


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



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REPORT

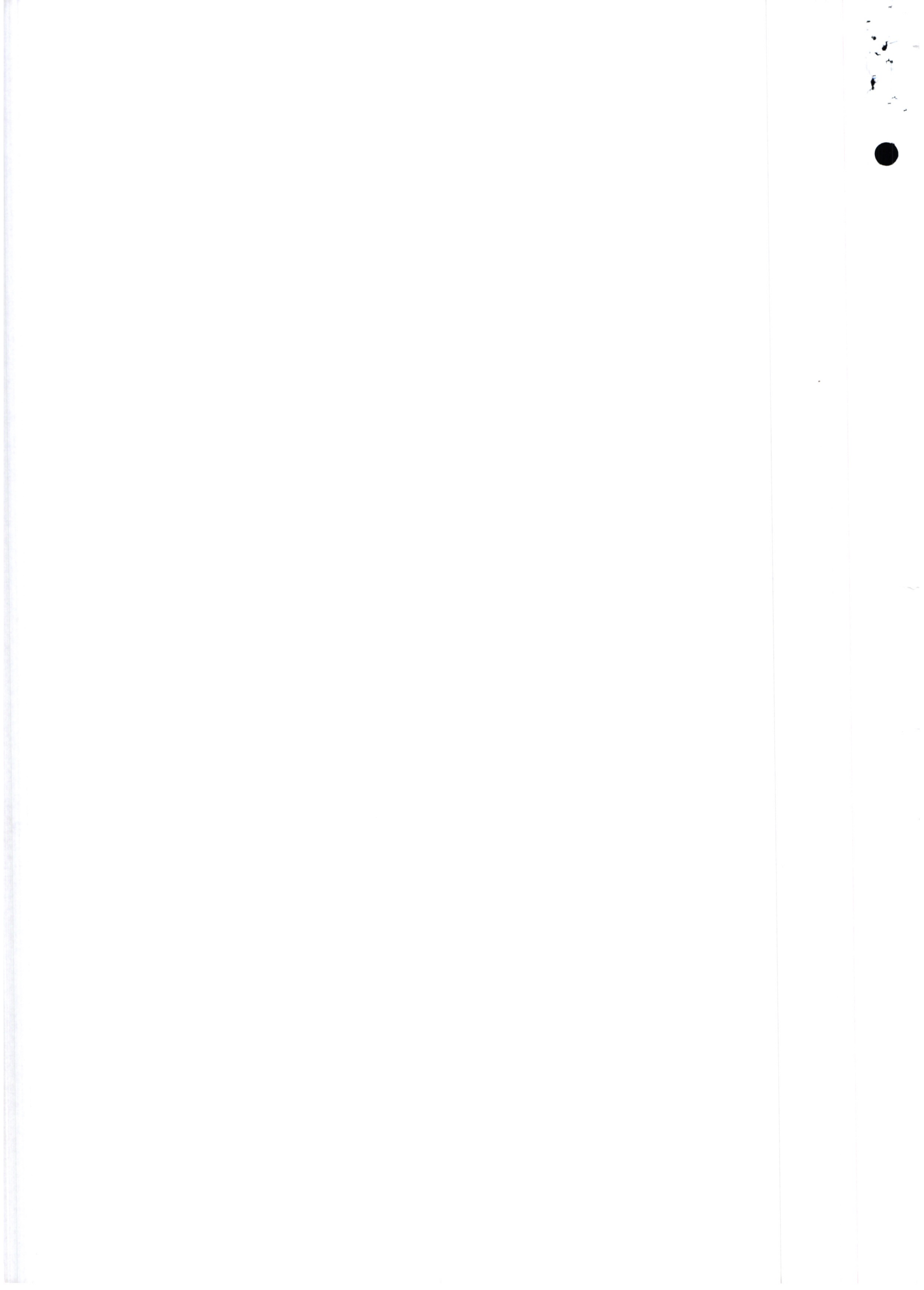
OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KENYA PIPELINE COMPANY LIMITED

FOR THE YEAR ENDED
30 JUNE 2018





KENYA PIPELINE COMPANY LIMITED

**ANNUAL REPORT & FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
30TH JUNE 2018**

KENYA PIPELINE COMPANY LIMITED
REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR
ENDED 30TH JUNE 2018

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

KENYA PIPELINE COMPANY LIMITED
REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR
ENDED 30TH JUNE 2018

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KENYA PIPELINE COMPANY LIMITED

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CORPORATE INFORMATION

BACKGROUND INFORMATION

Kenya Pipeline Company Limited (KPC) is a State corporation wholly owned by the Government of Kenya (GoK) with 99.9% shareholding by The National Treasury and less than 0.1% by the Ministry of Energy and Petroleum. KPC was incorporated in 1973 under the Companies Act, Cap 486 of the Laws of Kenya and commenced commercial operations in February 1978. At cabinet level, KPC is represented by the Cabinet Secretary for Energy and Petroleum who is responsible for the company's general policy and strategic direction.

The main objective of the Company is to provide efficient, reliable, safe and cost-effective means of transporting petroleum products from Mombasa to the hinterland. In pursuit of this objective, the Company has constructed a pipeline network, storage and loading facilities for transportation, storage and distribution of petroleum products. Current installed system consists of 1,795 kilometres of pipeline with current capacity to handle about 7.3 billion litres of petroleum products.

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

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

DIRECTORS

Name	Particulars
Mr. John Ngumi	Chairman- Appointed on April 2018
Mr. Joe Sang	Managing Director- Appointed on 7 th April 2016
Ms. Felicity Biriri	Appointed on 26 th January 2016
Cpt. Iltasayon Neepe	Appointed on 13 th November 2015
Mrs. Faith Jepkembo Bett-Boinett	Appointed on 17 th April 2015
Mr. Wahome Gitonga	Appointed on 13 th November 2015
Mr. Jerry Simu	Appointed on 17 th April 2015
Ms. Rita Okuthe	Appointed on 6 th June 2018
Mr. Jinaro Kibet	Appointed on 6 th June 2018
Ms. Winnie Mukami	Appointed on 6 th June 2018
Cabinet Secretary, National Treasury	Alternate Director- Eric Korir
Principal Secretary, State Department of Petroleum	Alternate Director- Hudson K. Andambi

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CORPORATE INFORMATION - continued

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	Stanbic Bank Limited Stanbic 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
Standard Chartered Bank Stanchart Chiromo P.O. Box 30003-00100 Nairobi	Co-operative Bank of Kenya Co-operative House Branch Nanyuki Road P.O. Box 67881 - 00200 Nairobi

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

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

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BOARD OF DIRECTORS



JOHN NGUMI
BOARD CHAIRMAN

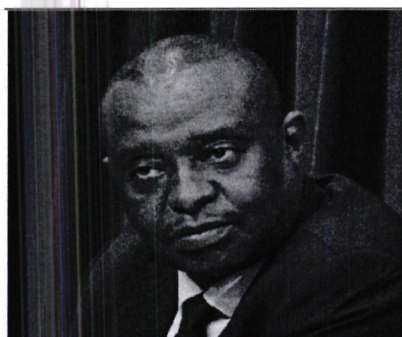
Date of Birth: 2nd October 1955
Appointment Date: April 2018
Duration: 3 Years
End of Term: April 2021
Academic Qualification: Bachelor's Degree
Profession: Investment Banker
Work Experience: Mr. John Ngumi last banking position before retiring in 2014 was Head, Investment Banking Coverage for E.A. for Standard Bank. He also worked in various capacities at Citibank, Barclays, Grindlays and National Westminster Bank.



JOE SANG
MANAGING DIRECTOR

Date of Birth: 31 December, 1974
Appointment Date: 7th April 2016
Duration: 3 Years
End of Term: 6th April 2019
Academic Qualification: MBA, BA, CPA(K)
Profession: Accountant
Work Experience:
Jan - Dec 2001, Kenya Medical Research Institute (KEMRI) as a Project Economist.
Jan.2002 - Dec.2004, National Oil Corporation as a Financial Accountant.
Jan. 2005 - Sept.2006, Unga Group as a Management Accountant.
Oct.2006 - Sept.2008, East Africa Breweries Limited (EABL), as Financial Planning & Reporting Manager.
Oct.2008 - Sept.2012, EABL as Head of Finance.
Oct.2012 - Feb.2015 as Head of Group Business Performance management & Planning.
March 2015 - December 2015 joined Kenya Pipeline Company Limited (KPC) as a General Manager (Finance).
Jan.2016, KPC as Acting Managing Director.
April 2016, KPC confirmed as Managing Director to date.

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HENRY ROTICH

**CABINET SECRETARY
THE NATIONAL TREASURY**

Date of Birth: 1969
Appointment Date: 13th November 2015
Academic Qualification: Master's Degree
Profession: Economist
Work Experience: Before his appointment as a Cabinet secretary, Mr. Henry Rotich was Head of Macroeconomics at the Treasury. He previously worked at the Research Department of Central Bank of Kenya as an economist attached to the International Monetary Fund(IMF).



ANDREW N. KAMAU

**PRINCIPAL SECRETARY
STATE DEPARTMENT OF
PETROLEUM**

Date of Birth: 18th November 1966
Appointment Date: 13th November 2015
Academic Qualification: Bachelor's Degree
Profession: Chemist
Work Experience: Andrew Kamau has over 30 years' experience in Petroleum energy gained from several years in leadership position in Bracewell Enegy , Engen Kenya limited and Esso Kenya Limited.



FELICITY BIRIRI

Date of Birth: 11th October 1968
Appointment Date: 26th January 2016
Duration: 3 Years
End of Term: 24th January 2019
Academic Qualification: Master's Degree (Conflict Resolution)
Profession: Human Resource
Work Experience: Felicity is a Human Resource professional with many years' experience in various sectors including banking, advertising and manufacturing. She is also a governing council member at Meru University and also a trustee for KEPSA Foundation and KPC Retirement Benefit Scheme. She has also gained many years of experience in various sectors including banking, advertising and manufacturing.

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ILTASAYON NEEPE

Date of Birth: 4th August 1972
Appointment Date: 13th November 2015
Duration: 3 Years
End of Term: 12th November 2018
Academic Qualification:
 Bachelor's Degree
Profession: Pilot
Work Experience: Iltasayon has served in the military for many years rising to the rank of Major, a responsibility that saw him serve in the UN air operations unit. He is currently Board Chair of Boma Fund.



FAITH JEPKEMBOI BETT-BOINETT

Date of Birth: 24th September 1979
Appointment Date: 17th April 2015
Duration: 3 Years
End of Term: 16th April 2018
Academic Qualification:
 Bachelor's Degree
Profession: Advocate
Work Experience: Faith legal career spans over 10 years in litigation and conveyance. She is a Managing Partner at Boinett & Bett Company Advocates. She is also council member of FIDA-Kenya, USAID-Kenya Women Voices



WAHOME GITONGA

Date of Birth: 30th April 1966
Appointment Date: 13th November 2015
Duration: 3 Years
End of Term: 12th November 2018
Academic Qualification:
 Bachelor's Degree
Profession: Economist
Work Experience: Wahome Gitonga is a leading entrepreneur, businessman and director of several companies with diverse interests in Kenya and region where he has been instrumental in accomplishing large projects in Rwanda and Tanzania.

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JERRY SIMU

Date of Birth: 18th June 1975
Appointment Date: 17th April 2015
Duration: 3 Years
End of Term: 16th April 2018
Academic Qualification: Masters (International securities)
Profession: Finance/ Banker
Work Experience: Jerry Simu is a banker with 16 years of extensive Pan-African corporate and investment banking experience covering East, West and Southern Africa. He has held senior positions including Managing Director and Head of Sub Sahara Representative Offices, HSBC Bank Plc and most recently as Director, Investment Banking, NIC Bank Group.



RITA OKUTHE

Date of Birth: 11th September 1971
Appointment Date: 6th June 2018
Duration: 3 Years
End of Term: 5th June 2021
Academic Qualification: Bachelor's Degree
Profession: Marketing
Work Experience: Rita Okuthe is a leading Marketing Executive, having worked for major corporates in the East African Region. She currently holds the position of the Director, Enterprise Business Unit at Safaricom Limited.



JINARO KIBET

Date of Birth: 5th November 1965
Appointment Date: 6th June 2018
Duration: 3 Years
End of Term: 5th June 2021
Academic Qualification: Bachelor's Degree
Profession: Advocate
Work Experience: He is currently a partner at TripleOK Law LLP Advocates with over 29 years experience in both private and public sector. He is a board member at Unga Group Limited, Prime Bank Ltd, Telkom Kenya, Advisory Board Strathmore Business School among others.

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WINNIE MUKAMI

Date of Birth:
Appointment Date: 6th June 2018
Duration: 3 Years
End of Term: 5th June 2021
Academic Qualification: Bachelor's Degree
Profession: Public Relations Consultant
Work Experience: Winnie Mukami is a proficient and creative P.R. Consultant with over 15 years experience in in both private and public sectors. She has previously worked for Nation Media group and Kenya Broadcasting Corporation. She currently holds the position of the Director, Winners Frontiers International Ltd.



**ERIC KORIR
ALTERNATE DIRECTOR
NATIONAL TREASURY**

Date of Birth: 1967
Appointment Date: 17th July 2015
Academic Qualification: Master's Degree (BA)
Profession: Purchasing and Supply
Work Experience: Eric Korir has over 20 years experience in both the public and private sector. He is currently the Ag. Director of Public Procurement at National Treasury.



**HUDSON ANDAMBI
ALTERNATE TO PRINCIPAL
SECRETARY,
STATE DEPARTMENT OF
PETROLEUM**

Date of Birth: 8th December, 1957
Appointment Date: 11th July 2016
Academic Qualification: Master's Degree
Profession: Geologist
Work Experience: Mr. Hudson has wide experience in Energy and Petroleum sectors where he has spearheaded numerous projects including geothermal mapping in Kenya's Central and Northern Rift, Mui Coal Basin, demarcation and classification of the new Master Plan, Technical Advice on the Maritime Boundary Dispute for blocks to name but a few. Currently Senior Principal Superintending Geologist and Head of Upstream Petroleum Operations, Directorate of Petroleum.

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THE EXECUTIVE MANAGEMENT TEAM



SANG JOE
MANAGING DIRECTOR
MBA, BA, CPA(K)



BILLY ASEKA
GENERAL MANAGER
(INFRASTRUCTURE)
Bachelor of Electrical Engineering (Heavy
Current Option)



SAMUEL M. ODOYO
GENERAL MANAGER (FINANCE)
MBA, B. Com (Hons), CPA(K)



SHARON KISIRE
GENERAL MANAGER (HR &
ADMINISTRATION)
MA Criminology, BA Sociology,
CPS (K), Dip HRM



DISTERIUS NYANDIKA
Ag. GENERAL MANAGER (STRATEGY)
MBA, BA, CPA II (KASNEB)



VINCENT CHERUIYOT
GENERAL MANAGER (SUPPLY
CHAIN)
MBA, BSc - Electrical & Electronic
Engineering
Member – EBK

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ANNE NJUGUNA
**GENERAL MANAGER (INTERNAL
AUDIT)**
MBA, B Com (Finance), CPA(K).



JOSHUA MUTEA
**Ag. GENERAL MANAGER
(OPERATIONS & MAINTENANCE)**
Msc Applied Science
(Chemical Engineering)



AIYABEI JONAH
**DIRECTOR MORENDAT INSTITUTE OF
OIL & GAS**
PhD (Business Administration), MBA, BEd
(Arts). Professional Qualifications: Certified
Investment and Financial Analyst and a
member of ICIFA

**KENYA PIPELINE COMPANY LIMITED
REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR
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THE CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the KPC Board of Directors, I am honoured to present to you the Annual Report and Financial Statements of the Kenya Pipeline Company Limited ("KPC" or the "Company") for the Fiscal Year ended 30th June 2018. During the year under review, KPC continued with its transformation journey from a pipeline and storage infrastructure company into Africa's premier oil and gas player by laying the foundation for its diversification and expansion into both maritime transport and crude oil exports. This marks a significant milestone towards the achievement of our 2015/25 10-year Corporate Strategic Plan ('Vision 2025'), which aims at transforming KPC into a world-class diversified oil & gas company.

In sync with our Corporate Strategic Plan, the year under review saw us set various targets aimed advancing the organization and laying the foundation for the realization of our Vision 2025. My statement focuses on these targets and their tactical impact on KPC's future.

External Environment

During the FY 2017/18, there has been important developments in East Africa's oil and gas arena which attracted KPC's attention. Significant onshore oil discoveries in Uganda and Kenya and offshore gas discoveries in Tanzania and Mozambique have made East Africa a subject of intense interest among the global energy industry. The speed at which governments in East Africa are developing hydrocarbon reserves is a clear indication of their will to cement the region's reputation as the new hotspot in hydrocarbon exploration and production. Recently, Tanzanian President John Magufuli ordered that exploitation of natural gas begin as a matter of urgency, whilst President Uhuru Kenyatta announced that the government has brought forward the country's oil production deadline by two years and 'set a path' that will enable the country to become a major producer and exporter by 2019.

KPC's key role in the government's Early Oil Pilot Scheme (EOPS) is to receive and take custody of the crude oil from Turkana until it is exported by Tullow Oil. On the interim basis, we have set aside 3 crude oil fixed roof tanks in KPRL for this purpose with a total storage capacity of 42.9 million litres (each of the tanks carries 14.3 million litres). On 7th June 2018, we received the first batch of crude oil for storage. KPC will also undertake modification of three crude oil floating roof tanks to maintain the crude oil at elevated temperature, modify the Kipevu jetty import equipment

KENYA PIPELINE COMPANY LIMITED
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to allow for export and install a steam boiler for heating of tanks and pipelines in readiness for export.

Strategic Focus

In keeping with the pace of growth in the oil & gas sector, KPC has constructed a number of essential petroleum infrastructure projects to enhance the availability of fuel in Kenya and neighbouring countries. These include replacement of pipelines, enhancement of storage capacity and investment in loading facilities. The completion of Line 5, the new 20-inch Mombasa – Nairobi pipeline, on 30th June 2018 will ensure sustained, reliable and efficient transportation of petroleum products in the region and meet demand in the next 30 years. The country and the region's petroleum demand is projected to rise to 11.4 billion litres in 2020 and 24.5 billion litres in 2044.

