

REPUBLIC OF KENYA



*Laid on the table of  
the House by Hon. A. Duale, MP  
on 26.02.2015  
MMW*

**KENYA NATIONAL AUDIT OFFICE**

**REPORT**

REPUBLIC OF KENYA

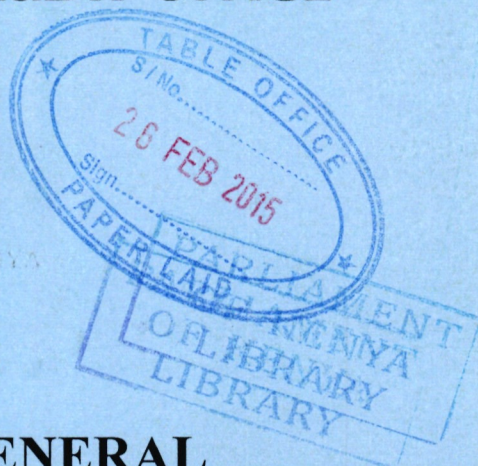
**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
INDUSTRIAL AND COMMERCIAL  
DEVELOPMENT CORPORATION**

**FOR THE YEAR ENDED  
30 JUNE 2014**



KENYA NATIONAL AUDIT OFFICE  
P. O. Box 30084 - 00100, NAIROBI

27 JAN 2015

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**Industrial and Commercial Development Corporation**

**REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
30 JUNE 2014**

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

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## KEY ENTITY INFORMATION

### Background information

The Industrial and Commercial Development Corporation was established in 1954 by the (ICDC) Act (Cap.445 Laws of Kenya). At cabinet level, the Industrial and Commercial Development Corporation is represented by the Cabinet Secretary for Industrialisation and Enterprise development who is responsible for the general policy and strategic direction of the Corporation.

### Principal Activities

The principal activities of the Corporation are investment in venture capital, lending for commercial and industrial purposes and offering consultancy and related management advisory services.

### Directors

The Directors who served the Industrial and Commercial Development Corporation during the year were as follows:

- |    |   |                      |  |
|----|---|----------------------|--|
| 1. | Martin K. Muragu  | - Chairman           | - Appointed on 9 <sup>th</sup> September, 2009 |
| 2. | Peter M Kimurwa   | - Executive Director | - Appointed on 14 <sup>th</sup> July, 2010     |
| 3. | Albert Ruturi   |                      | - Appointed on 20 <sup>th</sup> January, 2009  |
| 4. | Bernard G Njuguna   |                      | - Appointed on 1 <sup>st</sup> October 2009    |
| 5. | Abdirahman Yare Haji  |                      | - Retired on 14 <sup>th</sup> August, 2013     |
| 6. | Samuel K. Njonde  |                      | - Retired on 20 <sup>th</sup> October, 2013    |
| 7. | Said H S Gedi   |                      | - Retired on 2 <sup>nd</sup> November, 2013    |
| 8. | Principal Secretary, Ministry of Industrialization & Enterprise Development |                      | - Alternate: Samson Olala                      |
| 9. | Principal Secretary, National Treasury                                      |                      | - Alternate: Daniel Mutua                      |

### Corporation Secretary

Grace M. Magunga  
PO Box 45519  
00100 Nairobi

### Registered Office

Uchumi House  
Aga Khan Walk  
PO Box 45519 - 00100  
Nairobi, Kenya

### Corporate Headquarters

Uchumi House  
Aga Khan Walk  
PO Box 45519 - 00100  
Nairobi, Kenya

### Corporate Contacts

Telephone: (254) 020-229213/2771000  
Mobile: 0727534572/0736229213  
E-mail: info@icdc.co.ke  
Website: www.icdc.co.ke

**Corporate Bankers**

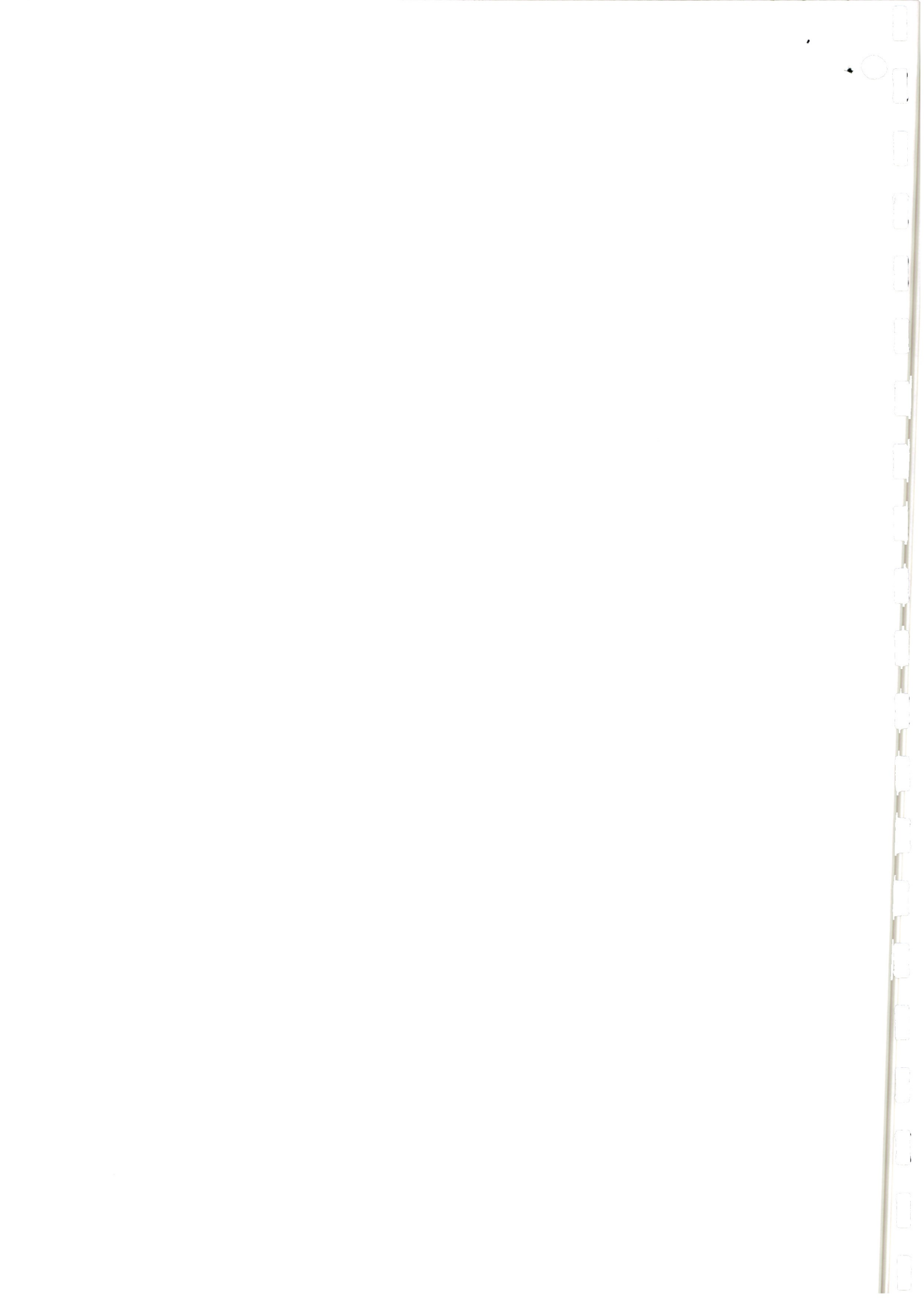
1. Kenya Commercial Bank Limited  
Moi Avenue  
P.O. Box 30081-00100  
Nairobi
2. Commercial Bank of Africa Limited  
Wabera Street  
P.O.Box 30437 – 00100  
Nairobi
3. Co-operative Bank of Kenya Limited  
Uchumi House  
Aga Khan Walk  
P.O.Box 40310 – 00100  
Nairobi

**Independent Auditors**

Auditor General  
Kenya National Audit Office  
Anniversary Towers, University Way  
P.O. Box 30084  
GPO 00100  
Nairobi, Kenya

**Principal Legal Adviser**

Grace M Magunga  
Corporation Secretary  
Uchumi House Aga Khan Walk,  
P.O. Box 45519  
GPO 00100  
Nairobi, Kenya



## **BOARD OF DIRECTORS**

### **1. Martin K. Muragu, MBS - Chairman**

Mr. Muragu is the Chairman of Industrial & Commercial Development Corporation (ICDC) since September 2009. With a long career in financial services, working at senior executive level, Muragu has extensive experience of over 30 years in project financing. He was the Head of Projects Finance at the Development Bank of Kenya and a Consultant for Small Enterprises Finance Company Ltd. He has promoted and facilitated establishment of numerous successful private enterprises which have contributed to the creation of employment and wealth for Kenyans. He was awarded the Moran of the Order of the Burning Spear medal (MBS) by His Excellency the former President of the Republic of Kenya, Hon. Mwai Kibaki, C.G.H, M.P for his distinguished service in the financial sector. Mr. Muragu holds a Bachelor of Science degree in Industrial Engineering from the University of Missouri, Columbia, USA and a Bachelor of Science degree in Statistics & Applied Economics from Makerere University, Kampala, Uganda.

### **2. Peter M. Kimurwa - Executive Director**

Mr. Kimurwa is the Executive Director of Industrial & Commercial Development Corporation (ICDC) and a Board member since July 2010. He is a specialist in Strategy, Business Development and Financial Management. His extensive career has seen him work in various managerial positions being responsible for investments, strategic planning and implementation of various projects. He has worked in Senior Management positions at East African Breweries Limited, Linksoft Communications Limited, BOC Kenya Limited, British American Tobacco Eastern Africa Limited and PricewaterhouseCoopers. He is the Executive Director of ICDC. He sits as a director in Centum Investments Co. Ltd., General Motors E.A. Ltd., Rift Valley Bottlers Ltd., Kisii Bottlers Ltd., and Mount Kenya Bottlers Ltd. Mr. Kimurwa holds a Bachelor of Commerce degree from Kenyatta University and a Master of Business Administration degree from INSEAD University in Fontainebleau, France. He is a Certified Public Accountant, (CPA-K).

### **3. Daniel Mutua - Alternate to PS, The National Treasury**

Mr. Mutua was appointed to the Board in 2006. He is an alternate director to the Principal Secretary, The National Treasury and is a Senior Assistant Director of Investments. He has over 21 years work experience in the public sector specialising in Public Private Partnerships and Investment Analysis. He has served in various government offices including the Public Service, Teachers Service Commission, Ministry of Labour, Office of the Vice President and Ministry of Finance. He also sits on the Boards of Export Processing Zone Authority, Chepkoilel University College Council and Mbusyani Secondary School. Mr. Mutua holds a Bachelor of Education degree in Business Economics from Kenyatta University, a Master of Business Administration degree from ESAMI and a Master of Science degree in Management from the Netherlands.

### **4. Samson O. Olala, OGW - Alternate to PS, Ministry of Industrialisation and Enterprises Development**

Mr. Olala was appointed to the Board in 2014, as an alternate to the Principal Secretary, Ministry of Industrialisation and Enterprise Development. He is a Senior Chief Finance Officer at the Ministry. He has vast experience in the field of Financial Management and Administration. Mr. Olala has worked as Head of Finance departments in various government offices including the Ministry of Cooperative Development, Public Service Commission of Kenya, Ministry of Agriculture, Ministry of Water and Irrigation. Mr. Olala has previously served on boards of National Irrigation Board, National Water and Pipeline Corporation, Kenya Agricultural Research Institute and Agro Chemical & Foods Company. He was conferred the Order of the Grand Warrior of Kenya (OGW) by His Excellency the former President of the Republic of Kenya, Hon. Mwai Kibaki, C.G.H, M.P, for his exemplary service to the Nation. He holds Bachelors of Art degree in Economics from the University of Nairobi and a Diploma in Financial Management from Kenya College of Accountancy.

## **BOARD OF DIRECTORS (CONTINUED)**

### **5. Bernard Njuguna - Director**

Mr. Njuguna was appointed to the Board in October 2009. He is an entrepreneur with vast business knowledge and extensive experience of over 22 years, managing businesses in the fast moving consumer goods sector. He has held several senior managerial positions in his career and was Area Manager at Total Kenya before going into private business. He is currently the Managing Director of Outlook Ltd. Mr. Njuguna holds a Bachelor of Arts degree in Economics and Sociology from the University of Nairobi

### **6. Albert Ruturi - Director**

Mr. Ruturi was appointed to the Board in January 2009. He is a career banker with experience spanning over 40 years in the Banking Industry. In his executive career, he was the Chief Operating Officer of Barclays Bank of Kenya Ltd. and subsequently Chief Operating Officer, Kenya Commercial Bank. He has excellent leadership skills and has made substantial contribution to the overall growth of the organisations he has worked for. He sits as a director in Church Commissioners of Kenya and St. John's Ambulance. He is currently the Managing Director of K-REP Bank Ltd. Mr. Ruturi is a graduate of Manchester Business School and holds a Diploma in Human Resources Management from Cranfield University, UK. He has attended a Conflict and Resolution Seminar at Oxford University, UK.

### **7. Grace M. Magunga - Corporation Secretary**

Mrs. Magunga has been the Company Secretary since 2006. She has wide experience spanning over 19 years in Legal Matters and Corporate Secretarial Services, gained at ICDC. She is also the Company Secretary of Mount Kenya Bottlers Ltd., Kisii Bottlers Ltd., Rift Valley Bottlers Ltd., Funguo Investment Ltd., Kenya National Trading Corporation Ltd., Funguo Registrars Ltd., Focus Container Freight Station and Wananchi Saw Mills Ltd. She holds a Bachelor of Law degree from The University of Nairobi and a Diploma in Legal Practice. She is a Certified Public Secretary, (CPS- K).

### **8. Said H.S. Gedi - Director**

Mr. Gedi was appointed to the Board in November 2010. He is a businessman with diversified experience of over 30 years in Export and Import. He is an entrepreneur and a philanthropist having started several schools in Mandera and Garissa counties. He is the Director of Gedi Enterprises and Elegant Trading Company Ltd. Mr. Haji has excellent leadership and business management skills.

### **9. Abdirahman Yare Haji - Director**

Mr. Haji was appointed to the Board in August 2007. He has over 28 years experience in Construction, Sales and Marketing. He has held several senior management positions during his career, including Chief Logistics Director of Hass Petroleum and Finance Director of Northern Norle Service. He is also a member of the Board of Kenya National Library Services, National Archives Advisory Council, Habaswein Boys Secondary School and Wajir Boys High School. He holds an Islamic Law degree from Medina University as well as a Diploma in Business Administration and in Sales and Marketing.

### **10. Samuel K. Njonde - Director**

Mr. Njonde was appointed to the Board in October 2010. He has more than 30 years experience in Information Technology, Finance and Logistics specialising in Business Systems, Business Development and Computer Systems. Other directorships that he holds include Kentrade Agency, Petrocity Energy (K) Ltd, Compact Freight Systems and Nairobi Bureau De Change. Mr. Njonde holds a Bachelor of Science degree in Mathematics and Computer Science.

