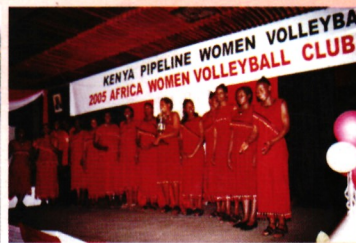


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2005

Kenya Pipeline Company Limited

Annual Report and Financial Statements

657.3
KPC

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VISION

“To be a world class petroleum products distribution, handling and supply network in Africa”

MISSION

Recognizing that the mission of a Company is the unique purpose that sets it apart from other companies of its type and identifies the scope of its operations, KPC's mission statement is as follows: -

“To efficiently, economically and safely transport, store and deliver petroleum products to customers, while optimising shareholder value, with utmost respect for the environment”.

MOTTO

‘To do our best always’.

CORE VALUES

In an endeavour to be the most modern and efficient Company in the oil and gas industry in Africa, the KPC fraternity shares the following core values: -

- Integrity
- Transparency
- Accountability
- Diligence
- Team spirit
- Honesty
- Loyalty

Company Profile



The Kenya Pipeline Company Ltd. (KPC) was established by the Kenya Government in 1973. It is a State Corporation under the Ministry of Energy with 100% government shareholding. KPC operates a pipeline system for transportation of refined petroleum products from Mombasa to Nairobi and to Western Kenya towns of Nakuru, Kisumu and Eldoret. The main objective of setting up the Company was to provide the economy with the most efficient, reliable, safe and least cost means of transporting petroleum products from Mombasa to the hinterland.

The Pipeline system currently consist of a 14-inch, 450 km long pipeline with a flow rate of 440 m³ per hour, running from Mombasa – Nairobi which was commissioned in 1978; and a combination of 8-inch and 6-inch, 446 km pipeline extension with a flow rate of 220 m³ per hour, running from Nairobi–Sinendet–Eldoret and Sinendet–Kisumu. This Western Kenya Pipeline Extension was commissioned in 1994.

KPC has set up storage facilities at its depots in Nairobi, Nakuru, Kisumu and Eldoret, and two Jet fuel dedicated depots at Mombasa and Embakasi, Nairobi. Recently the company commissioned two jet fuel tanks at Kisumu and Eldoret depots. The total KPC storage capacity is 580,968 m³. In addition to storage, KPC provides loading services at its Western Kenya depots of Nakuru, Kisumu and Eldoret. All export products are loaded at Kisumu and Eldoret depots, and from January year 2006, Nakuru depot.

The refined petroleum products handled by the Company

are Motor Spirit Premium (MSP), Motor Spirit Regular (MSR), Automotive Gas Oil (AGO), Jet A-1 and Illuminating Kerosene (IK). These products are transported for the oil marketers, at a competitive tariff, and delivered in high quality.

Presently, the Company's clients include, Kenya Shell, Mobil Oil (K) Ltd., Kenol/Kobil, Chevron Oil (K) Ltd., Gapco Ltd, Hashi Empex, Hass Petroleum, Metro Petroleum, Petro Oil (K) Ltd., Triton Petroleum, Engen (K) Ltd., Dalbit Petroleum, Mafuta Products, National Oil Corporation of Kenya and Total Oil (K) Ltd., Addax (K) Ltd., Oil Com (K) Ltd., Mogas International (K) Ltd., Moil Petroleum, Somken Petroleum, Fossil Fuels Ltd., Engen (K) Ltd., Galana Oil (K) Ltd., Fuelex (K) Ltd. and Global Oil Ltd.

Over the years, KPC's throughput has increased from 880,000 m³ realized in 1978 to over 3.5 million m³ in 2005, and is expected to rise to over 3.7 million m³ in 2006. The domestic market (Kenya) uplifts about 69% of total throughput, while the export market (Uganda, Rwanda, Burundi, Eastern DRC and Northern Tanzania) 31%. Rwanda takes up 15% of the total export throughput.

In the last five years, KPC throughput and revenue has grown significantly and the Company has been able to meet its operating expenses and other obligations. The Company's total fixed assets have grown from about Kshs. 0.8 billion in June 1978 to about Kshs. 12.4 billion in June 2005.



Company Information

DIRECTORS

Amb. M Ngali - Chairman
G J Okungu - Managing Director
Hon. D M Mbela
G M Wachira
G L Majanja
J Kenani
P N Karuana
J M Mathenge
J K Kinyua (alternate - F Kingori)
P M Nyoike (alternate - G K Guantai)

SECRETARY

Mrs Mary Kiptui
P O Box 73442 - 00200
Nairobi

REGISTERED OFFICE

National Bank Building,
12th Floor,
Harambee Avenue
Nairobi

AUDITORS

Kenya National Audit Office
P O Box 30084 - 00100
Nairobi

PRINCIPAL BANKERS

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

Barclays Bank of Kenya Limited
Queensway House
P O Box 30437 - 00100
Nairobi

National Bank of Kenya Limited
Harambee Avenue
P O Box 41862 - 00100
Nairobi

PRINCIPAL ADVOCATES

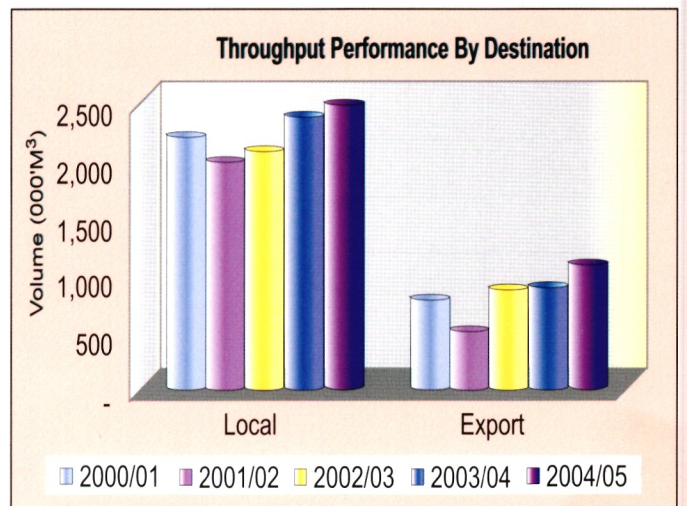
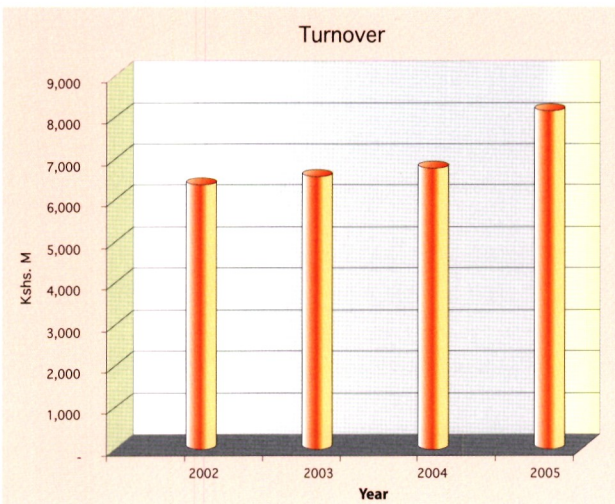
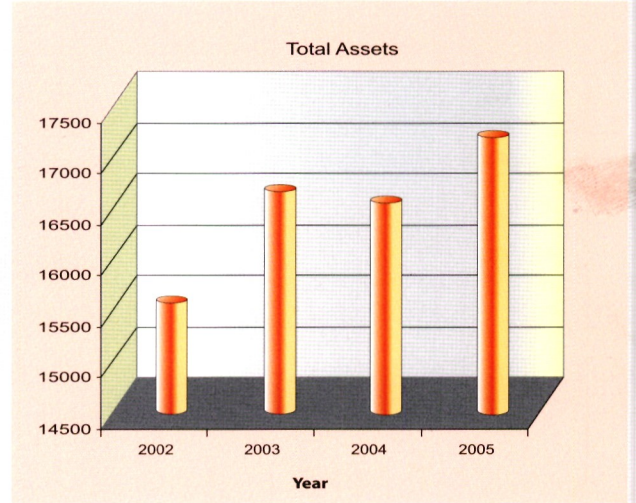
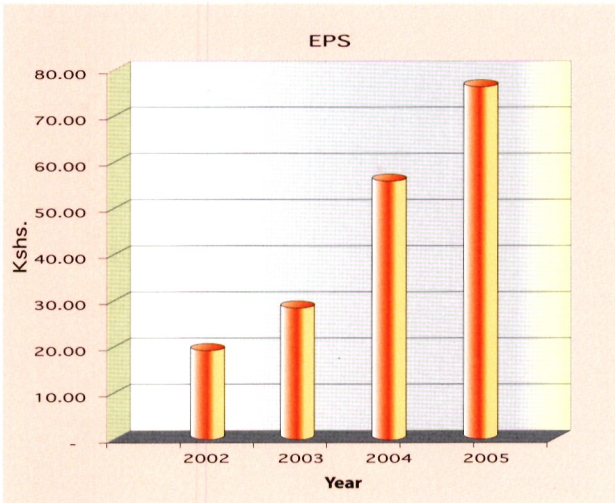
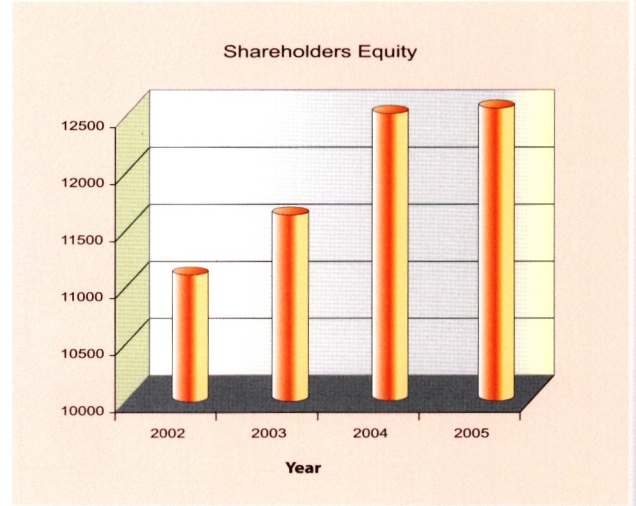
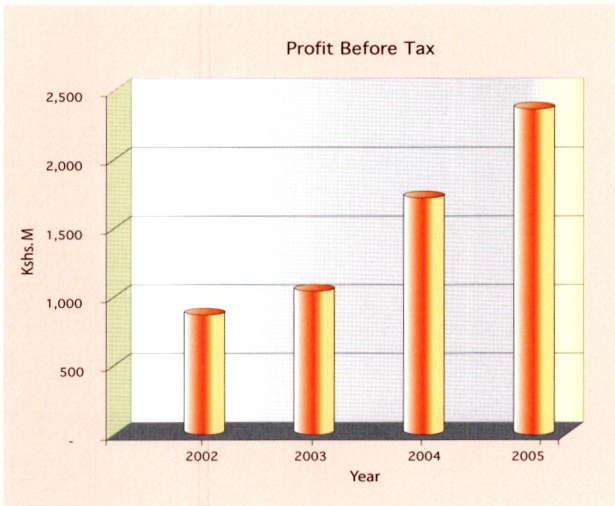
Ms Mathenge and Muchemi Advocates
Hughes Building, 1st Floor
P O Box 45957 - 00100
Nairobi