The Line 5 pipeline, which is a Vision 2030 flagship project, has 4 new pump stations in Changamwe, Maungu, Mtito Andei and Sultan Hamud and two booster pumps in Kipevu, with a total installed flow rate of one million litres per hour upon commissioning. This flow rate will be enhanced to 1.9 million litres per hour in phase two by 2023 and 2.6 million litres per hour in phase three by 2044.

This project also includes upgrades to the existing fire-fighting stations and new fire-fighting systems in the new stations; installation of energy efficient equipment, and pipeline monitoring technology. The pipeline will therefore enhance safety and protect the environment since transportation of oil via a pipeline is the safest, fastest and most environmentally friendly means which will not only remove hundreds of trucks from our roads at maximum utilization, but also lower our road maintenance costs. The new pipeline will also enhance and improve the reliability of fuel supply to the export market of Uganda, Rwanda and eastern Democratic Republic of Congo.

During the year under review, KPC also completed construction of four storage tanks at a cost of KES 5.4 billion. The project entailed putting up of four additional tanks to provide sufficient capacity for receipt of higher volumes of diesel and super petrol products following the simultaneous completion of Line 5. The additional tanks with a capacity of 133 million litres of fuel have more than doubled Nairobi's storage capacity for diesel and super petrol from 100 million litres to 233 million litres effectively providing sufficient capacity for receipt of higher volumes of product through the new Line 5.

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With sufficient and efficient infrastructural systems, Kenya is assured of adequate, reliable and cost-effective supply of petroleum products across the region. It is important to point out that increase in local and regional demand for petroleum products has in recent years not been matched by the development of requisite infrastructure to meet supply chain and market requirements. This is the strategic gap that KPC seeks to bridge to fuel the national and regional economies.

These projects are also critical in assisting the Government achieve its Big Four agenda because fuel is a key enabler for each of the four focus pillars namely universal healthcare, food security, manufacturing and affordable housing.

Our lease agreement with KPRL deserves mention. The arrangement guarantees KPC an increased storage capacity which enhances the country's ullage. This will, in effect, create enough capacity for berthing vessels to discharge fuel into KPC's system thereby reducing vessel turnaround time. This will in turn enable our customers to save billions of shillings in costs incurred in demurrage charges every year by fuel vessels docking at the port of Mombasa, a factor that could significantly reduce the cost of fuel to the end user.

To enable KPC meet its revenue and growth targets, the Company is working with the Ministry of Petroleum & Mining to construct a common user LPG import terminal and storage facility. The LPG facility is to be constructed under the lease agreement with KPRL, utilizing KPRL's available land. The process of sourcing an LPG consultant to advise on this project began during the year under review.

Regional Expansion

On 28th February 2018, the Kisumu Oil Jetty contractor handed over the project to KPC opening a new chapter in marine fuel transportation. The jetty, built on the shores of Lake Victoria, will mark a critical milestone for KPC as it opens-up maritime transport, and help further unlock key export markets in Northern Tanzania, Uganda, Rwanda, Burundi and Eastern DRC once it soon commences commercial operations. The jetty was supported by the new Sinendet-Kisumu pipeline (Line 6) which has already boosted throughput to Kisumu to over 460,000 litres per hour. The jetty has the potential to turn Kisumu into a focal point for oil and gas commerce in the region, thereby transforming it into one of the busiest inland ports in Africa. By extension, this will also raise Kenya's profile as a strong partner in regional and intra-Africa trade.

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Devolution of the Pipeline Network to Counties

To ensure that it retains and expands its domestic and regional markets, KPC undertook a comprehensive feasibility study and Preliminary Engineering Design for devolvement of pipeline network to the Counties. The scope of the assignment covered, among others, market mapping in various regions that are economically endowed but are currently not served by the existing pipeline network. As a result of the findings, KPC is now studying the report with a view to mapping out which economically potential counties to which the pipeline can be extended.

People

During the 2017/18 financial year, KPC continued with the process of undertaking a job analysis & profiling, job rotation and right sizing key departments to make them fit-for-purpose. This exercise, once complete, will set the pace for the promotion and recognition of our own staff. A motivated staff is a very integral factor in the realization of the Company's strategic objectives. To this end, KPC will continue to invest in on-the-job and campus training to position our staff to take up any additional opportunities that may arise in the future.

Appreciation

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

On behalf of KPC's Board, Management and Staff, I would also like to recognize the support accorded to KPC by the National Treasury & the Ministry of Petroleum & Mining. We look forward to your continued support as we venture into new territories in line with our growth strategy.

To management and staff: on behalf of the Board of Directors, I commend you all for your tireless effort and commitment to the attainment of KPC's set targets and goals. We work in a challenging and highly volatile industry, and your dedication and commitment to playing your individual roles has not only enabled the company to remain profitable, but also ensured that the country and the region have a steady and uninterrupted supply of fuel. As part of the country's strategic infrastructure, KPC's pipeline network is crucial to maintaining the country's economic growth.

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Finally, I want in a very special way to appreciate my fellow Directors on the Board. Over the last year, KPC like all other State Corporations, has come under increased scrutiny with both the Company and your own personal integrity being called into question. It takes great determination and strength of character to weather such storms and remain resilient and focused on delivering KPC's mandate. Public service, especially as a non-executive director of a state corporation, requires commitment and great sacrifices in both time and personal resources. You often have to risk your own reputation and shoulder the burden of the image of the corporation. I am truly honoured to serve alongside you as we strive to redefine the role played by KPC and drive the Company towards the realization of its strategic goals and objectives.

JOHN NGUMI
BOARD CHAIR

**KENYA PIPELINE COMPANY LIMITED
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THE MANAGING REPORT

Dear Shareholders,

It is my pleasure to present to you the Kenya Pipeline Company Annual Report and Financial Statements for the year ended 30th June 2018. Once again, Kenya Pipeline Company ("KPC" or the "Company") has registered another year of incredible financial performance in line with her long standing corporate history. KPC continues to make investments towards the attainment of its goal to become the continent's premier oil and gas distributor serving not only the country and the East African region but also the wider Sub-Saharan Africa. In this regard, we have invested in the expansion and rehabilitation of our pipeline-based petroleum distribution and storage networks to enable us to recapture our lost market share across the region. These efforts have begun bearing fruit with an increase in exports during the year under review reflecting our financial strength and strategic competitiveness.

As the region's premier petroleum and gas pipeline, KPC hosts some of the region's most vital and strategic infrastructure. The company currently has a combined asset base of **Kshs 113 billion**, ranking it among the largest firms in the region. This is a 6% increase from the previous year because of the coming on board of Line 5, Kisumu oil jetty and the additional storage tanks in Nairobi terminal.

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

In FY 2017-18, our commitment to building a strong reputation for excellence in petroleum supply logistics posted the following financial results. Below are some of the highlights of the key performance indicators that capture the year under review:

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FINANCIAL PERFORMANCE

The Company posted a **8%** increase in Pre-Tax Profit of KES **12.4 billion** for the financial year ended 30th June 2018 compared to KES **11.5 billion** achieved in the previous financial year.

The higher profitability is mainly attributable to the impact of increase in storage and handling fee at Kipevu Oil Storage Facility (KOSF) and Kenya Petroleum Refineries Limited (KPRL) from USD 3/m³ to USD 6.56/m³

Throughput

During the year under review, KPC recorded a 5% growth in throughput volumes to 6,551,805 m³ from 6,238,736 m³ in FY 2016/17. The new numbers were due to the 3-year lease of the KPRL facilities in Changamwe, Mombasa.

On the domestic throughput front, the figures went up by 4% from 3,463,003 m³ for the year ended 30th June 2017 to 3,585,638 m³ for the year ended 30th June 2018. Export volumes also went up by 7% to 2,966,167 m³ for the year ended 30th June 2018 compared to 2,775,733 m³ for the year ended 30th June 2017.

Revenue

Throughput revenue was up by 10% to KES 27.7 billion during the year under review up from KES 25.1 billion recorded in FY 2016/17. This rise was a function of the increase in storage and handling fee at Kipevu Oil Storage Facility (KOSF) and Kenya Petroleum Refineries Limited (KPRL) from USD 3/m³ to USD 6.56/m³

Operating Expenditure

In the FY 2017/18, KPC operated within the budgeted expenditure but the total operating expenditure increased by 12% to KES 16.1 billion from the previous year's KES 14.5 billion. The key cost drivers were the KPRL lease, tank maintenance, rising staff costs, and depreciation.

Financial Position

The Company's cash reserves went down by 30% to KES 5.3 billion compared to KES 7.5 billion at the end of the previous year. The cash position went down as a result of the

KENYA PIPELINE COMPANY LIMITED
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repayment and interest on the Line 5 loan, funding for the construction of the Kisumu oil jetty and the additional storage tanks in Nairobi Terminal.

KPC was able to meet its statutory obligations during the year under review remitting Kshs 2.4 billion to the Kenya Revenue Authority in tax payments. This is a 40% reduction from the previous year because we are expected to benefit from the investments deduction allowance under the Income Tax Act because of the projects implemented during the year under review namely Line 5, Kisumu oil jetty and the additional storage tanks in Nairobi terminal.

KEY CAPITAL PROJECTS

The period under review saw the Company complete some of the key capital projects whose status is given below:

- 1. Replacement of the Mombasa–Nairobi Pipeline (Line 5):** This is a 20-inch diameter pipeline which will replace the existing 14-inch diameter pipeline. Billed as Kenya's second largest infrastructural undertaking designed to meet projected petroleum demand up to the year 2044, Line 5 was completed on 30th June 2018.
- 2. Construction of the Kisumu Oil Jetty:** This project was completed and handed over to KPC on 28th February 2018. Once it begins commercial operations, the jetty will enable KPC to export fuel to Uganda and onward to Rwanda, Burundi and South Sudan. The jetty will also serve as an expansion gateway into Northern Tanzania and onward into eastern DRC, Malawi and Zambia. With the vessel turnaround time set at three days, the jetty will boost throughput in Kisumu by 1 billion litres per year and is expected to hit 3 billion litres per year by 2028.
- 3. Construction of Additional Storage Tanks at Nairobi Terminal:** This project, which was completed on 30th June 2018, involved construction of additional tanks to provide sufficient capacity for receipt of higher volumes of Automotive Gas Oil (AGO), Motor Spirit Premium (MSP) and Jet A-1 products. Now operational, the project is expected to enhance operational flexibility, capacity of product receipt and evacuation in Nairobi with the coming on board of the new Mombasa-Nairobi pipeline.

Besides the above projects, the Company was also involved in the following critical initiatives during the FY 2017/18.

- 1. Operationalization of Additional Loading Arms in Eldoret:** During the year under review, KPC began operating the new additional truck loading facilities at Eldoret depot to cope with the rising demand for petroleum products in the Great Lakes

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Region. The objective of this upgrade was to enhance the supply of petroleum products to Western Kenya and the neighboring countries.

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

From the foregoing, it is evident that KPC is gearing up towards a brighter future with these key investments. Our key focus is on the expansion of our pipeline network and expansion of our storage capacity to meet both local and regional demand. All our investments are anchored on Vision 2030 and guided by KPC's 10-year Corporate Strategic Plan, dubbed *Vision 2025*, which aims at transforming KPC into a world-class diversified oil & gas company.

Appreciation

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

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

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

On behalf of the Board and Management of KPC, I take this opportunity to congratulate KPC's staff for delivering the above results and enabling the corporation remain profitable. It is through your tireless efforts and commitment that we have been able to record this remarkable performance. I would also like to specifically congratulate the KPRL staff who joined the KPC family during the year under review and have been very instrumental in

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

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

HUDSON K. ANDAMBI, OGW

AG. MANAGING DIRECTOR

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CORPORATE GOVERNANCE STATEMENT

Kenya Pipeline Company Ltd is committed to upholding the tenets of good Corporate governance which is a reflection of its core values that include integrity, transparency, accountability, diligence, team spirit, loyalty and care for the environment.

The Board has continued to guide the Company towards sustainable long-term success through the exercise of objective and informed decisions aimed at determining the strategy of the Company, ensuring that there is a competent team in place to implement the strategy, adheres to the laws and policies and effective controls to mitigate risks facing the business.

(a) The Board of Directors:

In the period ending 30th June 2018, the Board was made up to (10) members comprising of a non-executive Chairman, the Permanent Secretary, National Treasury, the Permanent Secretary Ministry of Energy and Petroleum, the Managing Director and six (6) independent directors of various backgrounds. The non-executive directors are independent of management.

(b) The Board Committees

1. Board Audit Committee
2. Board Human Resources Committee
3. Board Technical Committee
4. Board Finance Committee

The following are the number of Board meetings held in the period ending 30th June 2018

	Meeting	No. of Meetings	Membership	Average Attendance %
1.	Full Board	6	12	70%
2.	Board Finance	9	7	73%
3.	Board Audit	7	7	65%
4.	Board Human Resource	16	7	54%
5.	Board Ad Hoc	8	10	56%
6.	Board Technical	9	7	66%
7.	Annual General Meeting	1	13	85%

.....
Company Secretary

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INTEGRATED RISK MANAGEMENT REPORT

During the 2017/2018FY, a companywide risk assessment was carried out and the top ten Corporate risks were identified under each of defined company risk categories, namely; strategic, financial, reputation, operational, legal & regulatory and safety, healthy & environment. Improvement action plans were developed and adequate resources provided for implementation of the actions.

The top ten corporate risks and the actions implemented are outlined below:

Strategic Risk

1

Project Risk

The company faced several project delivery constraints affecting the realization of projects within schedule, scope and budget. Cognizant of the fact that project setbacks can be reduced substantially by embracing a robust risk management approach. The company issued guidelines contained in memo ref: KPC/CP/RM/14 of 10th July 2017 on the mainstreaming of risk management to all company projects, acquisitions and mergers. Standardized risk matrices we deployed to business units and project risk champions were sensitized. The company documented lessons learnt from implementation of key projects to inform the review and development of a project management framework.

2

Strategy Execution Control

The Company's ten-year Corporate Strategic Plan (CSP) is aimed at transforming it to Africa's premier Oil and Gas company with expected turnover of over Kshs. 150 billion in the year 2025. Effective execution of the implementation of the CSP is critical in realizing our strategic objectives. To strengthen strategy execution, departmental strategic plans were aligned to the CSP were developed. The annual budget aligned to the strategic objectives. Periodic monitoring, evaluation and reporting on implementation of the CSP was done.

3

Market Risk

During the year, focused on the implementation of measures aimed at the recovery of export market share. The company implemented a number of measures to mitigate the decline in the market share such as roll out of a promotional tariff and quarterly meetings with stakeholders to resolve non-tariff barriers.

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Reputation Risk

The Company is cognizant that reputation is its most asset. However, adverse publicity continues remains a major concern for the Company's image and reputation. The company undertook media campaigns by posting short videos and advertisements on various platforms to articulate the company's mandate and operations. Key staff were also trained on media relations to mitigate reputational risk. Despite implementation of the foregoing mitigation measures the severity of the risk increased from high to extreme towards the end of the financial year.

Financial Risk

5 Liquidity Risk

During the year, the company was concerned about the impact of delays in the delivery of key capital projects. To address this concern, a liquidity control policy was developed and liquidity thresholds established for periodic monitoring and reporting on cashflow volatility.

Operational Risk

6 Line Unavailability

The Company is concerned with the risk of line unavailability as it leads disruption of the supply of product and stock outs. To address concerns of supply disruption, a maintenance policy was developed and minimum stock levels of critical spares maintained, forward planning with the utility agency was also enhanced.

7 Product Loss/Leakage from Pipeline System

During the year, incidences of product loss/leakage from the pipeline aging pipeline system were a concern due to the attendant risks on public safety and environmental impact. The company implemented a framework to fast-track the repair of metal loss defects along Line 1. An In-line inspection was also carried out to identify high priority areas which require immediate corrective action.

Legal & Regulatory Risk

8 Litigation

Due to the nature its operations and the size of the business, the company is prone to litigation. Unfavourable outcomes can negatively impact the Company's image and reputation as well as impact on its bottom-line. To address this concern, legal staff were trained

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on alternative dispute resolution skills. In addition, a framework for documenting case law lessons learnt was developed.

Safety, Health & Environment Risk






Terrorism

During the year under review, the country experienced incidences of various terrorism attack. The security of the pipeline and its ancillary facilities was a concern as they constitute strategic infrastructure for the country and neighboring countries. Some of control measures that were implemented include rolling out of Integrated Security System (ISS) phase 2, enhanced CCTV coverage, access control and automation of barriers/scanners. 45No. security staff were also trained on operation of the new systems. The company also continued to collaborate with other security agencies on the matter.



Fire

Fire is one of the organization’s top risk because of the handling and transportation highly inflammable and hazardous materials. Improvement actions implemented during the year include; review and testing of the emergency response procedure, development of an incident Command system in all in all emergencies. The upgrade of PS10 firefighting was also initiated

Legend: Overall Risk Ratings			
	Extreme Risk		Medium Risk
	High Risk		Low Risk

Business Continuity Management

During the financial year, the company reviewed Business Continuity Plans (BCPs) for all mission critical business processes in Company. It also undertook the exercising and testing of the plans. The overall is to ensure business resilience in the event of a major disruption through timely resumption and delivery of essential business activities as provided in the Company’s Business Continuity Policy.

Emerging Risks

During the year, the company monitored emerging and evolving risks and their impact on company business. The key risks reported during the year were:

i. Political Risk

There was a prolonged electioneering period from August to November 2017. During this period, the company proactively engaged with its stakeholders to ensure forward planning on stock levels as well as evacuation of product to guarantee security of

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supply during the period. There was also close collaboration with various government agencies during the period to monitor and mitigate any security threats. Business and economic activities were slowed down and this affected KPC throughput volumes. The throughput volumes were low in the months of August and September during the period.

ii. Delay in Operationalization of Kisumu Oil Jetty (KOJ) Project

The Kisumu Oil Jetty project was successfully completed and handed over to the company on 28th February 2018. However, the jetty is yet to put in operation as the receiving jetty on Uganda side is not ready. The company reviewed the business case for KOJ to identify new opportunities and assess the evolving risk regarding operationalization of KOJ.