## **MANAGEMENT TEAM**

### **1. Peter M. Kimurwa - Executive Director**

Mr. Kimurwa is the Executive Director of Industrial & Commercial Development Corporation (ICDC) since July 2010. He is a specialist in Strategy, Business Development and Financial Management. His extensive career has seen him work in various managerial positions being responsible for investments, strategic planning and implementation of various projects. He has worked in Senior Management positions at East African Breweries Limited, Linksoft Communications Limited, BOC Kenya Limited, British American Tobacco Eastern Africa Limited and PricewaterhouseCoopers. He sits as a director in Centum Investments Co. Ltd., General E.A. Ltd., Rift Valley Bottlers Ltd., Kisii Bottlers Ltd., and Mount Kenya Bottlers Ltd. Mr. Kimurwa holds a Bachelor of Commerce degree from Kenyatta University and a Master of Business Administration degree from INSEAD University in Fontainebleau, France. He is a Certified Public Accountant, (CPA – K).

### **2. Mbatha Mbithi - Chief Manager Operation**

Ms. Mbithi is the Chief Manager Operations, a position she has held since September 2009. She has a solid background in Finance and Banking having worked in middle and senior management level positions in five commercial banks. Prior to joining ICDC, she was Head of Credit at Family Bank Ltd. She also sits on the Boards of Uchumi Supermarkets Ltd., Development Bank of Kenya Ltd. and IDB Capital Ltd. She holds a Master of Business Administration degree in Strategic Management from Moi University and a Bachelor of Science Degree in International Business Administration from the United States International University. She is a member of the Kenya Institute of Management.

### **3. Grace Magunga - Corporation Secretary**

Mrs. Magunga is the Corporation Secretary since 2006. She has wide experience spanning over 19 years in Legal Matters and Corporate Secretarial Services, gained at ICDC. She is also the Company Secretary of Mount Kenya Bottlers Ltd., Kisii Bottlers Ltd., Rift Valley Bottlers Ltd., Funguo Investment Ltd., Kenya National Trading Corporation Ltd., Funguo Registrars Ltd., Focus Container Freight Station and Wananchi Saw Mills Ltd. She holds a Bachelor of Law degree from University of Nairobi and a Diploma in Legal Practice. She is a Certified Public Secretary, (CPS – K).

### **4. Joseph Mwaura - Special Projects Manager**

Mr. Mwaura is the Manager in charge of Special Projects since December 2014. He is the immediate former Finance Manager of the Corporation, a docket that he held for the last nine years. He has over 27 years experience in Finance and Accounting gained at ICDC, Kenya Wine Agencies Ltd and Kenya National Trading Corporation Ltd. He holds a Bachelor of Commerce degree in Accounting from the University of Nairobi. He is a Certified Public Accountant, (CPA – K).

### **5. Faith Nene - Human Resources & Administration Manager**

Mrs. Nene is the Human Resources & Administration Manager since September 2005. She has a wide range of experience in Human Resource management spanning over 18 years working at ICDC and has knowledge of all facets of HR and Administration. She holds a Master of Science degree in Human Resources Management from the University of Manchester, UK as well as a Bachelor of Arts degree in Government & Philosophy from the University of Nairobi. She is a member of Institute of Human Resource Management (IHRM).

## **MANAGEMENT TEAM (CONTINUED)**

### **6. Byron Mudhune - Strategy & Risk Manager**

Mr. Mudhune is the Strategy and Risk Manager since March 2009. He has over 12 years experience in Corporate and Investment Banking, Strategy Development & Planning with Local and International Banks such as AbnAmro Bank, Citibank in Nairobi, Lloyds TSB Bank and JP Morgan Chase Bank in London. He has also been involved in Strategy and Operations Planning for Kenya Airways. He holds a Bachelor of Commerce degree from the University of Nairobi, a Diploma in Financial Services, a Postgraduate Education in Economics, Finance and Banking from the University of Portsmouth, UK. He is a member of the Chartered Banker (UK) and a Consultant in Finance.

### **7. Dismas J.O Oyieko, HSC - Portfolio Manager**

Mr. Oyieko is the Portfolio Manager since December 2014. Prior to this appointment, he held the position of Special Projects Manager. He has over 15 years experience at Senior Management Level, having worked as Head of Department in various portfolios within ICDC. He was awarded the Head of State Commendation in 2004, by His Excellency the former President of the Republic of Kenya, Hon Mwai Kibaki C.G.H, M.P. He holds a Master of Science degree in Development Finance from the University of Birmingham, UK and a Bachelor of Commerce degree in Accounting from the University of Nairobi.

### **8. Isaac Ole Ntiki - Business Development Manager**

Mr. Ole Ntiki is the Business Development Manager since 2009. He has experience of over 8 years in Customer Service, Corporate Communication, Branding, Product Development, Investment Appraisal & Funding and Sales & Marketing having worked with CFC Stanbic Bank and First Community Bank. He is an expert in Business Advisory Services. He holds a Master of Business Administration degree in Strategic Management and a Bachelor of Commerce degree in Marketing & Management from Africa Nazarene University. He is a member of Marketing Society of Kenya as well as Public Relations Society of Kenya.

### **9. Wilson Kamau - Internal Audit Manager**

Mr. Kamau is the Internal Audit Manager since August 2005. He has experience of over 30 years in Accounting, Finance and Audit having worked in Central Government, Local Government and ICDC. He holds a Master of Business Administration degree from United States International University and a Bachelor of Commerce degree from University of Jabalpur, India. He is a Certified Public Accountant, (CPA – K) and has a Certificate in Computer Programming.

### **10. Erasto Shako- Equity Manager**

Mr. Shako is the Equity Manager since July 2010. He has a wide experience of over 25 years in Private Investment Appraisal, Risk Analysis, Enterprise Valuations, Quality Management Systems and Related Engineering Services. He holds a Bachelor of Science degree in Mechanical Engineering from the University of Nairobi.

### **11. Peter Mwangi - ICT Manager**

Mr. Mwangi is the Information, Communication & Technology (ICT) Manager since 2006. He has extensive experience in ICT spanning over 21 years having worked in various organisations including Strathmore Business School, Missions for Essential Drugs & Supplies and Africa Online Holdings. He holds a Master of Science degree in Information Systems from University of Nairobi, a Bachelor of Science degree in Mathematics & Physics from Egerton University, a Bachelor of Science degree in Computer Science from University of Natal, South Africa and a Post Graduate Diploma in Computer Science from University of Nairobi.

**MANAGEMENT TEAM (CONTINUED)**

**12. Edward Gitau - Credit Manager**

Edward Gitau is the Credit Manager since May 2014. He has 25 years experience in finance analysis, investment appraisal, enterprise valuations and investment monitoring. He holds a bachelor's degree in Economics and statistics from the University of Nairobi. He is a Certified Investments and Financial Analyst (CIFA) and a member of the institute of certified investments and financial analysts (ICIFA).

**13. Kennedy Wanderi- Finance Manager**

Kennedy M. Wanderi, is the Finance Manager since May 2014. He has wide experience of over 20 years in Finance and Accounting gained at ICDC. He has also served as the ICDC Eldoret Branch Manager. He holds a Master of Business Administration degree in Finance and Banking, and a Bachelor of Business Management degree from Moi University. He is a Certified Public Accountant.



## **CHAIRMAN'S STATEMENT**

As ICDC celebrates 60 years of existence since its inception in 1954, I am pleased to report the Corporation's exemplary performance for the financial year ended 30th June 2014. The Corporation made significant investments in key areas of the economy resulting in increased revenue of twenty five per cent from the previous year.

As the country's economy continues to evolve, ICDC is dedicated to keeping its promise of Creation of sustainable wealth for Kenya and Kenyans. This will be achieved by supporting investments in sectors of the economy that promise both economic and social returns like manufacturing, agro-processing value addition, financial services, education, health, energy and other key sectors that are core to Kenya's economic development.

ICDC's mandate is to promote the establishment and growth of industrial and commercial enterprises through provision of financial services and managerial support, and this has not changed over the past 60 years. Given the strong emphasis of Vision 2030 on economic growth and prosperity, the Corporation intensified its marketing activities by partnering with key stakeholders to leverage on innovative ideas and private sector resources that are beneficial to economic growth. Some of the marketing tactics employed during the year under review were participation at various investment forums, golf tournaments, trade exhibitions and business networking opportunities that appeal to ICDC's target market. This was done in various parts of the country in order to share ideas and educate the audience about ICDC's products and services.

In targeting County Governments to create wealth for all Kenyans, ICDC made significant investments in Kilifi, Uasin Gishu, Nyeri, Nairobi, Nakuru, Migori, Kiambu and Mombasa counties. These investments have contributed towards the Corporation's increased business portfolio and have created many jobs in the respective counties.

Three years after the rebranding, in a bid to remain relevant in the competitive business environment of the 21st Century, the Corporation has increased its visibility in the market thereby attracting and creating new investments upto the tune of Kshs 3 billion in a number of private enterprises thus creating jobs and wealth.

### **Overview of the Operating Environment**

Amidst the challenges of insecurity experienced in the country and the operationalisation of the devolved system of governance during the year under review, the overall economic activity expanded by 4.7 percent. This performance is attributed to the strong economic fundamentals, together with the renewed investor confidence following the peaceful elections of early 2013.

During the period under review, the various economic sectors recorded mixed performance. There was a 4.8 percent growth in the manufacturing sector compared to 3.2 percent in the year 2012 while the agricultural sector decelerated in 2013 to 2.9 percent from a revised growth of 4.2 percent in 2012 partly due to inadequate rainfall received in some grain growing regions. According to the 2014 Economic Report presented by the Cabinet Secretary in the Ministry of Devolution and Planning, one of the policy interventions that the Government should embark on is to collaborate with the county governments and ensure that each county has at least one agricultural value addition processing plant in order to maximize on the high production during glut seasons. This is one area the Corporation will be seeking to support.

### **Financial Performance**

During the financial year ended 30th June 2014, the Corporation registered a 25.7% increase in pre-tax profit which stood at Kshs 602.4 million compared to Kshs 479.2 million realised in the previous year 2012/2013. The increased profitability was mainly due to higher dividend earnings from investments, higher interest income and higher earnings from investment property. New investments during the period amounted to Kshs 849.7 million.

### **Review of Core Business activities**

The Corporation continued to grow its investment portfolio in various economic sectors. Some of the investments made within this financial year include:

- i) A credit facility to a startup company that is set to manufacture cordial fruits and flavoured beverages using a well-known trade mark.

## **CHAIRMAN'S STATEMENT (CONTINUED)**

### **Review of Core Business activities (continued)**

- ii) An equity stake in a new master planned urban node on 100 acres of prime property located in Runda along Limuru Road that seeks to meet the high demand for premium facilities providing retail, entertainment and lifestyle facilities, modern office parks, residential apartments, hotels and public amenities.
- iii) A strategic partnership in a mini hydro power generating plant in Nyeri County, to boost the government's efforts in increasing power on the national grid.
- iv) An equity stake in a new ultra-modern heart, kidney and diabetes specialist hospital that will offer advanced diagnostic and treatment facilities to be constructed in Kiambu County.
- v) A credit facility to an established institution in the hospitality industry that required expansion of its facilities to meet the increasing demand for its services.
- vi) Support by way of a credit facility to Uchumi Supermarkets Limited to support expansion and refurbishment

In the quest for quality service delivery, we reviewed our Customer Service Charter outlining our range of products and our commitment to world class service. This Service Charter is our commitment to high quality service to our customers and stakeholders.

### **People**

Our people remain our single most valuable resource and our greatest competitive advantage. The alignment of our people to the strategic objectives has enabled the Corporation maintain a consistent and impressive record of performance. During the year under review the Corporation introduced the balanced scorecard performance management framework with a view to optimizing performance. Various programs for learning and growth were also implemented so as to enhance employee competencies and capabilities.

### **Corporate Social Responsibility**

Operating in a responsible and sustainable manner is imperative to ICDC. As a socially responsible public institution ICDC is committed to supporting social, environmental and economic activities that contribute to the society's goal of sustainable development. During the year under review, we demonstrated these responsibilities through support of Joyful Women Organisation (JOYWO) 2013 event, a national NGO that supports growth of low income women's enterprises into large scale successful businesses with operations in 36 counties with an aim of covering all 47 counties by 2015. The Corporation also in partnership with the Kenya Organisation of Environmental Education (KOE) participated in the tree planting exercise at Ngong Forest in an effort to conserve the country's Aberdares water tower.

### **Corporate Governance**

Corporate governance is a matter of high importance to the Corporation and is undertaken with due regard to all of the Corporation's stakeholders and its role in the community. Corporate governance at ICDC is premised on management and control of the Corporation geared towards maximizing shareholder value while safeguarding the rights and interests of all stakeholders. Corporate Governance permeates all levels of Management and this has led to the success of the Corporation.

### **Board of Directors**

The Directors who held office during the year under review and to the date of this report are listed under the board of directors. The Board currently comprises five (5) directors four (4) of whom are non-executive directors while two (2) are independent. The independent directors bring with them independent judgement on matters of strategy, management of corporate risk and resource utilisation.

## **CHAIRMAN'S STATEMENT (CONTINUED)**

### **Board of Directors (continued)**

The ICDC Board is the custodian of the Corporation's resources, and recognises its responsibility to provide leadership and control, strategic and business direction, and maintain accountability to the Stakeholders for financial performance. It oversees risk management, is responsible for investment and ensures high compliance with relevant laws and regulations.

The Board has constituted three standing committees to assist in discharging its duties. These committees operate under specific terms of reference which are available on request through the Corporation Secretary's office. The Board members collectively have sufficient qualifications and experience to fulfil the duties of the respective Committees. Minutes of all meetings of Board Committees are circulated to all Directors for information with their board papers and are formally noted by the Board. A description of each of the committees is given below.

- **Audit and Risk Committee**

This Committee currently consists of three (3) non-executive directors. The Audit and Risk Committee reviews the Corporation's annual and interim financial statements, considers the significant financial reporting issues and judgements which they contain and makes recommendations to the Board concerning their approval and contents. The Committee also monitors the integrity and effectiveness of the Corporation's system of internal control. It reviews the scope of the audits and the plans, findings and recommendations of the Internal Auditor and External Auditors. The Committee is responsible for monitoring the independence of the External Auditors who have unrestricted access to the Committee.

The Corporation's system of internal control includes.

- An organisation structure which clearly defines authority limits and reporting mechanisms to senior levels of management and to the Board. This is outlined in the various Operation policies and manuals;
- A quarterly budgeting and financial reporting system for all departments which enables progress against plans to be monitored, trends to be evaluated and variances to be acted upon; and a set of policies and guidelines adhered to by all departments.
- The Internal Audit function reports administratively to the Executive Director and the Audit and Risk Committee. The system of internal control is reviewed by the Internal Auditors. Emphasis is focused on areas of greatest risk as identified by risk analysis.

The Audit and Risk Committee also reviews the Risk Management Policy and plans and monitors the risk Management process.

- **Staff and General Purposes Committee**

This Committee currently consists of Four (4) Directors, which includes the Executive Director. It addresses issues pertaining to staff and any other issues as may be delegated by the Board from time to time. A recurrent agenda before this committee is employee remuneration levels, development, and motivation. It ensures that the correct incentives and reward mechanisms are in place in the corporation whilst maintaining the principles of equity and appropriateness of compensation. In the year under review, the Committee made recommendations on review of the performance management system recommending the adoption of the Balanced Score Card. It also met to review human resources practices and policies and instituted changes geared towards attracting, retaining and motivating competent staff necessary to compete in the increasingly competitive economic environment.