Kipkenda Lilan & Co. Advocates
Teleposta Towers, 19th Floor
P O Box 52832 - 00200
Nairobi

Kangethe & Co. Advocates
Pan Africa House, 4th Floor
P O Box 74854 - 00200
Nairobi

Business Highlights

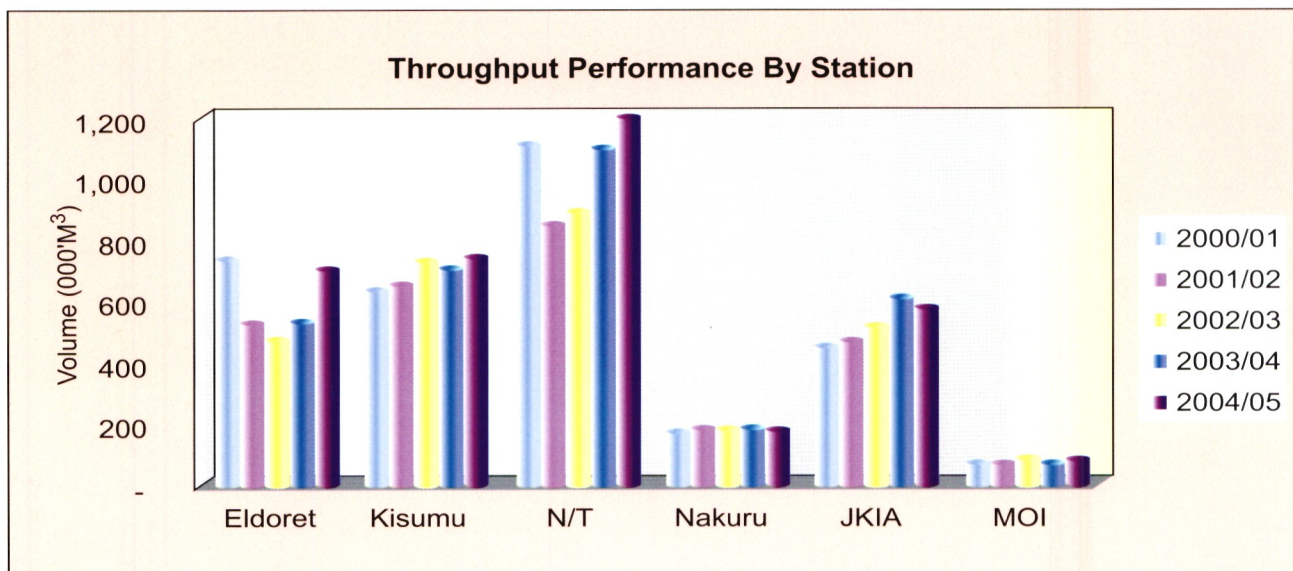
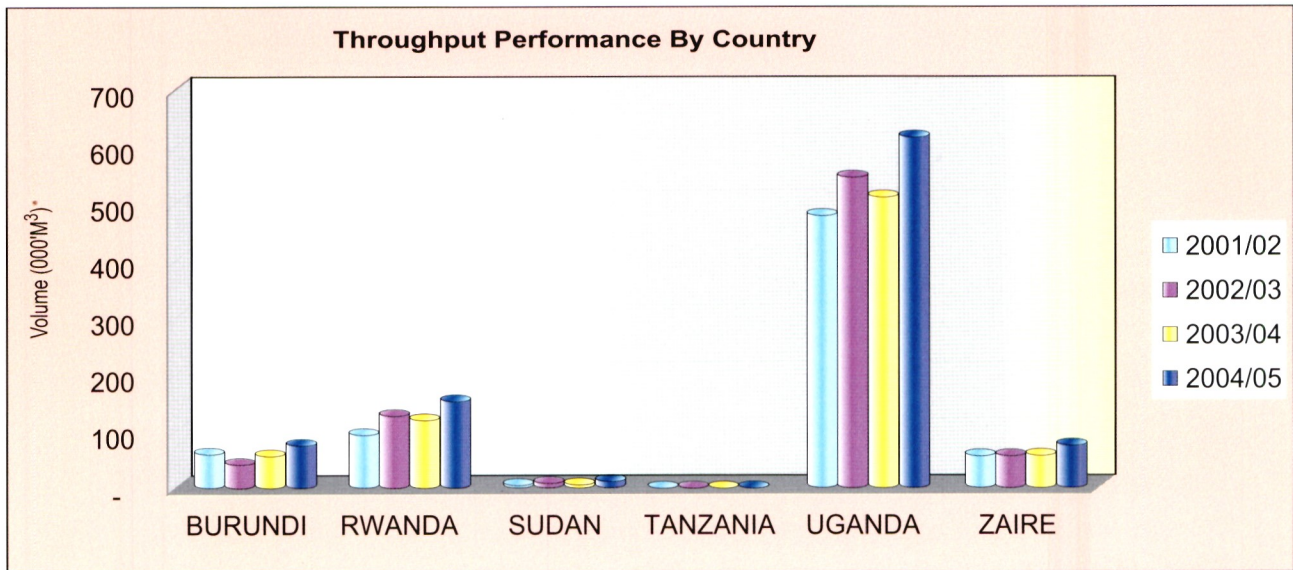
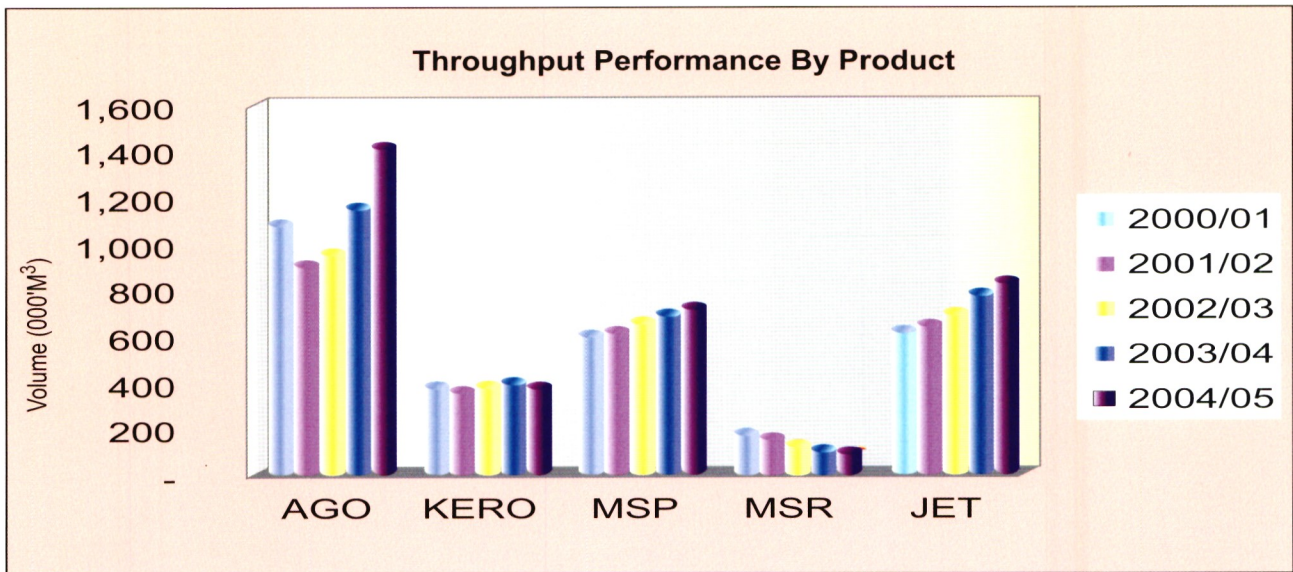
FOR THE YEAR ENDED 30 JUNE 2005