Conclusion

During the period under review the company undertook a company-wide risk assessment, ranked and prioritized the top corporate risks. Appropriate mitigations measures were developed and requisite resources committed for implementation of the improvement action plans. Quarterly risk monitoring and reporting was undertaken in line with Enterprise Risk Management Policy. The measures outlined above provides reasonable assurance regarding the realization of company objectives.

CORPORATE SOCIAL INVESTMENT (CSI) REPORT

At Kenya pipeline (KPC), sustainability means integrating business with the environment and contributing to the well-being of the people and the nation wherever we operate. While we conduct our business according to our Code of Business Ethics (CoBE) and adhering to the laws and regulations, emphasis is also given on biodiversity, climate change, human rights and empowering our communities to strive for better quality of life, now and in the future.

Our CSI initiatives are also aimed at creating shared values with our communities, in line with KPC agenda to move forward together with the community. KPC commitment to community-level development finds substantive expression through the KPC Foundation whose programmes empower those that are most vulnerable in areas of greatest need. Kenya's rural communities are the focus of the KPC Foundation's programmes.

Our strategic corporate social investment (CSI) initiatives provide the platform for KPC and the community to evolve together through three (5) Thematic areas:

- Education
- Health
- Water, sanitation and environment
- Special Groups (Women, youth and people with disabilities)
- Sports for Development

KPC also work closely with our key stakeholders including government agencies and non-profit organizations in engaging with our communities. Governance underpins KPC Foundation's activities and social investment decisions and is essential for successful

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execution. The CSI Forum, a representative body comprising CSI practitioners across KPC and the Board of directors, is responsible for decision-making on company-wide community investment priorities. Leadership, oversight and accountability for CSI matters.

In the period under review, we pursued initiatives aligned with the focus areas outlined by our CSI Framework:

EDUCATION

Providing access to quality education through Infrastructure development and capacity building opportunities regardless of income level, gender, and ethnicity, physical and mental abilities.

Company's objectives in the Corporate Social Investment (CSI) involves ensuring providence of accessible and affordable quality education as its main aim. This has been done by supporting development of quality learning facilities in different educational institutions and creation of good learning environment for the students. Development of the education sector is critical for the company's strategic objectives.

Education is a key focus area for KPC CSR policy and empowering poor youth with new opportunities is in line with our mission of transforming lives. In this vein, the construction of 4 No. classrooms 1 story Building at Cheptuyet Girls Secondary School will improve access to educational opportunities for the rural girls in Kericho County and even beyond. The school will have a positive impact by reducing early marriages, drug and substance abuse and the spread of HIV/Aids crucial in any community and it leads to the long term self-sustainability and development of a community.



Construction of 4No.classrooms 1 storey block at Cheptuiyet Girls High School was done by KPC Foundation.

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HEALTH

Partnership is one of our essential core pillars as a corporate entity, KPC is committed to giving back to society as part of its strategic objective and partners with all players in development sector to promote quality health for all Kenyans

KPC partnership with other institutions in the health sector involves, donating equipment to hospitals, reproductive health sensitization to communities living along the right of way and HIV/Aids education to the youths and schools along the right of way.

Donation of ICU bed and equipment to Kenyatta National Hospital (KNH)-Kshs.4,500,000



KPC Board Member Felicity Biriri (2nd left) KPC MD Joe Sang (3rd left) handover ICU Bed to KNH Board Chair David Kimaiyos and KNH Ag.CEO Thomas Muter.

Mater Heart Run-Kshs.500, 000

This year KPC partnered with Mater Cardiac Program to successfully operate one child with heart condition

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KPC Managing Director, Joe Sang (3rd from right) and Foundation Manager, Bernice Lemedeket (far right) pose for a photo with KPC STAFF during Mater Heart Run.

Community Wellbeing and Development - Empowering and uplifting local communities via provision of basic needs, skills trainings and youth development programmes to attain a better standard of living.

ENVIRONMENT

Encouraging active contribution towards natural ecosystem related conservation efforts, prioritizing the concept of prudence

Eldoret City Marathon-Kshs.5, 000,000

KPC Foundation sponsored Eldora City Marathon that was organized to raise awareness on how to protect and expand forest to create a clean Environment.

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KPC Staff participate in a tree planting exercise at the Eldoret Golf Club. KPC committed Kshs. 5,000,000 for the Marathon.

World Environment Day-Kshs.500, 000

“Beat plastic pollution” theme for World Environment Day 2018, urges Governments, Industries, communities and individuals to reduce the production and excessive use of plastic polluting our ocean and threatening human health. KPC Foundation Kshs.500, 000 to commemorate the World Environment Day 2018 in Kwale County.



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WATER AND SANITATION

KPC foundation has identified and proposes to develop a signature CSI project dubbed *Pipes for Water*. Improving access as well as quality is becoming increasingly urgent particularly in water-scarce counties. Projections are that by 2025, two thirds of the populations in these counties could be living in severe water stress conditions, adversely affecting individuals, communities and economies.

- a) Water and sanitation are central to the realization of the 17 Social Development Goals (SDG's). As a critical crosscutting natural resource, water impacts health, education to gender rights. Realism is that it is inconceivable to find a successful school, hospital or community without sufficient supply of water and provision of appropriate sanitation.
- b) Access to safe water and sanitation is entrenched in the constitution of Kenya 2010 under the bills of rights, which means every Kenyan has a right to safe water and proper sanitation.

Water scarcity has been identified as one of the top 10 risks in terms of impact²¹ according to the World Economic Forum, 2015. Kenya is a water scarce country. KPC Foundation recognizes that water scarcity has the potential to impact on our business and is committed to ensuring water stewardship in all our operations. 21. "Global Risks 2015 Report," World Economic Forum, 2015. www.weforum.org/reports/global-risks-report-2015. Nearly half of KPC operations are in arid and semi-arid areas.



Akithii Secondary School – Provision of Water (Ksh 7,973,840.00)

Akithii Girl's Secondary school located about 20Kms from Meru town has benefited from KPC gargantuan CSI program. The School with a student population of 734 students lacked reliable running water and this posed a huge challenge to the management of this school especially due to the fact that this is a boarding school. However, the drilling of borehole fully financed by Kenya Pipeline Foundation is complete with piping, installation of water submergible pump and tanks.

SPECIAL GROUPS

Inuka Program

KPC initiated INUKA disability program in 2016 to enable PWD access education, skills-based training and other economic opportunities. The aim was to reduce the level of discrimination and stigma and increases the likelihood of economic independence among the

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special groups. In view of this, the Department has retained this program as part of its strategic focus area for 2017/18FY since uptake of special needs is still a national challenge.

Achievements

The Board approved **Kshs. 14 million** that has benefited **188** students from each County and **trained 60** special members groups on existing government opportunities in line with the Government manifesto

Inuka scholarship program

KPC scholarship program which aims to annually identify and educate 2 students with disability from each County to access secondary level education. The program is closely implemented with the National Council of people with Disability (NCPWD)

It was established to empower young persons with Disabilities to overcome their physical limitations and to become fully integrated members of their communities by accessing education.



Johana Wainaina Njoroge a student at Joy land Special Secondary School for the Physically Handicapped is one of the Inuka Scholarship beneficiary.

Inuka social empowerment program

This is the second approach to Inuka that seeks to support youth, women and people with disability. This combined approach is aimed at equipping the special groups and people with disability with skills required by industry to address the big four agenda by providing necessary skills and food sovereignty.

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Training of special groups (Youth, women and people with disability)

FEEDBACK RESPONSES FROM THE PARTICIPANTS

The following is one of the feedback messages that we got from the trainees.

Group 1- CLASS PRESIDENT

*“*ON BEHALF OF THE TEAM. **

Hallo Morendat, a nice institute committed to providing Quality education. I want to thank all the relevant stakeholders for the position they had.

I'm therefore thanking our sponsor, Bernice Lemedeket for having such a generous kind heart in the position she holds. Furthermore, I want to appreciate her altitude towards the general society as the workshop was another exposure to business adventure-may God bless her abundantly.

“I'm thanking all the lectures for they delivered their contents very well. James Karanja was a pro in the technical and supply field of oil and gas, may God bless him too.

Maureen was an expert in legal field and stuff, such a brain is a real gateway to the legal entrance of any business and a measure of success of the same field even when the future looked bleak.

Harry Karanja, the latest memory, a mind refresher and pre-topic appetizer is a professor in shortening a decade to a day, a source of motivation and an assurance of a good future he is-May nature award his expertise'.

Finally, in the appreciation list, I want to thank The Professor, Catherine Ngila, who happened to be our best matron and company, a caretaker and reliable, honourable and courageous. For sure she served us well and can take the institute to its wish destination, her brilliant and colourful ideas will be fond memories we shall remember. She was a prof and at times an obedient student for sure and perhaps, we will miss her and will always say, "She should have been there on the last day of the training."

I won't forget my classmates, only five days in class and it felt like it was 5yrs. it was the most enjoying short system ahead of the 8-4-4 system-it was an ecosystem of its own kind.

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Perhaps, we will miss one another and will keep in touch for more success. On my part I will miss Evans, Sarah, Kadence and generally all of you. The training was educative as well as fun undertaking.

Thank you MORENDAT”

Community Engagement

Respecting local customs and cultural norms is a core aspect of our value system, ensuring a clear understanding of community needs as well as expectations. Community Engagements are carried out throughout the various project phases using multiple platforms. We aim to provide timely business plan and activity updates to seek feedback, address concerns as well as gain insights from the relevant stakeholders. Dedicated Community volunteer’s personnel such as Community Liaison Officers and Right of way (ROW) Teams are tasked to lead regular dialogue sessions with the local community members. The types of initiatives undertaken are suited to the locality of operations. The topics of discussion typically vary based on the maturity of operations, ranging from land acquisition to compensation and sustainable community investments.

The grievance mechanism and whistle blower channels, amongst others, are made accessible to all stakeholders, including local community members.



KPC Foundation Manager, Mrs. Bernice Lemedeket addressing the public during the public baraza with Okarkar Group Ranch and Kiboko Group Ranch

KPC acknowledges the role of communities not just as recipients of service but as its valued stakeholders. Kenya Pipeline Company Ltd. (KPC) conducts quarterly Right of way (ROW) Barasa with a view of involving communities to participate in decision making and ownership

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ENVIRONMENTAL SUSTAINABILITY PROGRAMS

KPC has in place a HSE policy that guides its implementation of occupational health, safety and environmental programs. A review of the policy was done in 2017 to include social performance, in response to the large infrastructure projects the organization was carrying out.

KPC management recognizes its responsibility to ensure all reasonable steps are taken to protect and preserve the environment in which it operates; hazards are removed and controlled, health preservation and injury protection of its employees, customers and other stakeholders.

The HSE policy clearly states that KPC will comply with the law, include HSE and sustainability considerations in all company operations, and attain continual improvement in our HSE Performance.

Safety, Health, Environment & Quality Assurance(SHEQ) department's vision is to achieve World class safety performance measured as Zero fatalities, injuries, spills and fires and a proactive safety culture. The implementation of the HSE Management system falls in 4 buckets: Compliance with the local legislation and industry best practice, Prevention of accidents, Resource and Capability of staff, and Safety culture.

KPC complies to local legislation namely Environment Management and Coordination Act 1999, Occupational Safety and Health Act 2007 and the Energy Act 2006 (revised 2012). KPC is the process of getting certified to ISO 14001 Environmental Management Standard and the OHSAS 18001 on Occupational Health and Safety.

Under the Prevention pillar, KPC has undertaken risk assessments for all its operations, and come up with control measures to prevent realization of hazards, and mitigation measures to reduce the consequences of possible incidents. As a result, KPC has in place Emergency response plans for each site.

The resource and capability pillar aim to ensure that staff carrying out safety critical roles are equipped to carry out their work in a safe manner. Training provided include, among others, Emergency response and incident command, HSE committee and environmental sustainability training.

The culture pillar targets to attain a proactive safety culture. Programs running under this pillar include the Safety week, Environmental Day, reward and recognition programs including the near miss campaign.

2017/18 Headline Performance

Incidents: 2017/18 recorded one lost time accident as the highest severity incident. The involved a contractor personnel working at one of the terminals. This was a fifty percent reduction when compared to previous year. This reduction is attributed to increased reporting in near misses and unsafe acts and conditions.

Near misses are incidents that under slightly different circumstances could have resulted in illness, injury, damage to assets, environment or company reputation, but did not. Taking corrective action on reported near-misses, unsafe acts and conditions, prevents major accidents from happening. In 2017/18, over 600 near misses were reported compared to 65 in the previous year.

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KPC has been operating Line 1 – Mombasa to Nairobi – for over 40 years. This is an aging pipeline and is therefore being replaced by the Line 5. The financial year 2017 /18 witnessed several spillages from the Line 1 in Konza area. Following successful repair of the line, KPC has undertaken environmental remediation in the area, and continues to do so.

The Thange oil clean-up, which was as a result of a spillage in May 2015, witnessed a significant milestone in 2017 / 18. KPC received NEMA approval to scale down the clean-up operation following significant improvement in sampled environmental parameters. The scale down approval has seen the clean-up contractor hand over the site to KPC.

At both Konza and Thange, KPC has worked closely with the communities to develop projects for partnership, that will benefit the community. These include provision of water and bursaries to the local communities in the affected areas.

KPC runs the Safety Week annually to coincide with the World Safety Day on April 28th. The theme for 2017/18 was ‘Doing the Right Thing’. The program of events covered risk assessment and emergency response awareness, and reward and recognition of those that had reported and closed out the highest number of near misses. A health talk was given as part of the wellness agenda. The program covered all KPC sites and included the Oil Marketing Companies with offices in our loading depots in Western Kenya.

KPC commemorated the World Environment Day on 5th June 2018, through tree planting efforts throughout KPC facilities. KPC also partnered with the National Environment Management Authority, to share the message on marine pollution, and to further enhance the need to ban plastic bags in Kenya.

KPC partnered with Vivo Energy to share safety messages with the public on road safety during the festive season. The festive season is known for an increase in road traffic accidents due to increased number of road users, and related challenges of fatigue and drink driving. KPC, through the print media, shared safety messages to raise awareness amongst the public during this period.

As part of the construction and commissioning of Line 5, KPC has re-engaged with communities along the Right of Way, to share the safety message and create a forum for partnerships.

KPC also works closely with national and county government agencies in joint emergency response.

KPC will continue to strive for improved health, safety and environmental performance of the organization, by continuing to work not only with our staff and contractors, but also our neighbours and stakeholders.

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STAKEHOLDER ENGAGEMENT

Stakeholder relationship management formed an integral part in realization of the company's revenue targets in FY2017/18. In pursuit of this, the company enhanced partnerships with all the key stakeholders in the Petroleum supply chain. Oil Marketing Companies(OMCs) are the key stakeholders to the Company and they include multi-national companies and independent players. The top ten marketers command a combined market share of 67.7% and they include; *Total Kenya Limited-* (16%), *Kenol kobil Limited-*(14.3%), *Vivo Energy Kenya Ltd-* (15.5%), *Libya Oil Kenya Limited-* (4.8%), *Gulf Energy Limited-*(4.9%), *Petro Oil Limited-* (2.9%), *Be Energy Limited-*(2.9%), *Hass Petroleum Limited-* (2.6%), *Gapco Kenya Limited-* (2.4%), *Lake Oil Limited-*(1.5%).

ENGAGEMENT WITH INDUSTRY PLAYERS IN THE EXPORT MARKET

In a bid to increase its Global market share and enhance the customer experience, the Company has undertaken various initiatives as outlined below:

Winning market share in Uganda

The Executive Management led by Managing Director Joe Sang spearheaded an engagement with industry players in Uganda between March 6th to 9th 2018. The purpose of the visit was to sound out new initiatives and showcase infrastructural developments with a view of enhancing service delivery and market growth.

The team met several industry captains who supported the use of pipeline as the preferred means of transporting white petroleum products from the Port of Mombasa. The team also assessed the construction work progress of the Uganda Oil Jetty; a receiving complimentary facility to be used alongside the already completed KPC owned Kisumu Oil Jetty (KOJ). The benefit of utilizing the jetty will include provision of the safest and least cost mode of petroleum transport from Mombasa to Uganda, Northern Tanzania, Entebbe and Jinja Uganda. This will eliminate non-tariff barriers faced in the last mile trucking of products. This facility is envisaged to augment the export market recovery efforts through bulk transportation in Lake Victoria and optimize utilization of the pipeline infrastructure.

The following raft of measures were prescribed to win back the export market.

Setting up of a Liaison Office in Uganda to facilitate regional marketing – efforts to have the office in place are planned for FY2018/19.

- a) Allocation of special ullage for Uganda and Rwanda export market – KPC has since completed capacity enhancement projects. These projects include a 20-inch 450 KM pipeline from Mombasa to Nairobi, additional 133,000 m³ storage tanks at Nairobi terminal. On-boarding of these projects will streamline allocation for export market.
- b) Adulteration: ERC has put in stringent measures to curb adulteration through crackdown on adulteration dens and imposition of punitive charges.
- c) Harmonization of axle load by East African member state – KeNHA and KPC are working together to sensitize and enforce the vehicle axle load limits as gazette by law.
- d) Inter-agency collaborated efforts in elimination of non-tariff barrier. - Liaise with the Ministries of: Transport and Infrastructure, Trade & Industrialization, as well as Interior and Coordination of National Government to eliminate non-tariff barriers on

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the Northern Corridor Transit Route (NCTR) including road blocks and insecurity on the roads.

The objective of this mission was to deliberate on ways to enhance cross-sectoral business growth in the Great Lakes Region through the Northern Corridor Transit Route (NCTR). Other issues discussed in the inter-agency collaboration attended by Kenya National Highway Authority (KENHA), Kenya Revenue Authority (KRA), LAPSETT, Kenya Railways Corporation (KRC) and Anti-Counterfeit Agency (ACA) and chaperoned by the Kenya Ports Authority (KPA) included:

1. Setting up of a Liaison Office in Uganda to facilitate regional marketing to be functional in FY2018/19
2. Allocation of special ullage allocation for Uganda and Rwanda export market,
3. Support by Energy Regulatory Commission (ERC) to curb product adulteration Harmonization of axle load by East African member state
4. Inter-agency collaborated efforts in elimination of non-tariff barrier.