Meetings are held as and when there is business to transact and any member of the Committee or the Executive Director may request for a meeting at any time if they consider it necessary.

## **CHAIRMAN'S STATEMENT (CONTINUED)**

### **• Finance and Investments Committee**

This Committee currently has Four (4) members which includes the Executive Director. The objective of the Committee is to oversee Corporation's funds, formulate investment policies, strategies and assist the Board in matters pertaining to finance and investments and other functions as may be delegated by the Board. In addition to reviewing and recommending to the Board, for approval, financial and investment related matters, the committee reviews various investment options available and makes the necessary recommendations. It also exercises oversight on the implementation of the investment strategy.

### **Induction of Directors**

On joining the Board, new Directors receive an induction presentation, which explains their responsibilities as a Director and provides an overview of the Corporation and its business. The induction Program is managed by the Chairman, the Executive Director and the Corporation Secretary.

The programme is aimed at imparting relevant organizational knowledge for an in-depth understanding of the Corporation and also provides awareness of relevant policies. Each Director receives an information pack which provides details of the disclosures and other relevant information to comply with applicable laws and regulations. The programme also includes briefing sessions with senior management from each of the main business units.

### **Evaluation of Board Performance**

In order to ensure that the roles and responsibilities of the Board of Directors are effectively performed, every financial year the Board conduct a Board evaluation. The evaluation helps to consider whether those sitting on the board have the skills and expertise appropriate to the organisation.

The outcome of the evaluation is shared among the directors for continuous improvement.

### **Performance Review**

At the beginning of every financial year the Board signs a performance contract with the parent ministry that has SMART targets to be fulfilled by the Corporation. The said targets are then cascaded to management of the corporation and thereafter to the employees. At the end of every financial year a formal performance evaluation of each employee is conducted by the respective line managers, and each manager thereafter evaluated by the Executive Director and the Board finally has its performance evaluated by the Performance Contracting Department. ICDC has a clear and elaborate reward and sanctions mechanism in place which is informed by the performance appraisal. As a State Corporation, ICDC is also appraised against other State Corporations and the results made public. This year, the Corporation was ranked 'Very Good' in its performance.

### **Future Outlook**

To sustain the positive trend that has been set, ICDC intends to focus on raising funds for new investment opportunities. ICDC will also focus on growing new investment opportunities and non-core income. As a priority, the Corporation intends to complete the development of Kizingo and Nyali properties, and launch phase one of the Eldoret SME Industrial Park. To achieve this, ICDC will maintain and improve on employee engagement and productivity while maintaining effective and efficient business processes.

For ICDC to be relevant to its mandate, we look forward to aligning ourselves with the government strategy in order to open up the country industrially. We intend to engage more with the counties to ensure that our commitment of 'Creation of sustainable wealth' is devolved in all the counties.

## **CHAIRMAN'S STATEMENT (CONTINUED)**

### **Acknowledgement**

In closing, I wish to acknowledge the various key entities whose combined efforts have led to the Corporation's significant performance in the financial year.

I would like to recognise and commend the Management Team and staff for their invaluable dedication and hard work that has translated to the Corporation's great performance. Undeniably, it is proof of the Team's commitment to realising ICDC's vision of becoming Africa's world class Development Finance Institution.

I also sincerely applaud our esteemed customers, parent ministries - Ministry of Industrialisation and Enterprise Development and The National Treasury, investee companies and other stakeholders for their contribution and general assistance provided.

Finally I would like to express my sincere gratitude to my fellow board members for their continued support and dedication in service to the Corporation.

**Martin K. Muragu (MBS)**



## REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 30 June 2014 which show the state of the Industrial and Commercial Development Corporation's affairs.

### Principal activities

The principal activities of the Corporation are investing in venture capital, lending for commercial and industrial purposes and offering consultancy and related management advisory services.

### Results

	For year ended 30 June	
	2014	2013
	Kshs'000	Kshs'000
Profit before taxation	602,394	479,194
Taxation	-	-
Profit for the year transferred to retained earnings	602,394	479,194

### Dividends

The Directors do not recommend the payment of a dividend (2013: Nil).

### Directors

The members of the Board of Directors who served during the year are shown on page 4 - 5.

### Auditors

The Auditor General is responsible for the statutory audit of the Corporation in accordance with Section 14 and 39(i) of the Public Audit Act, 2003, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

PricewaterhouseCoopers was nominated by the Auditor General to carry out the audit of the Industrial and Commercial Development Corporation for the year ended 30 June 2014.

By Order of the Board



Grace M Magunga  
Corporate Secretary  
P. O Box 45519  
00100 Nairobi

Date: 11 December 2014



## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Industrial and Commercial Development Corporation Act and the Public Audit Act 2003, require the Directors to prepare financial statements in respect of the Corporation, which give a true and fair view of the state of affairs of the Corporation at the end of the financial year and the operating results for that year. The Directors are also required to ensure that the Corporation keeps proper accounting records which disclose with reasonable accuracy the financial position of the Corporation. The Directors are also responsible for safeguarding the assets of the Corporation.


The Directors are responsible for the preparation and presentation of the Corporation's financial statements, which give a true and fair view of its state of affairs of the Corporation at the end of the financial year ended 30 June 2014. 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 Corporation ; (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 Corporation; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Corporation'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 and the State Corporations Act. The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of its transactions during the financial year ended 30 June 2014, and of its financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of its 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 Corporation 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 Corporation's financial statements were approved by the Board on 11 December, 2014 and signed on its behalf by:

  
Chairman

  
Director

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# REPUBLIC OF KENYA

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NAIROBI HUB  
P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION FOR THE YEAR ENDED 30 JUNE 2014

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#### REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Industrial and Commercial Development Corporation set out on pages 18 to 62, which comprise the statement of financial position as at 30 June 2014, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by PWC Kenya, auditors appointed under Section 39 of the Public Audit Act, 2003 and in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of Public Audit Act, 2013. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

#### **Management's Responsibility for the Financial Statements**

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Basis for Qualified Opinion**

#### **Grants and Loans**

- i) As disclosed in Note 22, included in the financial statements are grants and loans from the Government of Kenya amounting to Kshs.886,182,000 (2003: Kshs.902,733,000). These relate to amounts or grants advanced to the Corporation most of which are more than 25 years old. There are no formal agreements to support these balances. In the circumstance, it has not been possible to verify the terms of the loans and grants or ascertain the accuracy and classification of the loans and grants balances.
- ii) Over the years, the Corporation continues to charge a static finance cost of Kshs.8,448,000 for which no basis has been disclosed. In absence of any documentation and as previously reported, it has not been possible to ascertain the propriety and legality of the charge.
- iii) As reported in the previous year, grants have similarly been disclosed under non-current liabilities contrary to International Accounting Standards (IAS) No. 20 – Accounting for Government grants and disclosure of Government assistance which requires that such grants be credited directly to reserves.

### **Qualified Opinion**

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Corporation as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with

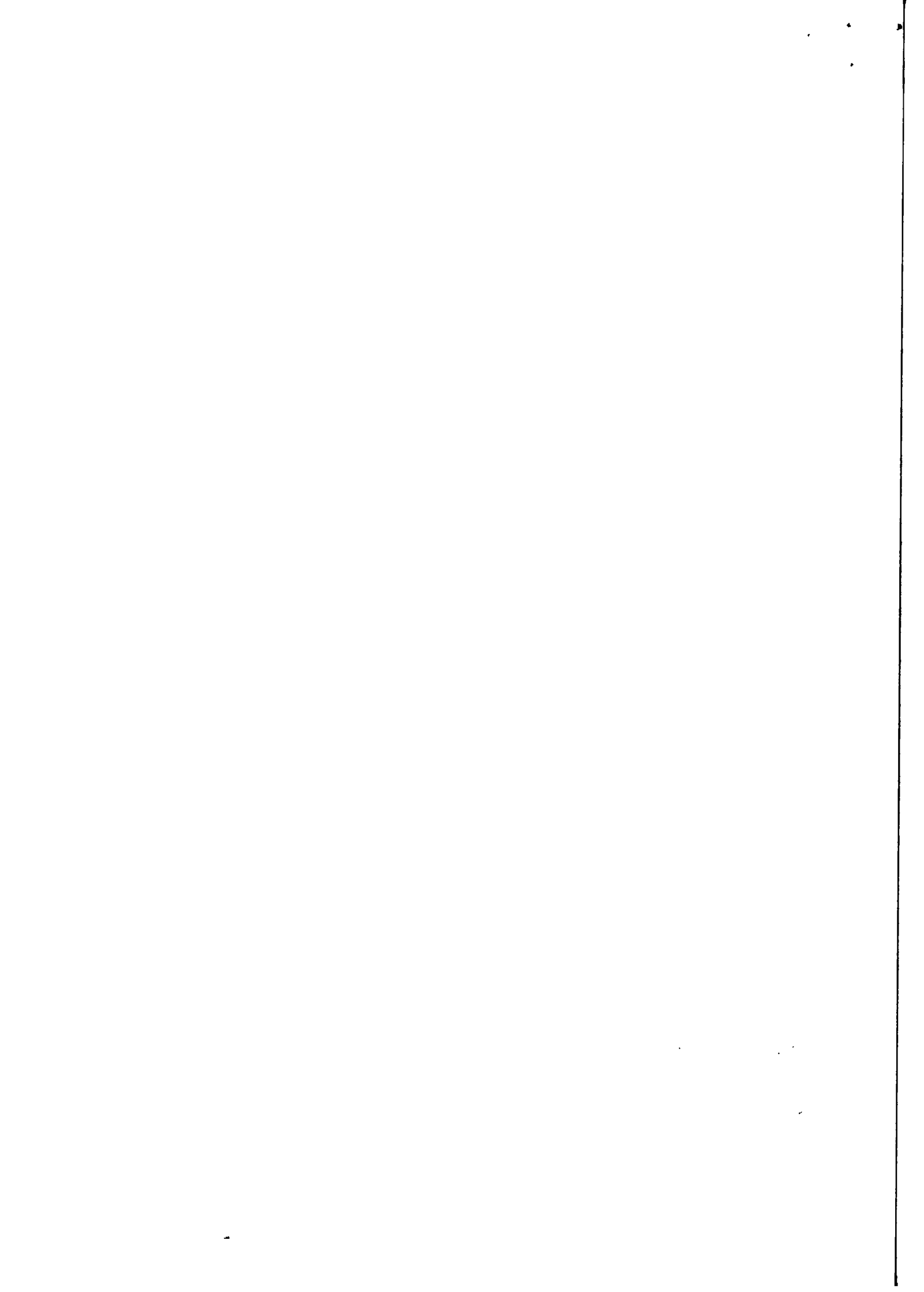
International Financial Reporting Standards and comply with the Industrial and Commercial Development Corporation Act, Cap 445 of the Laws of Kenya.



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

**Nairobi**

**5 February 2015**





## Statement of profit or loss and other comprehensive income

		Year ended 30 June	
		2014	2013
	Notes	Shs'000	Shs'000
<b>Revenues</b>			
Operating income	5	773,685	638,256
Other income	6	261,804	198,378
		<hr/>	<hr/>
Total revenues		1,035,489	836,634
		<hr/>	<hr/>
<b>Operating expenses</b>			
Administration costs	7(a)	316,186	288,162
Depreciation of property and equipment	12	30,420	25,852
Amortisation of intangible assets	11	1,104	8,496
Provision for losses	19	76,937	26,482
		<hr/>	<hr/>
<b>Total operating expenses</b>		424,647	348,992
		<hr/>	<hr/>
Operating profit	8	610,842	487,642
Finance costs	9	(8,448)	(8,448)
		<hr/>	<hr/>
Profit before taxation		602,394	479,194
Income tax expense	10	-	-
		<hr/>	<hr/>
Profit after taxation		602,394	479,194
		<hr/>	<hr/>
<b>Other comprehensive income for the year</b>			
<i>Items that may be subsequently reclassified to profit or loss</i>			
Reversal of fair value on disposed investments		2,105	-
Fair value gain in unquoted investments	15	713,649	2,484,594
Fair value gain in quoted investments	16	2,973,723	1,467,719
		<hr/>	<hr/>
Total other comprehensive income		3,689,477	3,952,313
		<hr/>	<hr/>
<b>Total comprehensive income</b>		4,291,871	4,431,507
		<hr/>	<hr/>

The notes on pages 23 to 62 are an integral part of these financial statements

**Statement of financial position**

	Notes	At 30 June 2014 Shs'000	At 30 June 2013 Shs'000
<b>Assets</b>			
Property and equipment	12	1,096,571	1,112,846
Intangible assets	11	2,434	1,944
Investment property	13	925,500	563,140
Government securities (Held to maturity)	14	99,249	98,972
Quoted investments (Available for sale)	16	6,602,084	3,629,183
Unquoted investments ((Available for sale)	15	10,528,886	9,438,707
Loans	18	1,123,290	1,005,371
Related companies current account		352	10,239
Sundry debtors	17	259,361	381,096
Cash and cash equivalents	20	791,669	892,533
<b>Total assets</b>		<b>21,429,396</b>	<b>17,134,031</b>
<b>Reserves</b>			
Revaluation reserve	21	1,061,087	1,054,269
Fair value adjustment reserve	21	15,311,734	11,622,257
Retained earnings	21	3,947,925	3,345,531
<b>Total reserves</b>		<b>20,320,746</b>	<b>16,022,057</b>
<b>Liabilities</b>			
Grants and loans	22	886,182	902,733
Payables and accruals	24	97,468	84,241
Dividend payable	26	125,000	125,000
<b>Total liabilities</b>		<b>1,108,650</b>	<b>1,111,974</b>
<b>Total reserves and liabilities</b>		<b>21,429,396</b>	<b>17,134,031</b>

The notes on pages 23 to 62 are an integral part of these financial statements

The financial statements on pages 18 to 62 were approved for issue by the board of directors on 11 December 2014 and signed on its behalf by:

  
 \_\_\_\_\_  
 Chairman

  
 \_\_\_\_\_  
 Executive Director

**Statement of changes in equity**

	Revaluation reserve Shs'000	Fair value adjustment Shs'000	Retained earnings Shs'000	Total equity Shs'000
<b>Year ended 30 June 2013</b>				
At start of year				
- As previously reported	729,269	7,669,944	2,482,200	10,881,413
- Impact on restatement - 2011	-	-	352,454	352,454
- Impact on restatement - 2012	325,000	-	31,683	356,683
	<hr/>	<hr/>	<hr/>	<hr/>
- <b>As restated</b>	<b>1,054,269</b>	<b>7,669,944</b>	<b>2,866,337</b>	<b>11,590,550</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Comprehensive income</b>				
Profit for the year	-	-	479,194	479,194
Other comprehensive income:				
Fair value gain in unquoted investments	-	2,484,594	-	2,484,594
Fair value gain in quoted investments	-	1,467,719	-	1,467,719
	<hr/>	<hr/>	<hr/>	<hr/>
Total other comprehensive income	-	3,952,313	-	3,952,313
	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income	-	3,952,313	479,194	4,431,507
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At end of year</b>	<b>1,054,269</b>	<b>11,622,257</b>	<b>3,345,531</b>	<b>16,022,057</b>
	<hr/>	<hr/>	<hr/>	<hr/>

The notes on pages 23 to 62 are an integral part of these financial statements

The restatement in the 2013 financial statements related to reclassification of land and buildings previously classified as prepaid operating leases and property and equipment to investment property and the consequent adjustment to restate them to their fair values.