Business Highlights

FOR THE YEAR ENDED 30 JUNE 2005



Corporate Social Responsibility



Contributing to the communities in which we operate has been a key priority to Kenya Pipeline Company Limited (KPC). In fact, the company operates a Corporate Social Responsibility (CSR) programme aimed at giving back part of what it has earned from its business to the community. KPC believes that it cannot expect to sustain and protect its 896km pipeline if it operates in communities that are poverty stricken. As a result, millions of shillings have been invested to change the lives of the neighbouring communities.

KPC has invested its resources in community service initiative in the areas of education, health, water, environment among others.

KPC has been in the forefront of supporting national emergencies. Board members, staff and management have from time to time donated foodstuff to the famine stricken areas and needy homes.

Members of staff have also participated in national campaigns such as the World Aids Day, Environment Day, Labour Day and Freedom from Hunger Walk. The company normally sponsors staff to participate in the above events.

On the sports front, the company has taken the game of volleyball a notch higher by supporting the KPC Women Volleyball Team. The participation of the volleyball team in various championships has not only raised the international profile of Kenya but has also enhanced the image of the company.

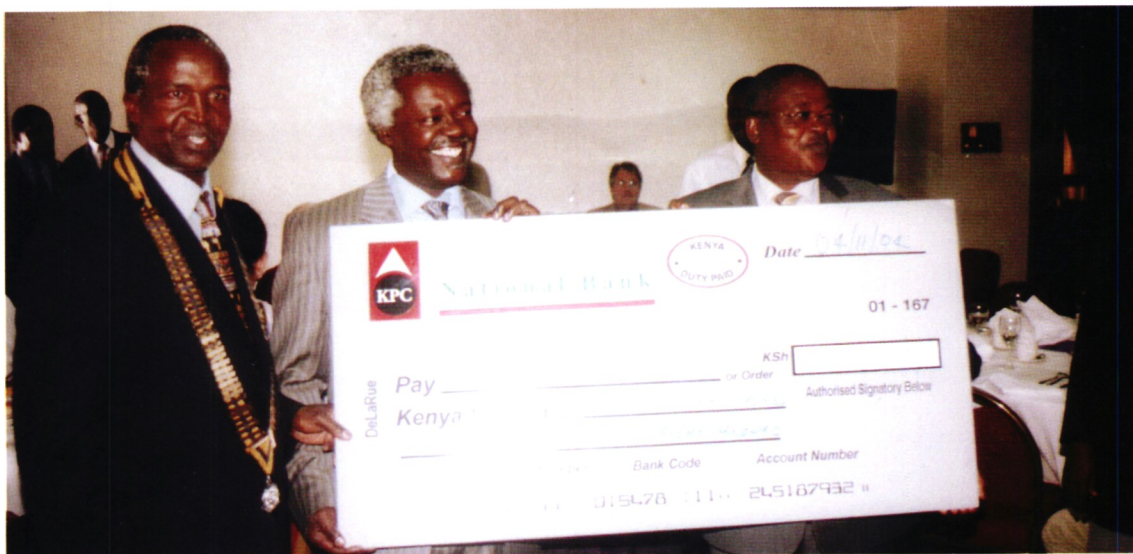
We at KPC have learnt that our projects rekindle hope, touch many hearts and transform thousands of lives throughout the country.



Mereso Agina of Kenya Anti-Landmine Campaign receiving donation from KPC, MD Mr. George Okungu



KPC staff presenting foodstuff to children of Mukuru Rehabilitation Centre



KPC MD, Mr. George Okungu presenting a cheque to Mr. John Simba in support of the Rotary Clubs of Kenya



KPC WOMEN VOLLEYBALL TEAM



The Kenya Pipeline Women Volleyball Team was founded in 1984 and has over the years grown from strength to strength ultimately becoming the African Women Volleyball Champions. The Company founded the team as part of its Corporate Social Responsibility agenda and as a means of supporting the development of youth through sports.

The team has won the coveted Africa Women Volleyball Cup of Clubs Championships a record seven times, the last time being in a hotly contested tournament held in Nairobi in 2005. This feat was a great honour; not only to the country but to the African Continent as a whole.

The team is the bedrock of the Kenyan National Women Volleyball team and currently has 10 players turning out for the National Team. The team also serves as a breeding ground for international players and has a large number of former players playing in the U.S.A and Japan.

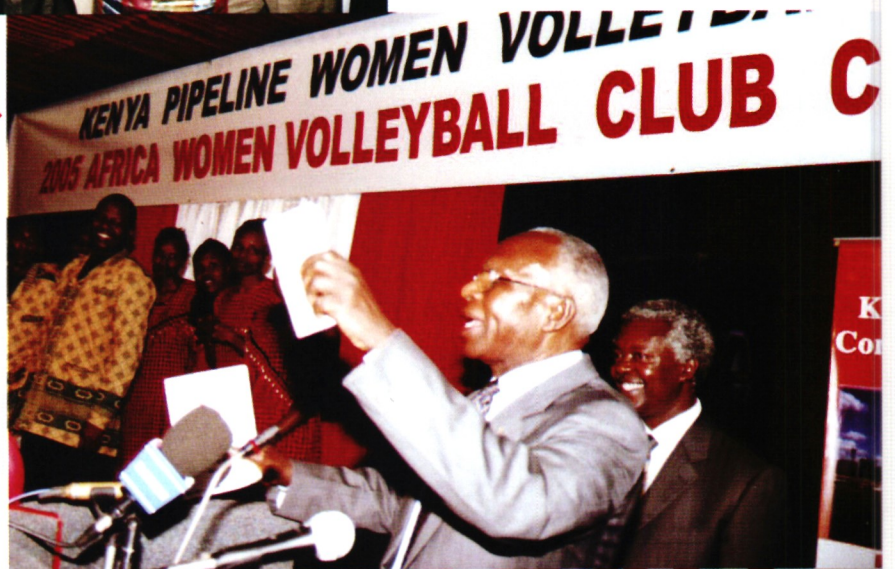
The team has received a great deal of support from the Ministry of Sports and following last year's win, the Sports Minister joined the Energy Minister in congratulating and feting the team. This success however is not only credited to the team but also to the KPC Board of Directors and Management who have given the team the necessary support throughout the years.

