(3,516,913,825)
<b>Profit after tax for the year</b>	<b>7,961,526,828</b>

### DIVIDEND

The directors do not recommend payment of a dividend in respect of the year (2016 – NIL).

### DIRECTORS

The current directors are as shown on page 06 to 09.

### 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.

By Order of the Board



COMPANY SECRETARY

NAIROBI

2017

## STATEMENT OF DIRECTORS' RESPONSIBILITIES



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

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

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

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

A handwritten signature in blue ink, appearing to read 'A. K. Lang', is written over a horizontal line.

**Director**

2017

A handwritten signature in blue ink, appearing to read 'F. O. O.', is written over a horizontal line.

**Director**

2017

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KENYA PIPELINE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2017

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#### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Kenya Pipeline Company Limited set out on pages 35 to 75, which comprise the statement of financial position as at 30 June 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. 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.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Pipeline Company Limited as at 30 June 2017, 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, 2015.

Further, as required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter described in the Basis for Qualified Opinion and Other Matter sections, I confirm that public money has been applied lawfully and in an effective way.

#### Basis for Qualified Opinion

##### Trade and Other Receivables

As reported in my 2015/2016 audit report, the company's financial statements reflect trade and other receivables amounting to Kshs.12,048,271,443 (2016 Kshs.8,444,841,722), as disclosed under Note 20. Included in this balance is Kshs.4,314,146,056 (2016 Kshs.4,200,000,000) due from an Oil Marketing Company (OMC) but which claim is disputed and has been subjected to arbitration. The arbitrator in 2016 ruled in favor of the OMC with an award of US\$.19,758,595, equivalent to Kshs.2,053,137,310 at the ruling exchange rate as of 30 June 2017. Subsequently, the Company has lodged an appeal in court against the ruling of the arbitrator but determination of the appeal was pending at the time of finalizing the

*Report of the Auditor-General on the Financial Statements of Kenya Pipeline Company Limited for the year ended 30 June 2017*

No audit. The contingent liability resulting from the arbitrator's ruling has not been recognized in the financial statements. Further, it has not been possible to confirm whether and when the company will recover the Kshs.4,314,146,056 owed by the OMC. No provision has been made in the financial statements in relation to this uncertainty.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Pipeline Company Limited in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAIs and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Emphasis of Matter**

#### **Land without Title Deeds**

As reported in the prior year's audit, included in the leasehold land balance of Kshs.5,167,287,314 (2015/2016 Kshs.4,766,260,609) disclosed under Note 15 to the financial statements are parcels of land valued at Kshs.1,928,677,778 which have no title deeds. Further, available information indicates that Plots No.LR.9042/225 and 114/113/114, where the Company's Embakasi and Mombasa depots are located and which are carried in the books at Kshs.869,759,420 and Kshs.130,257,924 respectively, have their titles issued in the mother title in the name of Kenya Airports Authority (KAA). Although, according to the management, the National Lands Commission (NLC) has written to KAA to surrender the mother title to facilitate the issuance of the sub-titles, this is yet to be done. Under the circumstances, it is not possible to confirm that the Company owns the two parcels of land in its possession, and indeed the carrying value of land as stated in the financial statements as at 30 June 2017.

### **Key Audit Matters**

Key Audit Matters are those matters that, in my professional judgement, are of most significant in the audit of financial statements. There were no Key Audit Matters to report in the year under review.

### **Other Matter**

#### **Hydrant Pit Valves**

As highlighted in my report for 2015/2016, the Company awarded a USD.6,409,492 (Kshs.655,880,009) contract for the supply of hydrant pit valves - C/W isolation valves - and two-year operational spare parts, to a company through direct procurement, contrary to the requirements of the Public Procurement and Asset Disposal Act, 2015. Although the company, which was based in the United States of America, was reportedly invited to bid for the tender on the basis that it was the original manufacturer of the equipment, no documentary evidence has been availed

in support of this assertion. Further, there has been no documented justification for the need to procure operational spares parts to cover two years. Also, although the spares parts were delivered to the Company on 14 July 2015, they were not formerly inspected and received for use. As at the time of concluding this audit, the matter was still under investigation by the Ethics and Anti-Corruption Commission. Under the circumstances, I am not able to confirm the Company's compliance with procurement procedures, and the propriety of the contract amount of Kshs.655,880,009 incurred on supply of hydrant pit valves.

### **Other Information Included in the Annual Report**

The directors are responsible for the other information, which comprises the report of directors as required by the Kenyan Companies Act, 2015. The other information does not include the financial statements and my auditor's report thereon.

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

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact.

### **Responsibilities of the Directors and those charged with Governance for the Financial Statements**

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements which are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern accounting assumption. The directors are responsible for the Company's financial reporting process.

The directors are also responsible for submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

## **Auditor-General's Responsibilities for the Audit of the Financial Statements**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

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

- Perform such other procedures as I consider necessary in the circumstances.

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

I also provide to the directors a statement that I have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters which may reasonably be thought to bear on my independence, and where applicable, related safeguards.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report based on the 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 my audit;
- (ii) In my opinion, proper books of accounts have been kept by the Company, so far as appears from the examination of those books;
- (iii) The Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account; and
- (iv) In my opinion, the information given in the report of the directors is consistent with the financial statements.



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

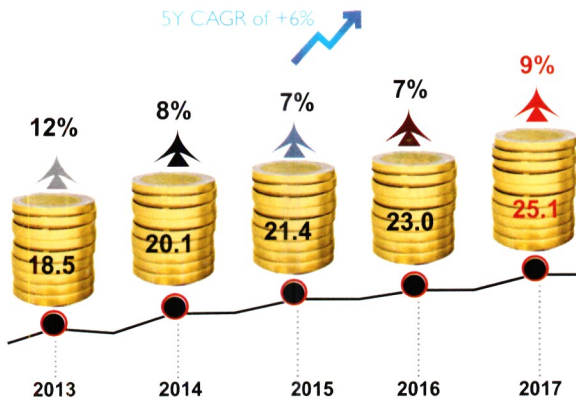
**Nairobi**

**12 January 2018**

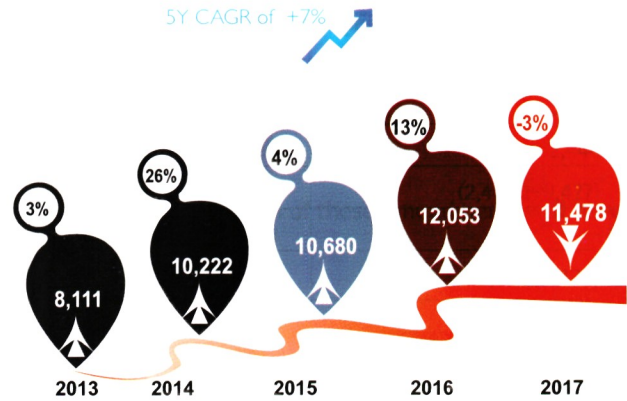


# 2017 PERFORMANCE INDICATORS

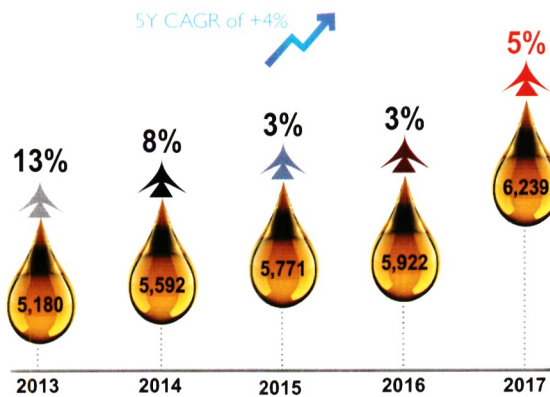
**Transport Revenue (In Kshs. Millions)**



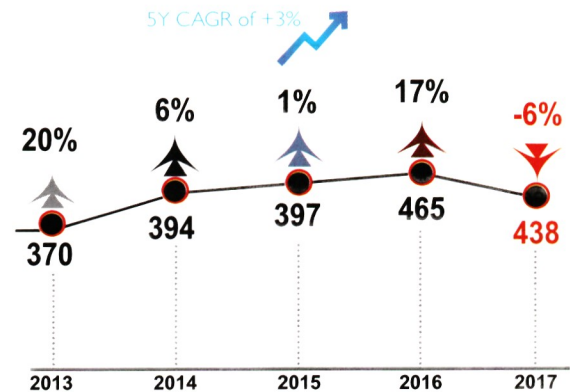
**Profit Before Taxation (In Kshs. Millions)**