**Statement of changes in equity (continued)**

	Revaluation reserve Shs'000	Fair value adjustment Shs'000	Retained earnings Shs'000	Total equity Shs'000
<b>Year ended 30 June 2014</b>				
At start of year	1,054,269	11,622,257	3,345,531	16,022,057
Revaluation surplus on property and equipment	6,818	-	-	6,818
<b>Comprehensive income</b>				
Profit for the year	-	-	602,394	602,394
Other comprehensive income:				
Reserves released on disposal of investments	-	2,105	-	2,105
Fair value gain in unquoted investments	-	713,649	-	713,649
Fair value gain in quoted investments	-	2,973,723	-	2,973,723
Total other comprehensive income	-	3,689,477	-	3,689,477
Total comprehensive income	6,818	3,689,477	602,394	4,298,689
<b>At end of year</b>	<b>1,061,087</b>	<b>15,311,734</b>	<b>3,947,925</b>	<b>20,320,746</b>

The notes on pages 23 to 62 are an integral part of these financial statements

**Statement of cash flows**

	Notes	Year ended 30 June	
		2014 Shs'000	2013 Shs'000
<b>Cash flows from activities</b>			
Net cash generated from operations	27(a)	508,222	620,975
<b>Cash flows from investing activities:</b>			
Development of investment property	13	(146,370)	(18,975)
Proceeds from disposal of unquoted investments		-	6,437
Purchase of property and equipment	12	(7,327)	(9,961)
Purchase of intangible assets	11	(1,594)	(392)
Purchase of unquoted investments	15	(430,000)	(282,325)
Proceeds on disposal of quoted investments		1,205	-
Net cash used in investment activities		(584,086)	(305,216)
<b>Cash flows from financing activities</b>			
Loan repayment (principal and interest) – Government of Kenya and KFW of Germany	22	(25,000)	(20,000)
Net cash used in financing activities		(25,000)	(20,000)
Net (decrease) / increase in cash and cash equivalents		(100,864)	295,759
<b>Movement in cash and cash equivalents</b>			
At start of year	20	892,533	596,774
(Decrease) / increase		(100,864)	295,759
At end of year	20	791,669	892,533

The notes on pages 23 to 62 are an integral part of these financial statements

## Notes

### 1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

#### a. 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 and equipment, marketable securities and financial instruments at fair value and impaired assets at their estimated recoverable amounts. 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 Corporation's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Corporation and all values are rounded to the nearest thousand (Shs'000).

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

##### (i) Functional and presentation currency

Items included in the financial statements of the Corporation are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in 'Kenyan Shillings (Shs), which is the Corporation's presentation currency.

##### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and 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 recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in profit or loss within 'other income' or 'other expenses'.

Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in other comprehensive income and cumulated in 'available-for-sale financial assets reserve'.

### Changes in accounting policy and disclosures

#### (a) *New standards, amendments and interpretations adopted by the Company*

The following standards have been adopted by the Company for the first time for the financial year beginning on or after 1 July 2013 and have a material impact on the Company:

## 1. Summary of significant accounting policies (continued)

### Changes in accounting policy and disclosures (continued)

#### *(a) New standards, amendments and interpretations adopted by the Company(continued)*

Amendment to IAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Company financial statements.

Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.

Amendment to IAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The Company has applied the amendment and there has been no significant impact on the Company financial statements as a result.

#### *(b) New standards, amendments and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2014, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company is yet to assess IFRS 9's full impact. IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.



## 1. Summary of significant accounting policies (continued)

### Changes in accounting policy and disclosures(continued)

#### *b) New standards, amendments and interpretations not yet adopted (continued)*

IFRS 14, 'Regulatory deferral accounts' permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. IFRS 14 is effective for annual periods beginning on or after 1 January 2016.

IFRS 15, 'Revenue from Contracts with Customers' establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 is effective for annual periods beginning on or after 1 January 2017. Earlier application is permitted.

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognised. The Company is not currently subjected to significant levies so the impact on the Company is not material. Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Company.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

#### **b. Revenue recognition**

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the Corporation's activities net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the Corporation's activities as described below.

**Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.

**Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.

**Notes (continued)**

**1 Summary of significant accounting policies (continued)**

**b. Revenue recognition (continued)**

**Rental income** is recognised in the income statement as it accrues using the effective lease agreements.

**Other income** is recognised as it accrues.

**c. Consolidation**

The Corporation has more than 50% shareholding in some of its investee companies. However, consolidated financial statements of the Corporation and its subsidiaries are not prepared as the Corporation does not have power, directly or indirectly, to govern the financial and operating activities of these entities so as to obtain benefits from the activities. Control over these entities lies with the Government of Kenya through the National Treasury.

**d. Investment property**

Investment property is shown at fair value, based on annual valuations by internal professional valuers. Increases in the carrying amount arising on revaluation of investment property are dealt with in profit or loss.

**e. Property and equipment**

All categories of property, motor vehicles and equipment are initially recorded at cost. Property and equipment are subsequently shown at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Valuations are performed by internal independent qualified valuers every three years for land and buildings and five years for other assets.

Increases in the carrying amount arising on revaluation are credited to other comprehensive income. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to profit or loss.

Depreciation is calculated on the straight line basis to write down the cost of each asset, or the revalued amount, to its residual value over its estimated useful life as follows:

The annual rates in use are:	
Motor vehicle and motor cycles	20%
Furniture, fittings and office equipment	10%
Computers	33.3%

Leasehold land and buildings are amortised and depreciated respectively over the remaining period of the lease term.

Gains and losses on disposal of property, motor vehicles and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to retained earnings.

The assets residual values and useful lives are reviewed and adjusted as appropriate at each balance sheet date.

Assets acquired during the year are not subject to depreciation in the year of purchase but full depreciation is charged on these assets in the year of disposal.

## Notes (continued)

### 1 Summary of significant accounting policies (continued)

#### f. Computer software development costs

Costs incurred on computer software are initially accounted for at cost as intangible assets and subsequently at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is calculated on the straight line basis over the estimated useful lives not exceeding a period of 3 years.

#### g. Financial assets

The Corporation classifies its financial assets into the following categories: loans and receivables and available-for-sale assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the appropriate classification of its investments at initial recognition.

##### *Classification*

##### *i. Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Corporation provides money, goods or services directly to a debtor with no intention of trading the receivable.

##### *ii. Held- to- maturity*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale of other than an insignificant amount of held-to-maturity assets occurs, the entire category is classified as available-for-sale.

##### *iii. Available – for – sale financial assets*

Available-for-sale assets are financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans and receivables.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously accumulated in the investment revaluation reserve is recognised in profit or loss.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously accumulated in the investment revaluation reserve is recognised in profit or loss.

## Notes (continued)

### 1 Summary of significant accounting policies (continued)

#### g. Financial assets (continued)

Quoted investments are those that relate to companies listed on the stock exchange. They are classified as available-for-sale and are stated at the middle market value as at the end of each reporting period.

Unquoted investments are the unlisted companies in which the Corporation has invested. They are classified as available-for-sale. Where a significant amount of new investment into a Company has been made within the financial year, the price at which the investment was made is considered the fair value unless the conditions have changed since the Corporation made the investment. For all other investments, a weighted average of the earnings multiple method and net asset valuation is employed.

This method, which draws on market based measures of risk and return, involves the application of an earnings multiple to the earnings of the business being valued in order to derive a value for the business.

The earnings multiple that is applied is derived from comparable companies or transactions with similar prospects from a return and growth perspective. Where fair value cannot be reliably measured, the unquoted investment is carried at cost.

The difference between valuation and cost is recognised in other comprehensive income and accumulated in the investment fair value reserve. Where valuation is below cost, the difference between valuation and cost is charged to profit or loss if, in the opinion of the directors, the reduction in value is not considered temporary. On the disposal of an investment, the difference between the net disposal proceeds and the cost is charged or credited to profit or loss.

#### *Impairment and uncollectability of financial assets*

At the end of each reporting period, the Corporation reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised in profit or loss whenever the carrying amount of the asset exceeds its recoverable amount.

If it is probable that the Corporation will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans or receivables impairment or bad debt loss has occurred. The carrying amount of the asset is reduced to its estimated recoverable amount through use of an allowance account. The amount of the loss incurred is dealt with in profit or loss for the year. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows.

For listed and unlisted shares classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

Other factors considered by the Corporation in determining impairment for other financial assets include:

- Significant financial difficulty of the issuer or counter party
- Default or delinquency in interest or principal repayments
- It becomes probable that the borrower will enter bankruptcy or financial re-organisation

#### *Derecognition of financial assets*

The Corporation derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Corporation recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

**Notes (continued)**

**1 Summary of significant accounting policies (continued)**

*Derecognition of financial assets (continued)*

If the Corporation retains substantially all the risks and rewards of ownership of a transferred financial asset, the Corporation continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

**h. Financial liabilities**

Financial liabilities, including borrowings, are initially measured at fair value net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

*Derecognition of financial liabilities*

The Corporation derecognises financial liabilities when, and only when, the Corporation's obligations are discharged, cancelled or they expire.

**i. Receivables**

Receivables are amounts due from investments in the ordinary course of business. Receivables are recognised initially at fair value and subsequently recognised at amortised cost, less any provision for impairment.

**j. Payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently at amortised cost using the effective interest method.

**k. Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, net of bank overdrafts.

**l. Provisions**

Provisions are recognised when: the Corporation has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

**m. Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

## Notes (continued)

### 1 Summary of significant accounting policies (continued)

#### m. Impairment of non-financial assets (continued)

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

#### n. Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements.

However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Corporation and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### o. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

#### p. Employee benefits

##### *i. Retirement benefit obligations*

The Corporation operates a defined contribution pension scheme. The assets of the scheme are held in a separate trustee administered fund. The scheme is administered by independent fund managers and is funded by contributions from both the employer and the employees.

**Notes (continued)**

**1 Summary of significant accounting policies (continued)**

**p. Employee benefits (continued)**

*i. Retirement benefit obligations (continued)*

The Corporation also contributes to the statutory National Social Security Fund. This is a defined contribution pension scheme registered under the National Social Security Act. The Corporation's obligations under the scheme are limited to specific obligations legislated from time to time.

The Corporation contributions in respect of retirement benefit schemes are charged to profit or loss in the year to which they relate.

*ii. Other entitlements*

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

**q. Comparatives**

Where necessary, comparative figures have been adjusted to conform to changes in the presentation in the current year's financial statements.

**2. Critical accounting estimates and judgments**

In the process of applying the Corporation's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas of judgement in applying the entities accounting policies are dealt with below:

*Impairment losses*

At the end of each reporting period, the Corporation reviews the carrying amounts of its financial assets to determine whether there is any indication that those assets have suffered an impairment loss. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. 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 Corporation estimates the recoverable amount of the cash generating unit to which the asset belongs.

*Valuation of unquoted investments*

For equity instruments for which no active market exists, the Corporation uses the price of a recent investment or the earnings multiple to estimate the fair value of these investments. Management uses estimates based historical data relating to earnings of the investee Corporation and other market based multiples in arriving at the fair value. The primary assumption in employing the earnings multiple method is that the market has assigned an appropriate value to the benchmark Corporation. The methodology and assumptions used for arriving at the market based multiples are reviewed and compared with other methodologies to ensure there are no material variances.

## Notes (continued)

### 2. Critical accounting estimates and judgments (continued)

#### *Income taxes*

Significant judgement is required in determining the Corporation's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Corporation recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

### 3. Financial risk management

The Corporation'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 Corporation's business, and the operational risks are an inevitable consequence of being in business. The Corporation's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance. The key types of risk include:

- Market risk - includes interest rate and other price risk
- Credit risk
- Liquidity risk

The Corporation's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

#### **Risk management framework**

The Corporation recognises that in order to pursue its objectives and take advantage of opportunities, it cannot avoid taking risks, and that no risk management programme can aim to eliminate risk fully.

The Corporation's general risk management approach is to increase the likelihood of success in its strategic activities, that is, to raise the potential reward of its activities relative to the risks undertaken. Accordingly, the Corporation's approach to risk management is intended to increase risk awareness and understanding, and thus support taking risks where appropriate, in a structured and controlled manner. The Corporation however recognises that in pursuit of its mission and investment objectives it may choose to accept a lower level of reward in order to mitigate the potential hazard of the risks involved.

To assist in implementing its risk management policy, the Corporation has:

- Identified, analysed and produced a risk management strategy for those risks which might inhibit it from achieving its strategic objectives and which would threaten its ongoing survival as a leading investment Corporation;
- Raised awareness of and integrated risk management into its management policies.
- Promoted an understanding of the importance and value of risk management, particularly associated with investment opportunities;

Established risk management roles and responsibilities for its board of directors, audit and risk committee and the risk department.

**Notes (continued)**

**3. Financial risk management (continued)**

**Risk management framework (continued)**

The risk management function is supervised by the Audit and Risk Committee. Management identifies, evaluates and hedges financial risks under policies approved by the board of directors. The board provides written principles for overall risk management, as well as written policies covering specific areas such as price risk, foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquidity.

The Board has put in place an internal audit function to assist it in assessing the risk faced by the Corporation on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

a. Market risks

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices, and foreign exchange rates which will affect the Corporation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Interest rate risk

The Corporation is exposed to interest rate risk as it borrows funds at floating interest rates in the form of short term loans (overdrafts) and also holds cash deposits with financial institutions. The interest rates on the cash deposits are fixed and agreed upon in advance while interest rates on overdrafts are pegged to the bank's base lending rate or prevailing Treasury Bills rates.

Management closely monitors the interest rate trends to minimise the potential adverse impact of interest rate changes. Deposits are placed at fixed interest rates and management is therefore able to plan for the resulting income.

Interest rate risk analysis

The table in the next page shows the extent to which the Corporation's interest rate exposures on assets and liabilities are matched. Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-pricing date and maturity date.

**Notes (continued)**

**3. Financial risk management (continued)**

**Risk management framework (continued)**

a. Market risks (continued)

(i) Interest rate risk (continued)

Interest rate risk analysis (continued)

2014:	Effective interest rate %	Due between 0 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
<b>Assets</b>					
<b>Financial assets</b>					
Short term deposits	11.51	703,412	-	-	703,412
Investment in Government securities	11.87	-	-	99,249	99,249
Loans	14.54	-	754,330	-	754,330
Loans - current portion	14.54	368,960	-	-	368,960
<b>Total financial assets</b>		<b>1,072,372</b>	<b>754,330</b>	<b>99,249</b>	<b>1,925,951</b>
<b>Grants and loans</b>					
Grants and Government of Kenya loans	5.70	-	-	(886,182)	(886,182)
<b>Total grant and loans</b>				<b>(886,182)</b>	<b>(886,182)</b>
<b>Interest sensitivity gap</b>		<b>1,072,372</b>	<b>754,330</b>	<b>(786,933)</b>	<b>1,039,769</b>
<b>2013:</b>					
<b>Financial assets</b>					
Short term deposits	11.13	844,305	-	-	844,305
Investment in Government securities	11.87	-	-	98,973	98,973
Loans	13.24	-	692,737	-	692,737
Loans -current portion	13.24	312,634	-	-	312,634
<b>Total financial assets</b>		<b>1,156,939</b>	<b>692,737</b>	<b>98,973</b>	<b>1,948,649</b>
<b>Grants and Loans</b>					
Grants and Government of Kenya loans	5.70	-	-	(902,733)	(902,733)
<b>Total grant and loans</b>				<b>(902,733)</b>	<b>(902,733)</b>
<b>Interest sensitivity gap</b>		<b>1,156,939</b>	<b>692,737</b>	<b>(803,760)</b>	<b>1,045,916</b>

**Notes (continued)**

**3. Financial risk management (continued)**

**Risk management framework (continued)**

a) Market risks (continued)

(i) Interest rate risk (continued)

Interest rate risk analysis – continued

An increase or decrease of 100 basis point in interest rates at the reporting date would have increased/ (decreased) profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. This analysis is performed on the same basis for 2013:

	<b>Statement of comprehensive income</b>	
	<b>2014 KShs'000</b>	<b>2013 KShs'000</b>
Loans and advances	1,740	2,016

A decrease of 1 percentage point in interest rates at the reporting date would have had an equal but opposite effect on the income statement, on the basis that all other variables remain constant.

