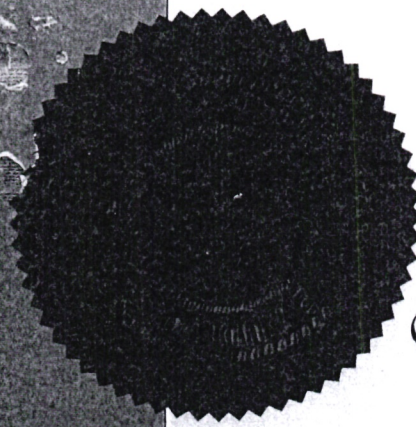


REPUBLIC OF KENYA



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REPORT

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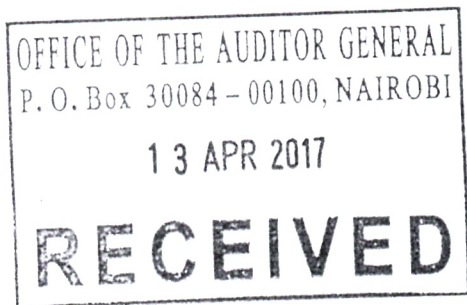
OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
THE KENYA PIPELINE COMPANY
LIMITED

FOR THE YEAR ENDED
30 JUNE 2016



KENYA PIPELINE COMPANY LIMITED

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

30 JUNE 2016

KENYA PIPELINE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2016

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KENYA PIPELINE COMPANY LIMITED

CORPORATE INFORMATION

DIRECTORS

1. Mr. John Ngumi, Chairman
2. Mr. Joe Sang, Managing Director
3. Dr. Kamau Thugge, Principal Secretary, National Treasury
4. Mr. Andrew N. Kamau, Principal Secretary, State Department of Petroleum
5. Mr. Marwa Maisori
6. Mr. Joseph Njoroge
7. Mr. Jerry Simu
8. Mrs. Faith Jepkemboi Bett - Boinett
9. Mrs. Felicity N. Biriri
10. Mr. Iltasayon Neepe (Major (Rtd))
11. Mr. Wahome Gitonga
12. Mr. Hudson Andambi - Alternate Director, Ministry of Energy and Petroleum
13. Mr. Eric Korir - Alternate Director, Ministry of Energy and Petroleum

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	CfC Stanbic Bank Limited CFC Centre Chiromo Road P. O. Box 72833 - 00200 Nairobi
	Equity Bank Kenpipe Plaza, Sekondi Road Off Lunga Lunga Road P. O. Box 78569 – 00507 Nairobi	Citibank, N.A. Citibank House Upper Hill Road P. O. Box 30711 - 00100 Nairobi

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

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

KENYA PIPELINE COMPANY LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of Kenya Pipeline Company Limited (the "Company") for the year ended 30 June 2016, which disclose the Company's state of affairs.

ACTIVITIES

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

RESULTS	KShs'000
Profit before taxation	12,016,365
Taxation charge	3,606,835
Profit after tax for the year	<u>8,409,530</u>

DIVIDEND

The directors do not recommend payment of a dividend in respect of the year (2015 – KShs 300,000,000).

DIRECTORS

The current directors are as shown on page 2. Mr Joe Sang was appointed Managing Director with effect from 7th April 2016.

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



SECRETARY
NAIROBI

2016

KENYA PIPELINE COMPANY LIMITED

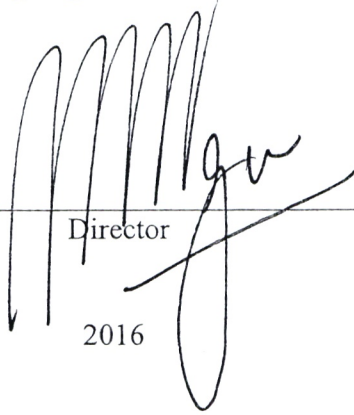
STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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



Director
2016



Director

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON THE KENYA PIPELINE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the Kenya Pipeline Company Limited set out on pages 7 to 45, which comprise the statement of financial position as at 30 June 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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.

Director's Responsibility for the Financial Statements

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

The directors are also responsible for the 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 Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Auditing Standards. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Report of the Auditor-General on the Financial Statements of Kenya Pipeline Company Limited for the year ended 30 June 2016

evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Trade and Other Receivables

As noted in the audit report for the financial year 2014/2015, the trade and other receivables balance of Kshs.8,407,859,000 in the statement of financial position as at 30 June 2016 (2015 Kshs.10,665,279,000) and as disclosed in note 20 to the financial statements includes an amount of Kshs.4,200,000,000 (2015 Kshs.4,138,176,816) due from an Oil Marketing Company (OMC) that is in dispute and has been subjected to an arbitrator. The arbitrator has since made a ruling in favour of the OMC with an award of US\$19,758,594.7 equivalent to Kshs.1,987,714,627 at the ruling exchange rate. Management has indicated that they have contested the ruling in court and are awaiting its determination. This contingent liability has not been recognized in the financial statements.

From the foregoing, it has not been possible to confirm whether and if so, when the Company will be able to recover the Kshs 4.2 billion debt. Any provision that would have been necessary in relation to this uncertainty has not been incorporated in these financial statements.

2. Property, Plant and Equipment - Leasehold Land

As similarly reported in the prior year audit, included in the leasehold land balance of Kshs.4,766,260,000 are parcels of land valued at Kshs.1,928,677,778 which the Company acquired but have no title deeds. Further, information availed during the audit indicates that Plots Nos. LR.9042/225 and 114/113/114 where Embakasi and Mombasa depots sit and carried in the books at Kshs.869,759,420 and Kshs.130,257,924 respectively have had their title deeds issued to Kenya Airports Authority, a distinct entity. Whereas allotment letters have been issued to the company with respect to the two land parcels, this situation is indicative of significant impairment of the properties as the ownership is not conclusively in its name.