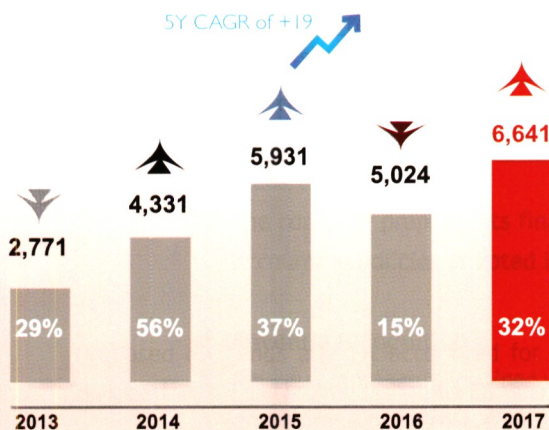
**Throughput (In 000s m3)**



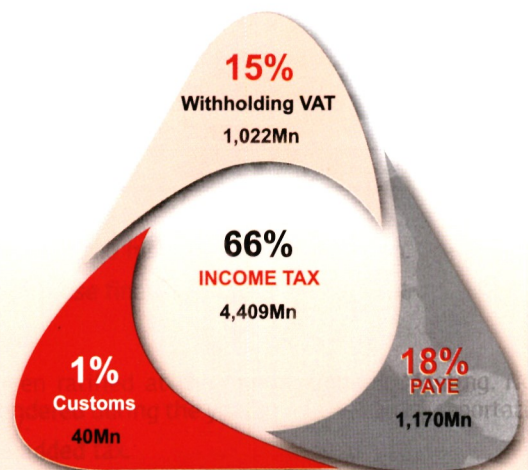
**Earnings Per Share (In Kshs.)**



**Total Taxes Paid to GoK (In Kshs. Millions)**



**2017 Taxes Paid - (Kshs. Millions)**



## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2017 KShs	2016 Restated KShs	2016 KShs
REVENUE	5	25,134,869,469	23,018,986,040	22,982,003,338
DIRECT COSTS	6	(9,285,805,904)	(7,781,792,550)	(7,781,792,550)
<b>GROSS PROFIT</b>		<b>15,849,063,565</b>	<b>15,237,193,490</b>	<b>15,200,210,788</b>
OTHER INCOME	7	362,564,293	290,415,562	290,415,562
FINANCE INCOME	8(a)	455,249,456	220,078,248	220,078,248
FOREIGN EXCHANGE GAINS	8(b)	107,628,230	409,787,739	409,787,739
FINANCE COSTS	8(c)	(450,074)	(3,780,683)	(3,780,683)
ADMINISTRATION EXPENSES	9	(5,295,614,817)	(4,100,346,177)	(4,100,346,177)
<b>PROFIT BEFORE TAXATION</b>		<b>11,478,440,653</b>	<b>12,053,348,179</b>	<b>12,016,365,478</b>
TAXATION CHARGE	11(a)	(3,516,913,825)	(3,606,835,608)	(3,606,835,608)
<b>PROFIT AFTER TAXATION</b>		<b>7,961,526,828</b>	<b>8,446,512,571</b>	<b>8,409,529,870</b>
OTHER COMPREHENSIVE INCOME (OCI)/ (LOSS)				
<i>Items that will not be reclassified subsequently to profit or loss;</i>				
Retirement Benefit Scheme - net income		-	101,496,312	-
Re-measurement (Other Comprehensive				
Income - DB Retirement Benefit Scheme)	18(b)	(132,760,666)	(187,488,676)	-
Deferred tax on OCI		39,828,200	56,246,603	-
<b>OTHER COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(92,932,466)</b>	<b>(131,242,073)</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>7,868,594,361</b>	<b>8,416,766,810</b>	<b>8,409,529,870</b>
<b>EARNINGS PER SHARE</b>	<b>12</b>	<b>438</b>	<b>465</b>	<b>463</b>


## STATEMENT OF FINANCIAL POSITION

AS AT 30TH JUNE 2017



ASSETS	Note	2017 KShs	2016 Restated KShs	2016 KShs
<b>Non-Current Assets</b>				
Property, plant and equipment	14	98,091,185,919	64,832,559,060	64,832,559,060
Leasehold land	15	5,167,287,314	4,766,260,609	4,766,260,609
Intangible assets	16	858,296,848	110,999,161	110,999,161
Investments	17	36,306,359	36,306,359	36,306,359
Retirement benefits	18(b)	880,443,315	920,112,901	1,006,105,000
Trade and other receivables	20	769,762,736	422,596,994	422,596,994
<b>Total Non-Current assets</b>		<b>105,803,282,491</b>	<b>71,088,835,084</b>	<b>71,174,827,183</b>
<b>Current Assets</b>				
Inventories	19	1,591,777,921	1,688,297,234	1,688,297,234
Trade and other receivables	20	12,048,271,443	8,444,841,722	8,407,859,021
Taxation recoverable	11(c)	1,176,703,986	-	-
Short term deposits	21(a)	6,063,946,835	9,141,970,606	9,141,970,606
Bank and cash balances	21(b)	1,478,365,330	2,787,706,279	2,787,706,279
<b>Total Current Assets</b>		<b>22,359,065,515</b>	<b>22,062,815,841</b>	<b>22,025,833,140</b>
<b>Total Assets</b>		<b>128,162,348,006</b>	<b>93,151,650,925</b>	<b>93,200,660,323</b>
<b>SHAREHOLDER'S FUNDS AND LIABILITIES</b>				
<b>Capital and Reserves</b>				
Share capital	22	363,466,007	363,466,007	363,466,007
Share premium		512,288,916	512,288,916	512,288,916
Retained earnings		70,967,940,523	63,099,346,161	63,092,108,956
Revaluation reserve		10,004,768,990	10,022,711,045	10,022,711,045
		<b>81,848,464,436</b>	<b>73,997,812,129</b>	<b>73,990,574,924</b>
<b>Non-Current Liabilities</b>				
Deferred taxation	23	5,381,329,078	5,165,468,389	5,221,714,992
Syndicated Long Term Loan	25(a)	22,983,317,480	9,697,497,096	9,697,497,096
		<b>28,364,646,558</b>	<b>14,862,965,485</b>	<b>14,919,212,088</b>
<b>Current Liabilities</b>				
Trade and other payables	24	14,585,905,944	2,726,808,236	2,726,808,236
Due to Related Parties	27(c)	80,000,000	320,089,228	320,089,228
Dividend Payable		-	300,000,000	300,000,000
Tax payable		-	943,975,847	943,975,847
Current Portion of Long Term Loan	25(b)	3,283,331,068	-	-
		<b>17,949,237,012</b>	<b>4,290,873,311</b>	<b>4,290,873,311</b>
<b>Total Shareholder's Funds and Liabilities</b>		<b>128,162,348,006</b>	<b>93,151,650,925</b>	<b>93,200,660,323</b>

The financial statements on pages 39 to 82 were approved and authorized for issue by the Board of Directors on 19th December 2017 and signed on their behalf by:

  
Director

  
Director

## STATEMENT OF CHANGES IN EQUITY

	Share Capital KShs	Share Premium KShs	Retained earnings KShs	Revaluation Reserve KShs	Total Equity
At 1 July 2015	363,466,007	512,288,916	54,787,041,811	10,022,711,045	65,685,507,778
Profit for the year	-	-	8,409,529,870	-	8,409,529,870
Dividends declared- 2015	-	-	(300,000,000)	-	(300,000,000)
Prior year Adjustment - provision write-back	-	-	65,272,727	-	65,272,727
Prior year Adjustment - Taxation 2015 (Note 11(c))	-	-	130,264,548	-	130,264,548
<b>As at 30th June 2016</b>	<b>363,466,007</b>	<b>512,288,916</b>	<b>63,092,108,956</b>	<b>10,022,711,045</b>	<b>73,990,574,923</b>
Other Comprehensive Income (OCI) - FY2016	-	-	(187,488,676)	-	(187,488,676)
Deferred Tax on FY 2016 OCI	-	-	56,246,603	-	56,246,603
Net expense recognized in Income statement - FY2016	-	-	101,496,312	-	101,496,312
Adjustment to RB Asset	-	-	265	-	265
Understated Revenue FY2015/16	-	-	36,982,701	-	36,982,701
<b>At 1 July 2016 (Restated)</b>	<b>363,466,007</b>	<b>512,288,916</b>	<b>63,099,346,161</b>	<b>10,022,711,045</b>	<b>73,997,812,129</b>
Profit for the year	-	-	7,961,526,828	-	7,961,526,828
Other Comprehensive Income (OCI) - FY2017	-	-	(92,932,466)	-	(92,932,466)
Deferred tax on Kisumu plots revaluation	-	-	-	7,689,452	7,689,452
Prior year Adjustment - Disposal of Kisumu plots	-	-	-	(25,631,507)	(25,631,507)
<b>As at 30th June 2017</b>	<b>363,466,007</b>	<b>512,288,916</b>	<b>70,967,940,523</b>	<b>10,004,768,990</b>	<b>81,848,464,436</b>

## STATEMENT OF CASH FLOWS



ASSETS	Note	2017 KShs	2016 KShs
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	26(a)	21,425,356,329	16,330,463,925
Interest received		455,249,455	220,078,248
Interest expense	8(c)	(450,074)	(3,780,683)
Income tax paid	11(c)	(5,353,482,536)	(2,405,199,427)
Withholding and Advance taxes paid	11(c)	(20,441,580)	(17,359,684)
<b>Net cash generated from operating activities</b>		<b>16,506,231,594</b>	<b>14,124,202,379</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(36,289,206,634)	(23,217,859,227)
Proceeds from disposal of property, plant and equipment		8,131,915	2,284,543
Purchase of intangible assets	16	(880,793,866)	(111,520,769)
Proceeds from disposal of investment in LPG		-	75,272,728
<b>Net cash flows used in investing activities</b>		<b>(37,161,868,585)</b>	<b>(23,251,822,725)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Loan Drawdown		17,376,320,316	9,697,497,096
Dividends paid		(300,000,000)	(309,400,000)
Repayment of borrowings		(808,048,047)	-
Net cash flows from financing activities		16,268,272,269	9,388,097,096
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(4,387,364,720)</b>	<b>260,476,750</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>		<b>11,929,676,885</b>	<b>11,669,200,135</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>26 (b)</b>	<b>7,542,312,165</b>	<b>11,929,676,885</b>

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Revenue	Original budget 2016-2017 Kshs	Adjustments 2016-2017 Kshs	Final budget 2016-2017 Kshs	Actual on comparable basis 2016-2017 Kshs	Performance difference 2016-2017 Kshs	% Var	Remarks
Sale of services: Throughput Revenue	28,935,922,838	337,784,042	29,273,706,880	25,134,869,469	(4,138,837,411)	-14%	Tariff review
Finance Income	48,236,555	5,000,000	53,236,555	562,427,612	509,191,057	956%	Deposit interest
Other income	1,226,959,496	-	1,226,959,496	362,564,292.71	(864,395,203)	-70%	Delay in Morendat Institute
Total income	30,211,118,889	342,784,042	30,553,902,931	26,059,861,373	(4,494,041,558)		
Expenses							
Compensation of employees- Employee Costs	6,570,786,863	355,058,214	6,925,845,078	6,002,587,150	923,257,928	13%	Staff bonus to be paid and NSSF contributions
Use of goods and services - Maintenance	1,985,019,066	356,715,762	2,341,734,828	1,385,094,342	956,640,486	41%	Reduced maintenance cost due to cost containment
Finance cost	16,000,000	(3,500,000)	12,500,000	(107,628,230)	120,128,230	961%	On valuation of FOREX balances of loan, debtors and creditors
Electricity	2,381,400,000	(51,799,200)	2,329,600,800	2,312,343,283	17,257,517	1%	
Depreciation	3,297,678,042	(59,500,000)	3,238,178,042	2,761,117,200	477,060,842	15%	Delay in completion of Line 5
Administration Costs	1,083,251,696	118,929,264	1,202,180,961	987,572,393	214,608,568	18%	Reduced cost due to cost containment
Other payments	1,170,133,477	149,180,064	1,506,969,677	1,240,334,584	266,635,093	18%	Change management consultancy and court award for fuel loss
Total expenditure	16,504,269,144	865,084,105	17,557,009,385	14,581,420,721	2,975,588,664		
Surplus for the period	13,706,849,745	(522,300,063)	12,996,893,546	11,478,440,653	(1,518,452,893)		

PFM Act section 81(2) ii and iv requires a National Government entity to present appropriation accounts showing the status of each vote compared with the appropriation for the vote and a statement explaining any variations between actual expenditure and the sums voted. IFRS does not require entities complying with IFRS standards to prepare budgetary information because most of the entities that apply IFRS are private entities that do not make their budgets publicly available. However, for public sector entities, the PSASB has considered the requirements of the PFM Act, 2012 which these statements comply with, the importance that the budgetary information would provide to the users of the statements and the fact that the public entities make their budgets publicly available and decided to include this statement under the IFRS compliant financial statements.