(ii) Price risk

The Corporation's private equity holdings are valued according to the Private Equity and Venture Capital guidelines, which set out the valuation methodology for fair valuation. Valuation is relatively subjective and may change from time to time. In addition the valuation is also affected by the volatility of the stock prices since the Corporation uses the earnings multiple method which entails the use of the share prices of similar/comparable quoted companies among other components.

Valuation risks are mitigated by comprehensive quarterly reviews of the underlying investments by management every quarter. The appropriateness of the investment valuations are then considered by the Audit and Risk committee.

Quoted equity is valued at their market prices. These values are subject to frequent variations and adverse market movements. This risk is mitigated by choice of defensive stocks with low price volatility, and weekly monitoring of the value changes.

**Notes (continued)**

**3. Financial risk management (continued)**

**Risk management framework (continued)**

(ii) Price risk (continued)

Company security	30 June 2014			30 June 2013		
	No. of shares	Market price 2014 KShs	Market value 2014 KShs'000	No. of shares	Market Price 2013 KShs	Market value 2013 KShs'000
<b>Main Investment Market Segment</b>						
<b>Banking</b>						
Barclays Bank of Kenya Limited	156,800	16.70	2,619	156,800	15.70	2,462
Standard Chartered Bank Limited	14,700	309.00	4,542	14,700	287.00	4,219
<b>Commercial &amp; Services</b>						
Nation Media Group	19,272	310.00	5,974	19,272	301.00	5,801
Uchumi Supermarkets Limited	7,288,472	12.30	89,648	7,288,472	19.90	145,041
Kenya Airways Limited	53,500	10.35	554	53,500	9.95	532
<b>Energy &amp; Petroleum</b>						
Total Kenya Limited	93,600	25.00	2,340	93,600	16.40	1,535
Kenya Power & Lighting Company Limited	109,800	13.30	1,460	109,800	14.50	1,592

**Notes (continued)**

**3. Financial risk management (continued)**

**Risk management framework (continued)**

- a) Market risks (continued)
  - (ii) Price risk (continued)

Company security	30 June 2014			30 June 2013		
	No. of shares	Market price 2014 KShs	Market value 2014 KShs'000	No. of shares	Market Price 2013 KShs	Market value 2013 KShs'000
<b>Main Investment Market Segment</b>						
<b>Insurance</b>						
Jubilee Holdings Limited	19,965	392.00	7,826	19,965	225.00	4,492
<b>Investment</b>						
Centum Investments Limited	152,847,897	41.25	6,304,975	152,847,897	21.75	3,324,442
<b>Manufacturing &amp; Allied</b>						
British American Tobacco Limited	17,000	649.00	11,033	17,000	543.00	9,231
Eveready Batteries Kenya Limited	36,583,575	3.50	128,043	36,583,575	2.80	102,434
East African Breweries Limited	21,300	283.05	6,029	21,300	333.00	7,093
<b>Telecommunication &amp; Technology</b>						
Access Kenya Limited				82,000	10.01	821
Safaricom Limited	2,975,200	12.45	37,041	2,975,200	6.55	19,488
<b>Total</b>			<b>6,602,084</b>			<b>3,629,183</b>

**Notes (continued)**

**3. Financial risk management (continued)**

**Risk management framework (continued)**

a) Market risks (continued)

(ii) Price risk (continued)

At 30 June 2014, if the prices of all quoted equity investments had increased/decreased by 5% with all other variables held constant, the total comprehensive income for the year would have been Kshs. 330,104,200 (2013: Kshs 181,459,150) higher/lower.

At 30 June 2014, if the prices earnings for unquoted investments had increased/decreased by 5% with all other variables held constant, the total comprehensive income for the year would have been Kshs. 526,444,295 (2013: Kshs 235,967,675) higher/lower.

b) Currency risk

The Corporation operates wholly within Kenya and its assets and liabilities are carried in the local currency. The Corporation is not exposed to foreign currency risk.

c) Liquidity risk

This is the risk that the Corporation will encounter difficulties in meeting its financial commitments from its financial liabilities. Prudent liquidity risk management includes maintaining sufficient cash to meet its obligations. Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Corporation's short, medium and long term funding and liquidity management requirements. The Corporation manages liquidity risk by maintaining adequate reserves, banking facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity risk also relates to the risk that the Corporation would miss out attractive investment opportunities due to lack of funding. This risk is mitigated by the fact that the available for sale quoted investments can be converted to cash when funds are required.

The responsibility for managing daily liquidity assessment resides with the Financial Manager. However, the statement of financial position liquidity management resides with the Corporation's Finance and Investment Committee.

The table in the next page analyses financial liabilities into relevant maturity based on the remaining period at 30 June 2014 to the contractual maturity date.

**Notes (continued)**

**3. Financial risk management (continued)**

**Risk management framework (continued)**

c) Liquidity risk (continued)

<b>30 June 2014: (Shs' 000)</b>	<b>0 – 12 months</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Liabilities</b>				
Grants and loans	-	-	886,182	886,182
Creditors	97,468	-	-	97,468
Dividends payable	-	-	125,000	125,000
<b>Total liabilities</b>	97,468	-	1,011,182	1,108,650
<b>30 June 2013: (Shs' 000)</b>				
<b>Liabilities</b>				
Grant and loans	-	-	902,733	902,733
Creditors	84,241	-	-	84,241
Dividends payable	-	-	125,000	125,000
<b>Total liabilities</b>	84,241	-	1,027,733	1,111,974

d) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Corporation. The Corporation has adopted a policy of only dealing with credit worthy counterparties.

The credit risk exposures are classified in three categories:

- Neither past due nor impaired
- Past due
- Impaired

Credit risk arises from cash and cash equivalents, deposits with banks, corporate bonds, loans advanced as well as trade and other receivables.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by the banking regulatory authority. The Corporation has adopted a policy of only dealing with creditworthy counterparties and only investing in reputable corporates.

**Notes (continued)**

**3. Financial risk management (continued)**

**Risk management framework (continued)**

d) Credit risk (continued)

The amount that best represents the Corporations' maximum exposure to credit risk at 30 June 2014 is made up as follows:

	<b>2014</b> <b>Shs'000</b>	<b>2013</b> <b>Shs'000</b>
Cash and cash equivalents	791,669	892,533
Sundry debtors	259,361	381,096
Related companies current account	352	10,238
Loans	1,123,290	1,005,371
Investment in Government securities	99,249	98,973
	<hr/>	<hr/>
	2,273,921	2,388,211
	<hr/>	<hr/>

Credit terms are agreed with each client and are monitored on an on-going basis by the Corporation.

None of the above assets are either past due or impaired except for the following amounts in sundry debtors and loans:

	<b>2014</b> <b>Shs'000</b>	<b>2013</b> <b>Shs'000</b>
Sundry debtors individually determined to be impaired:		
Carrying amount before provision for impairment loss	75,562	58,517
Provision for impairment loss	(75,562 )	(58,517 )
	<hr/>	<hr/>
Net carrying amount	-	-
	<hr/>	<hr/>
Loans individually determined to be impaired:		
Carrying amount before provision for impairment loss	13,862,297	14,549,545
Provision for impairment loss	(13,849,429 )	(14,542,303 )
	<hr/>	<hr/>
Net carrying amount	12,878	7,242
	<hr/>	<hr/>

**Notes (continued)**

**3. Financial risk management (continued)**

**Risk management framework (continued)**

e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Corporation's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Corporation's operations.

The Corporation's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Corporation's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The ultimate accountability for operational risk management within the Corporation rests with the Board of Directors, Consequently, the level of risk that the Corporation accepts, together with the basis for managing those risks is assigned to senior management. This responsibility is supported by the development of overall standards for the management of operational risk.

f) Capital management

The Corporation is governed by the Industrial and Commercial Development Corporation Act Cap 445, Laws of Kenya, which does not provide for a specific capital structure.

**Notes (continued)**

**4. Financial assets and liabilities and other fair values**

The table below sets out the Corporation's classification of each class of financial assets and liabilities, and their fair values:

	Held to maturity KShs'000	Loans and receivables KShs'000	Available- for-sale KShs'000	Other amortised cost KShs'000	Total carrying amount KShs'000	Fair values KShs'000
<b>As at 30 June 2014</b>						
<b>Assets</b>						
Investments in quoted companies	-	-	6,602,084	-	6,602,084	6,602,084
Unquoted investments	-	-	10,528,886	-	10,528,886	10,528,886
Investments in Government securities	99,249	-	-	-	99,249	99,249
Loans	-	1,123,290	-	-	1,123,290	1,123,290
Other Companies Current accounts	-	-	-	352	352	352
Sundry debtors	-	-	-	259,361	259,361	259,361
Short term deposits	-	-	-	703,412	703,412	703,412
Cash and cash equivalents	-	-	-	88,257	88,257	88,257
<b>Total assets</b>	<b>99,249</b>	<b>1,123,290</b>	<b>17,130,970</b>	<b>1,051,382</b>	<b>19,404,891</b>	<b>19,404,891</b>
<b>Liabilities and shareholders' funds</b>						
Government loans and grants	-	-	-	886,182	886,182	886,182
<b>As at 30 June 2013</b>						
<b>Assets</b>						
Investments in quoted companies	-	-	3,629,183	-	3,629,183	3,629,183
Investments in other companies	-	-	9,438,707	-	9,438,707	9,438,707
Investments in Government securities	98,973	-	-	-	98,973	98,973
Loans	-	1,005,371	-	-	1,005,371	1,005,371
Other Companies Current accounts	-	-	-	10,238	10,238	10,238
Sundry debtors	-	-	-	381,096	381,096	381,096
Short term deposits	-	-	-	844,305	844,305	844,305
Cash and cash equivalents	-	-	-	48,228	48,228	48,228
<b>Total assets</b>	<b>98,973</b>	<b>1,005,371</b>	<b>13,067,890</b>	<b>1,283,867</b>	<b>15,456,101</b>	<b>15,456,101</b>
<b>Liabilities and shareholders' funds</b>						
Government loans and grants	-	-	-	902,733	902,733	902,733

**Notes (continued)**

**4. Financial assets and liabilities and other fair values (continued)**

**Fair value hierarchy**

The Corporation specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Corporation's market assumptions. These two types of inputs have created the following fair value hierarchy:

a) Level 1

Quoted prices in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on the Nairobi Securities Exchange.

b) Level 2

Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices.

c) Level 3

Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Corporation considers relevant and observable market prices in its valuations where possible. The following table shows an analysis of financial instruments reflected at fair value by level of the fair value hierarchy.

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>	<b>Kshs'000</b>	<b>Kshs'000</b>
<b>30 June 2014</b>				
Financial assets:				
Unquoted equity instruments	-	10,528,886	-	10,528,886
Quoted equity instruments	6,602,084	-	-	6,602,084
<b>30 June 2013</b>				
Financial assets:				
Unquoted equity instruments	-	9,438,707	-	9,438,707
Quoted equity instruments	3,629,183	-	-	3,629,183

**Notes (continued)**

	<b>2014</b>	<b>2013</b>
	<b>Shs'000</b>	<b>Shs'000</b>
<b>5. Revenue</b>		
Dividends	329,529	238,498
Interest on loans and advances	198,134	166,171
Application fees	3,037	6,795
Management & advisory services	11,225	13,092
Rental income	110,880	113,467
Interests on deposits	120,880	100,233
	<hr/>	<hr/>
	773,685	638,256
	<hr/>	<hr/>
<b>6. Other income</b>		
Gain on disposal of unquoted investments	-	6,436
Loss on disposal of quoted investments	(1,723)	-
Unrealised gains on investment property	215,990	115,165
Sundry income	2,067	9,193
Write back on loans and advances	45,470	67,584
	<hr/>	<hr/>
	261,804	198,378
	<hr/>	<hr/>
<b>7. (a) Administration costs</b>		
Staff costs (Note 7b)	180,946	168,418
Directors' expenses and emoluments	8,532	19,137
Rent and rates	3,920	1,257
Bank charges	445	522
Electricity and water	20,889	19,009
Publicity and advertising	10,159	7,094
Transportation, travelling and subsistence	14,223	8,752
Printing, stationery and photocopying	2,089	2,820
Motor vehicle operating expenses	1,556	1,112
Insurance costs	3,313	3,089
Professional expenses	12,242	7,528
Donations and other contributions	366	543
ICT expenses	7,924	5,975
Auditors' remuneration	3,808	3,528
Legal fees	1,201	3,340
Uchumi House security	7,739	8,360
VAT and other taxes	9,525	9,373
Uchumi House administration expenses	5,162	5,436
Repairs and maintenance	13,947	4,049
Subscriptions	1,096	2,244
Telephone expenses	2,482	2,399
Other operating expenses	4,622	4,177
	<hr/>	<hr/>
	316,186	288,162
	<hr/>	<hr/>

**Notes (continued)**

**7. (b) Staff costs**

	<b>2014</b>	<b>2013</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Salaries and allowances of permanent employees	134,687	135,214
Wages of temporary employees	2,495	1,118
Compulsory National Health Insurance schemes	253	249
Compulsory National Social Security schemes	216	193
Other pension contributions	7,303	6,367
Leave pay and gratuity provisions	5,782	4,699
Staff welfare	30,210	20,578
	<hr/>	<hr/>
	180,946	168,418
	<hr/>	<hr/>

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

Permanent employees – Management	59	52
Temporary and contract employees	9	8
	<hr/>	<hr/>
	68	60
	<hr/>	<hr/>

**8. Operating profit**

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

Staff costs (Note 7 (b))	180,946	168,418
Depreciation of property and equipment (Note 12)	30,420	25,852
Amortisation of intangible assets (Note 11)	1,104	8,496
Provision for bad and doubtful debts (managed funds)	53,470	-
Provision on bad and doubtful debts (loans and advances)	14,130	14,559
Directors' emoluments – fees and allowances	8,532	19,137
Auditors' remuneration - current year fees	3,808	3,528
Interest income	(198,134)	(166,171)
Rent income	(110,880)	(113,467)
	<hr/>	<hr/>