CEO Breakfast meetings

Round table CEO to CEO engagements with over 30 Oil Marketers were held in February 2018. KPC team was spearheaded by the MD Mr. Joe Sang. All the outstanding marketing concerns were closed while the emerging concerns are continuously resolved by the duly appointed Account Managers from the Customer Relations and Marketing Department. The Account Managers have been effective in enhancing service delivery and relationship management.

Customer forums

One-on-one interactive sessions were held with OMCs at their respective Head Offices in Nairobi and in the regional offices in Western Kenya loading Depots and at the Coast. This activity is held bi-annually to ensure the customer issues are picked and closed out in the financial year.

Other Stakeholders

Kenya National Highway Authority

KeNHA in Partnership with KPC spearheaded sensitization forums on axle load limits in all western Kenya depots in the FY2017/18. This initiative came about due to the East African Community vehicle load control act, 2013 that dictates the vehicle load limit at 56 MT. Sensitization in all service delivery depots were undertaken to ensure all the petroleum product transporters adhere to the control act.

Product Adulteration, Non-tariff barriers, weighbridges and road blocks were pointed out as counter effective to strategies that KPC is putting in place to regain the export market share. In view of this, inter-agency concerted efforts were resolved as a means of sorting out the issues on Northern Corridor and effectively regain the market.

Quarterly meetings were proposed and ratified to monitor compliance and FastTrack lobby initiatives to achieve East African harmonization of vehicle gross weight limits enshrined in the act.

**KENYA PIPELINE COMPANY LIMITED
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Kenya Revenue Authority

The authority is an integral stakeholder to KPC and thus continually engaging to aid operations. KPC and KRA meet quarterly for continuous improvement of their complementing functions; transportation of petroleum product by KPC and clearance of the same in a timely manner to enhance the customer satisfaction levels.

KENYA PIPELINE COMPANY LIMITED
REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2018

Stakeholder	Role	What we need from them	What they need from us	Risks if needs are not met
Key stakeholder				
Oil Marketers	Oil marketers are KPC key stakeholder as they use the pipeline infrastructure to transport oil products from the Mombasa into the hinterland. KPC has 95 OMC, of which the top 20 give the company 82% of revenue generated. The customers have primacy as they support the core business, hence the need for continuous engagement to meet their expectations and requirements	<ul style="list-style-type: none"> • Support • Buy-in on the pros of using the pipeline 	<ul style="list-style-type: none"> • Ullage • Competitive tariff • Reliability • efficiency 	<ul style="list-style-type: none"> • Loss of market share • Revenue loss • Servicing capacity enhancement loans
Other stakeholders				
MINISTRY OF PETROLUUM & MINING, KRA, KENHA, PDU & ERC	To transport petroleum products through the pipeline there are other various stakeholders with whom KPC engages with to ensure seamless operations are maintained and continually improved.	<ul style="list-style-type: none"> • Support • Facilitation • Synchronisation of work modalities 	<ul style="list-style-type: none"> • Tax remittance • Revenue • Conform to the presidential agenda 	<ul style="list-style-type: none"> • The Company risks running out of business • Not meeting statutory obligations

KENYA PIPELINE COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2018

ETHICS & LEADERSHIP

1.0 Preamble

In an attempt to address the social, political, economic, legal and institutional patterns and environments to revitalize the economy, the Government developed several major policies and programs. One of the programs - The Public Service Integrity Program (PSIP), targets eliminating corruption, wastefulness, negligence and inefficiency in order to improve the integrity and productivity in the Public organizations like KPC. PSIP main aim was meant to address the restoration of integrity and good governance in the Public service and its successful implementation was deemed crucial for other government reforms to achieve their full impact.

At KPC, the PSIP has been implemented for the last over thirteen years (since 2005) and has since been mainstreamed into the Company's establishment with the creation of the Ethics, Integrity and Compliance (EIC) Section within the Internal Audit Department/Division to operate as the Secretariat that would oversee the implementation of the program. The roles and responsibilities of the Section include ensuring Staff are sensitized on the causes and consequences of corruption and the benefits of conducting themselves with integrity & improved work ethics; Enlisting all staff to become willing and effective anti-corruption change agents at all times; Developing codes of conduct and ethics and ensuring adherence; Enhancing intellectual and moral capacity of staff to handle corruption and ethical matters; and Ensuring that the operations of the company are carried out in a corruption-free environment.

2.0 Framework for Implementation of the Integrity Program

In line with the government model provided in the PSIP Manual, which is committee based, KPC has adopted a three-tier operating structure with a Management Oversight Committee, a Central Committee based at the headquarters and Regional Committees based in the major Stations Constituted as below:

- a) Management Integrity Oversight Committee (MIOC) comprising of the Executive Management with the Managing Director as the Chair;
- b) Central Integrity Assurance Committee (CIAC) at the Head Office comprised of trained Integrity Officers drawn from all major departments to spearhead the implementation of the program and coordinate the Regional Committees in liaison with the Secretariat;
- c) Regional Integrity Assurance Committees (RIACs) based in designated Regional Depots/Stations to coordinate the PSIP activities at the regional level. Currently, there are seven (7No) Regional Committees namely: **Coast RIAC** which constitutes - (Changamwe Depot (PS1), Moi International Airport Depot (PS12), Kipevu Depot (PS14), Samburu Pump Station (PS2), Maungu Pump Station (PS3), Manyani Pump Station (PS4), & Mtito Andei (PS5), **Machakos RIAC** constituting - (Makindu Pump Station (PS6), Sultan Hamud Pump Station (PS7), Konza Pump Station (PS8), & Embakasi Depot (PS9), **Nairobi RIAC** constituting Nairobi Control Centre Depot (NT) & Head Office (HQ), **Naivasha RIAC** constituting Ngema Pump Station (PS22) Morendat Pump Station(PS23) & Morendat Institute of Oil and Gas (MIOG), **Nakuru RIAC** Nakuru Pump Station (PS24), Nakuru Depot (PS25), & Sinendet Pump Station (PS26A), **Eldoret RIAC** constituting Burnt Forest Pump Station (PS26B) & Eldoret Depot (PS27) & **Kisumu RIAC** constituting the Kisumu Depot (PS28).

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2.1 Role & Mandate of the Integrity Committees:

2.1.1 The Management Integrity Oversight Committee (MIOC)

The Management Integrity Oversight Committee is responsible for the following activities within their areas of jurisdiction: -

- a) Ensuring that appropriate structures are instituted to facilitate the mainstreaming and implementation of the Public Service Integrity Program (PSIP);
- b) Continuously monitoring the implementation of the Integrity program, progressing policy matters related to the program, and advising the relevant authorities on the progress;
- c) Evaluating recommendations made on the necessary action against investigations/assignments undertaken by the Central Integrity Assurance Committee (CIAC) and ensure corruption prevention recommendations are implemented;

2.1.2 The Central Integrity Assurance Committee (CIAC)

The Central Integrity Assurance Committee, being the technical team spearheading the integrity program companywide is responsible for the following activities:

- a) To outline, prioritize and strategize implementation of corruption prevention programs and ensure the initiatives are integrated in the respective functions of the organization;
- b) To develop and undertake the PSIP Implementation Plan ensuring that the integrity committees are constituted and operationalized to facilitate implementation of the program;
- c) To develop and undertake staff sensitization on anti-corruption programs and policies,
- d) Undertake Corporate Corruption Risk Assessment and develop Corruption Prevention Plan;
- e) Review integrity/corruption reports from the RIACs and take and/or recommend appropriate action;
- f) Develop Schedules for training of staff on the Integrity Officers Course (IAO) in liaison with the Ethics and Anti-Corruption Commission (EACC) as well as other external trainings to enhance capacity of Integrity Officers;
- g) Monitor the Impact of corruption prevention initiatives and other recommended actions through internal Integrity Audits and Corruption Perception Surveys;

2.1.3 The Regional Integrity Assurance Committees (RIAC): -

The Regional Integrity Assurance Committees are responsible for the following activities within their areas of jurisdiction: -

- a) To sensitize staff on the PSIP in liaison with the CIAC;
- b) To assist CIAC in collating data for the Corruption Risk Assessment, and monitoring the impact of corruption prevention initiatives in their regions;
- c) To spearhead anti-corruption campaigns within their regions, receive complaints and information on alleged corruption activities, and thereafter evaluate, analyze and recommend appropriate action to the CIAC;

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3.0 Corruption Strategy at KPC

To achieve the objective of preventing corruption, KPC has adopted a three-pronged strategy of Prevention, Investigation and Staff Education as outlined below:

3.1 Prevention

3.1.1 Internal Controls

KPC has enhanced internal controls to minimize avenues of corruption in the work processes such as integrated systems for all functional processes including petroleum products managements systems, procurement, materials management, and Integrated Security Systems to monitor access/mobility automation of staff travel management, petty cash management.

The Company has a robust Internal Audit that continuously monitors the processes to ensure any non-compliance with the defined standards and processes are identified and mitigated upon.

3.1.2 Risk Management

The Company has invested in an enterprise risk management (ERM) framework and a fully-fledged Risk Management Department that exists to profile company risks in a proactive manner, including the risk of corruption. With continuous monitoring of these risks and their direction of movement, Management is able to take appropriate remedial action.

Integrity Policies

KPC has also developed various policies as guidelines for corruption prevention such as:

3.1.2.1 The Code of Conduct and Ethics;

In line with government requirements, a code of conduct has been developed to regulate the behavior, relationships, and actions of staff. The code provides guidelines on the ethical and values connotation in relation to the do's and don'ts. The company is in the process of ensuring that all staff sign a commitment to adhere with the code.

3.1.2.2 Gift Policy

A gift policy has been developed to guide staff on the receiving and giving of gifts, declaration and disposal process. Gift registers are placed in all the Company Depots/Stations for ease of staff to declare gifts received and a report made to EACC as per the guidelines.

3.1.2.3 Anti-Corruption Policy

This outlines the roles and responsibilities of various Officers in the corruption prevention process.

3.1.2.4 Whistleblower Policy

A Whistleblower Policy has been developed to encourage staff to report on suspected corrupt activities while assuring them protection against reprisal. The managing Director encourages staff to walk to his office to report any suspected corruption that they may be afraid to report through other channels

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3.1.3 Corruption Detection Tools

3.1.3.1 Corruption Risk Assessment

KPC regularly conducts Corruption Risk Assessment (CRA) within the functional areas to establish the risks that may occur within the processes. A Corruption Prevention Plan (CPP) is developed with recommendations for mitigating against the risks identified, and upon adoption by the business process owners, the plans are implemented. Monitoring on the progress of this plan is done quarterly by the Integrity, Ethics and Compliance Section to ensure that corruption risks are contained and prevention measures implemented to curb corruption.

3.1.3.2 Corruption Perception Index

KPC periodically undertakes Corruption Perception Survey involving staff and all Stakeholders to determine the Corruption Perception Index (CPI). The surveys assist in identifying areas of weaknesses in the integrity systems and Management utilizes the reports to improve the systems and mitigate against any loopholes for corruption.

3.1.3.3 Corruption Prevalence Surveys

In addition, the company has periodically carried out Corruption Prevalence Surveys which attempt to identify the causes of corruption in the company with the last such survey having been carried out in 2011 by external consultants.

3.2 Investigations

KPC has established various reporting tools to provide staff with avenues which they can use to report acts of corruption within the institution such as:

3.2.1 Integrity Boxes

These boxes have been strategically placed at all KPC installations/depots to ensure that staff can report corrupt acts by placing written down accounts of what they saw or know regarding corrupt activities. The boxes are opened monthly by the Integrity Committee members in each respective region, who evaluate the contents, and forward for further action by the CIAC.

3.2.2 Anonymous Reporting

KPC has an anonymous email address, report.corruption@kpc.co.ke which aims at enabling staff who wish to report anonymously. This tool is enhanced with a multi-password to ensure that no single individual can access and interfere with the reports.

Staff have been utilizing this tool and issues raised have been investigated.

3.3 Staff Education

The Company has a continuous staff awareness program to ensure sensitization on the various corruption prevention measures and programs. The staff awareness is carried out by trained Integrity Assurance Officers (IAOs) and adequate funds are allocated for the same in the annual budget.

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4.0 A SWOT Analysis of the Integrity Structures

4.1 Strengths

- (i) The Company has in place various anti-corruption Policies to guide staff on integrity matters and they have been sensitized;
- (ii) The Company regularly reviews its corruption index through surveys and the outcome of such surveys are used as guide to develop anti- corruption strategies;
- (iii) Management supports the corruption prevention committees and any report brought to their attention is acted on;
- (iv) A robust Internal Audit that continuously monitors the processes to ensure any non-compliance with the defined standards and processes are identified and mitigated upon;
- (v) A fully fledged Integrity, Ethics and Compliance Section to spearhead integrity issues and trained Integrity Officers in all regions;
- (vi) A supportive Board Audit Committee that provides guidance and oversight on the organization's integrity and anti-corruption strategies;
- (vii) Clear organizational policies, work procedures, defined roles and responsibilities of all staff levels, and segregation of duties and functions;
- (viii) Availability of channels for complaints by staff and other stakeholders including a website link and a designated complaints handling desk;

4.2 Weaknesses

- (i) The gaps in the internal controls & systems could lead to integrity issues;
- (ii) Lack of involvement of the all stakeholders in project design and implementation leading to incomplete or substandard product and/or partial commissioning;
- (iii) The assumption that the role of fighting corruption is the responsibility of some designated team or department rather than every employee;
- (iv) Delayed action on reported integrity issues and/or lack of consequence management on suspected Officers;
- (v) Conflict of interest of stakeholders
- (vi) Difficulties in investigating corruption due to its secret nature and code of silence;
- (vii) Outdated or inadequate HR policies, Informal practices, unnecessary procedures and unclear instructions that are exploitable for personal gain;
- (viii) Inadequate or ineffective supervision, lack of segregation of duties, and misuse of power and excessive discretion

4.3 Opportunities

- (i) With the new political dispensation, the environment is right to re-define the ethical fabric at KPC;
- (ii) With the revised Public Officer Ethics Act, 2016, and the Leadership and Integrity Act, 2012, both State and Public Officers are bound to uphold integrity and therefore Management is freed from intimidation and pressure to undertake unethical acts;
- (iii) Taking action on reported corruption issues due to management partnering with the Integrity Committees.
- (iv) Staff awareness programs enabling them to identify and report on corrupt activities;
- (v) Collaboration with Ethics and Anti-Corruption Commission (EACC) Education Department in enhancing staff skills on integrity and governance;

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4.4 Threats

- (i) Constant changes at top management disrupts efforts made towards mainstreaming integrity;
- (ii) Being a wholly owned government institution, challenges of external political interference;
- (iii) Delayed judicial processes in the execution of corruption matters;
- (iv) Fear of reprisal on whistleblowers leading to lack of comprehensive information to investigate;
- (v) Weak whistleblower and witness protection laws;
- (vi) Un-enforced or unenforceable legislations;

5.0 Way forward

The Company is committed to continuously improve the integrity systems to ensure that operational systems are free from loopholes that promote corruption. In this regard, the Company shall make efforts to ensure the following:

- (i) Adoption of a synchronic-approach for mega projects and inclusion of all stakeholders to ensure continued corruption prevention advice from project planning to commissioning stages rather than post-project advice;
- (ii) Incorporate representation of the Integrity team to serve as observers at project meetings to provide timely corruption prevention advice;
- (iii) To continuously improve systems and procedures to seal gaps and management follow-up on implementation of mitigation plans to make them: FAST - Fair, Accountable, Simple, & Transparent;
- (iv) Promote declaration of conflict of interest at staff entry-point and in all procurements;
- (v) Continuous staff sensitization to emphasize that fighting corruption is everyone's responsibility;
- (vi) Prompt Management action on reported integrity issues to make statement that corrupt behavior shall not be tolerated;
- (vii) Implementation of the whistleblower policy, and encouraging staff to whistle-blow while ensuring protection against reprisal;
- (viii) Continuous review of all policies and procedures to remove ambiguity and discretionary powers; segregation of duties; and defined, clear lines of supervision to eliminate loopholes for corruption;
- (ix) Continuous staff training on integrity and corruption awareness & prevention in liaison with EACC;
- (x) Ensuring staff are sensitized on the whistleblowing communication line provided by the President and ensuring it is available on our Company website.

KENYA PIPELINE COMPANY LIMITED
REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR
ENDED 30TH JUNE 2018

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 30th June 2018, 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
Profit before taxation	12,360,939,293
Taxation charge	<u>(3,792,865,597)</u>
Profit after tax for the year	<u>8,568,073,696</u>

DIVIDEND

The directors do not recommend payment of a dividend in respect of the year (2017 – Kshs 300 Million).

DIRECTORS

The current directors are as shown on page 5 to 9.

AUDITORS

The Auditor General is responsible for the statutory audit of the company’s financial statements in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015

By Order of the Board

COMPANY SECRETARY

NAIROBI

DATE:.....

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KENYA PIPELINE COMPANY LIMITED
REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL
YEAR ENDED 30TH JUNE 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and Cap 486 of the Companies Act, require the Directors to prepare financial statements in respect of Kenya Pipeline Company Limited, which give a true and fair view of the state of affairs of the company at the end of the financial year and the operating results of the company for that year. The Directors are also required to ensure that the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the company. The Directors are also responsible for safeguarding the assets of the company.

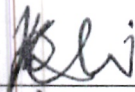
The Directors are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the Companies Act. The Directors are of the opinion that the company's financial statements give a true and fair view of the state of company's transactions during the financial year ended June 30, 2018, and of the company's financial position as at that June 30, 2018. The Directors further confirm the completeness of the accounting records maintained for the company, which have been relied upon in the preparation of the company's financial statements as well as the adequacy of the systems of internal financial control.