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS *(continued)*



1. Throughput Revenue
  - i. Tariff Review: Approved tariff was Kshs 5.22 per cubic metre per kilometre compared to the budgeted tariff of kshs 6.34 per cubic metre per kilometre.
  - ii. Throughput Volumes Shortfall: achieved throughput volume was 4% below the budgeted volume of 6.48M3 which translates to Kshs 2.6 billion.
  
2. Finance income  
The variance is occasioned by growth in deposit interest from the loan drawn down for Line 5 Pipeline project.
  
3. Other Income  
Shortfall as a result of Unrealized income target from Morendat Institute of Oil and Gas of Kshs 863 million.
  
4. Expenditure
  - i. Employees costs were below budget on account of the following factors:
    - Pending payment of proposed salary increments that was factored in the budget,
    - Pending payment of staff bonuses for the year,
  - ii. Maintenance costs were below budget due to delay in awarding Line1 rehabilitation works and delay in cleaning of scheduled tanks due to unavailability of the tanks.
  - iii. Finance costs: no budget provision is made for apparent and realized exchange gains/(losses).
  - iv. Depreciation charge is below budget due to the non-completion of the Line 5 project which had been factored in the budget.
  - v. Administration costs: there were savings on domestic building maintenance, advertising software licences, and branding legal expenses.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

#### a) Statement of Compliance

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in notes. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the entity. The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act (include any other applicable legislation), and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

#### 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 2016*

Amendments to IAS 32  
Offsetting Financial  
Assets and Financial  
Liabilities

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.

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 realisation and settlement'. The amendments have been applied retrospectively.

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

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

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value

## NOTES TO THE FINANCIAL STATEMENTS (continued)



less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

As the company does not have any cash-generating units (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the company's financial statements.

**IFRIC 21 Levies** IFRIC 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the company's financial statements.

### *New and Amendments to standards*

Effective for annual periods beginning on or after

IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2017
Amendments to IFRS 11 ( <i>Accounting for Acquisitions of Interests in Joint Operations</i> )	1 January 2016
Amendments to IAS 16 and IAS 38 ( <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> )	1 January 2016

### **IFRS 9 Financial Instruments**

The replacement project on financial instruments consists of the following three phases:

- Phase 1: Classification and measurement of financial assets and financial liabilities;
- Phase 2: Impairment methodology; and
- Phase 3: Hedge accounting.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 1. ACCOUNTING POLICIES (continued)

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

(ii) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016*

In July 2014, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which will supersede IAS 39 Financial Instruments: Recognition and Measurement in its entirety upon the former's effective date.

Compared to IFRS 9 (as revised in 2013), the 2014 version includes limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. It also adds the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit.

The completed IFRS 9 (as revised in 2014) contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting.

#### Phase 1: Classification and measurement of financial assets and financial liabilities

With respect to the classification and measurement under IFRS 9, all recognised financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortised cost or fair value. Specifically:

- a debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortised cost (net of any write down for impairment), unless the asset is designated at fair value through profit or loss (FVTPL) under the fair value option.
- a debt instrument that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, must be measured at FVTOCI, unless the asset is designated at FVTPL under the fair value option.
- all other debt instruments must be measured at FVTPL.
- all equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognised in profit or loss except that if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI, with dividend income recognised in profit or loss.

IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of



## 1. ACCOUNTING POLICIES (continued)

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

(iii) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016 (continued)*

#### IFRS 9 Financial Instruments (continued)

changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless the presentation of the effect of the 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 FVTPL is presented in profit or loss.

#### Phase 2: Impairment methodology

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

#### Phase 3: Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

The work on macro hedging by the IASB is still at a preliminary stage - a discussion paper was issued in April 2014 to gather preliminary views and direction from constituents with a comment period ending on 17 October 2014.

#### Transitional provisions

IFRS 9 (as revised in 2014) is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. If an entity elects to apply IFRS 9 early, it must apply all of the requirements in IFRS 9 at the same time, except for those relating to:

1. the presentation of fair value gains and losses attributable to changes in the credit risk of financial liabilities designated as at FVTPL, the requirements for which an entity may early apply without applying the other requirements in IFRS 9; and

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 1. ACCOUNTING POLICIES (continued)

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

- (ii) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016 (continued)*

#### IFRS 9 Financial Instruments (continued)

2. hedge accounting, for which an entity may choose to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

An entity may early apply the earlier versions of IFRS 9 instead of the 2014 version if the entity's date of initial application of IFRS 9 is before 1 February 2015. The date of initial application is the beginning of the reporting period when an entity first applies the requirements of IFRS 9.

IFRS 9 contains specific transitional provisions for i) classification and measurement of financial assets; ii) impairment of financial assets; and iii) hedge accounting. Please see IFRS in details.

The directors anticipate that IFRS 9 will be adopted in the company's financial statements for the annual period beginning 1 January 2018 and that the application of IFRS 9 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 that effect until a detailed review is done.

#### IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. However, it is not

## NOTES TO THE FINANCIAL STATEMENTS (continued)



### 1. ACCOUNTING POLICIES (continued)

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

(iii) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016 (continued)*

##### **IFRS 9 Financial Instruments (continued)**

practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

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

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

- a) when the intangible asset is expressed as a measure of revenue; or
- b) When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the company uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively.

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.

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

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

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 1. ACCOUNTING POLICIES (continued)

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

- (iv) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016 (continued)*

#### IFRS 15 Revenue from Contracts with Customers (continued)

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

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

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

#### Annual Improvements 2011-2013 Cycle

The Annual Improvements to IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments clarify that IFRS 3 does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

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

The amendments clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

- (a) the property meets the definition of investment property in terms of IAS 40; and
- (b) the transaction meets the definition of a business combination under IFRS 3.

## NOTES TO THE FINANCIAL STATEMENTS (continued)



### 1. ACCOUNTING POLICIES (continued)

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

- (iv) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016 (continued)*

##### **IFRS 15 Revenue from Contracts with Customers (continued)**

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

Annual Improvements 2012 – 2014 cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below:

It adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

It adds additional guidance to IFRS 7 to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements.

It clarifies under IAS 9 that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.

It amends IAS 34 to clarify the meaning of 'elsewhere in the interim report' and require a cross-reference

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

- (iv) *Early adoption of standards*

The company did not early-adopt new or amended standards in 2015.

##### **Basis of preparation**

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

##### **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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 1. ACCOUNTING POLICIES (continued)

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

- (v) Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2016  
(Continued)

#### IFRS 15 Revenue from Contracts with Customers (continued)

Local and export service fees are recognized based on deliveries made to customers on a monthly basis. The storage fee is recognized on an accrual basis once customer products are delivered to the company's storage facilities. Amounts become payable once sales invoices are raised and delivered to customers. Interest income is recognized as it accrues.

Property, plant and equipment

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

Freehold land	Nil
Buildings - residential	3% or period of lease whichever is less
Buildings - industrial	4% or period of lease whichever is less
Show ground pavilion, wooden and fences	20%
Pipeline and tanks	4%
Pumps, transformers and switch-gear	5%
Furniture, fittings and equipment	10%
Roads	20%
Helicopters	20%
Motor vehicles	25%
Computers	33%

#### 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 and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

## NOTES TO THE FINANCIAL STATEMENTS (continued)



### 1. ACCOUNTING POLICIES (continued)

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

- (v) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016 (continued)*

#### IFRS 15 Revenue from Contracts with Customers (continued)

##### 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 stated 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 30.

##### 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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 1. ACCOUNTING POLICIES (continued)

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

(iv) *Early adoption of standards*

#### **IFRS 15 Revenue from Contracts with Customers (continued)**

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. Re-measurement recognized 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 re-measurement.

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.

#### **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

## NOTES TO THE FINANCIAL STATEMENTS (continued)



### 1. ACCOUNTING POLICIES (continued)

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

(iv) *Early adoption of standards*

#### **IFRS 15 Revenue from Contracts with Customers (continued)**

(ii) *Deferred tax*

Deferred tax is recognised 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 recognised for all taxable temporary differences. Deferred tax assets are generally recognised 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 utilised. Such deferred tax assets and liabilities are not recognised 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 asset 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.

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, gains 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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 1. ACCOUNTING POLICIES (continued)

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 definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

#### *Borrowings*

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

#### *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 rates 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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)



### 1. ACCOUNTING POLICIES (continued)

#### 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 recognised 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 recognised on a straight-line basis over the lease term.

#### *The company as lessee*

Operating lease payments are recognised 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 recognised 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 recognised as a liability. The aggregate benefit of incentives is recognised 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.