**9. Finance costs**

Interest expense on loans	8,448	8,448
	<hr/>	<hr/>

**Notes (continued)**

**10. Income tax expense**

	<b>2014</b> <b>Shs'000</b>	<b>2013</b> <b>Shs'000</b>
(a) Current taxation		
Current income tax	-	-
Deferred income tax charge	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>

Reconciliation of tax expense / (credit) to the expected tax based on accounting profit

The tax on the Corporation's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	<b>2014</b> <b>Shs'000</b>	<b>2013</b> <b>Shs'000</b>
Profit before income tax	602,394	479,194
Computed tax using the applicable tax rate at 30%	180,718	143,758
Non - deductible costs and non - taxable income	124,595	104,117
Movement in deferred income tax not recognised	(305,313)	(247,875)
	<hr/>	<hr/>
Income tax expense	-	-
	<hr/>	<hr/>

**11. Intangible assets**

**Cost**

At start of year	35,080	34,688
Additions	1,594	392
	<hr/>	<hr/>
At end of year	36,674	35,080
	<hr/>	<hr/>

**Amortisation**

At start of year	33,136	24,640
Charge for the year	1,104	8,496
	<hr/>	<hr/>
At end of year	34,240	33,136
	<hr/>	<hr/>
Net book value	2,434	1,944
	<hr/>	<hr/>

Notes (continued)

12. Property and equipment

	Land and buildings Shs'000	Motor Vehicles Shs'000	Furniture & equipment Shs'000	Total Shs'000
<b>Year ended 30 June 2014</b>				
<b>Cost / valuation</b>				
At start of year	1,138,060	19,802	71,352	1,229,214
Additions	1,883	-	5,444	7,327
Revaluation	-	-	(33,555)	(33,555)
At year end	1,139,943	19,802	43,241	1,202,986
<b>Depreciation</b>				
At start of year	69,066	16,730	30,572	116,368
Charge for the year	19,089	1,530	9,801	30,420
Revaluation	-	-	(40,373)	(40,373)
At year end	88,155	18,260	-	106,415
Net book value at year end	1,051,788	1,542	43,241	1,096,571
<b>Year ended 30 June 2013</b>				
<b>Cost / valuation</b>				
At start of year	1,129,779	19,802	69,672	1,219,253
Additions	8,281	-	1,680	9,961
At year end	1,138,060	19,802	71,352	1,229,214
<b>Depreciation</b>				
At start of year	54,779	15,200	20,537	90,516
Charge for the year	14,287	1,530	10,035	25,852
At year end	69,066	16,730	30,572	116,368
Net book value at year end	1,068,994	3,072	40,780	1,112,846

The Corporation's internal qualified valuer carried out a valuation of furniture, fittings and equipment as at 30 June 2014 based on open market values. The resulting surplus of KShs 6,817,798 was credited to the revaluation reserve.

**Notes (continued)**

**12 Property and equipment (continued)**

Property and equipment include the following items that are fully depreciated:

	<b>Cost / Valuation Shs'000</b>	<b>Normal annual depreciation charge Shs'000</b>
Motor vehicles	12,151	2,430

**13. Investment property**

	<b>2014 Shs'000</b>	<b>2013 Shs'000</b>
Opening valuation	563,140	429,000
Movements during the year		
Additions	146,370	18,975
Fair value gain	215,990	115,165
Closing valuation	925,500	563,140

The fair value model has been applied for the investment property. The Corporation commissioned an internal professional valuer to determine the fair value of the investment property as at 30 June 2014. The fair value was supported by market evidence.

**14. Government securities**

	<b>2014 Shs'000</b>	<b>2013 Shs'000</b>
At start of year	98,972	98,730
Amortisation during the year	277	242
At end of year	99,249	98,972

The treasury bonds will mature on 14 March 2016. The effective interest rate on treasury bonds at 30 June 2014 was 11.87% (2013: 11.87%).

**Notes (continued)**

**15. Unquoted investments**

<b>Valuation</b>	<b>2014 Shs'000</b>	<b>2013 Shs'000</b>
At start of the year	9,575,401	6,808,482
Additions	430,000	282,325
Fair value gain	713,649	2,484,594
	<hr/>	<hr/>
At end of the year	10,719,050	9,575,401
	<hr/>	<hr/>
<b>Impairment</b>		
At start of the year	136,694	136,694
Impairment loss in the year	53,470	-
	<hr/>	<hr/>
At end of the year	190,164	136,694
	<hr/>	<hr/>
Net book value	10,528,886	9,438,707
	<hr/>	<hr/>

**Managed funds**

Grants and loans include funds disbursed to the following companies being managed funds administered on behalf of the Government of Kenya.

	<b>2014 Shs' 000</b>	<b>2013 Shs' 000</b>
Kenatco Transport Limited (in receivership) - Equity	6,900	6,900
Kisumu Cotton Mills(1983) Limited (in liquidation) - Equity	19,500	19,500
Pan African Vegetable Products Limited (in liquidation) - Equity	1,265	1,265
Pan Vegetable Processors Limited - Equity	15,805	15,805
South Nyanza Sugar Limited - Equity	10,000	10,000
	<hr/>	<hr/>
Gross amount	53,470	53,470
Less: Provision for impairment	(53,470)	-
	<hr/>	<hr/>
Net amount	-	53,470
	<hr/>	<hr/>

**Notes (continued)**

**16. Quoted investments**

	<b>2014</b>	<b>2013</b>
	<b>Shs' 000</b>	<b>Shs' 000</b>
Opening valuation	3,629,183	2,161,464
Disposals	(822)	-
Fair value gain	2,973,723	1,467,719
	<hr/>	<hr/>
Closing valuation	6,602,084	3,629,183
	<hr/>	<hr/>

**17. (a) Trade and other receivables**

Prepayment of staff loans	46,101	46,520
Recoverable expenses from associate companies	16,140	19,290
Dividends receivable	125,658	233,400
Receivable from Uchumi House tenants	96,342	95,203
Other debtors	38,012	40,239
Restricted funds	12,670	12,670
	<hr/>	<hr/>
Gross trade and other receivables	334,923	447,322
Less: Impairment losses	(75,562)	(66,226)
	<hr/>	<hr/>
Net trade and other receivables	259,361	381,096
	<hr/>	<hr/>

Restricted funds relate to funds deposited in an escrow account in relation to a suit against the Corporation. The average effective interest rate on the short term deposits as at June 30, 2014 was 11.51% (2013: 11.13%).

The movement in the provision for impairment of sundry debtors is as follows:

	<b>2014</b>	<b>2013</b>
	<b>Shs'000</b>	<b>Shs'000</b>
At start of year	(66,226)	(54,637)
Movement during the year	(9,336)	(11,589)
	<hr/>	<hr/>
At end of the year	(75,562)	(66,226)
	<hr/>	<hr/>

Notes (continued)

18. Loans

(a) Outstanding loans

(i) Large and medium loans

	2014 Shs'000	2013 Shs'000
Loans to significant companies	55,393	206,518
Less: Impairment losses	(5,400)	(5,400)

Net large and medium loans	49,993	201,118
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(ii) Small loans

As at 30 June 2014

	Performing loans	Non- performing loans	Total
	Shs '000	Shs '000	Shs '000
Commercial	775,272	2,451,230	3,226,502
Property	255,985	828,164	1,084,149
Industrial	-	2,597,312	2,597,312
Machinery	-	307,232	307,232
ICDC/General Motors Kenya Limited / ICDC/Kenya Breweries Limited	-	20,678	20,678
Personal loans	43,302	135,608	178,910
ICDC – Kenya Bus Services Limited	-	34,564	34,564
Hire purchase	-	138,768	138,768
Corporate	-	7,349,324	7,349,324
Unclassified loans	-	(583)	(583)
Total small loans	1,074,559	13,862,297	14,936,856
Less: Impairment losses	(14,130)	(13,849,429)	(13,863,559)
Net small loans	1,060,429	12,868	1,073,297
Net large and medium loans	49,993	-	49,993
Total net loans	1,110,422	12,868	1,123,290

**Notes (continued)**

**18. Loans (continued)**

**As at 30 June 2013**

**(ii) Small loans (continued)**

	<b>Performing loans</b>	<b>Non- performing loans</b>	<b>Total</b>
	<b>Shs '000</b>	<b>Shs '000</b>	<b>Shs '000</b>
Commercial	515,470	3,244,892	3,760,362
Property	257,668	729,214	986,882
Industrial	-	2,942,340	2,942,340
Machinery	-	897,530	897,530
ICDC/General Motors Kenya Limited / ICDC/Kenya Breweries Limited	-	34,531	34,531
Personal loans	38,432	171,833	210,265
ICDC – Kenya Bus Services Limited	-	30,489	30,489
Hire purchase	-	134,409	134,409
Corporate	-	6,364,890	6,364,890
Unclassified loans	-	(583)	(583)
<b>Total small loans</b>	<b>811,570</b>	<b>14,549,545</b>	<b>15,361,115</b>
<b>Less: Impairment losses</b>	<b>(14,559)</b>	<b>(14,542,303)</b>	<b>(14,556,862)</b>
<b>Net small loans</b>	<b>797,011</b>	<b>7,242</b>	<b>804,253</b>
<b>Net large and medium loans</b>	<b>201,118</b>	<b>-</b>	<b>201,118</b>
<b>Total net loans</b>	<b>998,129</b>	<b>7,242</b>	<b>1,005,371</b>

**(b) Impairment losses on loans**

	<b>2014 Shs'000</b>	<b>2013 Shs'000</b>
At start of the year	14,562,262	15,276,287
Increase in impairment	14,130	14,559
Impairment losses no longer required	(45,470)	(67,584)
Loans written off	(661,963)	(661,000)
<b>Net large and medium loans</b>	<b>13,868,959</b>	<b>14,562,262</b>
Comprising of:		
Large and medium loans	5,400	5,400
Small loans	13,863,559	14,556,862
<b>Total loans impairment</b>	<b>13,868,959</b>	<b>14,562,262</b>

**Notes (continued)**

**19. Provisions**

The Corporation periodically analyses the recoverability of its debtors and makes provisions for each specific case and with respect to loans and advances, a further general provision based on the loan default history. During the year, the following amounts were charged to profit or loss.

	<b>2014</b> <b>Shs' 000</b>	<b>2013</b> <b>Shs' 000</b>
Provision for managed funds (Note 15)	53,470	-
Provision for Uchumi House tenants	9,336	4,214
General provisions in loans and advances	14,131	14,559
Others	-	7,709
	<hr/>	<hr/>
Total provisions	76,937	26,482
	<hr/>	<hr/>

**20. Cash and cash equivalents**

Short term deposits	703,412	844,305
Cash in bank	88,257	48,228
	<hr/>	<hr/>
Cash and cash equivalents	791,669	892,533
	<hr/>	<hr/>

The average effective interest rate on the short term deposits as at June 30, 2014 was 11.51% (2013: 11.13%).

**21. Reserves**

**Revaluation reserve**

The revaluation reserve relates to the revaluation of certain items of property and equipment. Revaluation surpluses are not distributable.

**Fair value adjustment reserve**

The fair value adjustment reserve arises on the revaluation of available-for-sale financial assets, principally the marketable securities. When a financial asset is sold, the portion of the reserve that relates to that asset is reduced from the fair value adjustment reserve and is recognised in profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognised in profit or loss.

**Retained earnings**

The retained earnings represent amounts available to the shareholders of the Corporation. Retained earnings are utilised to finance business activity.

Notes (continued)

22. Loans and grants

	2014 Shs'000	2013 Shs'000
<b>Grants:</b>		
From the Government of Kenya	529,971	529,971
<b>Loans from Government of Kenya:</b>		
Balance at beginning of the year	345,181	357,254
Accrued additional interest	7,927	7,927
Principal repaid during the year	(11,552)	(11,552)
Interest repaid during the year	(8,448)	(8,448)
Balance at end of the year	333,108	345,181
<b>Loans from KFW of West Germany</b>		
Balance at beginning of the year	27,581	27,060
Accrued additional interest	522	521
Repayment during the year	(5,000)	-
Balance at end of the year	23,103	27,581
<b>Total loans and grants</b>	<b>886,182</b>	<b>902,733</b>

Included in loans from the Government of Kenya is an amount of KShs 82,665,620 which relates to a bilateral grant given to the Government of Kenya in 1994 by the Government of Belgium in respect of Soya Oil & Food Industries. There is a proposal to the Government of Kenya to restructure the Corporation's balance sheet. This will include conversion of some of the above loans and grants into equity and the balance into term loans at agreed interest rates. The directors are of the opinion that the restructuring proposal will be implemented in the near future.

23. Deferred tax asset

Deferred tax is calculated on all temporary differences under the liability method using the enacted tax rate, currently 30%. The net deferred tax asset at year end is attributable to the following items:

	2014 Shs'000	2013 Shs'000
Property and equipment	(530)	21,004
Provisions	(1,216,730)	(1,428,919)
Tax losses carried forward	(39,591)	(154,249)
Balance at end of the year	(1,256,851)	(1,562,164)

The deferred tax asset has not been recognised in the financial statements for the current and prior years as the directors are of the opinion that the benefit will not crystallize in the foreseeable future.

**Notes (continued)**

**24. Trade and other payables**

	<b>2014</b>	<b>2013</b>
	<b>Shs'000</b>	<b>Shs'000</b>
General creditors	73,682	62,797
Rent deposit	23,786	21,444
	<hr/>	<hr/>
Total	97,468	84,241
	<hr/>	<hr/>

**25. Retirement benefit obligations**

The Corporation operates a defined contribution pension scheme. The assets of the scheme are held in a separate fund administered by independent fund managers and is funded by contributions from both the employer and the employees. The schemes financial year ends on 31 December and the balance are as analysed below:

	<b>2014</b>	<b>2013</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Balance at beginning of the year	192,279	181,990
Company contributions during the year	6,562	6,255
Employee's contributions during the year	3,281	3,128
Interest earned on investment of contributions	21,917	19,826
Paid out during the year	(6,261)	(18,920)
	<hr/>	<hr/>
Balance at end of the year	217,778	192,279
	<hr/>	<hr/>

The Corporation also contributes to the statutory National Social Security Fund. This is a defined contribution pension scheme registered under the National Social Security Act. The Corporation's obligations under the scheme are limited to specific obligations legislated from time to time.

**26. Dividend payable to the Government of Kenya**

The amount relates to dividends declared out of profits of past years up to June 1999. Since that time, the Corporation has been actively pursuing the issue of restructuring of its statement of financial position by Government and one of the proposals is to write back this amount to reserves.

The Board has also observed that the Corporation has no share capital and therefore the issue of declaring a dividend by the Corporation is contentious. The Corporation is of the view that the Government will in the near future finalise the restructuring of the statement of financial position and thereby conclusively address the issue of dividends due to the Government.