Corporate Social Responsibility



◀ KPC Board and Management hosted a cocktail in honour of the 'Ladies'. Hon. Nyachae graced the occasion. He was accompanied by Hon. Beth Mugo and Hon. Jimmy Angwenyi.

The Minister addresses the guests ▶



The Team Captain Ms Catherine Wanjiru presenting the trophy to the Minister





Corporate Social Responsibility

Agricultural Society of Kenya Shows



KPC stand at Mombasa Show

KPC participates in ASK shows as part of its CSR programme whose among other objectives is to identify and support communities that host its key assets. The Company normally participates in shows located in areas where the pipeline traverses i.e. Mombasa, Nairobi, Nakuru, Kisumu and Eldoret.

Besides actual participation, KPC has on many occasions given financial support to the ASK for various activities. The company has been associated with among other activities, hosting presidential luncheons and donating in cash and kind towards preparation of show ground activities.

KPC also participates in competitions organized by ASK and in many occasions, the company has received trophies for categories it has entered for. During last year's Mombasa Show, the company emerged the best in the "Non-agricultural based Statutory Board" and was the second best Parastatal Stand.

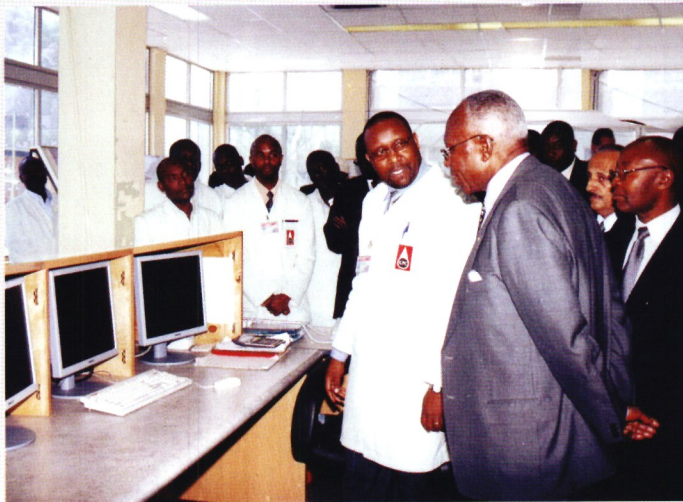


KPC MD, Mr George Okungu receiving show trophy from his H.E. the President Hon. Mwai Kibaki C.G.H., M.P.

Technological Development



KPC GOES HI-TECH AS IT LAUNCHES MICROWAVE SYSTEM



KPC installed a Microwave Backbone Communication System in June 2005 for purpose of improving communication link between Nairobi Control Centre and other booster pump stations. The system that was installed at a cost US\$1.6 million was launched by the Minister for Energy, Hon. Simeon Nyachae who noted that the facility will revolutionize data flow within the company and hence improve efficiency in the operations of the oil pipeline.

The system will be used for wide area network such as telephone, fax and computer networks thus saving the company Kshs.6 million per year on the cost of leased circuits that the company previously used.

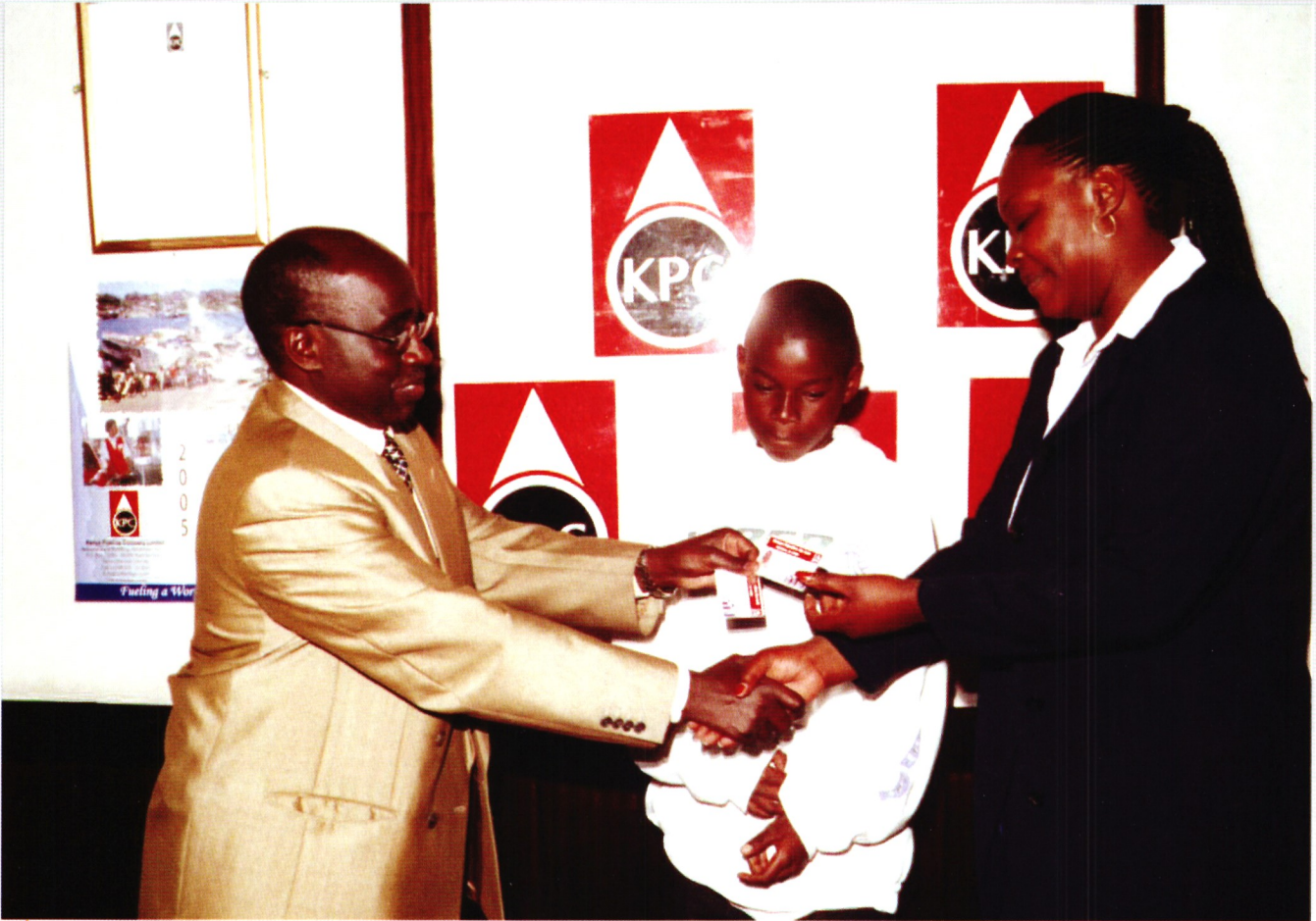
Hon. Minister for Energy testing the new technology





Medical Care

KPC LAUNCHES NEW MEDICAL SCHEME



Eng. Absalom Kosgei, Chief Manager Technical, presents the newly launched medical cards to a member of staff and her son.

Over the year, the company has been running a staff medical scheme that provided medicare to members of staff and their dependants at an average cost of Kshs.120 million annually. The excessive annual expenditure has been attributed to serious policy and operational weaknesses that made the scheme susceptible to abuse by staff and medical service providers.

The company re-launched a new scheme that is aimed at reducing the annual expenditure on

consultancy, outpatient and inpatient costs by 50 – 60%.

The new scheme will now cover spouses of both male and female employees while the number of dependants per employee has been limited to one spouse and four children. All staff and their dependants will be issued with medical identification cards which they will be required to produce while seeking medical care.