Consequently, the carrying values as stated in the financial statements could not be confirmed to reflect the fair values of the property as at 30 June 2016.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Kenya Pipeline Company Limited as at 30 June 2016, and of its profits or loss and its cash flows for the year then ended, in accordance with

KENYA PIPELINE COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

ASSETS	Note	2016 KShs'000	2015 KShs'000
Non-Current Assets			
Property, plant and equipment	14	64,832,559	43,585,328
Leasehold land	15	4,766,261	4,915,357
Intangible assets	16	110,999	5,567
Investments	17	36,306	36,306
Retirement benefits	18(b)	1,006,105	1,006,105
Trade and other receivables	20	422,597	100,278
Total Non-Current assets		71,174,827	49,648,941
Current Assets			
Inventories	19	1,688,297	1,520,586
Trade and other receivables	20	8,407,859	10,565,001
Taxation recoverable	11(c)	-	511,843
Short term deposits	21(a)	9,141,971	8,492,671
Bank and cash balances	21(b)	2,787,706	3,176,529
Total Current Assets		22,025,833	24,266,630
Total Assets		<u>93,200,660</u>	<u>73,915,571</u>
SHAREHOLDER'S FUNDS AND LIABILITIES			
Capital And Reserves			
Share capital	22	363,466	363,466
Share premium		512,289	512,289
Retained earnings		63,092,109	54,787,041
Revaluation reserve		10,022,711	10,022,712
		73,990,575	65,685,508
Non-Current Liabilities			
Deferred taxation	23	5,221,715	5,623,522
Syndicated Long Term Loan	25	9,697,497	-
		14,919,212	5,623,522
Current Liabilities			
Dividend payable	13	300,000	309,400
Trade and other payables	24	2,726,808	1,983,422
Due to related parties	27(c)	320,089	313,719
Tax payable	11(c)	943,976	-
		4,290,873	2,606,541
Total Shareholder's Funds And Liabilities		<u>93,200,660</u>	<u>73,915,571</u>

The financial statements on pages 7 to 44 were approved and authorised for issue by the Board of Directors on 2016 and signed on their behalf by:

Director

Director

International Financial Reporting Standards and comply with the Companies Act, 2015 of the Laws of Kenya.

Other Matter

Without qualifying my opinion, I draw attention to the following matter:

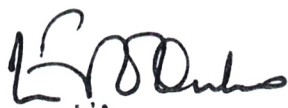
Procurement of Hydrant Pit Valves

During the financial year 2014/15, the Company awarded a contract valued at USD 6,409,492 (Kshs.655, 880,009) for the supply of hydrant pit valves, C/W isolation valves and 2 year operational spares to a Company through direct procurement contrary to the requirements of the Public Procurement and Asset Disposal Act, 2005. Although the company based in the United States of America had been invited to bid, having been indicated as the original equipment manufacturer, no documentary evidence nor information was provided to support the tender award. In addition, there was no written justification on the need to procure operational spares to cover a two year period. Although the spares were delivered to the Company on 14 July 2015, they have not been inspected and formally received for use.

REPORT ON OTHER LEGAL REQUIREMENTS

As required by the Companies Act, 2015 I report based on my audit that;

- I. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- II. In my opinion, adequate accounting records have been kept by the Company and returns adequate for their audit have been received from the Company's branches not visited, so far as appears from the examination of those records; and,
- III. The Company's financial statements are in agreement with the accounting records and returns.



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

Nairobi

12th April 2017

KENYA PIPELINE COMPANY LIMITED

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016**

		2016	2015
	Note	KShs'000	KShs'000
REVENUE	5	22,982,003	21,438,236
DIRECT COSTS	6	(7,781,792)	(7,967,492)
GROSS PROFIT		15,200,211	13,470,744
OTHER INCOME	7	290,415	325,785
FINANCE INCOME	8(a)	220,078	203,208
FOREIGN EXCHANGE GAINS	8(b)	409,788	1,572,326
FINANCE COSTS	8(c)	(3,781)	(3,629)
ADMINISTRATION EXPENSES	9	(4,100,346)	(4,887,460)
PROFIT BEFORE TAXATION		12,016,365	10,680,974
TAXATION CHARGE	11(a)	(3,606,835)	(3,459,347)
PROFIT AFTER TAXATION		8,409,530	7,221,627
OTHER COMPREHENSIVE LOSS			
<i>Items that will not be reclassified subsequently to profit or loss;</i>			
Adjustment in surplus on revaluation of property and equipment		-	-
Deferred tax on the adjustment on revaluation of property and equipment		-	-
Re-measurement of defined benefit obligation	17(b)		(558,385)
Deferred tax relating to re-measurement of defined benefit obligation			167,516
			(390,869)
OTHER COMPREHENSIVE LOSS FOR THE YEAR		-	(390,869)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		8,409,530	6,830,758
		KShs	KShs'000
EARNINGS PER SHARE	12	463	397

KENYA PIPELINE COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

ASSETS	Note	2016 KShs'000	2015 KShs'000
Non-Current Assets			
Property, plant and equipment	14	64,832,559	43,585,328
Leasehold land	15	4,766,261	4,915,357
Intangible assets	16	110,999	5,567
Investments	17	36,306	36,306
Retirement benefits	18(b)	1,006,105	1,006,105
Trade and other receivables	20	422,597	100,278
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Short term deposits	21(a)	9,141,971	8,492,671
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Total Current Assets		22,025,833	24,266,630
Total Assets		<u>93,200,660</u>	<u>73,915,571</u>
SHAREHOLDER'S FUNDS AND LIABILITIES			
Capital And Reserves			
Share capital	22	363,466	363,466
Share premium		512,289	512,289
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Revaluation reserve		10,022,711	10,022,712
		73,990,575	65,685,508
Non-Current Liabilities			
Deferred taxation	23	5,221,715	5,623,522
Syndicated Long Term Loan	25	9,697,497	-
		14,919,212	5,623,522
Current Liabilities			
Dividend payable	13	300,000	309,400
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Due to related parties	27(c)	320,089	313,719
Tax payable	11(c)	943,976	-
		4,290,873	2,606,541
Total Shareholder's Funds And Liabilities		<u>93,200,660</u>	<u>73,915,571</u>