### 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 the optimization of the debt and equity balance.

The capital structure of the company consists of cash and cash equivalents and equity attributed to equity holders comprising issued capital, share premium and revenue reserves. The company had debt of Kshs 26,266,648,548 as at 30 June 2017 (2016 – Kshs 9,697,497,096).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 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 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 minimize 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.

#### 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 market risk management is to manage and control market risk exposures within acceptable parameters, while optimising 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:

## NOTES TO THE FINANCIAL STATEMENTS (continued)



### 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### a) Market risk (continued)

##### (i) Foreign Currency Risk Management (continued)

<b>At 30 June 2017</b>	<b>GBP KShs</b>	<b>EUR KShs</b>	<b>USD KShs</b>	<b>CAD KShs</b>	<b>ZAR KShs</b>
<b>Financial assets</b>					
Bank and cash balances	-	-	674,360,198	-	-
Short term deposits	-	-	478,516,240	-	-
Trade receivables	-	-	6,001,730,985	-	-
	-	-	7,154,607,423	-	-
<b>Financial liabilities</b>					
Trade payables	(14,784,605)	(3,309,209)	(239,731,794)	-	(822,156)
Long Term Loan	-	-	(26,266,648,548)	-	-
<b>Net exposure</b>	<b>(14,784,605)</b>	<b>(3,309,209)</b>	<b>(19,351,772,920)</b>	<b>0</b>	<b>(822,156)</b>

<b>At 30 June 2016</b>	<b>GBP KShs</b>	<b>EUR KShs</b>	<b>USD KShs</b>	<b>CAD KShs</b>	<b>ZAR KShs</b>
<b>Financial assets</b>					
Bank and cash balances	-	-	1,398,124,595	-	-
Short term deposits	-	-	40,404,242,000	-	-
Trade receivables	-	-	11,827,176,101	-	-
	0	0	53,629,542,696	0	0
<b>Financial liabilities</b>					
Trade payables	(18,743,593)	(118,636,099)	(9,697,497,096)	(1,851,700)	(57,952)
Long Term Loan	-	-	-	-	-
<b>Net exposure</b>	<b>(18,743,593)</b>	<b>(118,636,099)</b>	<b>43,932,045,600</b>	<b>(1,851,700)</b>	<b>(57,952)</b>

#### Foreign Currency Sensitivity Analysis

The main currency exposure that the company is exposed to relates to the fluctuation of the Kenya Shillings exchange rates with the US Dollar and Euro currencies.

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### a) Market risk (continued)

##### (i) Foreign Currency Sensitivity Analysis (continued)

	2017 (KShs)		2016 (KShs)	
	Effect on profit	Effect on profit	Effect on profit	Effect on profit
<b>Currency - GB pounds</b>				
+ 10 percentage point movement	1,478,460	1,034,922	1,874,359	1,312,051
- 10 percentage point movement	(1,478,460)	(1,034,922)	(1,874,359)	(1,312,051)
<b>Currency - Euro</b>				
+ 10 percentage point movement	330,921	231,645	11,863,610	8,304,527
- 10 percentage point movement	(330,921)	(231,645)	(11,863,610)	(8,304,527)
<b>Currency - US dollars</b>				
+ 10 percentage point movement	(1,935,177,29)	(1,354,624,10)	5,362,954,270	3,754,067,989
- 10 percentage point movement	1,935,177,292	1,354,624,104	(5,362,954,270)	(3,754,067,989)
<b>Currency - CAD</b>				
+ 10 percentage point movement	-	-	185,170	129,619
- 10 percentage point movement	-	-	(185,170)	(129,619)
<b>Currency - ZAR</b>				
+ 10 percentage point movement	82,216	57,551	5,795	4,057
- 10 percentage point movement	82,216	57,551	(5,795)	(4,057)
<b>Currency - HKD</b>				
+ 10 percentage point movement	-	-	-	-
- 10 percentage point movement	-	-	-	-

The US Dollar impact is mainly attributed to the exposure on outstanding US Dollar receivables at year end while the Euro impact arises from the exposure on outstanding payables at the year end.

The sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

##### (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

## NOTES TO THE FINANCIAL STATEMENTS (continued)



### 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### a) Market risk (continued)

##### (ii) Interest Risk Management (continued)

constant, the company's profit before tax for the year ended 30 June 2016 would decrease/increase by KShs 85.1 million (2016 - KShs 65.2million).

#### b) Credit Risk Management

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

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

The company's maximum exposure to credit risk as at 30 June 2017 is analyzed in the table below:

	Fully Performing KShs	Past Due KShs	Impaired KShs	Gross Total KShs
Trade Receivables	2,570,174,399	4,501,936,599	133,186,208	7,205,297,206
Other Receivables	970,411,315	226,858,055	213,305,493	1,410,574,863
Bank Balances	1,478,375,327	-	-	1,478,375,327
Short Term Deposits	6,063,946,835	-	-	6,063,946,835
	<b>11,082,907,876</b>	<b>4,728,794,655</b>	<b>346,491,701</b>	<b>16,158,194,231</b>

The company's maximum exposure to credit risk as at 30 June 2016 is analysed in the table below:

	Fully Performing KShs	Past Due KShs	Impaired KShs	Gross Total KShs
Trade Receivables	2,570,174,399	4,501,936,599	133,186,208	7,205,297,206
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Bank Balances	1,478,375,327	-	-	1,478,375,327
Short Term Deposits	6,063,946,835	-	-	6,063,946,835
	<b>11,082,907,876</b>	<b>4,728,794,655</b>	<b>346,491,701</b>	<b>16,158,194,231</b>

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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### 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 and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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 KShs	Over 12 months KShs	Total KShs
<b>At 30 June 2017:</b>			
Due to related parties	-	80,000,000	80,000,000
Trade payables	6,509,762,240	-	6,509,762,240
Other payables and accruals	8,923,399,586	-	8,923,399,586
	<b>15,433,161,826</b>	<b>80,000,000</b>	<b>15,513,161,826</b>

	Within 12 months KShs	Over 12 months KShs	Total KShs
<b>At 30 June 2016:</b>			
Due to related parties	240,089,000	80,000,000	320,089,000
Trade payables	1,858,424,000	-	1,858,424,000
Other payables and accruals	851,801,000	-	851,801,000
	<b>2,950,314,000</b>	<b>80,000,000</b>	<b>3,030,314,000</b>

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In the application of the company's accounting policies, which are described in note 1, the directors are required to make judgments, 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 current and future periods. The critical areas of accounting

## NOTES TO THE FINANCIAL STATEMENTS (continued)



### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

estimates and judgments 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 company did not have any held-to-maturity financial assets as at 30 June 2016 (30 June 2015: NIL).

#### b) *Key Sources of Estimation Uncertainty*

##### **Actuarial valuation of defined benefits plan**

The net asset 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 increases. 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 amount.

##### **Impairment losses on trade and other receivables**

The company reviews its trade and other receivables to assess impairment regularly. In determining whether an impairment loss should be recorded in the income statement, the company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the receivables, before a decrease can be identified.

This evidence may include observable data indicating that there has been an adverse change in the payment status of customers or local economic conditions that correlate with defaults on assets in the company. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

5. REVENUE	2017 KShs	Restated 2016 KShs
Local service fees	9,685,417,627	8,609,046,616
Export service fees	12,716,750,804	12,307,334,696
Kipevu oil storage facility fees	2,103,643,231	1,893,986,465
Penalties on overstayed product	342,443,970	208,086,647
Penalties from ASE	307,921	531,616
Hospitality	286,305,916	-
	<b>25,134,869,469</b>	<b>23,018,986,040</b>
6. DIRECT COSTS		
Pipeline maintenance staff costs (note 10)	2,790,962,026	2,241,794,504
Depreciation	2,264,151,717	1,758,085,898
Pipeline maintenance costs	1,385,094,342	1,124,942,876
Electricity and fuel	2,312,343,283	2,212,454,361
Insurance	224,301,785	236,016,412
Other maintenance costs	147,268,173	53,313,680
Amortization of prepaid lease rentals	-	-
Amortization of intangible assets	161,684,578	155,184,819
	<b>9,285,805,904</b>	<b>7,781,792,550</b>
7. OTHER INCOME		
Helicopter income	35,487,070	13,261,702
Rent income	80,562,973	84,967,692
(Loss)/gain on disposal of PPE	373,684	2,824,500
Hydrant Income	65,624,642	62,499,659
Income from communication equipment	-	2,700,000
MTCC /MIOG collections	125,371,551	101,145,719
Miscellaneous income	55,144,373	23,016,290
	<b>362,564,293</b>	<b>290,415,562</b>
8. (a) FINANCE INCOME		
Interest income on deposits	455,249,456	220,078,248
(b) FOREIGN EXCHANGE GAINS	107,628,230	409,787,739
(c) FINANCE COSTS		
Interest expense	450,074	3,780,683

## NOTES TO THE FINANCIAL STATEMENTS (continued)



<b>9. ADMINISTRATION EXPENSES</b>	<b>2017</b>	<b>2016</b>
	<b>KShs</b>	<b>KShs</b>
Administrative staff costs	2,968,953,992	2,598,714,563
Depreciation and Lease Amortization	335,280,905	212,509,292
Other office and general expenses	614,524,554	576,737,249
Travelling, mileage and entertainment	68,633,894	52,448,677
Advertising and printing expenses	191,047,542	79,321,187
Staff Training	174,037,237	81,341,461
Rent and rates	14,671,734	13,266,045
Consultancy fees	300,549,863	108,283,252
Telephone and postage	38,365,207	28,499,724
Legal and professional expenses	133,962,239	218,380,094
Court Awards	259,596,839	-
Motor vehicle expenses	51,750,729	58,520,554
Buildings repairs and maintenance	66,187,102	7,490,946
Bank charges	11,025,526	6,935,011
Penalties and interest on tax	-	-
Auditors remuneration	7,713,000	8,080,000
Directors Expenses:		
- Performance Incentive	9,240,000	9,240,000
- Board Retreats and general expenses	10,917,176	2,827,006
- Sitting /duty allowance	11,280,000	15,796,853
- Training expenses	10,298,746	12,400,014
- Travel expenses and Subsistence allowance	17,578,533	22,500,774
	<b>5,295,614,817</b>	<b>4,100,346,177</b>

### 10. STAFF COSTS

Salaries and wages	4,554,868,607	3,687,050,660
Group life and medical cover	356,372,261	329,388,953
Pension-company contribution	241,770,707	262,548,748
Staff welfare	55,697,507	54,312,406
Training	174,037,237	81,341,461
Recruitment costs	10,219,588	6,252,773
Travel, Mileage & Entertainment	95,453,772	63,764,149
Subsistence Allowance	499,669,861	413,139,979
NSSF-company contribution	6,235,689	4,190,205
Staff uniforms	8,261,919	6,915,670
	<b>6,002,587,150</b>	<b>4,908,905,003</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 10. STAFF COSTS (continued)

	2017 KShs	2016 KShs
<b>Split as follows:</b>		
Direct staff costs (Note 6)	2,790,962,026	2,241,794,504
Administrative staff cost (Note 9)	3,211,625,124	2,667,110,499
	<b>6,002,587,150</b>	<b>4,908,905,003</b>

Administrative staff costs are Salaries and Wages, inclusive of Travel, Mileage Entertainment and Subsistence, Group Life and Medical Cover, Pension-Company Contribution, Staff Welfare, Training, Recruitment Costs, Travel, Mileage & Entertainment, Subsistence Allowance, NSSF- Company Contribution and Uniforms.