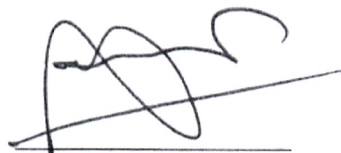
Nothing has come to the attention of the Directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The entity's financial statements were approved by the Board on _____ 2018 and signed on its behalf by:



Director



Director

KENYA PIPELINE COMPANY LIMITED
REPORT AND FINANCIAL STATEMENTS FOR THE
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STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30TH JUNE 2018

		2018	2017
	Note	KShs	KShs
REVENUE	6	27,705,848,487	25,134,869,469
DIRECT COSTS	7	(11,135,712,478)	(9,285,805,904)
GROSS PROFIT		16,570,136,009	15,849,063,565
OTHER INCOME	8	452,661,842	362,564,293
FINANCE INCOME	9(a)	351,443,636	455,249,456
FOREIGN EXCHANGE	9(b)	629,309,782	107,628,230
FINANCE COSTS	9(c)	(218,045)	(450,074)
ADMINISTRATION	10	(5,642,393,932)	(5,295,614,817)
PROFIT BEFORE TAXATION		12,360,939,293	11,478,440,653
TAXATION CHARGE	13	(3,792,865,597)	(3,516,913,825)
PROFIT AFTER TAXATION		8,568,073,696	7,961,526,828
OTHER COMPREHENSIVE INCOME (OCI)/ (LOSS)			
<i>Items that will not be reclassified</i>			
Retirement Benefit Scheme - net income		-	-
Re-measurement (Other Comprehensive Income – DB Retirement Benefit Scheme)		332,039,104	(132,760,666)
Deferred tax on OCI		(99,611,731)	39,828,200
OTHER COMPREHENSIVE		232,427,373	(92,932,466)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		8,800,501,069	7,868,594,361
		Kshs	Kshs
EARNINGS PER SHARE		471	438

KENYA PIPELINE COMPANY LIMITED
REPORT AND FINANCIAL STATEMENTS FOR THE
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STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE 2018

ASSETS	Note	2018 KShs	2017 KShs
Non-Current Assets			
Property, plant and equipment	16	104,869,093,834	98,091,185,919
Leasehold land	17	4,999,883,570	5,167,287,314
Intangible assets	18	562,168,054	858,296,848
Investments	19	36,306,359	36,306,359
Retirement benefits	20	1,285,627,233	880,443,315
Trade and other receivables	22	1,263,891,181	769,762,736
Total Non-Current assets		113,016,970,230	105,803,282,491
Current Assets			
Inventories	21	2,266,017,444	1,591,777,921
Trade and other receivables	22	14,390,380,116	12,048,271,443
Taxation recoverable		1,098,170,701	1,176,703,986
Short term deposits	23(a)	4,815,214,935	6,063,946,835
Bank and cash balances	23(b)	443,569,702	1,478,365,330
Total Current Assets		23,013,352,948	22,359,065,515
Total Assets		136,030,323,178	128,162,348,006
SHAREHOLDER'S FUNDS AND LIABILITIES			
Capital and Reserves			
Share capital	24	363,466,007	363,466,007
Share premium		512,288,916	512,288,916
Retained earnings		79,453,028,143	70,967,940,523
Revaluation reserve		10,004,768,990	10,004,768,990
		90,333,552,056	81,848,464,436
Non-Current Liabilities			
Deferred taxation	25	9,154,163,086	5,381,329,078
Syndicated Long Term Loan	27	25,425,678,726	22,983,317,480
		34,579,841,812	28,364,646,558
Current Liabilities			
Trade and other payables	26	6,706,678,215	14,585,905,944
Due to related parties	29(c)	80,000,000	80,000,000
Current Portion of Long Term Loan	27	4,330,251,097	3,283,331,068
Taxation payable		-	-
		11,116,929,312	17,949,237,012
Total Shareholder's Funds and Liabilities		136,030,323,179	128,162,348,006

The financial statements on pages 49 to 91 were approved and authorized for issue by the Board of Directors on 2018 and signed on their behalf by:

Director

Director

KENYA PIPELINE COMPANY LIMITED
REPORT AND FINANCIAL STATEMENTS FOR THE
FINANCIAL YEAR ENDED 30TH JUNE 2018

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2018

	Share Capital Kshs	Share Premium Kshs	Retained earnings Kshs	Revaluation Reserve Kshs	Total Equity Kshs
As at 1st July 2016 (Previously reported)	363,466,007	512,288,916	63,092,108,956	10,022,711,045	73,990,574,923
Other Comprehensive Income (OCI) – FY2016			(187,488,676)		(187,488,676)
Deferred Tax on FY 2016 OCI			56,246,603		56,246,603
Net expense recognized in Income statement - FY2016			101,496,312		101,496,312
Adjustment to RB Asset			265		265
Understated Revenue FY2015/16			36,982,701		36,982,701
At 1 July 2016 (Restated)	363,466,007	512,288,916	63,099,346,161	10,022,711,045	73,997,812,129
Profit for the year			7,961,526,828		7,961,526,828
Other Comprehensive Income (OCI) – FY2017			(92,932,466)		(92,932,466)
Deferred tax on Kisumu plots revaluation				7,689,452	7,689,452
Prior year Adjustment – Disposal of Kisumu plots				(25,631,507)	(25,631,507)
As at 1st July 2017	363,466,007	512,288,916	70,967,940,523	10,004,768,990	81,848,464,436
Profit for the year			8,568,073,696		8,568,073,696
Dividends paid			(300,000,000)		(300,000,000)
Other Comprehensive Income (OCI)			232,427,373		232,427,373
Adjustment to RB Asset			99,611,731		99,611,731
Deferred Tax in FY 2018 OCI			(115,025,180)		(115,025,180)
As at 30th June 2018	363,466,007	512,288,916	79,453,028,143	10,004,768,990	90,333,552,056

KENYA PIPELINE COMPANY LIMITED
REPORT AND FINANCIAL STATEMENTS FOR THE
FINANCIAL YEAR ENDED 30TH JUNE 2018

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE 2018

	Note	2018 KShs	2017 KShs
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	28(a)	2,900,547,504	21,480,092,397
Interest received	9(a)	351,443,636	400,513,387
Interest expense	9(a)	(218,045)	(450,074)
Income tax paid		(20,031,589)	(5,353,482,536)
Withholding and Advance taxes paid		(36,501,093)	(20,441,580)
		<hr/>	<hr/>
Net cash generated from operating activities		3,195,240,413	16,506,231,595
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	16	(9,985,415,945)	(36,289,206,634)
Proceeds from disposal of property, plant and equipment		41,527	8,131,916
Purchase of intangible assets	18	(36,674,610)	(880,793,866)
		<hr/>	<hr/>
Net cash flows used in investing activities		(10,022,049,028)	(37,161,868,584)
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan Drawdown		8,923,956,215	17,376,320,316
Dividends paid		(300,000,000)	(300,000,000)
Repayment of borrowings		(4,080,675,128)	(808,048,047)
		<hr/>	<hr/>
Net cash flows from financing activities		4,543,281,087	16,268,272,269
		<hr/>	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS		(2,283,527,528)	(4,387,364,720)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		7,542,312,165	11,929,676,885
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		5,258,784,637	7,542,312,165
		<hr/> <hr/>	<hr/> <hr/>

KENYA PIPELINE COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2018

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2018

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2018							
	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% Var	Remarks
	2017-2018	2017-2018	2017-2018	2017-2018	2017-2018		
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs		
Throughput Revenue	31,830,333,528	3,786,245,140	35,616,578,668	27,705,848,487	(7,910,730,181)	-22%	
Finance Income	57,542,102	-	57,542,102	351,443,636	293,901,534	511%	
Other income	494,147,325	-	494,147,325	1,081,971,625	587,824,300	119%	
Total Income	32,382,022,955	3,786,245,140	36,168,268,095	29,139,263,748	(7,029,004,347)		
Expenses							
Compensation of employees- employee costs	6,188,305,739	365,071,053	6,553,376,792	5,841,187,761	712,189,031	11%	
Direct Costs excl. depreciation and electricity	2,488,735,624	323,487,035	2,812,222,659	2,280,717,600	531,505,059	19%	
Administration Costs excl. depreciation and electricity	2,036,238,238	264,671,211	2,300,909,448	2,142,236,060	158,673,388	7%	
Depreciation	3,048,943,412	472,357,843	3,521,301,255	3,707,668,535	(186,367,280)	-5%	
Electricity	2,325,400,000	1,280,056,000	3,605,456,000	2,806,296,454	799,159,546	22%	
Finance cost	1,544,122,520	(1,445,552,950)	98,569,570	218,045	98,351,525	100%	
Total Expenditure	17,631,745,532	1,260,090,192	18,891,835,725	16,778,324,455	2,113,511,270		
Surplus for the period	14,750,277,423		17,276,432,371	12,360,939,293	(4,915,493,078)		

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

KENYA PIPELINE COMPANY LIMITED
REPORTS AND FINANCIAL STATEMENTS FOR THE FINANCIAL
ENDED 30TH JUNE 2018

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2018

1. GENERAL INFORMATION

Kenya Pipeline Company is established by and derives its authority and accountability from the Company Act, Cap 486 of the laws of Kenya. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is to provide efficient, reliable, safe and cost-effective means of transporting petroleum products from Mombasa to the hinterland.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

- (i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

Amendment/Interpretation to a standard	Effective date	Impact <i>(The following new and revised standards were effective in the current year and the directors of the company do not anticipate that application of these Amendments/Interpretations will have significant impact on the company financial statements)</i>
IFRS 9: Financial Instruments <i>(Issued 24 July 2014)</i>	Effective for annual periods beginning on or after 1 January 2018	Finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing <u>IAS 39 Financial Instruments: Recognition and Measurement</u> . The standard contains requirements in the following areas: <ul style="list-style-type: none"> • Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value

KENYA PIPELINE COMPANY LIMITED
REPORTS AND FINANCIAL STATEMENTS FOR THE FINANCIAL
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		<p>through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.</p> <ul style="list-style-type: none"> • Impairment. The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised • Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures • Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39
IFRS 15: Revenue from Contracts with Customers <i>(Issued 28 May 2014)</i>	Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2018	<p>IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.</p> <p>The five steps in the model are as follows:</p> <ul style="list-style-type: none"> • Identify the contract with the customer • Identify the performance obligations in the contract • Determine the transaction price • Allocate the transaction price to the performance obligations in the contracts • Recognise revenue when (or as) the entity satisfies a performance obligation. <p>Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.</p>
IFRIC 22: Foreign Currency Transactions and Advance Consideration <i>(Issued 8 December 2016)</i>	Applicable to annual reporting periods beginning on or after 1 January 2018	<p>The interpretation addresses foreign currency transactions or parts of transactions where:</p> <ul style="list-style-type: none"> • there is consideration that is denominated or priced in a foreign

KENYA PIPELINE COMPANY LIMITED
REPORTS AND FINANCIAL STATEMENTS FOR THE FINANCIAL
ENDED 30TH JUNE 2018

		<p>currency;</p> <ul style="list-style-type: none"> the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and the prepayment asset or deferred income liability is non-monetary. <p>The Interpretations Committee came to the following conclusion:</p> <ul style="list-style-type: none"> The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.
<p><i>Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)</i></p> <p><i>(Issued 19 January 2016)</i></p>	<p>Effective for annual periods beginning on or after 1 January 2017</p>	<p>Amends <u>IAS 12 Income Taxes</u> to clarify the following aspects:</p> <ul style="list-style-type: none"> Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. The carrying amount of an asset does not limit the estimation of probable future taxable profits. Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.
<p><i>Disclosure Initiative (Amendments to IAS 7)</i></p> <p><i>(Issued 29 January 2016)</i></p>	<p>Effective for annual periods beginning on or after 1 January 2017</p>	<p>Amends <u>IAS 7 Statement of Cash Flows</u> to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.</p> <p>Amendments to IAS 7 was effective in the current year and had no material impact on</p>

KENYA PIPELINE COMPANY LIMITED
REPORTS AND FINANCIAL STATEMENTS FOR THE FINANCIAL
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		the amounts reported in the financial statements.
<i>Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Issued 12 April 2016)</i>	Effective for annual periods beginning on or after 1 January 2018	Amends <u>IFRS 15 Revenue from Contracts with Customers</u> to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.
<i>Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) (Issued 20 June 2016)</i>	Effective for annual periods beginning on or after 1 January 2018	Amends <u>IFRS 2 Share-based Payment</u> to clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.
<i>Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) (Issued 12 September 2016)</i>	Overlay approach to be applied when IFRS 9 is first applied. Deferral approach effective for annual periods beginning on or after 1 January 2018 and only available for three years after that date	Amends <u>IFRS 4 Insurance Contracts</u> provide two options for entities that issue insurance contracts within the scope of IFRS 4: <ul style="list-style-type: none"> • an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach; • an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach. <p>The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.</p>
<i>Transfers of Investment Property (Amendments to IAS 40) (Issued 8 December 2016)</i>	Effective for annual periods beginning on or after 1 January 2018	The amendments to <u>IAS 40 Investment Property</u> : <ul style="list-style-type: none"> • Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

KENYA PIPELINE COMPANY LIMITED
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		<ul style="list-style-type: none"> The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.
<i>Annual Improvements to IFRS Standards 2014–2016 Cycle (Issued 8 December 2016)</i>	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017	<p>Makes amendments to the following standards:</p> <ul style="list-style-type: none"> IFRS 1 - Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose IFRS 12 - Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity’s interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> IAS 28 - Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

(ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

Amendment/Interpretation to a standard	Effective date	Impact <i>(The directors of the company anticipate that following new and amended standards will not have significant impact on the company financial statements. However it is not practicable to provide a reasonable estimate of the effect until a detailed review is done)</i>
<i>IFRS 16: Leases (Issued 13 January 2016)</i>	Applicable to annual reporting periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
<i>IFRS 17 Insurance Contracts</i>	Applicable to annual	IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform

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<i>(Issued 18 May 2017)</i>	reporting periods beginning on or after 1 January 2021	measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 <i>Insurance Contracts</i> as of 1 January 2021.
<i>IFRIC 23: Uncertainty over Income Tax Treatments (Issued 7 June 2017)</i>	Applicable to annual reporting periods beginning on or after 1 January 2019	The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: <ul style="list-style-type: none"> • Whether tax treatments should be considered collectively • Assumptions for taxation authorities' examinations • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates • The effect of changes in facts and circumstances
<i>Prepayment Features with Negative Compensation (Amendments to IFRS 9) (Issued 12 October 2017)</i>	Annual periods beginning on or after 1 January 2019	Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
<i>Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) (Issued 12 October 2017)</i>	Annual periods beginning on or after 1 January 2019	Clarifies that an entity applies IFRS 9 <i>Financial Instruments</i> to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied
<i>Annual Improvements to IFRS Standards 2015–2017 Cycle (Issued 12 December 2017)</i>	Annual periods beginning on or after 1 January 2019	Makes amendments to the following standards: <ul style="list-style-type: none"> • IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. • IAS 12 - The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits. • IAS 23 - The amendments clarify that if any

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		specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows <i>generally</i> when calculating the capitalisation rate on general borrowings.
<i>Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) (Issued 7 February 2018)</i>	Annual periods beginning on or after 1 January 2019	The amendments in <i>Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)</i> are: <ul style="list-style-type: none"> • If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. • In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.
<i>Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018)</i>	Annual periods beginning on or after 1 January 2020	Together with the revised <i>Conceptual Framework</i> published in March 2018, the IASB also issued <i>Amendments to References to the Conceptual Framework in IFRS Standards</i> . The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised <i>Conceptual Framework</i> . Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised <i>Conceptual Framework</i> .

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

(iii) Early adoption of standards

The company did not early – adopt any new or amended standards in year 2018.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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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.

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

KENYA PIPELINE COMPANY LIMITED

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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.

Provision for staff leave pay

Employees' entitlements to annual leave are recognized as they accrue at the employees. At provision is made for the estimated liability for annual leave at the reporting date.

Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and

KENYA PIPELINE COMPANY LIMITED

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losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Budget information

The original budget for FY 2017-2018 was approved by The National Treasury on 14th June 2017. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity recorded additional appropriations of Kshs 12.6 billion on the 2017-2018 budget following the governing body's approval.

Kenya Pipeline Company budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under page 54 of these financial statements.

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.

KENYA PIPELINE COMPANY LIMITED

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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.

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.

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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.

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.

Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2018.