	<b>2014</b>	<b>2013</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Year 2014	-	-
Prior years	125,000	125,000
	<hr/>	<hr/>

**Notes (continued)**

**27. Notes to the statement of cash flows**

a) Reconciliation of operating profit to cash generated from operations:

	<b>2014</b>	<b>2013</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Profit before income tax	602,394	479,194
Adjustments for:		
Depreciation of property and equipment (Note 12)	30,420	25,852
Amortisation of intangible assets (Note 11)	1,104	8,496
Provision for managed funds (Note 15)	53,470	-
Gain on disposal of unquoted investments	-	(6,436)
Loss on disposal of quoted Investments	1,723	-
Interest on Government of Kenya loans (Note 9)	8,448	8,448
Change in investment in treasury bonds (Note 14)	(277)	(242)
Gain on revaluation of investment property (Note 13)	(215,990)	(115,165)
	<hr/>	<hr/>
Operating profit before changes in working capital	481,292	400,147
Loans and advances	(117,919)	315,126
Trade and other debtors	121,735	(115,583)
Payables and accrued expenses	13,227	13,240
Subsidiary companies current accounts	9,887	8,045
	<hr/>	<hr/>
Cash generated from operations	508,222	620,975
	<hr/> <hr/>	<hr/> <hr/>

b) Analysis of changes in loans

Balance at beginning of the year	1,005,371	1,320,497
Net change	117,919	(315,126)
	<hr/>	<hr/>
Balance at end of year	1,123,290	1,005,371
	<hr/> <hr/>	<hr/> <hr/>

c) Cash and cash equivalents

Short term deposits	703,412	844,305
Cash at bank	88,257	48,228
	<hr/>	<hr/>
Balance at end of year	791,669	892,533
	<hr/> <hr/>	<hr/> <hr/>

**Notes (continued)**

**28. Related parties**

**a) Government of Kenya**

The Corporation is fully owned by the Government of Kenya. The Government of Kenya advanced loans and grants to the Corporation during its formative years to finance its operation. The relevant balances are shown in Note 22.

The Corporation repaid KSh. 25,000,000 (2013: KSh. 20,000,000) towards the Government of Kenya loans during the year ended 30 June 2014.

**b) Investment in other related companies**

The Corporation invests in other companies with a view to earning dividends and capital gain. The relevant investment balances are shown in Note 15 and 16

**i. Dividends earned during the year are as follows:**

	<b>2014</b>	<b>2013</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Dividends (Note 5)	329,529	238,498
	<hr/>	<hr/>

Dividends earned from investments are declared based on management policies of respective companies where the Corporation has invested

**ii. Key management compensation**

Key management includes executive director. The compensation paid or payable to executive director is shown below:

	<b>2014</b>	<b>2013</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Salaries	6,480	6,000
Pension	1,488	1,488
	<hr/>	<hr/>
	7,968	7,488
	<hr/>	<hr/>

**iii. Directors' remuneration**

Fees for services as a non-executive director	8,532	19,137
Other included in key management compensation above	7,968	7,488
	<hr/>	<hr/>
	16,500	26,625
	<hr/>	<hr/>

**Notes (continued)**

**28. Related parties (continued)**

**iv. Loans and advances to staff**

	<b>2014</b>	<b>2013</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Loans and advances to staff	144,929	133,452
	<hr/>	<hr/>

The Corporation provides loans and advances to staff as benefits based on staff management policies prevailing from time to time. The benefit obtained by staff is subjected to income tax as required under the Kenya Income Tax Act.

**v. Advances to other related parties**

The Corporation grants advances to companies where they have invested in to finance their operations and working capital requirements. The relevant balances are shown in Note 18.

**vi. Employees**

The Industrial and Commercial Development Corporation provides certain qualifying employees with car and housing loans on terms more favourable than available in the market. The benefit obtained by staff is subjected to income tax as required under the Kenya Income Tax Act.

**vii. Uchumi House tenants**

The Corporation has standing lease agreements with various Government ministries and departments. The amounts receivable from these entities as at 30 June were as follows:

	<b>2014</b>	<b>2013</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Rent receivable from Government ministries and Parastatals	45,440	47,052
Rent receivable from other tenants	50,902	48,152
	<hr/>	<hr/>
Total rent receivable	96,342	95,204
	<hr/>	<hr/>

**Notes (continued)**

<b>29. Capital commitments</b>	<b>2014 Shs'000</b>	<b>2013 Shs'000</b>
Amounts authorised and contracted for:		
a) Investments		
Loans	25,000	346,667
Equity	810,000	70,000
	<hr/>	<hr/>
Total investments approved	835,000	416,667
	<hr/>	<hr/>
b) Capital commitments		
Total commitments	311,121	261,035
Less: Amounts incurred and included in work-in-progress	(131,919)	-
	<hr/>	<hr/>
	179,202	261,035
	<hr/>	<hr/>
Total commitments	1,014,202	607,702
	<hr/>	<hr/>
<b>30. Contingent liabilities</b>		
Bank guarantees	35,000	25,000
Legal claims against ICDC	71,579	71,579
	<hr/>	<hr/>
	106,579	96,579
	<hr/>	<hr/>

As at 30 June 2014, the Corporation had issued guarantees amounting to KShs 35,000,000 (2013: KShs 25,000,000) in favour of third parties. No losses are expected from these guarantees.

The Corporation has been sued by third parties for claims amounting to KShs 71,579,012 (2013: KShs 71,579,012) including the interest thereon and costs of the suits. In addition, as per Note 17, the Corporation has deposited KShs 12,670,000 in a joint interest earning account with the advocates of parties in a suit with the Corporation and obtained a bank guarantee of the same amount in respect of the matter. No provision has been made in these financial statements as the directors are of the opinion that no liability in respect of the above matters will crystallise.

The Corporation has investments in three of the six bottling companies in Kenya. On 26 October 2012, the bottling companies lost a case against the Kenya Revenue Authority (KRA) for contested demand for tax arrears, penalties and interest for the period 2006 to 2009 relating to excise tax on returnable containers.

The bottling companies lodged an appeal against the ruling and have in the meantime obtained conservatory orders from the court maintaining the status quo/staying any adverse action as the notice of appeal is filed. The Directors' assessment is that the matter will be resolved amicably with minimal impact to the business of the bottling companies.

**Notes (continued)**

**31. Future rental commitments under operating leases**

	<b>2014</b>	<b>2013</b>
	<b>Shs'000</b>	<b>Shs'000</b>
The total future minimum lease payments due from third parties under non – cancellable leases are as follows:		
Due within one year	116,345	40,251
Due within one year but less than 5 years	354,080	138,252
Due after 5 years	13,449	3,547
	<hr/>	<hr/>
	483,874	182,050
	<hr/>	<hr/>

**32. Comparatives**

The prior year financial statements have been amended to be consistent with classification in the current year as follows;

**(i) Income**

*Recognition of interest income on non-performing loans and advances*

In the prior year, interest income was recognised on non-performing loans with a corresponding provision also recognised in the profit or loss.

This treatment resulted in significant amounts of interest income and provisions being recognised and disclosed on the face of the profit or loss account.

In the current year, interest income has only been recognised on performing loans. A similar approach has been adopted for the prior year comparatives. The net effect of this change on the profit or loss is nil.

The interest on non-performing loans and corresponding provision in reported in 2013 was Shs 1,732,197.

(a) Recognition of interest on performing loans only

	<b>2013</b>
	<b>Kshs'000</b>
Interest on loans and advances as reported	1,898,368
Elimination of interest charged on non-performing loans	(1,732,197)
	<hr/>
<b>Total interest reported in operating income</b>	<b>166,171</b>
	<hr/>

**Notes (continued)**

**32. Comparatives (continued)**

**(i) Income (continued)**

*Reclassification*

Income from other sources other than those arising from investing activities has been reclassified to other income.

The overall impact on the disclosure in the profit or loss and related notes is as follows;

<b>As previously stated</b>	<b>2013</b>
<b>Income</b>	<b>Kshs'000</b>
Dividends	238,498
Interest on loans and advances	1,898,368
Application fees	6,795
Valuation fees and other services	13,092
Rental income	113,467
Interest on deposits	100,233
Write back on provisions for loans and advances	67,584
Gain on disposal of unquoted investments	6,436
Unrealised gains on investment property	115,165
Sundry income	9,193
	<hr/>
<b>Total income as reported</b>	<b>2,568,831</b>
	<hr/> <hr/>
<b>As reclassified:</b>	
(a) Operating income:	
Dividends	238,498
Interest on loans and advances (Note 32 (c))	166,171
Application fees	6,795
Valuation fees and other services	13,092
Rental income	113,467
Interest on deposits	100,233
	<hr/>
	<b>638,256</b>
	<hr/> <hr/>
(b) Other income:	
Write back on provisions for loans and advances	67,584
Gain on disposal of unquoted investments	6,436
Unrealised gains on investment property	115,165
Sundry income	9,193
	<hr/>
	<b>198,378</b>
	<hr/> <hr/>

**Notes (continued)**

**33. Subsequent events**

ICDC is in the process of selling 25.95% of its shareholding in Kenya Wine Agency Limited (KWAL) to Distell Group reducing its shareholding to 46.7% in the company as part of a bigger privatisation programme started in 2011 to improve the performance of State-owned entities.

A further 4% of shares expected to be sold to KWAL employees and remaining 42.65% per cent stake is to be offloaded over the next four years.

**34. Incorporation**

The Industrial and Commercial Development Corporation is incorporated as a Government Parastatal in Kenya under the Industrial and Commercial Development Corporation (ICDC) Act (Cap.445 Laws of Kenya) and is domiciled in Kenya.

# KENYA PIPELINE COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 ACCOUNTING POLICIES (Continued)

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

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

IFRS 13 Fair Value Measurement

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

Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements.

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

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

In the current year, the company has restated the retirement benefit asset as it adopted the revised IAS 19 standard, which has resulted in material effects on the information in the statement of financial position as at 1 July 2012. The company also restated the property, plant and equipment balances for which the balances as at 30 June 2013 did not include the full impact of the valuation carried out on the company's assets.

In accordance with the amendments to IAS 1, the company has presented a third statement of financial position as at 1 July 2012 without the related notes except for the disclosure requirements relating to the impact on the application of the new standard.

IAS 19 Employee Benefits (as revised in 2011)

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



# KENYA PIPELINE COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 ACCOUNTING POLICIES (Continued)

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

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

IAS 19 Employee Benefits (as revised in 2011)	The above amendments are generally effective for annual periods beginning on or after 1 January 2013. Specific transitional provisions are applicable to first-time application of IAS 19 (as revised in 2011). The company has applied the relevant transitional provisions and restated the comparative amounts on a retrospective basis.
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(ii) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2014*

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

#### IFRS 9 Financial Instruments

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

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.



# KENYA PIPELINE COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 ACCOUNTING POLICIES (Continued)

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

(ii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2014(Continued)*

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

Key requirements of IFRS 9 (Continued):

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

#### **IFRS 15, Revenue from Contracts with Customers**

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

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

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.

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

#### **Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities**

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

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

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

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

# KENYA PIPELINE COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 ACCOUNTING POLICIES (Continued)

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

(ii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2014 (Continued)*

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

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

#### **Annual Improvements 2010-2012 Cycle**

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

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

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

(iii) *Early adoption of standards*

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

#### **Basis of preparation**

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

# KENYA PIPELINE COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 ACCOUNTING POLICIES (Continued)

#### **Revenue recognition**

Revenue represents invoiced value of services rendered during the year in relation to transportation and storage of petroleum products, net of value added tax.

Local and export 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.

# KENYA PIPELINE COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. ACCOUNTING POLICIES (Continued)

#### **Assets held for sale (Continued)**

Assets (and disposal groups) classified as held for sale are measured at the lower of the assets previous carrying amount and fair value less costs to sell.

#### **Inventories**

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

Fuel stocks belong to the shippers as per transportation and storage agreement signed between company and the shippers. Fuel stocks are therefore not included in the company's statement of financial position but are disclosed separately per note 31.

#### **Intangible assets**

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

#### **Retirement benefit obligation**

Until 30 June 2006, the company operated a defined benefit contribution pension scheme for eligible employees. With effect from 1 July 2006, the scheme was closed to new members and a defined contribution pension scheme was established.

The assets of these schemes are held in separate trustee administered funds. The defined contribution scheme is funded by contributions from both the employees and employer.

For the defined contribution pension scheme, the cost of providing benefits is limited to the company contributions.

For defined retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised 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 categorised 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 remeasurement.

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

The company also makes contributions to National Social Security Fund, a statutory defined contribution pension scheme. The company's obligations under the scheme are limited to specific contributions legislated from time to time and are currently limited to a maximum of KShs. 200 per month per employee.

# KENYA PIPELINE COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. ACCOUNTING POLICIES (Continued)

#### **Taxation**

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

##### *(i) Current tax*

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

##### *(ii) Deferred tax*

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

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

#### **Dividends**

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established. Dividends payable are charged to equity in the period in which they are declared. Proposed dividends are not accrued for until ratified in an annual general meeting by the shareholders.

#### **Financial Instruments**

##### *Investments*

Investments are initially measured at fair value, plus directly attributable transaction costs. At subsequent reporting dates, debt securities that the Company has the express intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortized cost using the effective interest rate method, less any impairment loss recognized to reflect irrecoverable amounts. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired.

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available for sale investments, gains and losses arising from changes in fair value are recognized through other comprehensive income and accumulated in revaluation reserve, until the available for sale security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period.

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

## KENYA PIPELINE COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 1. ACCOUNTING POLICIES (Continued)

##### **Financial instruments (Continued)**

###### *Cash and cash equivalents*

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

##### **Financial liabilities and equity instruments**

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

###### *Borrowings*

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

###### *Trade payables*

Trade payables are stated at their nominal value.

###### *Equity instruments*

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

###### *Provision for liabilities and charges*

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

###### *Currency translations*

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

##### **Accounting for leases**

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

###### *The company as lessor*

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

KENYA PIPELINE COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (Continued)

**Accounting for leases (Continued)**

*The company as lessee*

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

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

**Provisions**

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

**Comparatives**

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

2 CAPITAL RISK MANAGEMENT

The company manages its capital to ensure that it is able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the company consists of cash and cash equivalents and equity attributed to equity holders comprising issued capital, share premium and revenue reserves. The company had nil debt as at 30 June 2014 (2013 – nil).

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

**Introduction and overview**

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

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

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

# KENYA PIPELINE COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

#### Financial risk management objectives (Continued)

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

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

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

The company's treasury function, headed by the chief accountant - finance and reporting to the Finance Manager, develops and monitors risks and policies implemented to mitigate risk exposures.

#### a) Market risk

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

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

#### (i) Foreign currency risk management

Exposure to exchange rate fluctuations arising from international trading commitments is minimized by utilizing foreign currency reserves to settle maturing obligations. Revenue is spread on a 50-50 basis in local and foreign currencies (USD). As at end of the year, the carrying amounts of the company's foreign currency denominated monetary assets and monetary liabilities are as follows:

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

KENYA PIPELINE COMPANY LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

a) Market risk (Continued)

(i) Foreign currency risk management (Continued)

	GBP Kshs'000	EUR Kshs'000	USD Kshs'000	JPY Kshs'000	HKD Kshs'000
<b>At 30 June 2013</b>					
<b>Financial assets</b>					
Bank and cash balances	-	-	2,130,861	-	-
Short term deposits	-	135,445	828,816	-	-
Trade receivables	302	134,356	5,021,445	-	-
	<u>302</u>	<u>269,801</u>	<u>7,981,122</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities</b>					
Trade payables	(2,930)	(172,932)	(382,276)	-	(203)
Net exposure	<u>(2,930)</u>	<u>(172,932)</u>	<u>(382,276)</u>	<u>-</u>	<u>(203)</u>

**Foreign currency sensitivity analysis**

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

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

	2014 KShs'000		2013 KShs'000	
	Effect on profit	Effect on equity	Effect on profit	Effect on equity
Currency - GB pounds				
+ 10 percentage point movement	353	247	262	184
- 10 percentage point movement	(353)	(247)	(262)	(184)
Currency - US dollars				
+ 10 percentage point movement	1,590,154	1,113,108	787,545	551,282
- 10 percentage point movement	(1,590,154)	(1,113,108)	(787,545)	(551,282)
Currency - Euro				
+ 10 percentage point movement	13,689	9,582	17,402	12,182
- 10 percentage point movement	(13,689)	(9,582)	(17,402)	(12,182)
Currency - JPY				
+ 10 percentage point movement	2,577	1,804	-	-
- 10 percentage point movement	(2,577)	(1,804)	-	-
Currency - HKD				
+ 10 percentage point movement	-	-	20	14
- 10 percentage point movement	-	-	(20)	(14)
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

# KENYA PIPELINE COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

#### a) Market risk (Continued)

##### (i) Foreign currency risk management (Continued)

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

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

##### (ii) Interest risk management

The company is exposed to interest rate risk as it invests and borrows funds at both fixed and floating interest rates. The risk is managed by the company by maintaining an appropriate mix between fixed and floating rate borrowings.