	2017	2016
<b>The average number of employees at the end of the year was:</b>		
Permanent Management	602	589
Permanent Unionisable	968	960
Temporary Contract and interns	229	134
<b>TOTAL</b>	<b>1799</b>	<b>1549</b>

	2017 KShs	2016 KShs
<b>Provision for Leave Pay</b>		
Balance at beginning of the year	180,363,318	190,087,747
Additional provision at end of year	94,177,056	45,867,365
Leave paid out or utilized during the year	(38,611,404)	(55,591,794)
<b>Balance at end of the year</b>	<b>235,928,970</b>	<b>180,363,318</b>

### 11. TAXATION

#### a) Tax charge

Current taxation based on taxable profit at 30%	3,253,535,484	3,606,835,608
Deferred Tax overprovision - Year 2017	263,378,263	(277,480,659)
Deferred Tax overprovision - Year 2016	78	(124,326,349)
<b>Total taxation charge</b>	<b>3,516,913,825</b>	<b>3,606,835,608</b>

#### b) Reconciliation of expected tax based on profit before taxation to taxation charge

Profit before taxation	11,478,440,653	12,016,365,478
Tax at the applicable rate of 30%	3,443,532,196	3,604,909,643
Tax effect of expenses not deductible for tax purposes	169,456,354	129,252,313
<b>Income not subject to tax</b>	<b>(96,074,803)</b>	<b>(3,000,000)</b>
<b>Tax underpayment - Year 2016</b>	<b>78</b>	<b>(124,326,349)</b>
<b>Total taxation charge</b>	<b>3,516,913,825</b>	<b>3,606,835,608</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)



11. TAXATION (continued)	2017 KShs	2016 KShs
<b>c) Taxation (recoverable)/payable</b>		
Balance brought forward	943,975,196	(511,843,305)
Charge for the year (note 11(a))	3,253,535,484	4,008,642,444
Installment tax payments in the year	(4,409,506,689)	(2,405,199,427)
Balance of FY 2016 tax paid	(943,975,196)	-
Withholding tax paid on interest income	(20,141,729)	(15,455,129)
Advance tax paid	(299,851)	(204,555)
Tax overprovision 2015	-	(130,264,548)
Withholding tax paid on miscellaneous income	(291,201)	(1,700,284)
	<b>(1,176,703,986)</b>	<b>943,975,196</b>

### 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 30th June 2017 and 30th June 2016. 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:

	2017 KShs	Restated 2016 KShs
Profit after taxation	7,961,526,828	8,446,512,571
Number of ordinary shares in issue (Note 22)	18,173,300	18,173,300
<b>Basic and diluted earnings per share (in KShs)</b>	<b>438</b>	<b>465</b>

### 13. DIVIDENDS PER SHARE

Proposed dividends are not accounted for until they have been ratified at the Annual General Meeting. No dividend was declared for the financial year ended 30 June 2017.

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. PROPERTY, PLANT AND EQUIPMENT

COST	Freehold Property KShs	Buildings and Roads KShs	Pipeline Pumps & Tanks KShs	Equipment, Furniture & Fittings KShs	Helicopters KShs	Motor Vehicles & Tractors KShs	Capital Work-in-Progress KShs	KShs
<b>1st July 2015</b>	881,963,445	5,450,728,302	30,267,184,015	3,242,248,003	438,914,541	617,611,037	8,097,464,193	48,996,113,538
Additions(Acquisitions)	-	-	453,837,286	157,634,464	-	45,277,263	22,561,110,214	23,217,859,227
Transfers from WIP	-	124,786,208	1,182,007,702	1,515,413,227	-	-	(2,822,207,137)	-
Disposals	-	-	-	(45,402)	-	-	-	(45,402)
<b>30th June 2016</b>	<b>881,963,445</b>	<b>5,575,514,510</b>	<b>31,903,029,003</b>	<b>4,915,250,293</b>	<b>438,914,541</b>	<b>662,888,300</b>	<b>27,836,367,270</b>	<b>72,213,927,362</b>
1st July 2016	881,963,445	5,575,514,510	31,903,029,003	4,915,250,293	438,914,541	662,888,300	27,836,367,270	72,213,927,362
Additions(Acquisitions)	-	6,148,117	174,171,689	224,384,046	-	154,274,427	35,149,931,335	35,708,909,614
Transfers from WIP	-	306,512,213	4,938,801,700	3,165,907,886	-	45,899,719	(8,457,121,518)	-
Disposals	-	-	-	(17,284,380)	-	(7,091,667)	-	(24,376,047)
Impairment	-	-	-	-	-	-	30,262,989	30,262,989
At 30TH JUNE 2017	881,963,445	5,888,174,841	37,016,002,392	8,288,257,845	438,914,541	855,970,779	54,559,440,075	107,928,723,918
<b>DEPRECIATION</b>								
<b>1st July 2015</b>	-	880,767,965	3,465,132,359	639,756,471	171,184,021	253,945,985	-	5,410,786,802
Charge for the year	-	305,183,006	1,128,735,996	320,474,219	77,766,265	138,435,703	-	1,970,595,189
Eliminated on Disposal	-	-	-	(14,001)	-	-	-	(14,001)
<b>30th June 2016</b>	-	1,185,950,971	4,593,868,355	960,216,689	248,950,286	392,381,688	-	7,381,367,990
1st July 2016	-	1,185,950,971	4,593,868,355	960,216,689	248,950,286	392,381,688	-	7,381,367,990
Charge for the year	-	331,479,415	1,294,931,114	619,222,344	77,766,265	150,583,087	-	2,473,982,224
Eliminated on Disposal	-	-	-	(10,720,548)	-	(7,091,667)	-	(17,812,215)
<b>At 30TH JUNE 2017</b>	-	<b>1,517,430,386</b>	<b>5,888,799,469</b>	<b>1,568,718,484</b>	<b>326,716,551</b>	<b>535,873,108</b>	-	<b>9,837,537,999</b>
<b>NET BOOK VALUE:</b>								
<b>At 30TH JUNE 2017</b>	881,963,445	4,370,744,454	31,127,202,923	6,719,539,360	112,197,990	320,097,671	54,559,440,075	98,091,185,919
<b>At 30TH JUNE 2016</b>	881,963,445	4,389,563,511	27,309,160,554	3,955,033,600	189,964,365	270,506,614	27,836,367,271	64,832,559,361

## NOTES TO THE FINANCIAL STATEMENTS (continued)



### 14. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	Level 1	Level 2	Level 3	Fair value as at 30 June
<b>30 June 2017</b>				
Buildings and roads	-	-	4,370,744,454	4,370,744,454
Pipeline, pumps & tanks	-	-	31,127,202,923	31,127,202,923
Equipment, furniture and fittings	-	-	6,719,539,360	6,719,539,360
Helicopters	-	-	112,197,990	112,197,990
Motor vehicles and tractors	-	-	320,097,671	320,097,671
	-	-	<b>42,649,782,399</b>	<b>42,649,782,399</b>
<b>30 June 2016</b>				
Buildings and roads	-	-	4,389,563,511	4,389,563,511
Pipeline, pumps & tanks	-	-	27,309,160,554	27,309,160,554
Equipment, furniture and fittings	-	-	3,955,033,600	3,955,033,600
Helicopters	-	-	189,964,365	189,964,365
Motor vehicles and tractors	-	-	270,506,614	270,506,614
	-	-	<b>36,114,228,645</b>	<b>36,114,228,645</b>

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

	2017 KShs	2016 KShs
<b>Cost</b>		
Accumulated depreciation	59,971,862,000	59,971,862,000
	(31,715,719,000)	(29,239,983,000)
<b>Net book value</b>	<b>28,256,143,000</b>	<b>30,731,879,000</b>

Depreciation charge has been split between administrative and direct costs as follows:

	2017 KShs	2016 KShs
Total depreciation as per property, plant & equipment (note 14)	2,473,982,224	1,970,595,189
Direct costs (note 6)	2,264,151,717	1,757,765,897
Administrative costs	209,830,507	212,509,292
	<b>2,473,982,224</b>	<b>1,970,595,189</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

15. LEASEHOLD LAND	2017 KShs	2016 KShs
<b>COST\VALUATION</b>		
1 July	5,086,390,989	5,086,390,989
Additions	580,297,020	-
Disposals	(26,319,788)	-
	<b>5,640,368,221</b>	<b>5,086,390,989</b>
<b>AMORTIZATION</b>		
1 July	320,130,391	171,034,157
Charge for the year	153,638,797	149,096,234
Eliminated on Disposal	(688,280.92)	-
30 June	473,080,907	320,130,391
<b>NET BOOK VALUE</b>	<b>5,167,287,314</b>	<b>4,766,260,609</b>

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 categorised under level 3 of the fair value hierarchy.