The financial statements on pages 7 to 44 were approved and authorised for issue by the Board of Directors on 2016 and signed on their behalf by:

Director

Director

KENYA PIPELINE COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

	Share Capital Kshs'000	Share Premium Kshs'000	Retained earnings Kshs'000	Revaluation Reserve Kshs'000	Total Equity Kshs'000
At 1 July 2014(as previously reported)	363,466	512,289	47,394,969	11,887,511	60,158,235
Prior year adjustment- fixed assets revaluation			0	(1,298,069)	(1,298,069)
Prior year adjustment- leasehold land			7,400	(137,586)	(130,186)
Prior year adjustment- debits in payables relating to assets capitalized				(429,144)	(429,144)
Prior year adjustment- deferred taxation				811,309	811,309
Prior year adjustment- Depreciation			52,005		52,005
Total comprehensive income					0
Prior year adjustment- depreciation charge 2014					0
1 July 2014 (restated)	363,466	512,289	47,454,374	10,834,021	59,164,150
Total Comprehensive Income			6,830,758		6,830,758
Dividends declared- 2014			(309,400)		(309,400)
Transfer of excess depreciation			1,159,013	(1,159,013)	0
Deferred tax on excess depreciation			(347,704)	347,704	0
At 30th June 2015 (restated)	363,466	512,289	54,787,041	10,022,712	65,685,508
At 1 July 2015	363,466	512,289	54,787,041	10,022,712	65,685,508
Profit for the year			8,409,530		8,409,530
Other comprehensive income					0
Dividends declared- 2015			(300,000)		(300,000)
Prior year Adjustment - provision write-back			65,273		65,273
Prior year Adjustment – Taxation 2015 (Note 11(c))			130,265		130,265
As at 30th June 2016	<u>363,466</u>	<u>512,289</u>	<u>63,092,109</u>	<u>10,022,712</u>	<u>73,990,576</u>

KENYA PIPELINE COMPANY LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 KShs'000	2015 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	26(a)	16,330,464	9,304,477
Interest received		220,078	203,132
Interest expense	8(c)	(3,781)	(3,629)
Income tax paid	11(c)	(2,405,199)	(3,481,474)
Withholding and Advance taxes paid	11(c)	(17,155)	(24,305)
Advance Tax Paid		(205)	
Net cash generated from operating activities		14,124,202	5,998,201
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(23,217,859)	(5,521,613)
Proceeds from disposal of property, plant and equipment		2,284	8,465
Purchase of intangible assets	16	(111,521)	(3,022)
Proceeds from disposal of investment in LPG		75,273	
Proceeds from matured government securities	21	-	104,316
Net cash flows used in investing activities		(23,251,823)	(5,411,854)
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan Drawdown		9,697,497	-
Dividends paid		(309,400)	-
Net cash flows from financing activities		9,388,097	
NET INCREASE IN CASH AND CASH EQUIVALENTS		260,477	586,347
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		11,669,200	11,082,853
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	25(b)	11,929,677	11,669,200

KENYA PIPELINE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

1. ACCOUNTING POLICIES

a) Statement of Compliance

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

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

(i) *Relevant new standards and amendments to published standards effective for the year ended 30 June 2016*

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

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities	The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous 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 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.
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The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the company's financial statements.

KENYA PIPELINE COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

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*

New and Amendments to standards

IFRS 9 Financial Instruments	Effective for annual periods beginning on or after 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.

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.

KENYA PIPELINE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

1. ACCOUNTING POLICIES (CONTINUED)

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

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

IFRS 9 Financial Instruments (Continued)

- 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 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

KENYA PIPELINE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

1. ACCOUNTING POLICIES (CONTINUED)

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

(iii) *Relevant new and revised IFRSs in issue but not yet effective for 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 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

KENYA PIPELINE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

1. ACCOUNTING POLICIES (CONTINUED)

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

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

- 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 summarised 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.

The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation 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/amortisation 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.

KENYA PIPELINE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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)

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.

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.

KENYA PIPELINE COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

1. ACCOUNTING POLICIES (CONTINUED)

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

(iii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2016*
 (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.

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.

KENYA PIPELINE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

1. ACCOUNTING POLICIES (CONTINUED)

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.

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.

KENYA PIPELINE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

1. ACCOUNTING POLICIES (CONTINUED)

Taxation

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

(i) *Current tax*

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

(ii) *Deferred tax*

Deferred tax is 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.

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

KENYA PIPELINE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

1. ACCOUNTING POLICIES (CONTINUED)

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.

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.

KENYA PIPELINE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

1. ACCOUNTING POLICIES (CONTINUED)

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 9,697,497,096 as at 30 June 2016 (2015– nil).

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Introduction and Overview

The company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the company's business and 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.