5. SIGNIFICANT JUDGEMENT AND SOURCES OF ESTIMATION UNCERTAINTY

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

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periods. The critical areas of accounting estimates and judgments in relation to the preparation of these financial statements are as set out below:

a) Critical judgements in applying the company's accounting policies

Held-to-maturity financial assets

The directors have reviewed the company's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the company's positive intention and ability to hold those assets to maturity. The company did not have any held-to-maturity financial assets as at 30 June 2016 (30 June 2015: NIL).

b) Key Sources of Estimation Uncertainty

Actuarial valuation of defined benefits plan

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

Impairment of assets

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

Impairment losses on trade and other receivables

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

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

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6. REVENUE	2018	2017
	KShs	KShs
Local service fees	9,740,278,155	9,685,417,627
Export service fees	12,743,274,331	12,716,750,804
Kipevu oil storage facility fees	4,698,531,966	2,103,643,231
Penalties on overstayed product	372,678,610	342,443,970
Penalties from ASE	429,557	307,921
Hospitality	34,061,586	252,116,298
KPRL Lease Income	67,562,909	34,189,618
Liquefied Petroleum Gas Sales	42,207,973	-
Crude Oil Revenue (EOPS)	6,823,401	-
	<u>27,705,848,487</u>	<u>25,134,869,469</u>
	<u><u>27,705,848,487</u></u>	<u><u>25,134,869,469</u></u>
7. DIRECT COSTS	2018	2017
	KShs	KShs
Pipeline maintenance staff costs (note 11)	2,775,949,941	2,790,962,026
Depreciation	2,894,718,081	2,264,151,717
Pipeline maintenance costs	2,201,717,970	1,385,094,342
Electricity and fuel	2,810,849,114	2,312,343,283
Insurance	210,466,563	224,301,785
Other maintenance costs	78,999,630	146,502,666
Amortization expense	163,011,179	161,684,578
	<u>11,135,712,478</u>	<u>9,285,805,904</u>
	<u><u>11,135,712,478</u></u>	<u><u>9,285,805,904</u></u>
8. OTHER INCOME		
Helicopter income	22,895,178	35,487,070
Rent income	90,768,876	80,562,973
(Loss)/gain on disposal of PPE	(46,944)	373,684
Hydrant Income	68,905,876	65,624,642
Income from Collateral Financing	74,146,096	54,736,068
Non-Refundable Tender Deposits	2,000	-
MTCC /MIOG collections	140,246,446	125,371,551
Miscellaneous income	55,744,315	55,144,373
	<u>452,661,842</u>	<u>417,300,361</u>
	<u><u>452,661,842</u></u>	<u><u>417,300,361</u></u>
9. (a) FINANCE INCOME		
Interest income on deposits	351,443,636	400,513,387
	<u>351,443,636</u>	<u>400,513,387</u>
(b) FOREIGN EXCHANGE GAINS		
	629,309,782	107,628,230
	<u>629,309,782</u>	<u>107,628,230</u>
(c) FINANCE COSTS		
Interest expense	218,045	450,074
	<u>218,045</u>	<u>450,074</u>
	<u><u>218,045</u></u>	<u><u>450,074</u></u>

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	2018	2017
	KShs	KShs
10. ADMINISTRATION EXPENSES		
Administrative staff costs	2,797,359,842	2,968,953,992
Depreciation and Lease Amortization	649,939,275	335,280,905
Other office and general expenses	803,723,377	614,524,554
Travelling, mileage and entertainment	93,745,392	68,633,894
Advertising and printing expenses	181,242,233	191,047,542
Staff Training	174,132,586	174,037,237
Rent and rates	420,491,142	14,671,734
Consultancy fees	240,201,560	300,549,863
Telephone and postage	45,028,490	38,365,207
Legal and professional expenses	53,317,570	133,962,239
Court Awards	2,500,000	259,596,839
Motor vehicle expenses	72,176,386	51,750,729
Buildings repairs and maintenance	50,621,623	66,187,102
Bank charges	6,355,075	11,025,526
Penalties and interest on tax	-	-
Auditors remuneration	8,011,033	7,713,000
Directors Expenses:		
- Performance Incentive	9,240,000	9,240,000
- Board Retreats and general expenses	4,243,777	10,917,176
- Sitting /duty allowance	9,260,000	11,280,000
- Training expenses	7,690,848	10,298,746
- Travel expenses and Subsistence allowance	13,113,725	17,578,533
	5,642,393,932	5,295,614,817
	5,642,393,932	5,295,614,817
11. STAFF COSTS		
Salaries and wages	4,361,064,740	4,554,868,607
Group life and medical cover	353,620,068	356,372,261
Pension-company contribution	220,680,960	241,770,707
Staff welfare	58,542,635	55,697,507
Training	174,257,091	174,037,237
Recruitment costs	926,019	10,219,588
Travel, Mileage & Entertainment	122,831,967	95,453,772
Subsistence Allowance	536,025,668	499,669,861
NSSF-company contribution	4,984,098	6,235,689
Staff uniforms	8,254,514	8,261,919
	5,841,187,761	6,002,587,150
	5,841,187,761	6,002,587,150
Split as follows:		
Direct staff costs (Note 7)	2,775,949,941	2,790,962,026
Administrative staff cost (Note 10)	3,065,237,819	3,211,625,124
	5,841,187,761	6,002,587,150
	5,841,187,761	6,002,587,150

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

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The average number of employees at the end of the year was:

	2018	2017
Permanent Management	614	602
Permanent Unionisable	911	968
Temporary Contract and interns	172	229
TOTAL	1697	1799

Provision for Leave Pay

Balance at beginning of the year	235,928,970	180,363,318
Additional provision at end of year	60,356,475	94,177,056
Leave paid out or utilized during the year	(69,893,214)	(38,611,404)

Balance at end of the year

226,392,231	235,928,970
--------------------	--------------------

12. PROFIT BEFORE TAX

2018
KShs

2017
KShs

The profit before tax is arrived at after charging/(crediting):

Staff costs (note11)	5,841,187,761	6,002,587,150
Depreciation of property, plant and equipment	3,207,461,387	2,473,982,224
Amortisation of intangible assets	500,207,148	287,134,976
Provision for bad and doubtful debts	(15,717,226)	1,337,040
Directors' expenses	43,548,349	59,314,455
Auditors' remuneration	8,011,033	7,713,000
Loss on disposal of property, plant and equipment	46,944	(373,684)
Net foreign exchange gain	(629,309,782)	(107,628,230)
Interest receivable	(351,443,636)	(400,513,387)
Interest payable	218,045	450,074
Rent receivable	(90,768,876)	(80,562,973)

13. TAXATION

2018
KShs

2017
KShs

a) Tax charge

Current taxation	115,034,378	3,253,535,484
Deferred tax	3,862,911,967	263,378,263
Deferred tax – OCI	(99,611,731)	78
Prior year adjustment	9,533,772	
Total taxation charge	3,887,868,386	3,516,913,825

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

Profit before taxation	12,360,939,293	11,478,440,653
Tax at the applicable rate of 30%	3,708,281,788	3,443,532,196
Tax effect of expenses not deductible for tax purposes	170,052,826	169,456,354
Income not subject to tax	-	(96,074,803)
Tax underpayment – Prior year	9,533,772	78
Additional tax assessment	20,031,589	-
Total taxation charge	3,907,899,975	3,516,913,825

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c) Taxation (recoverable)/payable

	2018	2017
	KShs	KShs
Balance brought forward	(1,176,703,986)	943,975,196
Charge for the year (note 11(a))	115,034,378	3,253,535,484
Installment tax payments in the year	-	(4,409,506,689)
Balance of FY 2016 tax paid	-	(943,975,196)
Withholding tax paid on rent income	(35,893,503)	(20,141,729)
Advance tax paid	(607,590)	(299,851)
Tax over-provision 2017	-	0
Withholding tax paid on miscellaneous income	-	(291,201)
	<u>(1,098,170,701)</u>	<u>(1,176,703,986)</u>

14. EARNINGS PER SHARE

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

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

There were no potentially dilutive ordinary shares outstanding as at 30th June 2018 and 30th June 2017. 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:

	2018	2017
	KShs	KShs
Profit after taxation	8,568,073,696	7,961,526,828
Number of ordinary shares in issue (Note 25)	18,173,300	18,173,300
Basic and diluted earnings per share (in KShs)	<u>471</u>	<u>438</u>

15. DIVIDENDS PER SHARE

Proposed dividends are not accounted for until they have been ratified at the Annual General Meeting. A dividend of Kshs 300 million was declared for the financial year ended 30 June 2017.

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16. PROPERTY, PLANT AND EQUIPMENT

	Freehold	Buildings	Pipeline	Equipment		Motor	Capital	
	Property	and Roads	Pumps & Tanks	Furniture &	Helicopters	Vehicles &	Work-in-	Total
	Kshs	Kshs	Kshs	Fittings	Kshs	Tractors	Progress	Kshs
				Kshs		Kshs	Kshs	Kshs
COST								
1st July 2016	881,963,445	5,575,514,510	31,903,029,003	4,915,250,293	438,914,541	662,888,600	27,836,367,270	72,213,927,662
Additions(Acquisitions)	-	6,148,117	174,171,689	224,384,046	-	154,274,427	35,149,931,335	35,708,909,614
Transfers from WIP	-	306,512,213	4,938,801,700	3,165,907,886	-	45,899,719	8,457,121,518	-
Disposals	-	-	-	17,284,380	-	7,091,667	-	24,376,047
Impairment	-	-	-	-	-	-	30,262,989	30,262,989
30th June 2017	881,963,445	5,888,174,841	37,016,002,392	8,288,257,845	438,914,541	855,971,079	54,559,440,075	107,928,724,218
1st July 2017	881,963,445	5,888,174,841	37,016,002,392	8,288,257,845	438,914,541	855,971,079	54,559,440,075	107,928,724,218
Additions(Acquisitions)	-	215,517	224,989,563	384,914,730	-	45,890,583	9,329,405,852	9,985,416,246
Transfers from WIP	-	1,822,279,423	42,326,329,781	15,712,353,931	-	205,311,888	60,066,275,024	0
Disposals	-	-	-	65,000	-	-	-	65,000
ADJUSTMENT	-	-	-	-	-	-	-	-
At 30th June 2018	881,963,445	7,710,669,781	79,567,321,737	24,385,461,506	438,914,541	1,107,173,550	3,822,570,903	117,914,075,464
DEPRECIATION								
1st July 2016	-	1,185,950,971	4,593,868,355	960,216,689	248,950,286	392,381,688	-	7,381,367,990
Charge for the year	-	331,479,415	1,294,931,114	619,222,344	77,766,265	150,583,087	-	2,473,982,224
Eliminated on Disposal	-	-	-	10,720,548	-	7,091,667	-	17,812,215
30th June 2017	-	1,517,430,386	5,888,799,469	1,568,718,484	326,716,551	535,873,108	-	9,837,537,999
1st July 2017	-	1,517,430,386	5,888,799,569	1,568,718,684	326,716,551	535,873,108	-	9,837,538,299
Charge for the year	-	357,032,542	1,592,818,188	1,052,278,279	77,766,265	127,566,114	-	3,207,461,387
Eliminated on Disposal	-	-	-	18,056	-	-	-	18,056
At 30th June 2018	-	1,874,462,928	7,481,617,756	2,620,978,908	404,482,816	663,439,222	-	13,044,981,630
NET BOOK VALUE:								
At 30th June 2018	881,963,445	5,836,206,853	72,085,703,980	21,764,482,598	34,431,725	443,734,329	3,822,570,903	104,869,093,834
At 30th June 2017	881,963,445	4,370,744,454	31,127,202,923	6,719,539,360	112,197,990	320,097,671	54,559,440,075	98,091,185,918

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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	Level 2 KShs	Level 3 KShs	Fair value as at 30 June KShs
30 June 2018				
Buildings and roads	-	-	5,836,206,853	5,836,206,853
Pipeline, pumps & tanks	-	-	72,085,703,980	72,085,703,980
Equipment, furniture and fittings	-	-	21,764,482,598	21,764,482,598
Helicopters	-	-	34,431,725	34,431,725
Motor vehicles and tractors	-	-	443,734,329	443,734,329
	-	-	100,164,559,486	100,164,559,486
30 June 2017				
Buildings and roads	-	-	4,370,744,454	4,370,744,454
Pipeline, pumps & tanks	-	-	31,127,202,923	31,127,202,923
Equipment, furniture and fittings	-	-	6,719,539,360	6,719,539,360
Helicopters	-	-	112,197,990	112,197,990
Motor vehicles and tractors	-	-	320,097,671	320,097,671
	-	-	42,649,782,399	42,649,782,399

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

	2018 KShs	2017 KShs
Cost	62,665,291,000	59,971,862,000
Accumulated depreciation	(32,205,938,000)	(31,715,719,000)
Net book value	30,459,353,000	28,256,143,000

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

	2018 KShs	2017 KShs
Total depreciation as per property, plant & equipment (note 16)	2,983,390,070	2,473,982,224
Direct costs (note 7)	2,894,718,081	2,264,151,717
Administrative costs	312,743,306	209,830,507
	3,207,461,387	2,473,982,224

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17. LEASEHOLD LAND

	2018	2017
	KShs	KShs
COST/VALUATION		
1 July	5,640,368,221	5,086,390,989
Additions	-	580,297,020
Disposals	-	(26,319,788)
	<u>5,640,368,221</u>	<u>5,640,368,221</u>
AMORTIZATION		
1 July	473,080,907	320,130,391
Charge for the year	167,403,744	153,638,797
Eliminated on Disposal	-	(688,280.92)
	<u>640,484,651</u>	<u>473,080,907</u>
NET BOOK VALUE	<u>4,999,883,570</u>	<u>5,167,287,314</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 relating to the JKIA Embakasi Depot whose title is held under the Kenya Airports Authority (KAA). KPC is pursuing a separate title.

18. INTANGIBLE ASSETS

	2018	2017
	KShs	KShs
COST		
1 July	1,362,044,918	481,251,052
Additions	36,674,610	880,793,866
	<u>1,398,719,527</u>	<u>1,362,044,918</u>
AMORTIZATION		
1 July	503,748,070	370,251,891
Charge for the year	332,803,404	133,496,179
	<u>836,551,473</u>	<u>503,748,070</u>
NET BOOK VALUE	<u>562,168,054</u>	<u>858,296,848</u>

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

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19. INVESTMENTS – at cost

	2018	2017
	KShs	KShs
<i>Unquoted investments</i>		
Consolidated Bank of Kenya Limited	67,030,000	67,030,000
Impairment charge on Consolidated Bank of Kenya Limited preference shares	(30,725,641)	(30,725,641)
	<u>36,304,359</u>	<u>36,304,359</u>
Petroleum Institute of East Africa	2,000	2,000
	<u>36,306,359</u>	<u>36,306,359</u>
<i>Details of the investment in Consolidated Bank of Kenya Limited are shown below:</i>		
720,000 ordinary shares of KShs 20 each	14,400,000	14,930,000
2,631,500 preference shares of KShs 20 each	52,630,000	52,100,000
Impairment charge on Consolidated Bank of Kenya Limited preference shares	(30,725,641)	(30,725,641)
	<u>36,304,359</u>	<u>36,304,359</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.

20. RETIREMENT BENEFITS

a) National Social Security Fund

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

b) Defined Benefit Scheme (Closed)

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

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

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RETIREMENT BENEFITS (CONTINUED)

b) Defined Benefit Scheme (Closed) (Continued)

	2018	2017
Discount rate(s)	13.9%	13.9%
Future salary increases	5.0%	5.0%
Future pension increases	0.0%	0.0%
Mortality (pre-retirement)	A1949-1952	A1949-1952
Mortality (post-retirement)	a (55) m/f	a (55) m/f
	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Withdrawals	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Ill health	50% at 55 and 100%	50% at 55 and 100%
Retirement age	at 60 years	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:

	2018	2017
	KShs	KShs
Total service cost	46,037,220	35,917,000
Interest costs:		
Interest cost on defined benefit obligation	813,148,388	780,270,857
Interest income on plan assets	(1,018,795,042)	(1,011,019,082)
Interest on the effect of the asset ceiling	86,464,621	101,740,145
Net interest income	(119,182,034)	(129,008,080)
Components of defined benefits plan recognized in profit or loss	(73,144,814)	(93,091,080)
	=====	=====
Actuarial gain obligation	(636,698,606)	(201,352)
Return on plan assets (excluding amount in interest cost)	73,689,031	324,124,077
Change in effect of asset ceiling (excluding amount in interest cost)	230,970,470	(191,162,059)
Components of defined benefits plan recognized in other comprehensive income	(332,039,104)	132,760,666
	=====	=====

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RETIREMENT BENEFITS (CONTINUED)

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:

	2018 KShs	2017 KShs
Present value of funded defined benefit obligation	5,835,855,968	6,040,570,614
Fair value of plan assets	(8,060,965,923)	(7,543,061,560)
Effect of asset ceiling	939,482,722	622,047,631
	<hr/>	<hr/>
Present value of defined benefit asset	(1,285,627,233)	(880,443,315)
	<hr/> <hr/>	<hr/> <hr/>

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

	2018 KShs	2017 KShs
Net asset at the start of the year	(880,443,315)	(920,112,901)
Net income recognized in the income statement	(73,144,814)	(93,091,080)
Employer contributions		
Amount recognized in other comprehensive income	(332,039,104)	132,760,666
	<hr/>	<hr/>
Present value of overfunded defined benefit asset	(1,285,627,233)	(880,443,315)
	<hr/> <hr/>	<hr/> <hr/>

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

Opening defined benefit obligation	6,040,570,614	5,652,378,014
Current service cost	46,037,220	35,917,000
Interest cost	813,148,388	780,270,857
Contributions from plan participants	-	-
Actuarial gain due to change in assumptions	(82,357,463)	(201,352)
Actuarial gain due to experience	(554,341,143)	-
Benefits paid	(427,201,648)	(427,793,905)
	<hr/>	<hr/>
Closing defined benefit obligation	5,835,855,968	6,040,570,614
	<hr/> <hr/>	<hr/> <hr/>
Opening fair value of plan assets	(7,543,061,560)	(7,283,960,460)
Interest income on plan assets	(1,018,795,042)	(1,011,019,082)
Contributions from the employer	-	-
Employee contributions	-	-
Benefits paid	427,201,648	427,793,905
Return on plan assets	73,689,031	324,124,077
	<hr/>	<hr/>
Closing fair value of plan assets	(8,060,965,923)	(7,543,061,560)
	<hr/> <hr/>	<hr/> <hr/>

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RETIREMENT BENEFITS (CONTINUED)

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

	2018	2017
	KShs	KShs
Equity instruments	2,075,895,687	1,871,825,253
Debt instruments	3,368,606,368	3,241,302,734
Property	2,418,963,868	2,164,273,540
Cash	197,500,000	265,660,033
Total Scheme (Assets)	8,060,965,923	7,543,061,560

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.

21. INVENTORIES

	2018	2017
	KShs	KShs
Spare parts and consumables	2,336,032,479	1,661,792,956
Provision for obsolete stocks	(70,015,035)	(70,015,035)
	<u>2,266,017,444</u>	<u>1,591,777,921</u>

22. TRADE AND OTHER RECEIVABLES

	2018	2017
	KShs	KShs
Trade receivables	8,458,799,963	7,034,645,762
Staff loans and advances	1,444,867,156	941,066,969
VAT recoverable	4,350,781,236	3,100,799,650
Prepaid construction costs	106,656,301	106,656,301
Prepaid expenses	799,185,708	1,319,843,648
Refundable deposits	9,477,446	9,477,446
Other debtors	1,053,419,365	890,267,945
	<u>16,223,187,175</u>	<u>13,402,757,721</u>
Provision for bad and doubtful debts	(568,915,828)	(584,723,542)
	<u>15,654,271,247</u>	<u>12,818,034,179</u>
Recoverable as follows:		
Within one year	14,390,380,166	12,048,271,443
After one year (staff loans)	1,263,891,181	769,762,736
	<u>15,654,271,347</u>	<u>12,818,034,179</u>
The amounts recoverable after one year relate to staff loans and advances	<u>=====</u>	<u>=====</u>

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Ageing analysis of the Trade receivables was as follows:	2018 KShs	2017 KShs
Less than 30 days	3,477,582,580	2,796,143,901
Between 30 and 60 days	52,329,914	3,911,983
Between 61 and 90 days	58,103,698	27,842,320
Between 91 and 120 days	120,637,983	106,616,187
Over 120 days	4,750,145,788	4,100,131,371

Included in trade receivables is KShs 4.2 billion (2017 - KShs 4.3 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 outcome of an appeal.