Included under leasehold land is land valued at Kshs 869,759,420 relating to the JKIA Embakasi Depot whose title is held under the Kenya Airports Authority (KAA). KPC is pursuing a separate title.

16. INTANGIBLE ASSETS	2017 KShs	2016 KShs
<b>COST</b>		
1 July	481,251,052	369,730,283
Additions	880,793,866	111,520,769
<b>30 June</b>	<b>1,362,044,918</b>	<b>481,251,052</b>
<b>AMORTIZATION</b>		
1 July	370,251,891	364,163,306
Charge for the year	133,496,179	6,088,585
30 June	503,748,070	370,251,891
<b>NET BOOK VALUE</b>	<b>858,296,848</b>	<b>110,999,161</b>

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

17. INVESTMENTS – at cost	2017 KShs	2016 KShs
<b>Unquoted investments</b>		
Consolidated Bank of Kenya Limited	67,030,000	67,030,000
Impairment charge on Consolidated Bank of Kenya Limited preference shares	(30,725,641)	(30,725,641)
	36,304,359	36,304,359
Petroleum Institute of East Africa	2,000	2,000
	<b>36,306,359</b>	<b>36,306,359</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)



### 17. INVESTMENTS – at cost (continued)

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

	2017 KShs	2016 KShs
746,500 ordinary shares of KShs 20 each	14,930,000	14,930,000
2,605,000 4% non-cumulative irredeemable non-convertible preference shares of KShs 20 each	52,100,000	52,100,000
Impairment charge on Consolidated Bank of Kenya Limited preference shares	(30,725,641)	(30,725,641)
	<b>36,304,359</b>	<b>36,304,359</b>

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 BENEFITS

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 did not make any contributions to the scheme in the year (2016- nil). An actuarial valuation of the scheme’s assets and the present value of the defined benefits obligation as at 30 June 2017 was carried out in August 2017 by the scheme’s actuaries, Zamara Actuaries (formerly Alexander Forbes Financial Services (E.A) Limited) for the purpose of preparing IAS 19 Disclosures. The valuation included prior year disclosures hence FY 2016 comparative figures are provided in this note.

Amendments to the Retirement Benefit Regulations were announced by the Cabinet Secretary, National Treasury, in the Finance Act 2015. This related to a clarification on the distribution of surplus on wind up of a defined benefit scheme. The regulations provide for an equal sharing of surplus between members and the scheme sponsor upon wind up of a scheme. As a result of these change, an asset ceiling has been applied to limit the defined benefit asset to 50% of the surplus, which is the maximum available to the sponsor in the event the scheme is wound up. The principal assumptions used for the purpose of the actuarial valuation in 2017 were as follows:

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

	2017 KShs	2016 KShs
Present value of funded defined benefit obligation	6,040,570,614	5,652,378,014
Fair value of plan assets	(7,543,061,560)	(7,283,960,460)
Effect of asset ceiling	622,047,631	711,469,545
<b>Present value of defined benefit asset</b>	<b>(880,443,315)</b>	<b>(920,112,901)</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 18. RETIREMENT BENEFITS (continued)

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

	2017 KShs	2016 KShs
Net asset at the start of the year	(920,112,901)	(1,006,105,265)
Net income recognized in the income statement	(93,091,080)	(101,496,312)
Employer contributions	-	-
Amount recognized in other comprehensive income	132,760,666	187,488,676
Present value of overfunded defined benefit asset	(880,443,315)	(920,112,901)

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

Opening defined benefit obligation	5,652,378,014	5,328,848,470
Current service cost	35,917,000	29,836,000
Interest cost	780,270,857	686,608,356
Contributions from plan participants	-	-
Actuarial gain due to change in assumptions	(201,352)	(69,281,587)
Actuarial gain due to experience	-	-
Benefits paid	(427,793,905)	(323,633,225)
Closing defined benefit obligation	6,040,570,614	5,652,378,014
Opening fair value of plan assets	(7,283,960,460)	(7,341,059,000)
Interest income on plan assets	(1,011,019,082)	(951,249,616)
Contributions from the employer	-	-
Employee contributions	-	-
Benefits paid	427,793,905	323,633,225
Return on plan assets	324,124,077	684,714,931
<b>Closing fair value of plan assets</b>	<b>(7,543,061,560)</b>	<b>(7,283,960,460)</b>

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

Equity instruments	1,871,825,253	1,737,601,138
Debt instruments	3,241,302,734	2,938,005,662
Property	2,164,273,540	2,185,403,749
Cash	265,660,033	422,949,911
Total Scheme (Assets)	7,543,061,560	7,283,960,460

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

	2017 KShs	2016 KShs
Spare parts and consumables	1,661,792,956	1,854,673,036
Provision for obsolete stocks	(70,015,035)	(166,375,802)
	1,591,777,921	1,688,297,234

## NOTES TO THE FINANCIAL STATEMENTS (continued)



<b>20. TRADE AND OTHER RECEIVABLES</b>	<b>2017</b>	<b>Restated 2016</b>
	<b>KShs</b>	<b>KShs</b>
Trade receivables	7,034,645,762	8,249,263,168
Staff loans and advances	941,066,969	554,622,614
VAT recoverable	3,100,799,650	-
Prepaid construction costs	106,656,301	106,656,301
Prepaid expenses	1,319,843,648	10,400,461
Refundable deposits	9,477,446	9,477,446
Other debtors	890,267,945	521,742,268
	13,402,757,721	9,452,162,258
Provision for bad and doubtful debts	(584,723,542)	(584,723,542)
	<b>12,818,034,179</b>	<b>8,867,438,716</b>
Recoverable as follows:		
Within one year	12,048,271,443	8,444,841,722
After one year (staff loans)	769,762,736	422,596,994
	<b>12,818,034,179</b>	<b>8,867,438,716</b>

Included in trade receivables is KShs 4.3 billion (2016 - KShs 4.2 billion) due from an Oil Marketing Company that is the subject of 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 Kenya Revenue Authority every quarter.

<b>21. CASH AND SHORT TERM DEPOSITS</b>	<b>2017</b>	<b>Restated 2016</b>
	<b>KShs</b>	<b>KShs</b>
<b>a) Short Term Deposits</b>		
<b>Fixed deposits</b>	<b>6,063,946,835</b>	<b>9,141,970,606</b>

The fixed deposits have a tenor of 3 months and the effective interest rate in the year was 7.3% p.a. (2016 - 9.5%).

<b>b) Bank and Cash Balances</b>	<b>Account No.</b>	<b>2017</b>	<b>2016</b>
		<b>KShs</b>	<b>KShs</b>
1. Barclays Bank of Kenya	1108981062	3,094,402	3,134,358
2. Commercial Bank of Africa (Kshs)	6634970017	151,763,879	24,631,246
3. Commercial Bank of Africa (USD)	6634970025	401,769,950	939,484,720
4. Standard Bank (Kshs)	104023872500	15,916,181	118,149,900
5. Standard Bank (USD)	8704023872500	478,516,241	753,358,660
6. CfC Stanbic (Kshs)	100000534425	11,141,354	199,882,706
7. CfC Stanbic (USD)	100000681347	79,976,353	97,018,034
8. Citibank (Kshs)	104052002	43,275,672	124,789,874
9. Citibank (USD)	104052029	176,428,651	361,621,840
10. Coop-Bank	1136028439200	38,023,072	54,507,470
11. Coop-Bank (USD)	2120028439200	10,364,342	(8,338)
12. Equity Bank(Kshs)	560291247368	39,905,958	51,164,562
13. Equity Bank (USD)	560261355277	16,185,248	47,442,962
14. Kenya Commercial Bank	1108981061	353,110	358,565
15. Petty Cash	-	11,650,917	12,169,722
		<b>1,478,365,330</b>	<b>2,787,706,279</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

22. SHARE CAPITAL	2017	2016
<b>Authorized:</b>		
19,369,580 Ordinary Shares of KShs 20 each	387,391,600	387,391,600
<b>Issued and fully paid:</b>		
18,173,300 Ordinary Shares of KShs 20 each	363,466,007	363,466,007

### 23. 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 below:

	2017 KShs'	2016 Restated KShs'	2016 KShs'
<b>Deferred tax liability</b>			
Accelerated capital allowances	5,290,518,263	4,973,778,701	4,973,778,701
Deferred tax on retirement benefit plan assets	264,132,995	301,832,000	301,832,000
Deferred tax on revaluation surplus	-	-	-
Unrealized exchange gains	19,382,793	54,973,000	54,973,000
	<b>5,574,034,051</b>	<b>5,330,583,701</b>	<b>5,330,583,701</b>
<b>Deferred tax assets</b>			
General inventory provisions	(21,004,510)	(49,912,741)	(49,912,741)
Leave pay provision	(70,778,691)	(54,109,000)	(54,109,000)
General bad debts provision	(4,846,969)	(4,846,968)	(4,846,968)
Retirement Benefit - OCI	(96,074,803)	(56,246,603)	-
	<b>(192,704,973)</b>	<b>(165,115,312)</b>	<b>(108,868,709)</b>
<b>Net deferred tax liability</b>	<b>5,381,329,078</b>	<b>5,165,468,389</b>	<b>5,221,714,992</b>
The movement in Deferred Tax was as follows:			
At 1 July (as previously reported)	5,221,714,992	5,623,522,000	5,623,522,000
Prior year adjustment (note 33)	78	(124,326,000)	(124,326,000)
	<b>5,221,715,070</b>	<b>5,499,196,000</b>	<b>5,499,196,000</b>
Prior year adjustment (note 33)			
Deferred tax charge (note 11(a))	255,688,811.00	(277,481,008.00)	(277,481,008)
Deferred tax - Retirement benefit Obligation a/c	(96,074,803.00)	(56,246,602.80)	-
<b>At the end of the year</b>	<b>5,381,329,078</b>	<b>5,165,468,389</b>	<b>5,221,714,992</b>

The adjustment in respect of the Retirement Benefit Scheme Other Comprehensive Income have been treated cumulatively in FY 2017.