KENYA PIPELINE COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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:

	GBP KShs'000	EUR KShs'000	USD KShs'000	CAD KShs'000	ZAR KShs'000
At 30 June 2016					
Financial assets					
Bank and cash balances	-	-	1,398,125	-	-
Short term deposits	-	-	40,404,242	-	-
Trade receivables	-	-	11,827,176	-	-
	<u>0</u>	<u>0</u>	<u>53,629,543</u>	<u>0</u>	<u>0</u>
Financial liabilities					
Trade payables	(18,744)	(118,636)	0	(1,852)	(58)
Long Term Loan			(9,697,497)		
Net exposure	<u>(18,744)</u>	<u>(118,636)</u>	<u>43,932,045</u>	<u>(1,852)</u>	<u>(58)</u>

KENYA PIPELINE COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

a) Market Risk (Continued)

Foreign Currency Risk Management (Continued)

	GBP KShs'000	EUR KShs'000	USD KShs'000	JPY KShs'000	HKD KShs'000
At 30 June 2015					
Financial assets					
Bank and cash balances	-	-	2,926,578	-	=
Short term deposits	-	-	7,511,367	-	=
Trade receivables	-	-	5,731,752	-	=
	<u>-</u>	<u>-</u>	<u>16,169,697</u>	<u>-</u>	<u>=</u>
Financial liabilities					
Trade payables	265,215	13,120	312,295	-	<u>4,271</u>
	<u>265,215</u>	<u>13,120</u>	<u>312,295</u>	<u>-</u>	<u>4,271</u>
Net exposure	<u>(265,215)</u>	<u>(13,120)</u>	<u>15,857,402</u>	<u>-</u>	<u>(4,271)</u>

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.

KENYA PIPELINE COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market Risk (Continued)

Foreign Currency Sensitivity Analysis (continued)

	2016		2015	
	KShs'000		KShs'000	
	Effect on profit	Effect on profit	Effect on profit	Effect on profit
Currency - GB pounds				
+ 10 percentage point movement	1,874	1,312	26,522	18,565
- 10 percentage point movement	(1,874)	(1,312)	(26,522)	(18,565)
Currency - Euro				
+ 10 percentage point movement	11,864	8,305	1,312	918
- 10 percentage point movement	(11,864)	(8,305)	(1,312)	(918)
Currency - US dollars				
+ 10 percentage point movement	4,393,205	3,754,068	1,585,740	1,110,018
- 10 percentage point movement	(4,393,205)	(3,754,068)	(1,585,740)	(1,110,018)
Currency - CAD				
+ 10 percentage point movement	185	130	-	-
- 10 percentage point movement	(185)	(130)	-	-
Currency - ZAR				
+ 10 percentage point movement	6	4	-	-
- 10 percentage point movement	(6)	(4)	-	-
Currency - HKD				
+ 10 percentage point movement	-	-	427	299
- 10 percentage point movement	-	-	(427)	(299)

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 constant, the company's profit before tax for the year ended 30 June 2016 would decrease/increase by KShs 65.2 million (2015 – KShs 7 million).

KENYA PIPELINE COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 2016 is analyzed in the table below:

	Fully Performing	Past Due	Impaired	Gross Total
	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Trade Receivables	2,959,586	4,548,326	219,921	7,727,833
Other Receivables			362,323	362,323
Bank Balances	2,787,706			2,787,706
Short Term Deposits	9,141,971			9,141,971
	<u>14,889,263</u>	<u>4,548,326</u>	<u>582,244</u>	<u>20,019,833</u>

The company's maximum exposure to credit risk as at 30 June 2015 is analysed in the table below:

	Fully performing	Past due	Impaired	Gross total
	KShs '000	KShs '000	KShs '000	KShs '000
Trade receivables	5,178,997	4,693,071	219,921	10,091,989
Other receivables	792,750	461	362,323	1,155,534
Bank balances	3,171,446	-	-	3,171,446
Short term deposits	8,492,671	-	-	8,492,671
	<u>17,635,864</u>	<u>4,693,532</u>	<u>582,244</u>	<u>22,911,640</u>

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.

KENYA PIPELINE COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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

	Within 12 months KShs '000	Over 12 months KShs '000	Total KShs '000
At 30 June 2015:			
Due to related parties	233,719	80,000	313,719
Trade payables	760,496	-	760,496
Other payables and accruals	1,222,926	-	1,222,926
	<u>2,217,141</u>	<u>80,000</u>	<u>2,297,141</u>

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 estimates and judgments in relation to the preparation of these financial statements are as set out below:

KENYA PIPELINE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

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.

KENYA PIPELINE COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

5. REVENUE

	2016 KShs'000	2015 KShs'000
Local service fees	8,572,064	7,909,057
Export service fees	12,307,335	11,821,449
Kipevu oil storage facility fees	1,893,986	1,624,565
Penalties on overstayed product	208,087	82,282
Penalties from ASE	531	883
	<u>22,982,003</u>	<u>21,438,236</u>

6. DIRECT COSTS

Pipeline maintenance staff costs (note 10)	2,241,794	2,124,773
Depreciation (note 14)	1,758,086	1,064,855
Pipeline maintenance costs	1,124,943	2,031,955
Electricity and fuel	2,212,454	2,356,283
Insurance	236,016	240,820
Other maintenance costs	53,314	64,362
Amortization of prepaid lease rentals (note 15)	-	82,337
Amortization of intangible assets (note 16)	155,185	2,107
	<u>7,781,792</u>	<u>7,967,492</u>

7. OTHER INCOME

Helicopter income	13,262	5,682
Rent income	84,968	83,800
(Loss)/gain on disposal of PPE	2,824	(15,965)
Hydrant Income	62,499	59,523
Income from communication equipment	2,700	1,800
MTCC collections	101,146	98,673
Miscellaneous income	23,016	92,272
	<u>290,415</u>	<u>325,785</u>

8. (a) FINANCE INCOME

Interest income on deposits	220,078	203,208
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(b) FOREIGN EXCHANGE GAINS

	<u>409,788</u>	<u>1,572,326</u>
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(c) FINANCE COSTS