23. CASH AND SHORT-TERM DEPOSITS

a) Short Term Deposits	2018 KShs	2017 KShs
Fixed deposits	4,815,214,935	6,063,946,835

The fixed deposits have a tenor of 3 months and the effective interest rate in the year was 10% p.a. (2016 – 9.5%).

b) Bank and Cash Balances		2018 Kshs	2017 Kshs
	Account No.		
1.	Barclays Bank of Kenya	1108981062	0
2.	Commercial Bank of Africa (Kshs)	6634970017	16,064,863
3.	Commercial Bank of Africa (USD)	6634970025	89,837,893
4.	Standard Bank (Kshs)	104023872500	96,093,194
5.	Standard Bank (USD)	8704023872500	104,789,755
6.	CfC Stanbic (Kshs)	100000534425	(3,573,276)
7.	CfC Stanbic (USD)	100000681347	67,467,732
8.	Citibank (Kshs)	104052002	4,673,488
9.	Citibank (USD)	104052029	18,242,905
10.	Coop-Bank	1136028439200	10,205,658
11.	Coop-Bank (USD)	2120028439200	498,884
12.	Equity Bank(Kshs)	560291247368	26,903,225
13.	Equity Bank (USD)	560261355277	490,274
14.	Kenya Commercial Bank	1108981061	350,976
15.	Petty Cash		11,524,130
		443,569,702	1,478,365,330

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24. SHARE CAPITAL

	2018	2017
Authorized:		
19,369,580 Ordinary Shares of KShs 20 each	387,391,600	387,391,600
	=====	=====
Issued and fully paid:		
18,173,300 Ordinary Shares of KShs 20 each	363,466,007	363,466,007
	=====	=====

25. DEFERRED TAX LIABILITY

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

	2018	2017
	KShs'000	KShs'000
Deferred tax liability		
Accelerated capital allowances	22,195,317,428	5,290,518,263
Deferred tax on retirement benefit plan assets	385,688,170	264,132,995
Unrealized exchange gains	217,507,987	19,382,793
	8,376,972,002	5,574,034,051
Deferred tax assets		
General inventory provisions	(21,004,511)	(21,004,510)
Leave pay provision	(67,917,669)	(70,778,691)
General bad debts provision	(4,846,968)	(4,846,966)
Retirement Benefit - OCI	(195,686,534)	(96,074,800)
	(289,455,682)	(192,704,967)
Net deferred tax liability	22,509,057,903	5,381,329,084
The movement in Deferred Tax was as follows:		
At 1 July (as previously reported)	5,381,329,078	5,381,329,078
Prior year adjustment	9,533,772	9,533,772
	5,390,862,851	5,390,862,851
Deferred tax charge (note 13(a))	3,879,721,615	3,879,721,615
Deferred tax - Retirement Benefit Obligation a/c	(99,611,731)	(99,611,731)
At the end of the year	9,154,163,08	9,154,163,08

26. TRADE AND OTHER PAYABLES

	2018	2017
	KShs'000	KShs'000
Trade payables	2,011,000	2,011,000
Other payables	4,170,000	4,170,000
Catering, training & tourism development levy	1,000,000	1,000,000
Leave pay provision	1,000,000	1,000,000
Withholding tax payable	1,000,000	1,000,000

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7. LONG TERM LOAN

	2018 KShs	2017 KShs
(a) Syndicated Loan(Long Term Portion)	25,425,678,726	22,983,317,480
(b) Syndicated Loan (Current Portion)	4,330,251,097	3,283,331,069

The long-term loan represents loan drawdowns as at 30th June 2018 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 2018 USD	Drawn as at 30th June 2017 USD
1 Commercial Bank of Africa	58,333,333	56,661,473	42,251,741
2 Citibank N.A.	58,333,333	56,661,473	42,251,741
3 CFC Stanbic Bank	58,333,333	56,661,473	42,251,741
4 Standard Chartered Bank	58,333,333	56,661,473	42,251,741
5 Rand Merchant Bank	58,333,333	56,661,473	42,251,741
6 Cooperative Bank of Kenya	58,333,333	56,661,473	42,251,741
TOTAL	350,000,000	339,968,838	253,510,449

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

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

8. NOTES TO THE STATEMENT OF CASH FLOWS

	2018 KShs	2017 KShs
a) Reconciliation of operating profit to cash generated from operations		
Profit before tax	12,360,939,293	11,478,440,653
<i>Adjustments for:</i>		
Depreciation (note 16)	3,207,461,387	2,473,982,224
Amortization of leasehold land (note 17)	167,403,744	153,638,797
Amortization of intangible assets (note 18)	332,803,404	133,496,179
Movement in retirement benefit asset	(73,144,814)	(125,661,685)
Loss/(gain) on disposal of property, plant and equipment	5,417	1,327,214
Interest income	(351,443,636)	(400,513,387)
Interest expense	218,045	450,074
Operating profit before working capital changes	15,644,242,840	13,715,160,068

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NOTES TO THE STATEMENT OF CASH FLOWS (continued)

	2018 KShs	2017 KShs
Increase in inventories	(674,239,523)	96,519,312
Increase in trade and other receivables	(2,836,237,168)	(3,950,595,463)
(Decrease)/increase in trade and other payables	(9,233,218,645)	11,859,097,707
Movement in related party balances	-	(240,089,228)
	<hr/>	<hr/>
Cash generated from operations	2,900,547,504	21,480,092,397
	<hr/> <hr/>	<hr/> <hr/>
b) Analysis of cash and cash equivalents		
Short term deposits (note 22(a))	4,815,214,935	6,063,946,835
Bank and cash balances	443,569,702	1,478,365,330
	<hr/>	<hr/>
	5,258,784,637	7,542,312,165
	<hr/> <hr/>	<hr/> <hr/>
c) Analysis of non-cash transactions:		
Total additions to property, plant and equipment	9,985,416,246	36,289,206,634
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	9,985,416,246	36,289,206,634
	<hr/> <hr/>	<hr/> <hr/>

29. RELATED PARTIES

The Government of Kenya is the principal shareholder of the Kenya Pipeline Company Limited, holding 100% of the company's equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the entity, both domestic and external.

Other related parties include:

- | | |
|----|-----------------------------------|
| a) | Ministry of Energy |
| b) | National Oil Corporation of Kenya |
| c) | Kenya Power Limited |
| d) | Key management |
| e) | Board of directors |

Transactions with related parties include:

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	2018 KShs	2017 Kshs
(a) Sales to related party		
Services provided to National Oil Corporation (K)	2,806,479,223	1,045,451,204
	=====	=====

RELATED PARTIES (Continued)

(b) Expenses incurred on behalf of related parties

Services received from Kenya Power & Lighting Co	2,806,296,454	2,307,126,408
Services received from Ministry of Energy	384,000,000	384,000,000
	3,190,296,454	2,691,126,408

(c) Due to related party

Deferred Income from Ministry of Energy – LPG Project	80,000,000	80,000,000
	=====	=====

(d) Key management compensation

CEO salaries and benefits	10,669,880	12,159,656
Key Management salaries and benefits	262,655,881	210,912,970
	273,325,761	223,072,626
Directors Expenses		
Directors fees & incentives	9,240,000	9,240,000
Board Retreats and general expenses	4,243,777	10,917,176
Travel/duty allowance	9,260,000	11,280,000
Entertainment expenses	7,690,848	10,298,746
Medical expenses and Subsistence allowance	13,113,726	17,578,533
	43,548,350	59,314,455
	=====	=====

ASSETS UNDER OPERATING LEASES

	2018 KShs	2017 KShs
	90,768,876	80,562,973
	363,075,503	322,251,891
	453,844,379	402,814,863
	=====	=====

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The lease rental income earned during the year in respect of company's property amounted to KShs 83 million (2017 – KShs 81 million).

	2018	2017
	KShs	KShs
<i>The company as a lessee:</i>		
Within one year	1,005,055,775	69,798,331
In the second to fifth year inclusive	4,020,223,100	279,193,322
	<u>5,025,278,875</u>	<u>348,991,653</u>

The total rental expense incurred during the year amounted to KShs 8.5 million (2017-KShs 7.3 million).

31. CONTINGENT LIABILITIES

	2018	2017
	KShs	KShs
Pending law suits	4,925,620,633	4,012,257,286
Guarantees and letters of credit	568,114,605	1,002,295,515
	<u>5,493,735,238</u>	<u>5,014,552,801</u>

Pending lawsuits relate to civil suits lodged against the company by various parties and include a contingent liability related to irregular release of product, amounting to Kshs 1.4 billion (2017: KShs 400 million).

32. FUEL STOCKS

Fuel stocks belong to the Oil Marketing Companies (OMCs) as per Transportation and Storage Agreement s' between the Kenya Pipeline Company Limited and the OMCs. Fuel stocks are therefore not included financial statements. As at 30 June 2018, the company held 629,406 m³ (2017 – 372,728 M³) third party fuel with a Hydro-Carbon Value (HCV) of Kshs. 35,229,189,226 (2017 – Kshs. 14,168,033,066).

3. CAPITAL COMMITMENT

	2018
	KShs
Amounts authorised	23,859,971,566
Less: Amounts incurred and included in work-in-progress	9,235,902,426

The above amounts are included in the approved budget for the year

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FINANCIAL RISK MANAGEMENT

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
- Capital risk

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

The board of directors has overall responsibility for the establishment and oversight of the company’s risk management framework.

The company’s treasury function provides services to the business, co-ordinates access to domestic financial markets, monitors and manages the financial risks relating to the operations of the company.

Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis.

The company’s treasury function, headed by the chief accountant - finance and reporting to the Finance Manager, monitors and manages the financial risks relating to the operations of the company and monitors risks and policies implemented to mitigate risk exposures.

Market risk

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

Fluctuations arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates, can affect the company’s income or the value of its holding of financial instruments. The company’s management is to manage and control market risk exposures within acceptable parameters, and overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

Foreign exchange management

The foreign exchange risk arising from international trading commitments is minimized by settling receivables and payable maturing obligations. Revenue is spread on a 50-50 basis in USD and KShs. At the end of the year, the carrying amounts of the company’s foreign exchange monetary liabilities are as follows:

EUR	USD	CAD	ZAR
KShs	KShs	KShs	KShs
	281,327,443	-	-
	5,386,453,711	-	-
	6,088,627,353	-	-
	8,756,408,507	-	-

signed in the stocks
 2017
 KShs
 5,042,825,042
 36,289,206,634

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Financial liabilities					
Trade payables	(14,696,298)	(202,553,662)	-	(4,267,217)	(563,079)
Long Term Loan	-	-	(29,755,929,823)	-	-
Net exposure	(14,696,298)	(202,553,662)	(29,755,929,823)	(4,267,217)	(563,079)

	GBP KShs	EUR KShs	USD KShs	CAD KShs	ZAR KShs
At 30 June 2017					
Financial assets					
Bank and cash balances	-	-	674,360,198	-	-
Short term deposits	-	-	478,516,240	-	-
Trade receivables	-	-	6,001,730,985	-	-
	-	-	7,154,607,42	-	-
Financial liabilities					
Trade payables	(14,784,605)	(3,309,209)	(239,731,794)	-	(822,156)
Long Term Loan	-	-	(26,266,648,548)	-	-
Net exposure	(14,784,605)	(3,309,209)	(19,351,772,920)	-	(822,156)

(ii) 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.

	2018 KShs		2017 KShs	
	Effect on Profit	Effect on Equity	Effect on Profit	Effect
Currency - GB pounds				
+ 10 percentage point movement	(1,469,630)	(1,028,741)	1,478,460	
- 10 percentage point movement	1,469,630	1,028,741	(1,478,460)	
Currency - Euro				
+ 10 percentage point movement	(20,255,366)	(14,178,756)	330,921	
- 10 percentage point movement	20,255,366	14,178,756	(330,921)	
Currency - US dollars				
+ 10 percentage point movement	600,173,099	420,121,169	(1,935,177,29	
- 10 percentage point movement	(600,173,099)	(420,121,169)	1,935,177,29	
Currency - CAD				
+ 10 percentage point movement	(426,722)	(298,705)		
- 10 percentage point movement	426,722	298,705		
Currency - ZAR				

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+ 10 percentage point movement	(56,308)	(39,415)	82,216	57,551
- 10 percentage point movement	56,308	39,415	82,216	57,551
Currency - HKD				
+ 10 percentage point movement	-	-	-	-
- 10 percentage point movement	-	-	-	-

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

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

(iii) Interest Risk Management

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

Sensitivity analysis

The entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of Kshs 48,152,149 (2017: Kshs 60,639,468). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of Kshs 240,760,747 (2017 – Kshs 303,197,342)

Management

... risk of financial loss to the company arising from a default by counterparty on its company's policy requires that it deals only with creditworthy counterparties and where appropriate, as a means of mitigating the risk of financial loss from defaults. ... only available financial information and its own trading records to rate its major ... and the credit ratings of its counterparties are continuously monitored and the ... is spread amongst approved counterparties. Credit exposure is controlled ... approved by debt control unit.

... the petroleum oil industry. Ongoing credit evaluation is performed on ... where appropriate, credit guarantee is requested.

... t 30 June 2018 is analyzed in the table below:

Past Due	Impaired	Gross Total
Kshs	Kshs	Kshs
893,640	206,323,743	8,458,799,963
5,776	213,305,493	820,504,366
-	-	443,569,702
-	-	4,815,214,935
3,578,348,309	419,629,236	14,538,088,966

in Equity

1,034,922

(1,034,922)

231,645

(231,645)

(1,354,624,10)

1,354,624,104)

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

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

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

c) Liquidity Risk Management

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

The company manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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

	Within 12 months KShs	Over 12 months KShs	Total KShs
At 30 June 2018:			
Due to related parties	-	80,000,000	80,000,000
Trade payables	1,208,892,033	-	1,208,892,033
Other payables and accruals	4,178,216,535	-	4,178,216,535
	5,387,108,568	80,000,000	5,467,108,568

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

d) Capital Risk Management

The objective of the entity's capital risk management is to safeguard the entity's ability to continue in operation. The entity capital structure comprises of the following funds:

ENYA PIPELINE COMPANY LIMITED
REPORTS AND FINANCIAL STATEMENTS FOR THE FINANCIAL
PERIOD ENDED 30TH JUNE 2018

	2018	2017
	KShs	KShs
Revaluation reserve	10,004,768,990	10,004,768,990
Retained earnings	79,453,028,143	70,967,940,523
Capital reserve	875,754,923	875,754,923
Total funds	90,333,552,056	81,848,464,436
Total borrowings	29,755,929,823	26,266,648,548
Less: cash and bank balances	(5,258,784,637)	(7,542,312,165)
Net debt/(excess cash and cash equivalents)	24,497,145,186	18,724,336,383
Gearing	27%	23%

INCORPORATION

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

EVENTS AFTER THE REPORTING PERIOD

There were no material adjusting and non- adjusting events after the reporting period.

CURRENCY

Financial statements are presented in Kenya Shillings (KShs)

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KENYA PIPELINE COMPANY LIMITED
REPORTS AND FINANCIAL STATEMENTS FOR THE FINANCIAL ENDED 30TH JUNE 2018

APPENDIX I:
PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues that resulted in a qualified opinion of the external auditor on the financial statements for the year 2016/17, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

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

KENYA PIPELINE COMPANY LIMITED
REPORTS AND FINANCIAL STATEMENTS FOR THE FINANCIAL ENDED 30TH JUNE 2018

APPENDIX II: PROJECTS IMPLEMENTED BY KPC

Projects implemented by the State Corporation/ SAGA Funded by development partners

Project title	Project Number	Donor	Period/ Duration	Donor Commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements(Yes/No)
N/A		N/A		N/A		N/A

The Company is not funded by development partners.