24. TRADE AND OTHER PAYABLES	2017 KShs	2016 KShs
Trade payables (reclassified)	3,367,692,640	1,858,423,887
Other payables	10,478,276,887	1,008,110,258
Catering, training & tourism development levy	243,421	-
Leave pay provision	235,928,970	180,363,319
Withholding tax payable	503,764,026	-
	<b>14,585,905,944</b>	<b>3,046,897,464</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)



24. TRADE AND OTHER PAYABLES (continued)	2017	2016
	KShs	KShs
Payable as follows:		
Within one year	13,816,143,208	2,726,808,464
After one year (staff loans)	769,762,736	320,089,000
	<b>14,585,905,944</b>	<b>3,046,897,464</b>

### 25. LONG TERM LOAN

(a) Syndicated Loan( Long Term Portion)	22,983,317,480	9,697,497,096
(b) Syndicated Loan (Current Portion)	3,283,331,069	-

The long-term loan represents loan drawdowns as at 30th June 2017 on a United States Dollar 350 million Facility Agreement signed on 15th July 2015 between KPC and a consortium of the following six banks:

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 below:

Bank	2017 Underwritten Amount USD	Drawn as at 30th June 2017 USD	Drawn as at 30th June 2016 USD
Commercial Bank of Africa	58,333,333	42,251,741	15,986,294
Citibank N.A.	58,333,333	42,251,741	15,986,294
CfC Stanbic Bank	58,333,333	42,251,741	15,986,294
Standard Chartered Bank	58,333,333	42,251,742	15,986,294
Rand Merchant Bank	58,333,333	42,251,742	15,986,294
Cooperative Bank of Kenya	58,333,333	42,251,742	15,986,294
<b>TOTAL</b>	<b>350,000,000</b>	<b>253,510,449</b>	<b>95,917,764</b>

The loan is for financing the construction of a 20-inch pipeline and related facilities between Mombasa and Nairobi.

The loan facility has an availability period of 2 years and is repayable in 33 quarterly instalments from June 2017 and is secured with receivables from the top 14 Oil Marketing Companies. Interest on the loan is at USD 3-month LIBOR plus a margin of 5.38% p.a.

26. NOTES TO THE STATEMENT OF CASH FLOWS	2017	2016
	KShs	KShs
<b>a) Reconciliation of operating profit to cash generated from operations</b>		
Profit before tax	11,478,440,653	12,016,365,478
Adjustments for:		
Depreciation (note 14)	2,473,982,224	1,970,595,189
Amortization of leasehold land (note 15)	153,638,797	149,096,234
Amortization of intangible assets (note 16)	133,496,179	6,088,585
Movement in retirement benefit asset (note 18(b))	(125,661,685)	-
Loss/(gain) on disposal of property, plant and equipment	1,327,214	(2,824,500)
Interest income	(455,249,455)	(220,078,248)
Interest expense	450,074	3,780,683
<b>Operating profit before working capital changes</b>	<b>13,660,424,000</b>	<b>13,960,006,122</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

26. NOTES TO THE STATEMENT OF CASH FLOWS (continued)	2017	2016
	KShs	KShs
Increase in inventories	96,519,312	(167,711,394)
Increase in trade and other receivables	(3,950,595,463)	1,797,812,230
(Decrease)/increase in trade and other payables	11,859,097,707	740,356,966
Movement in related party balances	(240,089,228)	-
<b>Cash generated from operations</b>	<b>21,425,356,329</b>	<b>16,330,463,925</b>

### a) Analysis of cash and cash equivalents

Short term deposits (note 22(a))	6,063,946,835	9,141,970,603
Bank and cash balances	1,478,365,330	2,787,706,282
	<b>7,542,312,165</b>	<b>11,929,676,886</b>

### b) Analysis of non-cash transactions:

Total additions to property, plant and equipment	36,289,206,634	23,217,859,227
Capital work in progress items pending settlement as at 30 June	-	-
Cash used in the purchase of property, plant and equipment as presented on the cash flow statement	<b>36,289,206,634</b>	<b>23,217,859,227</b>

## 27. 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.

The remuneration of directors and other members of key management during the year were as follows:

	2017	2016
	KShs	KShs
Key management salaries and benefits	223,072,626	110,245,097
Directors Expenses		
- Performance incentive	9,240,000	9,240,000
- Board Retreats and general expenses	10,917,176	2,827,006
- Sitting /duty allowance	11,280,000	15,796,853
- Training expenses	10,298,746	12,400,014
- Travel expenses and Subsistence allowance	17,578,533	22,500,774
	<b>59,314,455</b>	<b>62,764,647</b>

### (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 below:

## NOTES TO THE FINANCIAL STATEMENTS (continued)



<b>27. RELATED PARTIES (continued)</b>	<b>2017</b>	<b>2016</b>
	<b>KShs</b>	<b>KShs</b>
Services provided to National Oil Corporation (K)	1,045,451,204	948,003,000
Services received from Kenya Power & Lighting Co Limited	2,307,126,408	2,206,803,720
Services received from Ministry of Energy	384,000,000	384,000,000
	<b>3,736,577,612</b>	<b>3,538,806,720</b>

### (c) Due to related parties

Deferred Income from Ministry of Energy – LPG Project	80,000,000	80,000,000
Kenya Power & Lighting Company Limited	-	240,089,228
	<b>80,000,000</b>	<b>320,089,228</b>

<b>28. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES</b>	<b>2017</b>	<b>2016</b>
	<b>KShs</b>	<b>KShs</b>
<i>The company as a lessor:</i>		
Within one year	80,562,973	488,465,000
In the second to fifth year inclusive	322,251,891	1,953,860,000
	<b>402,814,863</b>	<b>2,442,325,000</b>

The lease rental income earned during the year in respect of company's property amounted to KShs 81 million (2016 – KShs 85 million).

### *The company as a lessee:*

Within one year	7,336,774	7,265,427
In the second to fifth year inclusive	612,533,868	401,585,286
	<b>557,409,085</b>	<b>408,850,000</b>

The total rental expense incurred during the year amounted to KShs 7.3 million (2016-KShs 7.3 million).

<b>29. CONTINGENT LIABILITIES</b>	<b>2017</b>	<b>2016</b>
	<b>KShs</b>	<b>KShs</b>
Products held on behalf of shippers (Note 30)	-	-
Pending law suits	4,012,257,286	4,845,961,000
Guarantees and letters of credit	1,002,295,515	3,089,221,000
	<b>5,014,552,801</b>	<b>7,935,182,000</b>

Pending lawsuits relate to civil suits lodged against the company by various parties and include a contingent liability related to irregular release of product, amounting to Kshs 400 million (2016: KShs 2,877,818,000).

### **30. 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 2017, the company held 372,728 M3 (2016 – 401,152 M3) third party fuel stocks with a Hydro-Carbon Value (HCV) of Kshs 141,680,330.66 (2016 – KShs. 15,262,481,000).

### **31. INCORPORATION**

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

### **32. CURRENCY**

Financial statements are presented in Kenya Shillings (KShs)

## STATEMENTS ON AUDITOR RECOMMENDATIONS

### PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues that resulted in a qualified opinion of the external auditor on the financial statements for the year 2015/16, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Ref. No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	<b>Trade and Other Receivables</b> As noted in the audit report of FY2014/15, trade and other receivables balance of Kshs8.4 billion included an amount of Kshs 4.2 billion due from an oil marketing company that is in dispute and has been subjected to an arbitrator. The auditors were unable to confirm whether and if so, when KPC will be able to recover the Kshs 4.2 billion.	The disputed account is currently in court and KPC holds the view that it will obtain a favorable ruling	Managing Director	Not resolved Not resolved Not resolved	Dependent on court calendar
2	<b>Property, Plant and Equipment – Leasehold Land</b> As reported in the audit report of FY2014/15, included in the leasehold land balance of Kshs 4.76 billion are parcels of land valued at Kshs 1.928 billion which do not have title deeds. Further information availed during the audit indicates that plot numbers LR.9042/225 and 114/113/114 where Embakasi and Mombasa depots sit and carried in the books at Kshs 869.7 million and Kshs 130.3 million respectively have had their titles issued to Kenya Airports Authority. This situation is indicative of significant impairment of the properties. Their carrying values in the financial statements could not therefore be confirmed.	KPC is pursuing obtaining the title deeds with the National Lands Commission. The ownership of the land is not in dispute since KPC has occupied the two stations for over 3 decades, and KAA acknowledges that the land belongs to KPC.	Managing Director		June 2018
3	<b>Emphasis of Matter – Procurement of Hydrant Pit Valves</b> During the FY 2014/15, the company awarded a contracted valued at USD6,409,492 for the supply of hydrant pit valves CJW isolation valves and 2-year operational spares to a company based in the United States of America through a direct procurement contrary to the requirements of the Public Procurement and Asset Disposal Act 2005. Although the company was indicated to be the OEM, no documentary evidence or information to support the tender award was provided. There was also no written justification on the need to procure operational spares to cover a two-year period. Although the spares were delivered on 14 July 2015, they had not been inspected and formally received for use at the time of the audit.	The procurement of the hydrant pit valves was necessary and the procurement procedures were followed. Documentation to support the award is also available. The spares could not be inspected because they are a subject of an EACC investigation	Managing Director		Awaiting determination by the Ethics and Anti-Corruption Commission (EACC)