Bard of Directors

FOR THE YEAR ENDED 30 JUNE 2005



Amb. Mwanyengela Ngali
Chairman



Joseph K Kinyua
PS - Min. of Finance



Patrick Nyoike
PS - Min. of Energy



George Okungu
Managing Director



Hon. Darius Mbela
Director



John Mathenge
Director



Njeru Karuana
Director



Gerishom Majanja
Director



James Kenani
Director



George Wachira
Director



Company Board Committees

FOR THE YEAR ENDED 30 JUNE 2005

The Company Board Committees are as follows:-

FINANCE COMMITTEE

Members

1. Mr. Njeru Karuana
2. Alternate to PS, Min. of Finance
3. Mr. George M. Wachira
5. Hon. Darius Mbela
6. Mr. George Okungu

TENDER COMMITTEE

Members

1. John M. Mathenge
2. Hon. Darius Mbela
3. Mr. Njeru Karuana
4. Mr. George Okungu

STAFF COMMITTEE

Members

1. Mr. James Kenani
2. Mr. John M. Mathenge
3. Mr. Darius Mbela
4. Mr. Gerishom Majanja
5. Mr. George Okungu

AUDIT COMMITTEE

Members

1. Mr. Gerishom Majanja
2. Mr. James Kenani
3. Mr. George M. Wachira
4. Alternate to PS, Min. of Finance
5. Mr. George Okungu

AD-HOC TECHNICAL COMMITTEE

Members

1. Mr. Njeru Karuana
2. Mr. George M. Wachira
3. Mr. John M. Mathenge
4. Mr. George Okungu



Management Team

FOR THE YEAR ENDED 30 JUNE 2005



George Okungu
Managing Director



Waithaka Kioni
Deputy Managing Director



Absolom Kosgei
Chief Manager - Technical



Peter Mecha
Operations Manager



Jabes Manyala
Engineering Manager



Rose Osiako
Human Resources Manager



Caleb Manyaga
Finance Manager



Dismas Ong'ondi
*Information Communication
Technology Manager*



Joseph Gichuhi
Corporate Planning Manager



Mary Kiptui
Company Secretary



William Ooko
Internal Audit Manager



Report of the Directors

FOR THE YEAR ENDED 30 JUNE 2005

The directors present their report together with the audited financial statements for the year ended 30 June 2005.

ACTIVITIES

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

RESULTS

	Sh'000
Profit before taxation	2,359,706
Taxation charge	(968,417)
Net profit for the year	<u>1,391,289</u>

DIVIDEND

The directors recommend payment of a dividend of Ksh 150,000,000 (2004 – Ksh 150,000,000).

DIRECTORS

The current board of directors is shown on page 2. The following changes took place during the year:

Amb. M Ngali	Chairman	Appointed on 24 June 2005
M. Dantas	Chairman	Resigned on 24 June 2005
Dr. S Ochuodho		Resigned 09 December 2004
G. J. Okungu	Ag Managing Director	Appointed on 02 September 2004
G. J. Okungu	Managing Director	Appointed on 10 June 2005
J. Kinyua	Permanent Secretary, Ministry of Finance	Appointed on 30 June 2004
F. Kingori	Alternate to PS, Min. of Finance	
G. K. Guantai	Alternate to PS Ministry of Energy	Appointed 30 August 2004
P.G. Ngatia	Alternate to PS, Ministry of Energy	Resigned on 30 August 2004
G. M. Wachira	Director	Reappointed on 13 June 2005
Eng. C. Olali	Director	Resigned on 13 June 2005
G. L. Majanja	Director	Reappointed on 13 June 2005
A. R. Haji	Director	Resigned on 13 June 2005
J.W. Khaemba	Director	Resigned on 13 June 2005
J. Kenani	Director	Appointed on 13 June 2005

AUDITORS

Deloitte & Touche, who have been appointed as authorised auditors by the Controller and Auditor General have expressed their willingness to continue in office in accordance with provisions of Section 159(2) of the Companies Act (Cap. 486) and subject to Section 39(1) of the Public Audit Act; 2003.

BY ORDER OF THE BOARD

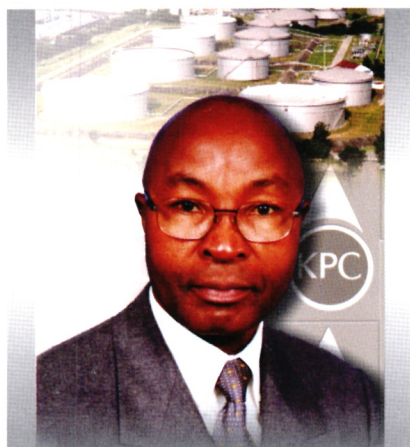
Ag. Secretary

Nairobi

18th January 2006

Chairman's Statement

FOR THE YEAR ENDED 30 JUNE 2005



Amb. Mwanyengela Ngali
Chairman

It is gratifying to note that despite the rise in oil prices and drought that slowed down the growth of our economy to about 4.3 percent, KPC delivered against a well-defined strategy and posted positive results during the financial year ended 30th June 2005.

Briefly our performance results in year 2004/05 is a reflection of a better structured business, a focus on shareholder value, a strategy to run healthy core business, a dedication to strong execution and a commitment to growing profitable businesses for the future. The introduction of Performance Contracting that has led to improved corporate governance, prudent financial management, improved work culture and ethics, strict adherence to budgetary controls, cost containment measures, adherence to strict procurement procedures and improved project management has also positively impacted on the year's result.

The annual Profit Before Tax (PBT) was Kshs. 2.36 billion against a budget of Kshs. 1.96 billion, an increase of 20% and a significant positive variance of Kshs. 600 millions (an increase of 34%) compared to the same period the previous year. The Return on Investment (ROI) was 19% against a set target of 15.48% thus giving a favourable variance of 3.52%. For the corresponding period the previous year, ROI was 14.46% giving a favourable variance of 4.54%.

The company registered improved liquidity position during the period under review and invested the excess in Treasury Bills. Earnings per share improved from Kshs. 51.6 to Kshs. 76.6. The Board of Directors has proposed a dividend of Kshs.150 million.

The company has demonstrated that with an improved focus on its core business, it can perform better using the existing infrastructure. In the year under review. Growth in throughput exceeded the set target of 3,264,301 M³ by 201,487 M³, equivalent to 6.2% increase. Compared to the same period last year, the annual throughput performance was 3,158,491 M³ giving a significant favourable variance of 307,297 M³ which is equivalent to 9.7% increase. This growth is attributed to the enhanced storage capacity at Kipevu, increased flow rates on the Nairobi Mombasa Pipeline and the commissioning of the Morendat booster-pump station.

The company has taken cognizance of the potential demand for petroleum products in the region and has made the necessary provision in its Strategic Corporate Plan to take advantage of this. The company will therefore continue to develop and provide services consistent with market needs and prudently manage other investment activities.

Finally, I wish to express my appreciation to my Board of Directors for their teamwork, staff for hard work, commitment and professionalism, the Government for their guidance, shippers for their custom and other stakeholders for the overall support to the year's results. The Directors have guided the company through difficult transitional times and especially during the period when the company was undergoing changes in management and approach. KPC stands enriched by their broad exposure and ability to solve complex issues.

AMB. MWANYENGELA NGALI
CHAIRMAN



Statement of Directors Responsibilities

FOR THE YEAR ENDED 30 JUNE 2005

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

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

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

.....
Director

18th January 2006

.....
Director

Report of the Controller and Auditor General on the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005



The financial statements of Kenya Pipeline Company Limited for the year ended 30 June 2005 on pages 20 to 35 have been audited on my behalf by Deloitte & Touche, the appointed auditors under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which to the best of my knowledge and belief were necessary for the purpose of the audit were obtained. The financial statements are in agreement with the books of account.

Respective Responsibilities of the Directors and the Controller and Auditor General

As stated on page 18, the directors are responsible for the preparation of financial statements which give a true and fair view of the Company's state of affairs and its operating results. My responsibility is to express an independent opinion on the financial statements based on my audit.

Basis of Opinion

The audit was conducted in accordance with the International Standards on Auditing. Those standards require that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free "from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of, the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

Comments

1. Assets Ownership and Utilisation

Included in the balance sheet property plant and equipment figure of Kshs. 12.29 billion are assets with net book value of approximately Kshs. 1.6 billion that relates to the company's investments in Kipevu Oil Storage Facility (KOSF) which is owned by the Government. There is no formal agreement between Kenya Pipeline Company Limited (KPC) and the Government on the ownership and management of the assets. KPC however remits Kshs. 25 million from the storage fee collected to the Government on a monthly basis. The monthly payment is apparently based on a verbal directive from the Permanent Secretary, Ministry of Energy. From the memorandum accounts maintained by the company, the company does not break even in the operation of the facility but has instead reported losses. KPC has also invested in hydrants at the Jomo Kenyatta International Airport from which it earns no revenue. This situation is indicative of significant impairment on some of the properties. Consequently, it is not possible to give an opinion on the carrying value of these investments which are included in the balance sheet property, plant and equipment figure of Kshs. 12.29 billion as at 30 June 2005.