Interest expense	3,781	3,629
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KENYA PIPELINE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
	KShs'000	KShs'000
9. ADMINISTRATION EXPENSES		
Administrative staff costs	2,667,110	2,525,733
Depreciation (note 14)	212,509	871,244
Other office and general expenses	576,737	989,124
Travelling and entertainment	52,449	36,684
Advertising and printing expenses	79,321	89,516
Rent and rates	13,266	16,183
Consultancy fees	108,283	78,899
Telephone and postage	28,500	24,177
Legal and professional expenses	218,380	161,344
Licenses and other fees	-	4,814
Motor vehicle expenses	58,521	51,852
Buildings repairs and maintenance	7,491	3,909
Bank charges	6,935	7,865
Penalties and interest on tax	-	-
Auditors remuneration	8,080	8,448
Directors Expenses		
- Performance incentive	9,240	7,560
- Board Retreats and general expenses	2,827	4,928
- Sitting /duty allowance	15,796	5,180
- Training expenses	12,400	-
- Travel expenses and Subsistence allowance	22,501	-
	<u>4,100,346</u>	<u>4,887,460</u>
10. STAFF COSTS		
Salaries and wages	4,218,007	3,648,251
Group life and medical cover	329,389	403,708
Pension-company contribution	262,549	272,436
Defined benefit plan (note 18(b))	-	(157,093)
Staff welfare	54,312	373,845
Training	81,341	97,548
Recruitment costs	6,253	2,361
NSSF-company contribution	4,190	5,845
Staff uniforms	6,916	3,605
	<u>4,962,957</u>	<u>4,650,506</u>
Split as follows:		
Direct staff costs (note 6)	2,241,794	2,124,773
Administrative staff cost (note 9)	2,721,163	2,525,733
	<u>4,962,957</u>	<u>4,650,506</u>

KENYA PIPELINE COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

	2016 KShs'000	2015 KShs'000
11. TAXATION		
a) Tax charge		
Current taxation based on taxable profit at 30%	4,008,642	2,770,210
	<hr/>	<hr/>
Total taxation charge	4,008,642	2,770,210
	<hr/>	<hr/>
Deferred Tax overprovision - Year 2016	(277,481)	689,137
Deferred Tax overprovision - Year 2015	(124,326)	
Total taxation charge	<u><u>3,606,835</u></u>	<u><u>3,459,347</u></u>
b) Reconciliation of expected tax based on profit before taxation to taxation charge		
Profit before taxation	12,016,365	10,680,974
Tax at the applicable rate of 30%	3,604,909	3,204,292
Tax effect of expenses not deductible for tax purposes	129,252	255,055
Income not subject to tax	(3,000)	-
Tax underpayment - Year 2015	(124,326)	-
	<hr/>	<hr/>
Total taxation charge	<u><u>3,606,835</u></u>	<u><u>3,459,347</u></u>
c) Taxation (recoverable)/payable		
Balance brought forward	(511,843)	223,802
Charge for the year (note 11(a))	4,008,642	2,770,210
Installment tax payments in the year	(2,405,199)	(3,481,474)
Withholding tax paid on interest income	(15,455)	(24,305)
Advance tax paid	(205)	(76)
Tax overprovision 2015	(130,264)	-
Withholding tax paid on miscellaneous income	(1,700)	-
	<hr/>	<hr/>
	<u><u>943,976</u></u>	<u><u>(511,843)</u></u>

KENYA PIPELINE COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

12. EARNINGS PER SHARE

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

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

There were no potentially dilutive ordinary shares outstanding as at 30 June 2016 and 30 June 2015. 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:

	2016	2015
	KShs	KShs
Profit after taxation	8,409,529,870	7,221,627,000
Number of ordinary shares in issue (Note 24)	18,173,300	18,173,300
Basic and diluted earnings per share (in KShs)	<u>463</u>	<u>397</u>

13. DIVIDENDS PER SHARE

Proposed dividends are not accounted for until they have been ratified at the Annual General Meeting. A dividend of KShs 300,000,000 was ratified for the year 2015 at the Annual General Meeting held on 28th April 2016.

KENYA PIPELINE COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold Property	Buildings and Roads	Pipeline Pumps & Tanks	Equipment Furniture & Fittings	Helicopters	Vehicles Motor & Tractors	Capital Work- in-Progress	Total
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
COST								
1st July 2014	236,542	6,258,906	31,493,744	4,639,813	440,915	688,852	3,880,310	47,639,082
Prior Year adjustments	645,422	(1,008,128)	(1,325,088)	(2,369,569)	(2,000)	(188,697)	105,934	(4,142,126)
Additions	0	0	80,065	119,183	0	131,104	5,191,262	5,521,614
Transfer from WIP	0	199,949	18,463	859,963	0	0	(1,078,375)	0
Transfers to Intangible Assets	0	0	0	0	0	0	(1,667)	(1,667)
Disposals	0	0	0	(7,142)	0	(13,648)	0	(20,790)
At 30th June 2015	881,964	5,450,727	30,267,184	3,242,248	438,915	617,611	8,097,464	48,996,113
1st July 2015	881,964	5,450,727	30,267,184	3,242,248	438,915	617,611	8,097,464	48,996,113
Additions(Acquisitions)	0	0	453,837	157,634	0	45,277	22,561,110	23,217,859
Transfers from WIP		124,786	1,182,008	1,515,413			(2,822,207)	0
Disposals	0	0	0	(45)	0	0	0	(45)
30th June 2016	881,964	5,575,513	31,903,029	4,915,250	438,915	662,888	27,836,367	72,213,926
DEPRECIATION								
1st July 2014	0	1,087,715	2,235,170	2,605,070	85,001	361,976	0	6,374,932
Prior Year adjustments	0	(508,886)	(18,281)	(2,149,652)	(2,000)	(217,242)	0	(2,896,061)
Charge for the year	0	301,939	1,248,243	187,936	88,183	109,798	0	1,936,099
Eliminated on Disposal	0	0	0	(3,598)	0	(586)	0	(4,184)
30th June 2015	0	880,768	3,465,132	639,756	171,184	253,946	0	5,410,786
1 st July 2015	0	880,768	3,465,132	639,756	171,184	253,946	0	5,410,786
Charge for the year	0	305,183	1,128,736	320,474	77,766	138,436	0	1,970,595
Eliminated on Disposal				(14)				(14)
At 30th JUNE 2016	0	1,185,951	4,593,868	960,216	248,950	392,382	0	7,381,367
NET BOOK VALUE:								
At 30th JUNE 2016	881,964	4,389,562	27,309,161	3,955,034	189,965	270,506	27,836,367	64,832,559
At 30th JUNE 2015	881,964	4,569,960	26,802,052	2,602,492	267,731	363,665	8,097,464	43,585,328