## 5-YEAR FINANCIAL HIGHLIGHTS

### STATEMENT OF COMPREHENSIVE INCOME



Non- Current Assets	2017 KShs	2016 restated KShs	2015 KShs	2014 KShs	2013 KShs
Total Revenue	25,134,869,469	23,018,986,040	21,438,236,000	20,055,532,000	18,487,065,000
Direct Costs	(9,285,805,904)	(7,781,792,550)	(7,967,492,000)	(6,912,545,000)	(6,947,721,000)
<b>Gross Profit</b>	<b>15,849,063,565</b>	<b>15,237,193,490</b>	<b>13,470,744,000</b>	<b>13,142,987,000</b>	<b>11,539,344,000</b>
Other Income	362,564,293	290,415,562	325,785,000	283,926,000	247,891,000
Administration Expenses	(5,295,614,817)	(4,100,346,177)	(4,887,460,000)	(3,462,384,000)	(3,737,630,000)
<b>Operating Profit</b>	<b>10,916,013,041</b>	<b>11,427,262,875</b>	<b>8,909,069,000</b>	<b>9,964,529,000</b>	<b>8,049,605,000</b>
Net Finance Income	562,427,612	626,085,305	1,771,905,000	258,416,000	61,512,000
<b>Profit Before Taxation</b>	<b>11,478,440,653</b>	<b>12,053,348,179</b>	<b>10,680,974,000</b>	<b>10,222,945,000</b>	<b>8,111,117,000</b>
Taxation Charge	(3,516,913,825)	(3,606,835,608)	(3,459,347,000)	(3,120,162,000)	(1,381,198,000)
<b>Net Profit After Taxation</b>	<b>7,961,526,828</b>	<b>8,446,512,571</b>	<b>7,221,627,000</b>	<b>7,102,783,000</b>	<b>6,729,919,000</b>
Earnings Per share	438	465	397	391	370

## 5-YEAR FINANCIAL HIGHLIGHTS

### STATEMENT OF CASH FLOWS

Non- Current Assets	2017 KShs	2016 KShs	2015 KShs	2014 KShs	2013 KShs
Net cash generated from operating activities	16,506,231,596	14,124,202,379	5,998,201,000	9,863,939,000	6,538,113,000
Net cash from/(to) investing activities	(37,161,868,585)	(23,251,822,725)	(5,411,854,000)	(3,100,034,000)	(793,039,000)
Net cash from/(to) financing activities	16,268,272,269	9,388,097,096	-	-	(8,970,208,000)
Net increase/(Decrease) in cash and cash equivalents	(4,387,364,720)	260,476,750	586,347,000	6,763,905,000	(3,225,134,000)
Cash and Cash Equivalents at beginning of the period	11,929,676,885	11,669,200,135	11,082,853,000	4,318,948,000	7,544,082,000
<b>Cash and Cash Equivalents at end of the Year</b>	<b>7,542,312,165</b>	<b>11,929,676,885</b>	<b>11,669,200,000</b>	<b>11,082,853,000</b>	<b>4,318,948,000</b>

## 5-YEAR FINANCIAL HIGHLIGHTS

### STATEMENT OF FINANCIAL POSITION

AS AT 30TH JUNE

	2017 KShs	2016 KShs	2015 KShs	2014 KShs	2013 KShs
<b>Non- Current Assets</b>					
Property, plant and equipment	98,091,185,919	64,832,559,060	43,585,328,000	41,264,151,000	40,333,480,000
Leasehold land	5,167,287,314	4,766,260,609	4,915,357,000	5,127,880,000	5,217,229,000
Intangible assets	858,296,848	110,999,161	5,567,000	2,985,000	6,910,000
Investments	36,306,359	36,306,359	36,306,000	67,032,000	67,032,000
Retirement Benefit recoverable	880,443,315	1,006,105,000	1,006,105,000	1,407,397,000	1,320,984,000
Trade and other receivables	769,762,736	422,596,994	100,278,000	118,293,000	159,107,000
	<b>105,803,282,491</b>	<b>71,174,827,183</b>	<b>49,648,941,000</b>	<b>47,987,738,000</b>	<b>47,104,742,000</b>
<b>Current Assets</b>					
Inventories	1,591,777,921	1,688,297,234	1,520,586,000	1,443,982,000	1,128,042,000
Trade and other receivables	12,048,271,443	8,407,859,021	10,565,001,000	9,440,453,000	7,824,695,000
Taxation recoverable	1,176,703,986	-	511,843,000	-	991,313,000
Government securities	-	-	-	104,316,000	100,000,000
Short term deposits	6,063,946,835	9,141,970,606	8,492,671,000	5,938,961,000	1,982,203,000
Bank and cash balances	1,478,365,330	2,787,706,279	3,176,529,000	5,143,892,000	2,336,745,000
Non Current Assets Classified as held for Sale	-	-	-	-	23,255,000
	<b>22,359,065,515</b>	<b>22,025,833,140</b>	<b>24,266,630,000</b>	<b>22,071,604,000</b>	<b>14,386,253,000</b>
<b>Total Assets</b>	<b>128,162,348,006</b>	<b>93,200,660,323</b>	<b>73,915,571,000</b>	<b>70,059,342,000</b>	<b>61,490,995,000</b>
<b>Shareholders Funds and Liabilities</b>					
<b>Capital and Reserves</b>					
Share capital	363,466,007	363,466,007	363,466,000	363,466,000	363,466,000
Share premium	512,288,916	512,288,916	512,289,000	512,289,000	512,289,000
Revenue reserve	70,967,940,523	63,092,108,956	54,787,041,000	47,394,969,000	40,327,952,000
Revaluation Reserve	10,004,768,990	10,022,711,045	10,022,712,000	11,887,512,000	11,859,254,000
	81,848,464,436	73,990,574,924	65,685,508,000	60,158,236,000	53,062,961,000
<b>Non Current Liabilities</b>					
Deferred taxation	5,381,329,078	5,221,714,992	5,623,522,000	5,913,210,000	5,882,037,000
Long term loan	22,983,317,480	969,749,096	-	-	-
	<b>28,364,646,558</b>	<b>14,919,212,088</b>	<b>5,623,522,000</b>	<b>5,913,210,000</b>	<b>5,882,037,000</b>
<b>Current Liabilities</b>					
Trade and other payables	14,585,905,944	2,726,808,236	1,983,422,000	3,764,094,000	2,545,997,000
Due to related parties	80,000,000	320,089,228	313,719,000	-	-
Tax payable	-	943,975,847	-	223,802,000	-
Dividend Payable	-	300,000,000	309,400,000	-	-
Current Loan	3,283,331,068	-	-	-	-
	<b>17,949,237,012</b>	<b>4,290,873,311</b>	<b>2,606,541,000</b>	<b>3,987,896,000</b>	<b>2,545,997,000</b>
<b>Total Shareholder's Funds and Liabilities</b>	<b>128,162,348,006</b>	<b>93,200,660,323</b>	<b>73,915,571,000</b>	<b>70,059,342,000</b>	<b>61,490,995,000</b>





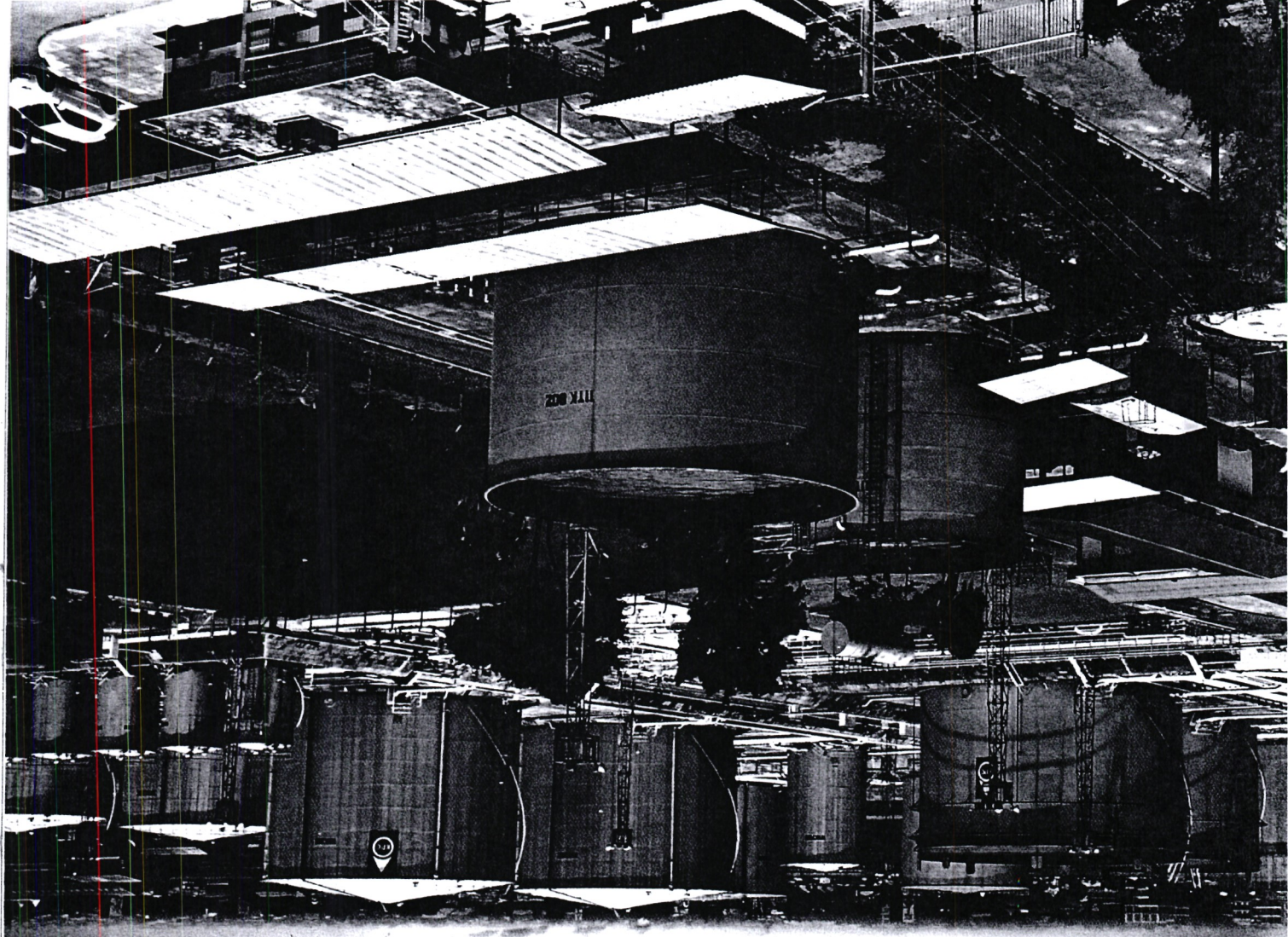
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