2. Stalled Projects

The audit review for the year 2004/2005 revealed that the company has a number of abandoned projects which include Morendat Staff housing and Eldoret Staff clinic against which expenditure totalling Kshs. 378,239,406 and Kshs. 123,847,284 respectively had been incurred. Incomplete projects end up tying cash while at the same time no economic benefit is derived from them. The amounts spent on these projects before suspension have been capitalized under work in progress. However, no impairment charge has been made on these assets during the year yet their value is clearly impaired by their state of incompleteness and degradation with age.

Opinion

Except for any adjustments that might be necessary arising from the matters discussed in the preceding paragraphs, in my opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the company as at 30 June 2005 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies' Act, Cap 486 of the laws of Kenya.

E.N. Mwai
CONTROLLER AND AUDITOR GENERAL

Nairobi
11 April 2006



Profit and Loss Account

FOR THE YEAR ENDED 30 JUNE 2005

		2005	2004
	Note	KShs'000	(Restated) KShs'000
REVENUE	2	8,108,365	7,107,240
DIRECT COSTS	3	(3,465,036)	(3,184,200)
GROSS PROFIT		4,643,329	3,923,040
OTHER INCOME	4	187,903	108,371
ADMINISTRATION EXPENSES	5	(1,748,013)	(2,107,650)
OPERATING PROFIT		3,083,219	1,923,761
NET FINANCE COSTS	6	(175,354)	(319,361)
PROFIT/(LOSS) BEFORE EXCEPTIONAL ITEM		2,907,865	1,604,400
EXCEPTIONAL ITEM	7	(548,159)	-
PROFIT BEFORE TAXATION		2,359,706	1,604,400
TAXATION CHARGE	8	(968,417)	(666,619)
NET PROFIT AFTER TAXATION		1,391,289	937,781
EARNINGS PER SHARE (basic and diluted)	9	Sh 76.56	Sh 51.60
DIVIDEND PER SHARE	10	Sh 8.25	Sh 8.25

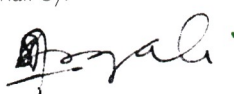
Balance Sheet

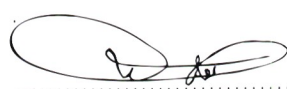
FOR THE YEAR ENDED 30 JUNE 2005



ASSETS	Note	2005 KShs'000	2004 KShs'000
NON-CURRENT ASSETS			
Property plant and equipment	11	12,290,984	12,710,719
Prepaid leasehold land	12	91,855	93,046
Intangible Assets	13	-	-
Investments	14	4	4
		12,382,843	12,803,769
Current assets			
Inventories	15	651,321	722,960
Trade and other receivables	16	1,202,080	1,436,321
Treasury bills	17	1,642,318	-
Short term deposits	18	314,512	474,272
Bank and cash balances		883,478	461,787
		4,693,709	3,095,340
Total assets		17,076,552	15,899,109
SHAREHOLDER'S FUNDS AND LIABILITIES			
Capital and reserves			
Share capital	19	363,466	363,466
Share premium		512,289	512,289
Revenue reserve		11,308,114	10,066,825
Proposed dividends		300,000	150,000
		12,483,869	11,092,580
Non current liabilities			
Retirement benefit obligations	20	1,382,000	1,012,000
Deferred taxation	21	651,783	699,338
Borrowings	22	504,672	1,008,925
		2,538,455	2,720,263
Current liabilities			
Trade and other payable	23	663,533	820,814
Borrowings	22	569,030	642,945
Taxation payable		821,665	586,161
Dividends payable		-	36,346
		2,054,228	2,086,266
Total shareholder's funds and liabilities		17,076,552	15,899,109

The financial statements on pages 20 to 35 were approved by the board of directors on 18th January 2006 and were signed on its behalf by:





} Directors



Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2005

	Share Capital KShs'000	Share Premium KShs'000	Revenue Reserve KShs'000	Proposed Dividends KShs'000	Total Equity KShs'000
As at 1 July 2003					
As previously stated	363,466	512,289	10,490,033	-	11,365,788
Prior year adjustments:					
- depreciation adjustment	-	-	(197,140)	-	(197,140)
- inventory provision adjustment	-	-	(300,925)	-	(300,925)
- deferred tax adjustment	-	-	(712,924)	-	(712,924)
At 1 July 2003 (as restated)	363,466	512,289	9,279,044	-	10,154,799
Net profit for the year	-	-	937,781	-	937,781
Proposed dividend 2004	-	-	(150,000)	150,000	-
At 30 June 2004 (as restated)	363,466	512,289	10,066,825	150,000	10,092,580
At 1 July 2004					
As previously reported	363,466	512,289	11,364,419	150,000	12,390,174
Prior year adjustments:					
- prepaid rent adjustment	-	-	4,993	-	4,993
- depreciation adjustment	-	-	(197,140)	-	(197,140)
- inventory provision adjustment	-	-	(300,925)	-	(300,925)
- VAT payable adjustment	-	-	(88,882)	-	(88,882)
- deferred tax adjustment	-	-	(687,365)	-	(687,365)
- Prior year expenses	-	-	(28,275)	-	(28,275)
As at 1 July 2004 – as restated	363,466	512,289	10,066,825	150,000	11,092,580
Net profit for the year	-	-	1,391,289	-	1,391,289
Proposed dividend 2005	-	-	(150,000)	150,000	-
At 30 June 2005	363,466	512,289	11,308,114	300,000	12,483,869

Prior year adjustments relate to correction of prior period errors.

Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2005



		2005 KShs'000	2004 KShs'000
OPERATING ACTIVITIES			
Cash generated from operations	24(a)	3,769,443	2,591,632
Interest received		74,964	(326)
Interest paid		(121,361)	(173,606)
Taxation paid		(780,468)	(837,568)
Net cash generated from operating activities		2,942,578	1,580,132
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(423,815)	(1,118,380)
Purchase of treasury bills		(1,642,318)	-
Net cash flows used in investing activities		(2,066,133)	(1,118,380)
FINANCING ACTIVITIES			
Dividends paid		(36,346)	(36,236)
Loans received		-	1,931,824
Loan repayments		(578,168)	(2,664,345)
Net cash flows used in financing activities		(614,514)	(768,757)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		261,931	(307,005)
CASH AND CASH EQUIVALENTS 1 JULY		936,059	1,243,064
CASH AND CASH EQUIVALENTS AT 30 JUNE 2005	24(b)	1,197,990	936,059



Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

I ACCOUNTING POLICIES

The financial statements are prepared in accordance with International Financial Reporting Standards. The accounting policies adopted in the preparation of these financial statements remain unchanged from the previous years and are set out below:

(a) Basis of accounting

The financial statements are prepared under the historical cost basis of accounting.

(b) Revenue recognition

Revenue is recognised upon performance of the services. Sales represent invoiced value of services rendered during the year in relation to transportation and storage of petroleum products, net of value added tax.

Interest income is recognised as it accrues (taking into account the effective yield on the investment).

(c) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and 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%

(d) Leasehold land

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

(e) Leases

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

Rentals payable under operating leases are amortised on the straight line basis over the term of the relevant lease.

(f) 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 its 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.

(g) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost comprises expenditure incurred in the normal course of business, including direct material costs on a weighted average basis. Net realisable value is the price at which the stock can be realised in the normal course of business after allowing for the costs of the realisation and, where appropriate, the cost of conversion from its existing state to a realisable condition. Provision is made for obsolete, slow moving and defective stocks as and when determined.

Fuel stocks belong to the shippers as per Transportation & Storage Agreement signed between the Kenya Pipeline

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005



Company Ltd and the shippers. Fuel stocks are therefore not included in the financial statements.

(h) Intangible assets

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

(i) Pipeline rehabilitation

Costs relating to the rehabilitation of the Mombasa to Nairobi pipeline are accumulated in a work-in-progress account and are amortised over a period of five years on a straight-line basis.

(j) Retirement benefit obligations

The company's contributions in respect of retirement benefit costs are charged to the income statement in the year to which they relate.

The company operates a defined benefit staff pension scheme for employees. The assets of this scheme are held in a separate trustee administered fund. Benefits are paid to retiring staff in accordance with the scheme's rules.

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

The amount recognised in the balance sheet represents the present value of the defined benefit obligations as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and reduced by the fair value of plan assets.

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 Sh 200 per month per employee.

(k) Taxation

Current taxation is provided for on the basis of the results for the year as shown in the financial statements, adjusted in accordance with the tax legislation. Deferred taxation is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and the unused tax credits can be utilised.