KENYA PIPELINE COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

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 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Fair value as at 30 June KShs'000
30 June 2016				
Buildings and roads	-	-	4,389,564	4,389,564
Pipeline, pumps & tanks	-	-	27,309,161	27,309,161
Equipment, furniture and fittings	-	-	3,955,354	3,955,354
Helicopters	-	-	189,964	189,964
Motor vehicles and tractors	-	-	270,507	270,507
	-----	-----	-----	-----
	-	-	36,114,550	36,114,550
	=====	=====	=====	=====
30 June 2015				
Buildings and roads	-	-	4,569,961	4,569,961
Pipeline, pumps & tanks	-	-	26,802,051	26,802,051
Equipment, furniture and fittings	-	-	2,602,492	2,602,492
Helicopters	-	-	267,731	267,731
Motor vehicles and tractors	-	-	363,666	363,666
	-----	-----	-----	-----
	-	-	34,605,901	34,605,901
	=====	=====	=====	=====

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

	2016 KShs'000	2015 KShs'000
Cost	59,971,862	56,381,385
Accumulated depreciation	(29,239,983)	(27,114,217)
	-----	-----
Net book value	30,731,879	29,267,168
	=====	=====

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

	2016 KShs'000	2015 KShs'000
Total depreciation as per property, plant & equipment (note 14)	1,970,275	1,936,099
	-----	-----
Direct costs (note 6)	1,757,766	1,064,855
Administrative costs (note 9)	212,509	871,244
	-----	-----
	1,970,275	1,936,099
	=====	=====

KENYA PIPELINE COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

15. LEASEHOLD LAND

	2016 KShs'000	2015 KShs'000
COST/VALUATION		
1 July	5,086,391	5,086,391
AMORTIZATION		
1 July	171,034	88,697
Charge for the year	149,096	82,337
30 June	<u>320,130</u>	<u>171,034</u>
NET BOOK VALUE	<u>4,766,261</u>	<u>4,915,357</u>

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 (2014: 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

	2016 KShs'000	2015 KShs'000
COST		
1 July	369,730	365,041
Additions	111,521	3,022
Transfers from property, plant and equipment	-	1,667
30 June	<u>481,251</u>	<u>369,730</u>
AMORTIZATION		
1 July	364,163	362,056
Charge for the year	6,089	2,107
30 June	<u>370,252</u>	<u>364,163</u>
NET BOOK VALUE	<u>110,999</u>	<u>5,567</u>

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

KENYA PIPELINE COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

17. INVESTMENTS – at cost

	2016 KShs'000	2015 KShs'000
<i>Unquoted investments</i>		
Consolidated Bank of Kenya Limited	67,030	67,030
Impairment charge on Consolidated Bank of Kenya Limited preference shares	(30,726)	(30,726)
	<u>36,304</u>	<u>36,304</u>
Petroleum Institute of East Africa	2	2
	<u>36,306</u>	<u>36,306</u>

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

746,500 ordinary shares of KShs 20 each	14,930	14,930
2,605,000 4% non-cumulative irredeemable non-convertible preference shares of KShs 20 each	52,100	52,100
Impairment charge on Consolidated Bank of Kenya Limited preference shares	(30,726)	(30,726)
	<u>36,304</u>	<u>36,304</u>

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 (2015- nil). The most recent actuarial valuation of the scheme's assets and the present value of the defined benefits obligation as at 30 June 2015 were carried out in August 2015 by the scheme's actuaries, Alexander Forbes Financial Services (E.A) Limited. No valuation has been undertaken as at 30th June 2016 as there has not been a material change in either the scheme assets or liabilities.

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 2015 were as follows:

KENYA PIPELINE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

18. RETIREMENT BENEFITS (CONTINUED)

b) Defined Benefit Scheme (Closed) (Continued)

	2015
Discount rate(s)	13.5%
Future salary increases	5.0%
Future pension increases	0.0%
Mortality (pre-retirement)	A1949-1952
Mortality (post-retirement)	a(55) m/f
Withdrawals	At rates consistent with similar arrangements
Retirement age	60 years

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

	2015 KShs'000
Total service cost	24,290
Interest costs:	
Interest cost on defined benefit obligation	682,176
Interest income on plan assets	(863,559)
Net interest income	(181,383)
Components of defined benefits plan recognized in profit or loss	(157,093)
Actuarial gain obligation	(449,612)
Return on plan assets (excluding amount in interest cost)	1,891
Change in effect of asset ceiling (excluding amount in interest cost)	1,006,106
Components of defined benefits plan recognized in other comprehensive income	558,385

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:

	2015 KShs'000
Present value of funded defined benefit obligation	5,328,848
Fair value of plan assets	(7,341,059)
Effect of asset ceiling	1,006,106
Present value of defined benefit asset	(1,006,105)

KENYA PIPELINE COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

18. RETIREMENT BENEFITS (CONTINUED)

b) Defined Benefit Scheme (Closed) (Continued)