Status of Projects completion

S/No	Project	Total Project Cost	Total Expended to Date	Completion % to Date	Budget Kshs	Actual Spent Kshs	Sources of Funds
1	Line 5	51,000,132,268	49,293,059,340	100%	9,261,066,556	6,676,846,413	72%- Borrowing 28%- Internal
2	Additional Tanks	5,884,410,843	5,383,916,635	99%	1,765,322,301	1,729,954,318	Internal

APPENDIX III: INTER-ENTITY TRANSFERS

ENTITY NAME:				
Break down of Transfers				
FY 2017/2018				
a.	Recurrent Grants	N/A		
b.	Development Grants	N/A		
c.	Direct Payments	N/A		
d.	Donor Receipts	N/A		

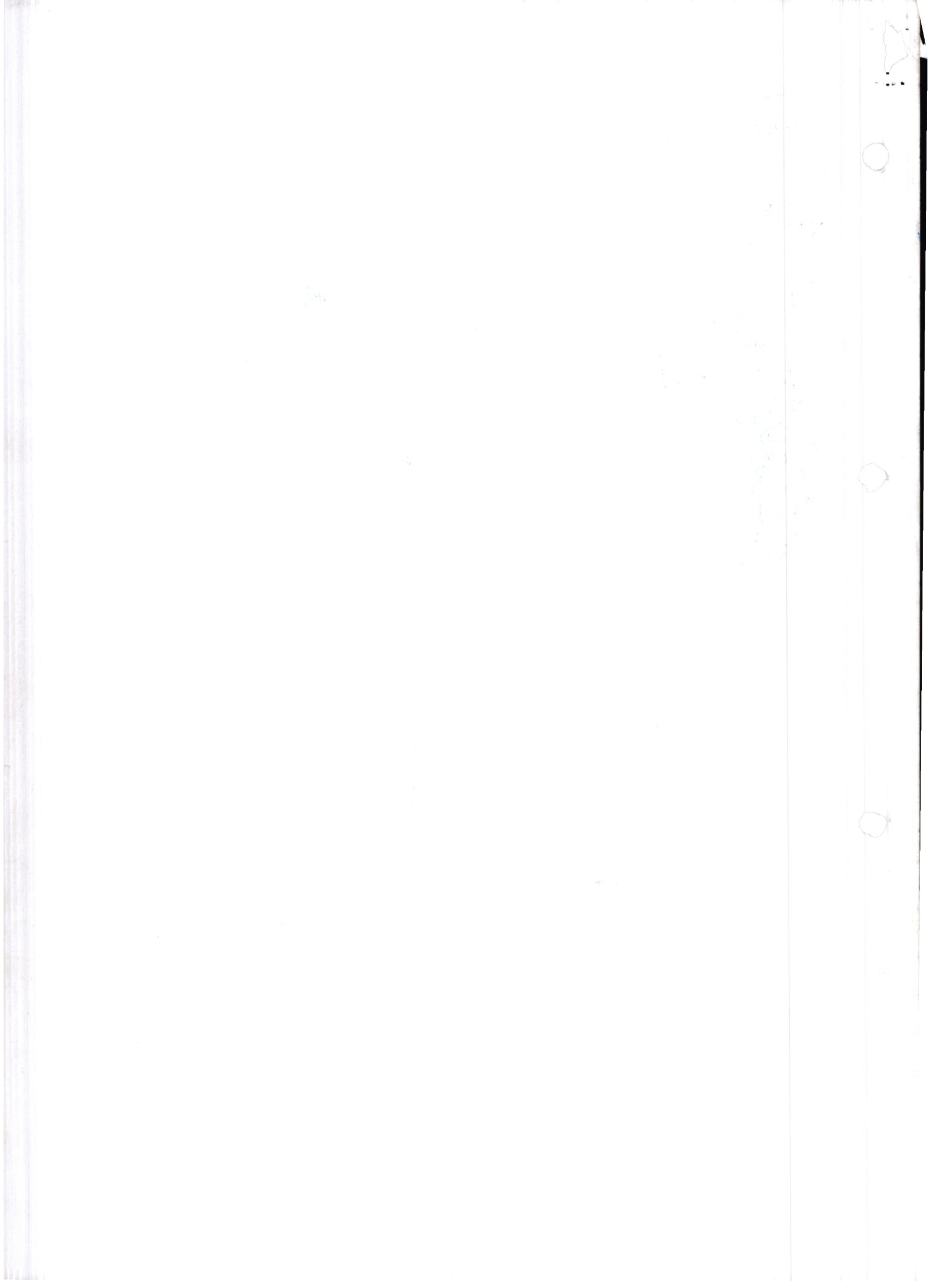
The Company is not a recipient of any grants.

KENYA PIPELINE COMPANY LIMITED**REPORTS AND FINANCIAL STATEMENTS FOR THE FINANCIAL ENDED 30TH JUNE 2018****APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES**

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount - KES	Where Recorded/recognized					Total Transfers during the Year
				Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others - must be specific	
N/A		N/A							

The Company is not a recipient of any MDA/Donor funding.

**KENYA PIPELINE COMPANY LIMITED
REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL
YEAR ENDED 30TH JUNE 2018**



REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA PIPELINE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Pipeline Company Limited set out on pages 50 to 92, which comprise the statement of financial position as at 30 June 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Pipeline Company Limited as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Companies Act, 2015.

Basis for Qualified Opinion

1. Unrecognized Contingent Liability Under Trade and Other Receivables

The Statement of financial position for the year under review reflects trade and other receivables amounting to Kshs.14,390,380,116 (2017: Kshs.12,048,271,443). As similarly reported in 2016/17 included in this amount is Kshs.4,292,949,798 (2017: Kshs.4,314,146,056) due from an Oil Marketing Company (OMC) which, however, the OMC has disputed. The arbitrator appointed to help resolve the dispute ruled against the Company in 2016 and awarded the OMC US\$.19,758,595, equivalent to Kshs.1,996,606,025 at the exchange rate ruling on 30 June 2018. Thereafter, the Company lodged a Court appeal against the arbitrator's decision. Determination of the appeal was pending at the time of finalizing this audit. However, the contingent liability resulting from the arbitrator's ruling has not been recognized in the financial statements and further, no provision has been made by the Company in relation to the doubtful debt owed by the OMC.

In view of these omissions, the trade and other receivables balance of Kshs.14,390,380,116 may be overstated by Kshs.4,292,949,798. Further, the decision that the Court shall make on the Company's appeal will determine whether the contingent

liability amounting to US\$19,758,595 (Kshs.1,996,606,025) resulting from the award made by the arbitrator to the OMC will materialize.

2. Incomplete Budgeting System Project

The property, plant and equipment balance of Kshs.104,869,093,834 (2017 98,091,185,918) reflected in the statement of financial position as at 30 June 2018 includes Kshs.3,822,570,903 (2017 Kshs.54,559,440,075) under capital work-in-progress which in turn includes a sum of Kshs.26,498,339 (Euros 227,338) paid in advance to a vendor for supply, implementation and commissioning of an electronic budgeting system in 2015. The payment represented 51% of the contract sum. The contract's delivery timeline was six (6) months. However, at the time of finalizing the audit for the year under review, the system had not been supplied even though 33(thirty-three) months had lapsed since the signing of the contract. Further, in spite of the system having not been completed or put to use, the Company had paid the vendor annual software licence, software maintenance and user training fees totaling Euros 35,361, or Kshs.4,132,188 at the exchange rate ruling on 30 June 2018.

The Company has since terminated the contract with the vendor. However, no provision or write-off has been made against the budgeting system as it is still recognized as capital work-in-progress in the financial statements of the Company. In addition, it is not clear why annual software licence and maintenance fees as well as training costs were paid to the vendor before the whole system was supplied and commissioned. Further, the option of recovering the amounts advanced to the vendor by recalling the contract's performance bond is no longer available to the Company as the bond expired in November 2015. From the foregoing, value-for-money and propriety of expenditures totaling Kshs.30,588,934 incurred on the budgeting system cannot be confirmed.

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

Emphasis of Matter

1. Lands Without Title Deeds

As similarly reported in my report for 2016/17, the leasehold land balance of Kshs.4,999,883,570 (2017 Kshs.5,167,287,314) disclosed under note 17, includes parcels of land valued at Kshs.1,928,677,778 which have no title deeds. Available information indicates that titles for Plots No.LR.9042/225 and 114/113/114 carried in the books at Kshs.869,759,420 and Kshs.130,257,924 respectively and in which the Company's Embakasi and Mombasa depots are situated, are issued in the name of Kenya Airports Authority (KAA) who are the legal owners of the larger piece of land from which the two parcels were hived-off. Although, management have explained that, the National Lands Commission (NLC) has written to KAA to surrender the original title to

facilitate the issuance of sub-titles for the two parcels, the titles have not been surrendered as yet.

In the circumstances, it is not possible to confirm that the Company owns the two parcels of land in its possession, and whether indeed the carrying values of the parcels stated in the financial statements as at 30 June 2018 are correct.

2. Pending Contract Variation Claims

The property plant and equipment balance amounting to Kshs.104,869,093,834 reflected in the statement of financial position as at 30 June 2018 and analyzed in note 16 to the financial statements includes an amount of Kshs.51,416,165,547 incurred on cost of works on a new Mombasa-Nairobi Oil Pipeline commonly referred to as Line 5. The balance was transferred from work-in-progress during the year under review. Construction of Line 5 started on 1 July 2014, following the award of the tender at a cost of US\$ 484,502,887 equivalent to Kshs.48,474,513,784 at the ruling exchange rate of 30 June 2018. As at 30 June 2018, the project engineer had submitted eight (8) variation orders totaling to US\$ 38,109,717 (Kshs.3,812,877,186). The variation orders are reported to have resulted from change of design specifications and omission of works in the initial contract. Of the aggregate variation amount, a sum of US\$. 17,445,639 (Kshs.1,745,436,145) was approved for payment.

In addition, the contractor submitted five (5) Extension of Time (EoT) claims amounting to US\$. 204,511,827 (Kshs. 20,461,408,302). However, the claims were contested by the Project Engineer resulting in the appointment of an independent expert scheduler to verify the claims. As at 30 June 2018, the expert scheduler had assessed the total amount payable to the contractor for the four EoTs to be US\$. 44,019,0125 (Kshs.4,404,103,425) down from the contractor's claim of US \$ 189,290,732 (Kshs. 18,938,537,727). The fifth EoT claim of US \$ 15,221,095 (Kshs. 1,522,870,576) had not been reviewed by the expert scheduler.

Construction of the pipeline (Line 5) was completed and the line commissioned during the year under review. Until the matters related to the contract variation and extension of time are resolved, it is not possible to confirm that the carrying value of the pipeline reflected in the financial statements as at 30 June 2018 is true and fair.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1. Irregular Supply of Hydrant Pit Valves

As reported in my report for 2016/2017, the Company awarded a US\$6,409,492 (Kshs.647,679,167) contract for the supply of hydrant pit valves - C/W isolation valves and spare parts for two years' operations to a vendor through direct procurement, contrary

to the requirements of the Public Procurement and Asset Disposal Act, 2015. Although the management has indicated that the United States of America-based vendor was invited to bid for the tender on account of being the original manufacturer of the equipment, no evidence has been made available to validate this assertion. Therefore, the basis for the award of the tender to the vendor cannot be confirmed. In addition, no plausible explanation has been provided by management for procurement of spares parts to cover two years of operations. At the time of concluding this audit, the matter was under prosecution in Court after investigation by the Ethics and Anti-Corruption Commission.

In the circumstances, I am not able to confirm the Company's compliance with procurement procedures, and whether it obtained value- for-money on the contract sum of Kshs.655,880,009 paid to the vendor for supply of the hydrant pit valves.

2. Unutilized New Kisumu Oil Jetty

The statement of financial position as at 30 June 2018, reflects property plant and equipment with a net book value of Kshs.104,869,093,834. The balance includes assets valued at Kshs.1,937,515,726 being construction costs for the Kisumu Oil Jetty transferred from work-in-progress during the year under review. Construction works on the jetty were executed from May 2017 to March 2018 when they were completed and handed over to the Company by the contractor. The assets were thereafter capitalized and depreciated by Kshs.11,037,699 for the year under review. The jetty was constructed under the Northern Corridor Integration Projects portfolio of the East African Community with a view to improve the distribution of refined petroleum products to Uganda and other neighboring countries. However, it has remained unutilized due to lack of infrastructure for receipt and storage of the products in Uganda. Although management has indicated that some progress has been made in construction of one of the two planned similar jetties on Uganda side, it is not certain when all the facilities due for construction in Uganda will be completed and operationalized.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Compliance with Lawfulness and Effectiveness in Use of Public Resources sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way:

Basis for Conclusion

1. Irregular Payment to a Contractor

During the year under review a payment of Kshs.24,651,296 in excess of the contract sum was made to a firm contracted to carry out environmental clean-up works along the Company's oil pipeline. The payments were for additional invoices raised by the firm for the months of March to June 2017 which period was, however, within the original contract

timeline. According to the contract agreement, the contractor was to undertake the works for 18 Months at a revised contract sum of Kshs.147,129,771. However, the contractor invoiced the Company after the full contract sum was paid in March 2017 thus resulting in the nugatory payments totaling Kshs.24,651,296.

2. Irregular Purchase of Motor-Vehicle Accessories

The motor vehicle expenditure of Kshs.72,872,587 includes Kshs.9,096,935 spent on purchases of motor vehicle accessories which included chevrons, car mats, stripes, reflectors, life savers and key tags. The items were purchased as low-value procurements through petty cash payments and reimbursement claims lodged by the Company's staff. Since the purchases occurred on a regular basis, the total value of the items for the year exceeded the threshold for low value procurement, set out in Section 107 of the Public Procurement and Disposal Act, 2015. Further, the quantities of the accessories purchased exceeded, the Company's fleet requirements and in addition, were bought at prices that exceeded, by as much as 350% similar purchases made during the year under review. Further, only a small number of the items were confirmed to have been issued for use in the Company's fleet of vehicles and none could be found in the Company's stores.

In the circumstances, the purchases were made irregularly and receipt and use of the majority of the items for the Company's benefit cannot be confirmed.

3. Irregular Payment of Overtime Allowances

The staff costs reflect an amount Kshs.5,841,187,761 for the year ended 30 June 2018 which includes overtime allowance payments of Kshs.306,955,912 paid to 1,080 staff members. Of this amount, Kshs.97,661,089 was paid contrary to the Company's Staff Rules and Regulations to 231 staff who were earning responsibility allowances. In addition, overtime allowance payments totaling Kshs.171,919,296 made to 164 employees exceeded 25% of their respective annual gross salaries with fourteen (14) of the staff having drawn overtime allowances in excess of their annual salaries. In some instances, the annual overtime allowances paid were as high as 250% of annual gross salaries payable, implying that the claimants worked for more days than were available in the financial year.

In the circumstances, it has not been possible to confirm the regularity and probity of Kshs.269,580,385 incurred on the allowances.

4. Non-adherence to SRC Guidelines on Subsistence Allowances

Subsistence allowance payments totaling Kshs.509,631,611 made to travelling Company staff during the year under review were based on identical rates across towns for various job cadres contrary to rules issued by the Salaries and Remuneration Commission (SRC). The rules prescribe a three-cluster town classification system applicable for daily subsistence allowance payments to both national and county government employees. Since no approvals were granted by the Commission for the identical allowance rates paid to staff by management, the resultant payments were irregular.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements comply, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the procedures performed, except for the matter described in the Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Incomplete Accounting for Product Gains and Losses

Transport and Storage Agreements (TSA) between Kenya Pipeline Company (KPC) and Oil Marketing Companies (OMCs) provide that KPC shall apportion to the OMCs, any product gains and losses based on each OMC's total quarterly receipts for a specific grade of product on a moving-average against the total industry receipts for the same grade. The TSA also provides that KPC shall be liable to and shall indemnify OMCs for losses of products where such losses exceed 0.25% of the volume of products handled.

During the year under review, the Company reported product losses totaling 23,878 m³ being the difference between book stocks shown as 653,284 m³ and physical stocks amounting to 629,406 m³. Of these losses, a balance of 11,646 m³ was attributed to spillage and pilferage, and 8,584 m³ to normal losses. The remainder 3,647 m³ was disputed by OMCs with 3,110 m³ subjected to further examination by management and 537 m³ forwarded to an independent consultant for scrutiny. At the time of conclusion of the audit, the 537 m³ of losses had been reconciled and agreed with one OMC leaving 3,110 m³ unreconciled.

Although the Company's Health, Safety and Environment (HSE) procedure manual requires the Company and OMCs to investigate and report on losses incurred through spillage and pilferage, there is no evidence to show that all the loss incidents were reported or investigated and corrective measures taken to forestall similar occurrences in future.

As a result, it has not been possible to confirm the nature, volume and cost of product losses that occurred as well as additional measures taken by management to safeguard stock owners' interests, ensure public safety and mitigate environmental impacts should the leakages recur during the year under review.

2. Overdrawn Product

Global stock entitlement data maintained by the Company shows that thirteen (13) Oil Marketing Companies (OMCs) had aggregate negative stock balances amounting to 4,435 cubic meters on their loadable sums as at 7 August 2018, an indication that the OMCs had overdrawn products beyond their entitlements, contrary to the Transport and Storage Agreements (TSA). According to the TSAs, OMCs are required to maintain sufficient product stocks to meet their daily requirements. The TSAs also require the Company to suspend deliveries to OMCs that record zero or negative entitlements.

However, there is no evidence showing that oil product supplies to any of the 13 (thirteen) OMCs that recorded negative balances were suspended at any time during the year under review.

3. Staff Matters

3.1 Unapproved Recruitments

During the year under review, the Company appointed staff to newly created positions without first seeking and obtaining approval from the National Treasury as provided for in Government circulars which require appointments in state corporations other than replacement of existing vacancies to be made only after written confirmation of availability of funds for the purpose is obtained from the National Treasury.

In addition, two new positions that did not exist in the Company's establishment were created and filled through internal advertisements. The respective job descriptions and specifications for the positions were not outlined in the Company's career guidelines handbook. It has therefore not been possible to ascertain what guided management in making appointments to the positions.

3.2 Un-procedural Appointment of Staff

During the year under review, the Company appointed several staff on promotion to positions up to seven (7) grades higher than those that the appointees occupied before the promotions. This was against the Company's Staff Rules and Regulations and Career Guidelines handbook, which require appointments on promotion to take into consideration academic qualifications, experience and seniority. Although the appointees were said to possess the requisite academic qualifications, they lacked requisite experience and seniority as defined in the Company's career progression guidelines:

- (i) Appointments made to positions in Job Grade 3 required candidates to have served for a minimum of five (5) years in managerial capacity. However, three persons appointed to the grade were serving in non-managerial Job Grades seven (7) and six (6).
- (ii) At least five candidates promoted to higher positions had been found unsuccessful in lower-level job interviews for which they had applied and were interviewed for during the same period. Some of the candidates were appointed to positions four (4) levels higher than those they had unsuccessfully applied for.

In the circumstances, I am unable to confirm whether the appointments were fair, competitive and merited.

3.3 Recruitment to Non-existent Positions

During the year under review, the Company advertised for a vacant senior position in the finance department. However, an unsuccessful applicant for the advertised position was appointed to a new position that was separated from the one advertised, whereas the successful candidate was appointed to the position advertised but with a new title. The two new positions did not exist in the Company's structure at the time the appointments were made, and further, contrary to the Company's human resource policies, they were not advertised for any interested candidates to apply. In addition, creation of the new positions was not approved by the National Treasury and State Corporations Advisory Committee as required.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY 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, so far as appears from the examination of those records; and
- iii. the financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective 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; and for assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, the directors are responsible for assessing Kenya Pipeline Company Limited's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the directors are aware of the intention to liquidate the Company or have its operations cease; or have no realistic alternative but to do so.

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.

In addition to the responsibility for preparing and presenting the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements comply with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements comply with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

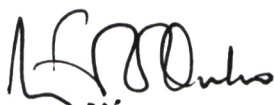
Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

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

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

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



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

Nairobi

30 January 2019