(l) Dividends

Dividends are charged to reserves in the period in which they are proposed. Proposed dividends are shown as a separate component of equity until declared.

(m) Financial instruments

Financial assets and liabilities are recognised in the Company's balance sheet when the Company become a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

Investments



Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

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 amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised 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 recognised directly to equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period.

Cash and cash equivalents

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

Financial liabilities and equity

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

i) Borrowings

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

ii) Trade payables

Trade payables are stated at their nominal value.

iii) Equity instruments

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

(n) Provision for liabilities and charges

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

(o) Currency translations

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

(p) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year and in particular to recognise prior year adjustments made to correct prior period errors.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005



	2005 KShs'000	2004 KShs'000
2 REVENUE		
Local service fees	3,779,837	3,484,825
Export service fees	4,328,528	3,622,415
	8,108,365	7,107,240
3 DIRECT COSTS		
Maintenance staff costs	1,036,414	1,040,342
Depreciation	843,574	856,899
Pipeline maintenance costs	976,749	817,253
Electricity and fuel	418,839	305,286
Insurance	114,005	110,420
Other maintenance costs	71,054	49,911
Amortisation of prepaid lease rentals	1,191	1,191
Amortisation of intangible assets	-	2,898
	3,465,036	3,184,200
4 OTHER INCOME		
Helicopter income	317	786
Miscellaneous income	114,054	34,224
Rent income	73,532	73,361
	187,903	108,371
5 ADMINISTRATION EXPENSES		
Administrative staff costs	1,276,900	1,238,031
Other office and general expenses	91,911	96,729
Travelling and entertainment	38,765	42,709
Advertising and printing expenses	37,772	35,193
Rent and rates	32,589	32,242
Consultancy fees	30,105	118,368
Telephone and postage	30,901	35,146
Legal and professional expenses	24,186	24,732
Motor vehicle expenses	19,949	17,746
Buildings repairs and maintenance	13,281	16,947
Bank charges	3,344	14,168
Auditors' remuneration - current year	3,587	2,600
- prior year	(400)	-
Directors - fees	-	-
- other emoluments	18,908	20,522
Tax penalties	133	11,717
Unclaimable VAT	-	108,882
Provision for loss of asset	115,429	291,671
Special audit on projects	-	247
Write off of obsolete stocks	10,653	-
	1,748,013	2,107,650



Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

	2005 KShs'000	2004 KShs'000
6 NET FINANCE COSTS		
Loan interest	151,471	183,139
Bank interest	125	9,949
	151,596	193,088
Interest income on deposits	(74,964)	(14,444)
Foreign exchange losses	98,722	140,717
	175,354	319,361
7 EXCEPTIONAL ITEM		
The exceptional item relates to provision for the retirement benefits scheme actuarial deficit details of which are disclosed in note 20.		
8 TAXATION		
(a) Tax charge		
Current taxation based on the taxable profit for the year at 30% -Current year	964,994	713,461
- Prior years under provision	50,978	-
	1,015,972	713,461
Deferred tax credit (Note 20)	(47,555)	(46,842)
Tax charge	968,417	666,619
(b) Reconciliation of expected tax based on accounting profit to the tax credit		
Accounting profit before taxation	2,359,706	1,604,400
Tax at the applicable rate of 30%	707,912	481,320
Tax effect of expenses not deductible for tax purposes	209,527	185,299
Prior years under provision	50,978	-
	968,417	666,619
9 EARNINGS PER SHARE – BASIC AND DILUTED		
Earnings per share are calculated on the profit after taxation of Sh 1,391,289,000 (2004 - Sh 937,781,000) and 18,173,306(2004 - 18,173,306) ordinary shares in issue at the balance sheet date.		
Basic and diluted earnings per share are the same.		
10 DIVIDENDS PER SHARE		
Dividends per share is calculated on proposed dividends for the year of Kshs 150,000,000 and on the number of shares in issue at the balance sheet date.		



Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

II PROPERTY, PLANT AND EQUIPMENT

	Freehold property Sh'000	Buildings and roads Sh'000	Pipeline tanks Sh'000	Pipeline equipment, furniture & fittings Sh'000	Motor Helicopters Sh'000	Capital		Total Sh'000
						Pipeline vehicles & tractors Sh'000	rehabilitation costs Sh'000	
COST								
At 1 July 2004	39,680	4,895,975	10,353,091	5,074,281	268,240	316,730	151,790	23,339,561
Additions	-	-	-	11,020	-	18,520	1,605	423,815
Transfers	-	24,965	77,941	73,481	-	-	-	(176,387)
At 30 June 2005	39,680	4,920,940	10,431,032	5,158,782	268,240	335,250	153,395	23,763,376
DEPRECIATION								
At 1 July 2004:								
As previously stated	-	1,705,891	4,689,372	3,430,569	268,240	248,597	-	10,342,669
Prior year adjustment	-	229,727	(75,643)	18,793	-	24,263	89,009	286,149
As restated	-	1,935,618	4,613,729	3,449,362	268,240	272,860	89,009	10,628,818
Charge for the year	-	176,254	381,405	227,251	-	27,660	31,004	843,574
At 30 June 2005	-	2,111,872	4,995,134	3,676,613	268,240	300,520	120,013	11,472,392
NET BOOK VALUE								
At 30 June 2005	39,680	2,809,068	5,435,898	1,482,169	-	34,730	33,382	12,290,984
At 30 June 2004	39,680	2,960,357	5,739,362	1,624,919	-	43,870	62,781	12,710,719

Work in progress relates to ongoing capital projects.

Assets with costs of Kshs 4,964,624,589 (2004 – Kshs 4,714,091,923) are fully depreciated Kshs 699,853,898 (2004 – Kshs 612,984,334) would have been charged to income in respect of them as depreciation.



Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

	2005 KSh's'000	2004 KSh's'000
12 PREPAID LEASEHOLD LAND		
COST		
Provision for loss of leasehold land	404,109 (291,671)	404,109 (291,671)
Total cost	112,438	112,438
AMORTISATION		
Amortisation at 1 July	(19,392)	(18,201)
Charge for the year	(1,191)	(1,191)
At 30 June	(20,583)	(19,392)
NET BOOK VALUE		
At 30 June	91,855	93,046

The provision for loss of leasehold land relates to land which is still gazetted as Forest Land and thus cannot be utilised or accessed by the company.

Payments to acquire leasehold interests in land are treated as prepaid lease rentals and amortised over the term of the lease.

	2005 Sh'000	2004 Sh'000
13 INTANGIBLE ASSETS		
COST AT THE BEGINNING AND END OF THE YEAR	13,118	13,118
AMORTISATION		
Amortisation at 1 July	13,118	10,220
Charge for the year	-	2,898
At 30 June	13,118	13,118
NET BOOK VALUE		
At 30 June	-	-

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

	2005 Sh'000	2004 Sh'000
14 INVESTMENTS		
Petroleum Institute of East Africa	2	2
Consolidated Bank of Kenya Limited	2	2
	4	4

Kenya Pipeline Company Limited holds one class "A" Redeemable Preference shares of Shs 2,000 in Petroleum Institute of East Africa.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005



Investments in Consolidated Bank of Kenya Limited are stated at cost less accumulated impairment losses. Details of the investment in Consolidated Bank of Kenya Limited are shown below:

	2005 Sh'000	2004 Sh'000
746,500 Ordinary Shares of Ksh 20 each	14,400	14,400
2,605,000 4% Non-Cumulative Preference Shares of Ksh 20 each	52,630	52,630
	67,030	67,030
Provision for impairment losses	(67,028)	(67,028)
	2	2

15 INVENTORIES

Spare parts	955,501	1,027,140
Provision for obsolete stocks	(304,180)	(304,180)
	651,321	722,960

16 TRADE AND OTHER RECEIVABLES

Trade receivables	840,501	859,479
Government debtors	92,447	10,000
Staff loans and advances	192,781	273,445
Prepaid construction costs	183,726	183,726
Prepaid expenses	2,426	63,464
Refundable deposits	5,933	5,543
Purchase deposits	2,524	36,140
Other debtors	308,198	462,876
	1,628,536	1,894,673
Provision for bad and doubtful debts	(426,456)	(458,352)
	1,202,080	1,436,321

Government debtors relate to expenses incurred on behalf of the Ministry of Energy in operating the Kipevu Oil Storage Facility during the year 2004/05 amounting to Ksh 119.4m and Ksh 92.4m (Euros 1m) paid on account of the Government of Kenya.