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

	2015 KShs'000
Net asset at the start of the year	(1,407,397)
Net income recognised in the income statement	(157,093)
Employer contributions	
Amount recognized in other comprehensive income	558,385
	<hr/>
Present value of overfunded defined benefit asset	(1,006,105)
	<hr/> <hr/>

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

Opening defined benefit obligation	5,398,734
Current service cost	24,290
Interest cost	682,176
Contributions from plan participants	-
Actuarial gain due to change in assumptions	(35,276)
Actuarial gain due to experience	(414,336)
Benefits paid	(326,740)
	<hr/>
Closing defined benefit obligation	5,328,848
	<hr/> <hr/>
Opening fair value of plan assets	(6,806,131)
Interest income on plan assets	(863,559)
Contributions from the employer	-
Employee contributions	-
Benefits paid	326,740
Return on plan assets	1,891
	<hr/>
Closing fair value of plan assets	(7,341,059)
	<hr/> <hr/>

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

	2015 KShs'000
Equity instruments	2,092,896
Debt instruments	3,047,370
Property	1,855,793
Cash	345,000
	<hr/>
Total scheme (assets)	7,341,059
	<hr/> <hr/>

KENYA PIPELINE COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

18. RETIREMENT BENEFITS (CONTINUED)

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

	2016 KShs'000	2015 KShs'000
Spare parts and consumables	1,854,673	1,686,962
Provision for obsolete stocks	(166,376)	(166,376)
	<u>1,688,297</u>	<u>1,520,586</u>

20. TRADE AND OTHER RECEIVABLES

Trade receivables	8,212,281	10,091,989
Staff loans and advances	554,623	207,187
Prepaid construction costs	106,656	106,656
Prepaid expenses	10,400	264,077
Refundable deposits	9,477	9,931
Other debtors	521,742	567,683
	<u>9,415,179</u>	<u>11,247,523</u>
Provision for bad and doubtful debts	(584,723)	(582,244)
	<u>8,830,456</u>	<u>10,665,279</u>
Recoverable as follows:		
Within one year	8,407,859	10,565,001
After one year (staff loans)	422,597	100,278
	<u>8,830,456</u>	<u>10,665,279</u>

Included in trade receivables is KShs 4.2 billion (2015 - KShs 4.1 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.

KENYA PIPELINE COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

21. CASH AND SHORT TERM DEPOSITS

a) Short Term Deposits	2016 KShs'000	2015 KShs'000
Fixed deposits	9,141,971	8,492,671

The fixed deposits have a tenor of 3 months and the effective interest rate in the year was XXX p.a. (2014 – 10.79%).

b) Bank and Cash Balances

	Account No.	2016 Kshs	2015 Kshs
1. Barclays Bank of Kenya	1108981062	3,134	3,132
2. Commercial Bank of Africa (Kshs)	6634970017	24,631	(106,357)
3. Commercial Bank of Africa (USD)	6634970025	939,485	1,422,155
4. Standard Bank (Kshs)	104023872500	118,150	19,982
5. Standard Bank (USD)	8704023872500	753,359	49,283
6. Cfc Stanbic (Kshs)	100000534425	199,883	71,942
7. Cfc Stanbic (USD)	100000681347	97,018	1,090,286
8. Citibank (Kshs)	104052002	124,790	354,400
9. Citibank (USD)	104052029	361,622	161,326
10. Coop-Bank	1136028439200	54,507	58,007
11. Coop-Bank (USD)	2120028439200	(8)	0
12. Equity Bank(Kshs)	560291247368	51,164	21,864
13. Equity Bank (USD)	560261355277	47,443	25,063
14. Kenya Commercial Bank	1108981061	358	363
15. Petty Cash		12,170	5,081
		<u>2,787,706</u>	<u>3,176,529</u>

22. SHARE CAPITAL

	2016	2015
Authorized:		
19,369,580 Ordinary Shares of KShs 20 each	<u>387,391,600</u>	<u>387,391,600</u>
Issued and fully paid:		
18,173,300 Ordinary Shares of KShs 20 each	<u>363,466,007</u>	<u>363,466,007</u>

KENYA PIPELINE COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

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:

	2016 KShs'000	2015 KShs'000
Deferred tax liability		
Accelerated capital allowances	4,973,779	615,553
Deferred tax on retirement benefit plan assets	301,832	301,832
Deferred tax on revaluation surplus	-	4,295,448
Unrealized exchange gains	54,973	542,057
	<hr/>	<hr/>
Deferred tax assets	5,330,584	5,754,890
General inventory provisions	(49,913)	(49,913)
Leave pay provision	(54,109)	(57,026)
General bad debts provision	(4,847)	(24,429)
	<hr/>	<hr/>
	(108,869)	(131,368)
Net deferred tax liability	<u>5,221,715</u>	<u>5,623,522</u>

The movement in Deferred Tax was as follows:

At 1 July (as previously reported)	5,623,522	-
Prior year adjustment (note 33)	(124,326)	-
	<hr/>	<hr/>
As restated		
Deferred tax charge (note 11(a))	5,499,196	5,101,901
Deferred tax through other comprehensive income	(277,481)	689,137
	-	(167,516)
	<hr/>	<hr/>
At the end of the year	<u>5,221,715</u>	<u>5,623,522</u>

24. TRADE AND OTHER PAYABLES

	2016 KShs'000	2015 KShs'000
Trade payables (restated)	1,858,424	760,496
Other payables	1,008,110	1,032,776
Catering, training & tourism development levy	-	62
Leave pay provision	180,363	190,088
	<hr/>	<hr/>
	<u>3,046,897</u>	<u>1,983,422</u>

KENYA PIPELINE COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

TRADE AND OTHER PAYABLES (continued)