17 TREASURY BILLS

	2005 Sh'000	2004 Sh'000
Redemption value	1,679,000	-
Less unearned interest	(36,682)	-
	1,642,318	-

All treasury bills mature within six months of the period end and are held to maturity. The effective interest rate on the treasury bills was 8.9%.



Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

18 SHORT TERM DEPOSITS

	2005 Sh'000	2004 Sh'000
Commercial Bank of Africa Limited	275,573	392,468
Citibank N.A	33,324	81,804
Accrued interest	5,615	-
Total short term deposits	314,512	474,272

The short term deposits mature by 31 July 2005 and the weighted average interest rate earned on the deposits during the year was 3.6 % (2004 - 0.75 %).

19 SHARE CAPITAL

	2005 Sh'000	2004 Sh'000
Authorised:		
19,369,580 Ordinary shares of Ksh 20 each	387,392	387,392
Issued and fully paid:		
18,173,306 ordinary shares of Ksh 20 each	363,466	363,466

20 RETIREMENT BENEFIT OBLIGATIONS

The Company operates a funded defined benefit plan for qualifying employees. Under the plan, the employees are entitled to retirement benefits. The most recent actuarial valuation of the scheme's assets and the present value of the defined benefits obligation was carried out as at 30 June 2005 by the scheme's Actuaries, Alexander Forbes Financial Services (E.A) Limited.

The amount included in the Balance Sheet as at 30 June 2005 arising from the Company's obligation in respect of the defined retirement benefit plan is determined as follows:

	2005 Sh'000	2004 Sh'000
Present value of funded obligations	4,215,000	2,188,000
Fair value of plan assets	(2,833,000)	(1,095,000)
Present value of unfunded obligations	1,382,000	1,093,000

In accordance with the requirements of the International Accounting Standard Number 19 on employee benefits, the company recognized in the income statement during year a sum of Sh 548,159,000. This represented the element of the actuarial deficit not recognised in prior years.

After consultations with Retirement Benefit Authority (RBA), the Company is making a regular level payment of Kshs. 28 million per month for a period of 5 years with effect from 1 September 2005.

An Actuarial firm, Alexander Forbes Financial Services (E.A) Limited has been engaged to review the benefit structure and make recommendation for the modification of the existing Sponsor cost structure for sustainability of the scheme.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005



21 DEFERRED TAX

The net deferred tax liability is attributable to the following items:

Accelerated capital allowances on property, plant and equipment

Leave pay provision

General stock provision

	2005 Sh'000	2004 Sh'000
	766,103	809,253
	(23,066)	(18,661)
	(91,254)	(91,254)
	651,783	699,338
Reported at 1 July	11,973	22,222
Prior year underprovision	687,365	723,958
Restated at 1 July	699,338	746,180
Income statement credit (Note 7)	(47,555)	(46,842)
At 30 June 2005	651,783	699,338
Loans outstanding		
Total outstanding as at 30 June	1,073,702	1,651,870
Less: Current portion of loans	(569,030)	(642,945)
Long term portion	504,672	1,008,925

22 BORROWINGS

Loans outstanding

Total outstanding as at 30 June

Less: Current portion of loans

Long term portion

Analysis of borrowing by currency

	Borrowings in Euros	Kshs equivalent Sh'000	Borrowing in local currency Sh'000	Total Borrowing Sh'000
2005				
European Investment Bank	19,631	1,766	-	1,766
Standard Chartered Bank Kenya Ltd	-	-	850,896	850,896
Triple A capital Ltd	-	-	221,040	221,040
At 30 June 2005	19,631	1,766	1,071,936	1,073,702
2004				
European Investment Bank	39,264	3,678	-	3,678
Standard Chartered Bank Kenya Ltd	-	-	1,418,160	1,418,160
Triple A capital Ltd	-	-	230,032	230,032
At 30 June 2004	39,924	3,678	1,648,192	1,651,870

The average interest rates paid were as follows:

European Investment Bank

Standard Chartered Bank Kenya Limited

Triple A capital

	2005 %	2004 %
European Investment Bank	1%	1%
Standard Chartered Bank Kenya Limited	10%	10%
Triple A capital	19%	19%



Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

The Standard Chartered Bank Kenya Limited loan is repayable in 36 equal monthly instalments starting January 2004. The loan will be fully redeemed by December 2006. The loan is secured by a fixed debenture charge over receivables due to the borrower from Kenya Shell and BP Kenya.

The company entered into a borrowing arrangement with Triple A Capital Limited (Triple A) to finance the payment of contractors and international suppliers. It later turned out that Triple A did not have the necessary resources to pay these suppliers. The company then instructed its bankers Standard Chartered Bank Kenya Limited (Stanchart) to provide the necessary finances to Triple A to enable it to pay the suppliers.

Following government intervention, the Triple A contract was cancelled and payments made by Stanchart were converted into a loan payable directly to the bank.

The amount remitted by the bank included advance interest and at an exchange rate which was higher than the prevailing market rate. These funds were then used by Triple A to make additional payments to the suppliers, hence the loan due to it of Sh 221,040,000. The company is disputing this amount on various grounds and the matter is now in court.

The loan from Triple A is unsecured.

	2005 Sh'000	2004 Sh'000
23 TRADE AND OTHER PAYABLES		
Trade payables	178,812	202,484
Other payables	374,336	445,446
W/Tax payable	38,374	161,645
VAT payable/(recoverable)	41,776	(8,243)
Accrued interest	30,235	19,482
	663,533	820,814
24 NOTES TO THE CASH FLOW STATEMENT		
(a) RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATIONS		
Operating profit	3,083,219	1,923,761
Adjustments for:		
Depreciation	843,574	856,898
Amortisation of prepaid lease rentals	1,191	1,191
Amortisation of intangible assets	-	2,898
Foreign exchange gains	(98,722)	(80,340)
Provision for loss of leasehold land	-	291,271
Exceptional item	(548,159)	-
Operating profit before working capital changes	3,281,103	2,995,679
Decrease/(increase) in inventories	71,639	(35,737)
Decrease/(increase) in trade and other receivables	234,241	(169,248)
Decrease in trade and other payables	(187,540)	(199,062)
Increase in retirement benefits liability obligations	370,000	-
Cash generated from operations	3,769,443	2,591,632

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005



	2005 Sh'000	2004 Sh'000
24 (b) ANALYSIS OF CASH AND CASH EQUIVALENTS		
Short term deposits	314,512	474,272
Cash at bank and in hand	883,478	461,787
At 30 June	1,197,990	936,059

25 CONTINGENT LIABILITIES

Pending law suits	941,829	427,962
Tax assessment/penalties	2,814,810	2,800,000
	3,756,639	3,227,962

Pending lawsuits relate to civil suits lodged against the company by various parties in the normal course of business.

The company has lodged a waiver application with Kenya Revenue Authority for the Sh 2.8 billion tax penalties and interest.

The directors are of the opinion that the pending cases are unlikely to result in any liability to the company.

26 FUEL STOCKS

Fuel stocks belong to the shipper as per Transportation & Storage Agreement signed between the Kenya Pipeline Company Ltd and the shippers. Fuel stocks are therefore not included in the financial statements.

As at 30 June 2005, the company held third party fuel stocks amounting to 374,726 M3 (2004 – 329,849 M3) worth Sh 12,009,359,761 (2004 Sh 13,793,517,170).

27 CAPITAL COMMITMENTS

	2005 Sh'000	2004 Sh'000
Approved capital commitments	2,098,349	1,901,208

The amount of Kshs 2,098,349,000 (Kshs 1,901,208,000 in 2004) in respect of capital expenditure is included in the approved budget.

28 INCORPORATION

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

29 CURRENCY

Financial statements have been presented in thousands of Kenya shillings (Kshs 000).



Kenya Pipeline Network

OIL PIPELINE NETWORK

EXISTING & PROPOSED PIPELINES & RELATED FACILITIES IN KENYA & EAST AFRICAN REGION.



Key

Existing facilities

- White oil storage tanks
- Pipeline
- Existing loading facility
- Rail siding

Planned short term projects

- Proposed fuel loading facilities
- LPG storage facilities
- Pipeline extension to Kampala
- Rail siding/Mooring facilities

Planned medium term projects

- (PoP) - Points of Presence (White oil storage tanks)

Planned long term/future projects

- LPG storage facilities
- Pipeline extensions
- Spur lines

Current

- Waterways transport in Lake Victoria.

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