	2016 KShs'000	2015 KShs'000
Payable as follows:		
Within one year	2,726,808	1,983,422
After one year (staff loans)	320,089	313,719
	3,046,897	2,297,141

25. LONG TERM LOAN

	2016 KShs'000	2015 KShs'000
Syndicated Long Term Loan	9,697,497	-

The long term loan represents loan drawdowns as at 30th June 2016 on a United States Dollar 350 million Facility Agreement signed on 15th July 2015 between KPC and a consortium of the following six banks:

Bank	Underwritten Amount USD	Drawn as at 30th June 2016 USD	Kshs Equivalent of Drawdown
1 Commercial Bank of Africa	58,333,333	15,986,294	1,616,249,516
2 Citibank N.A.	58,333,333	15,986,294	1,616,249,516
3 CFC Stanbic Bank	58,333,333	15,986,294	1,616,249,516
4 Standard Chartered Bank	58,333,333	15,986,294	1,616,249,516
5 Rand Merchant Bank	58,333,333	15,986,294	1,616,249,516
6 Cooperative Bank of Kenya	58,333,333	15,986,294	1,616,249,516
TOTAL	350,000,000	95,917,764	9,697,497,096

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 September 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

	2016 KShs'000	2015 KShs'000
a) Reconciliation of operating profit to cash generated from operations		
Profit before tax	12,016,365	10,680,974
Adjustments for:		
Depreciation (note 14)	1,970,595	1,936,099
Amortization of leasehold land (note 15)	149,096	82,337
Amortization of intangible assets (note 16)	6,088	2,107
Loss/(gain) on disposal of property, plant and equipment	(2,824)	8,141
Interest income	(220,078)	(203,208)
Interest expense	3,781	3,629
Impairment of unquoted investments	-	30,726
	13,923,023	12,540,805
Operating profit before working capital changes		

KENYA PIPELINE COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

26. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

	2016 KShs'000	2015 KShs'000
Increase in inventories	(167,711)	(76,604)
Increase in trade and other receivables	1,834,795	(1,106,533)
(Decrease)/increase in trade and other payables	740,357	(1,910,977)
Movement in related party balances	-	14,879
Movement in retirement benefit asset (note 18(b))	-	(157,093)
	<hr/>	<hr/>
Cash generated from operations	16,330,464	9,304,477
	<hr/> <hr/>	<hr/> <hr/>
b) Analysis of cash and cash equivalents		
Short term deposits (note 22(a))	9,141,971	8,492,671
Bank and cash balances	2,787,706	3,176,529
	<hr/>	<hr/>
	11,929,677	11,669,200
	<hr/> <hr/>	<hr/> <hr/>
c) Analysis of non-cash transactions:		
Total additions to property, plant and equipment (note 14)	23,196,672	5,521,613
Capital work in progress items pending settlement as at 30 June	-	-
	<hr/>	<hr/>
Cash used in the purchase of property, plant and equipment as presented on the cash flow statement	23,196,672	5,521,613
	<hr/> <hr/>	<hr/> <hr/>

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.

KENYA PIPELINE COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

27. RELATED PARTIES (continued)

(a) Key management compensation

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

	2016 KShs'000	2015 KShs'000
Key management salaries and benefits	110,245	98,002
Directors Expenses		
- Performance incentive	9,240	5,180
- Board Retreats and general expenses	2,827	12,488
- Sitting /duty allowance	15,796	
- Training expenses	12,400	
- Travel expenses and Subsistence allowance	22,501	
	62,764	17,668

(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 and are disclosed below:

	2016 KShs'000	2015 KShs'000
Services provided to National Oil Corporation (K)	948,003	937,670
Services received from Kenya Power & Lighting Co	2,206,804	2,591,169
Services received from Ministry of Energy	<u>384,000</u>	<u>384,000</u>
	3,538,807	3,912,839

(c) Due to related parties

Ministry of Energy - LPG Project	80,000	80,000
Kenya Power & Lighting Company Limited	240,089	233,719
	320,089	313,719

KENYA PIPELINE COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
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28. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

	2016 KShs'000	2015 KShs'000
<i>The company as a lessor:</i>		
Within one year	488,465	398,492
In the second to fifth year inclusive	1,953,860	1,593,969
	<u>2,442,325</u>	<u>1,992,461</u>

The lease rental income earned during the year in respect of company's property amounted to KShs 85 million (2015 – KShs 83,800,000).

	2016 KShs'000	2015 KShs'000
<i>The company as a lessee:</i>		
Within one year	7,265	7,626
In the second to fifth year inclusive	401,585	395,358
	<u>408,850</u>	<u>402,984</u>

The total rental expense incurred during the year amounted to KShs 7.3 million (2015-KShs 7.6 million).

29. CONTINGENT LIABILITIES

	2016 KShs'000	2015 KShs'000
Products held on behalf of shippers (Note 30)	-	724,490
Pending law suits	4,845,961	22,523,840
Guarantees and letters of credit	3,089,221	7,932,685
	<u>7,935,182</u>	<u>31,181,015</u>

Pending lawsuits relate to civil suits lodged against the company by various parties and include contingent liabilities related to irregular release of product, amounting to KShs 2,877,818,000 (2015: KShs 2,035,753,277). These suits are subject to arbitration proceedings.

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 2016, the company held 401,152 M³ (2015 – 386,649 M³) third party fuel stocks with a Hydro-Carbon Value (HCV) of KShs 15,262,481,000 (2015 – KShs 19,406,356,000).

The variances between records and stock take that were reported in 2015 were fully reconciled during the year and adjustments made to stock entitlements of the respective oil marketers as necessary. There was therefore no variance this year between the physical stock and the statements sent to the oil marketers.

KENYA PIPELINE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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'000)