##### Interest rate sensitivity analysis

The analysis is prepared assuming the amount of liability outstanding at the statement of financial position date was outstanding for the whole year. If interest rates had been 0.5% higher/lower and all other variables were held constant, the company's profit before tax for the year ended 30 June 2014 would decrease/increase by KShs 7 million (2013 – KShs 4 million).

#### b) Credit risk management

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

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

The company is exposed to a significant credit risk by a single counterparty as disclosed in note 17. The credit risk on liquid funds and derivative financial instruments is however limited because the counterparties are banks with high credit-ratings.

The company's maximum exposure to credit risk as at 30 June 2014 and 30 June 2013 is analyzed in the table below:

	Fully performing Kshs '000	Past due Kshs '000	Impaired Kshs '000	Gross total Kshs '000
Trade receivables	4,680,116	4,242,441	-	8,922,557
Other receivables	632,727	3,462	211,161	847,350
Bank balances	5,137,625	-	-	5,137,625
Short term deposits	5,938,961	-	-	5,938,961
Government securities	104,316	-	-	104,316
	<u>16,493,745</u>	<u>4,245,903</u>	<u>211,161</u>	<u>20,950,809</u>

KENYA PIPELINE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

**b) Credit risk management (Continued)**

The company's maximum exposure to credit risk as at 30 June 2013 is analysed in the table below:

	Fully performing Kshs '000	Past due Kshs '000	Impaired Kshs '000	Gross total Kshs '000
Trade receivables	2,031,237	4,041,066	-	6,072,303
Other receivables	1,060,773	850,726	211,161	2,122,660
Bank balances	2,333,295	-	-	2,333,295
Short term deposits	1,982,203	-	-	1,982,203
	<u>7,407,508</u>	<u>4,891,792</u>	<u>211,161</u>	<u>12,510,461</u>

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

**c) Liquidity risk management**

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

The company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in financing facilities section of this note, is a listing of additional un-drawn facilities that the company has at its disposal to further reduce liquidity risk.

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

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

## KENYA PIPELINE COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

###### *Held-to-maturity financial assets*

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

##### b) **Key sources of estimation uncertainty**

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

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

###### *Impairment of assets*

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

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

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

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

KENYA PIPELINE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. REVENUE

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

6. DIRECT COSTS

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

7. OTHER INCOME

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

8. (a) FINANCE INCOME

Interest income on deposits	156,905	366,723
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(b) FOREIGN EXCHANGE GAINS/(LOSSES)

	<u>101,511</u>	<u>(64,534)</u>
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(c) FINANCE COSTS

Interest expense	-	240,677
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KENYA PIPELINE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2014 Kshs'000	2013 (Restated) Kshs'000	1 July 2012 (Restated) KSh'000
<b>9. ADMINISTRATION EXPENSES</b>			
Administrative staff costs	2,075,423	2,811,352	2,285,082
Depreciation (Note 14)	341,224	282,748	-
Other office and general expenses	515,437	273,488	304,208
Travelling and entertainment	27,860	22,601	18,256
Advertising and printing expenses	76,805	80,166	90,671
Rent and rates	7,537	3,435	3,648
Consultancy fees	46,012	21,466	80,837
Telephone and postage	23,109	20,879	19,080
Legal and professional expenses	209,922	47,517	98,657
Court awards	-	-	26,608
Licenses and other fees	40,078	75,654	-
Motor vehicle expenses	55,238	54,146	101,678
Buildings repairs and maintenance	3,730	3,246	1,300
Bank charges	6,679	7,991	5,112
Penalties and interest on tax	1,018	-	-
Auditors remuneration	8,448	4,837	6,703
Directors: - performance incentive	5,400	5,400	8,400
- Other emoluments	11,384	16,436	11,415
- Sitting /duty allowance	7,080	6,268	10,451
	<u>3,462,384</u>	<u>3,737,630</u>	<u>3,072,106</u>
<b>10. STAFF COSTS</b>			
Salaries and wages	3,259,947	3,844,749	3,248,585
Group life and medical cover	295,038	298,571	256,307
Pension-company contribution	221,189	245,331	218,297
Defined benefit plan (Note 18(b))	(137,508)	(62,328)	-
Staff welfare	154,885	156,831	120,474
Training	60,012	66,601	45,848
Recruitment costs	3,610	655	506
NSSF-company contribution	3,374	4,247	4,165
Staff uniforms	1,669	3,202	3,582
	<u>3,862,216</u>	<u>4,557,859</u>	<u>3,897,764</u>
<b>Split As Follows:</b>			
Direct staff costs (Note 6)	1,786,794	1,746,507	1,612,682
Administrative staff cost (Note 9)	2,075,423	2,811,352	2,285,082
	<u>3,862,217</u>	<u>4,557,859</u>	<u>3,897,764</u>

KENYA PIPELINE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2014	2013
	Kshs'000	(Restated) Kshs'000
<b>11. TAXATION</b>		
<b>a) Tax charge</b>		
Current taxation based on taxable profit at 30%	3,002,751	2,212,670
Tax under/(overpayment) from year 2010	83,019	(621,091)
	<u>3,085,770</u>	<u>1,591,579</u>
Deferred tax charge (Note 25)	34,392	(124,051)
Prior year overprovision	-	(86,330)
	<u>34,392</u>	<u>(210,381)</u>
Total taxation charge	<u><u>3,120,162</u></u>	<u><u>1,381,198</u></u>
<b>b) Reconciliation of expected tax based on profit before taxation to taxation charge</b>		
Profit before taxation	<u><u>10,222,945</u></u>	<u><u>8,111,117</u></u>
Tax at the applicable rate of 30%	3,066,884	2,433,335
Tax effect of expenses not deductible for tax purposes	-	1,369,095
Income not subject to tax	(29,741)	(1,233,037)
Prior year overstatement	-	(86,330)
Prior year adjustment	-	(480,774)
Tax under/(overpayment) from year 2010	83,019	(621,091)
Total taxation charge	<u><u>3,120,162</u></u>	<u><u>1,381,198</u></u>
	2014	2013
	Kshs'000	Kshs'000
<b>c) Taxation (payable)/recoverable</b>		
Balance brought forward	991,313	46,719
Charge for the year (Note 11(a))	(3,002,751)	(2,212,670)
Tax underpayment from year 2010	(83,019)	621,091
Installment tax payments in the year	1,823,764	2,513,264
Withholding tax paid on interest income	46,891	22,909
	<u>(223,802)</u>	<u>991,313</u>

## KENYA PIPELINE COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 12. EARNINGS PER SHARE

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

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

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

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

	2014	2013 (Restated)
	Kshs	Kshs
Profit after taxation	7,090,674,000	6,729,919,000
Number of ordinary shares in issue	18,173,300	18,173,300
Basic and diluted earnings per share (in KShs)	<u>390</u>	<u>370</u>

#### 13. DIVIDENDS PER SHARE

Proposed dividends are not accounted for until they have been ratified at the Annual General Meeting. No dividend is to be proposed in respect of 2014 (2013 – Nil).

KENYA PIPELINE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold property Kshs '000	Buildings and roads Kshs '000	Pipeline, pumps and tanks Kshs '000	Equipment, furniture and fittings Kshs '000	Helicopters Kshs '000	Motor vehicles & tractors Kshs '000	Capital work-in- progress Kshs '000	Total Kshs '000
COST VALUATION								
1 July 2012	30,162	9,648,343	28,093,893	9,126,791	147,586	683,320	1,263,975	48,994,070
Additions	-	-	100,879	146,362	-	83,706	482,498	813,445
Disposals	-	-	-	-	-	(9,605)	-	(9,605)
Revaluation	1,580	(3,492,268)	3,709,873	(4,735,092)	(22,586)	(81,838)	-	(4,620,331)
30 June 2013 (as previously reported)	31,742	6,156,075	31,904,645	4,538,061	125,000	675,583	1,746,473	45,177,579
Prior year adjustment*	200,600	(60,729)	(618,544)	(117,704)	-	(70,984)	-	(667,361)
30 June 2013 (restated)	232,342	6,095,346	31,286,101	4,420,357	125,000	604,599	1,746,473	44,510,218
1 July 2013 (as previously reported)	31,742	6,156,075	31,904,645	4,538,061	125,000	675,583	1,746,473	45,177,579
Prior year adjustment*	200,600	(60,729)	(618,544)	(117,704)	-	(70,984)	-	(667,361)
1 July 2013 (restated)	232,342	6,095,346	31,286,101	4,420,357	125,000	604,599	1,746,473	44,510,218
Additions	4,200	163,560	207,644	70,655	315,915	95,371	2,282,638	3,139,984
Transfers from WIP	-	-	-	148,801	-	-	(148,801)	-
Disposals	-	-	-	-	-	(11,118)	-	(11,118)
30 June 2014	236,542	6,258,906	31,493,745	4,639,813	440,915	688,852	3,880,310	47,639,084

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

KENYA PIPELINE COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold property Kshs '000	Buildings and roads Kshs '000	Pipeline, pumps and tanks Kshs'000	Equipment, furniture and fittings Kshs '000	Helicopters Kshs '000	Motor vehicles and tractors Kshs '000	Capital work-in- progress Kshs '000	Total Kshs'000
DEPRECIATION:								
1 July 2012	-	4,071,299	9,057,156	5,274,299	147,586	458,210	-	19,008,550
Charge for the year	-	352,077	1,203,356	572,656	2,083	90,597	-	2,220,770
Eliminated on disposal	-	-	-	-	-	(9,605)	-	(9,605)
Eliminated on revaluation	-	(3,462,546)	(9,295,450)	(3,442,836)	(147,586)	(206,374)	-	(16,554,791)
30 June 2013 (as previously reported)	-	960,830	965,062	2,404,119	2,083	332,828	-	4,664,922
Prior year adjustment*	-	(207,164)	(56,371)	(125,434)	-	(99,215)	-	(488,184)
30 June 2013 (restated)	-	753,666	908,691	2,278,685	2,083	233,613	-	4,176,738
1 July 2013 (as previously reported)	-	960,830	965,062	2,404,119	2,083	332,828	-	4,664,922
Prior year adjustment*	-	(207,164)	(56,371)	(125,434)	-	(99,215)	-	(488,184)
1 July 2013 (restated)	-	753,666	908,691	2,278,685	2,083	233,613	-	4,176,738
Charge for the year	-	334,049	1,326,480	326,385	82,918	131,657	-	2,201,488
Eliminated on disposal	-	-	-	-	-	(3,295)	-	(3,295)
30 June 2014	-	1,087,715	2,235,171	2,605,070	85,001	361,975	-	6,374,932
NET BOOK VALUE								
30 June 2014	236,542	5,171,191	29,258,574	2,034,743	355,914	326,877	3,880,310	41,264,151
30 June 2013 (Restated)	232,342	5,341,680	30,377,410	2,141,672	122,917	370,986	1,746,473	40,333,480

The Company commissioned M/S Tysons Limited to carry out a revaluation of all its assets in April 2012. The firm submitted its report in November 2012. According to their report, the value of assets was Kshs 42,140,269,100. As at 30 June 2013, the values incorporated in the Fixed Asset Register was Kshs 40,361,075,400 resulting in a net revaluation surplus of KShs 16,780,968,000.

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

KENYA PIPELINE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Fair value as at 30 June KShs'000
<b>30 June 2014</b>				
Buildings and roads	-	-	5,171,191	5,171,191
Pipeline, pumps & tanks	-	-	29,258,574	29,258,574
Equipment, furniture and fittings	-	-	2,034,743	2,034,743
Helicopters	-	-	355,914	355,914
Motor vehicles and tractors	-	-	326,877	326,877
	<u>-</u>	<u>-</u>	<u>37,147,299</u>	<u>37,147,299</u>
	=====	=====	=====	=====
<b>30 June 2013</b>				
Buildings and roads	-	-	5,341,680	5,341,680
Pipeline, pumps & tanks	-	-	30,377,410	30,377,410
Equipment, furniture and fittings	-	-	2,141,672	2,141,672
Helicopters	-	-	122,917	122,917
Motor vehicles and tractors	-	-	370,986	370,986
	<u>-</u>	<u>-</u>	<u>38,354,665</u>	<u>38,354,665</u>
	=====	=====	=====	=====

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

	2014 Shs'000	2013 Shs'000
Cost	49,723,216	48,735,030
Accumulated depreciation	(24,149,581)	(21,623,122)
	<u>25,573,635</u>	<u>27,111,908</u>
	=====	=====
Net book value	25,573,635	27,111,908

KENYA PIPELINE COMPANY LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. LEASEHOLD LAND

	2014	2013 (Restated)
	Shs'000	Shs'000
<b>COST\VALUATION</b>		
1 July	5,224,052	351,817
Revaluation	-	4,823,906
Impairment of leasehold land	-	(291,671)*
	<hr/>	<hr/>
30 June (as previously reported)	5,224,052	4,884,052
Prior year adjustment**	-	340,000**
	<hr/>	<hr/>
30 June (restated)	5,224,052	5,224,052
	<hr/>	<hr/>
<b>AMORTIZATION</b>		
1 July	(6,823)	(21,923)
Revaluation	-	22,602
Charge for the year	(89,349)	(7,502)
	<hr/>	<hr/>
30 June	(96,172)	(6,823)
	<hr/>	<hr/>
<b>NET BOOK VALUE</b>	<u>5,127,880</u>	<u>5,217,229</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 fair value hierarchy.

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

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

16. INTANGIBLE ASSETS

	2014	2013
	Kshs'000	Kshs'000
<b>COST</b>		
1 July	365,041	360,368
Additions	-	4,673
	<hr/>	<hr/>
30 June	365,041	365,041
	<hr/>	<hr/>
<b>AMORTIZATION</b>		
1 July	(358,131)	(250,976)
Charge for the year	(3,925)	(107,155)
	<hr/>	<hr/>
30 June	(362,056)	(358,131)
	<hr/>	<hr/>
<b>NET BOOK VALUE</b>	<u>2,985</u>	<u>6,910</u>

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

KENYA PIPELINE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. INVESTMENTS – at cost

	2014 Kshs'000	2013 Kshs'000
<i>Unquoted investments</i>		
Petroleum Institute of East Africa	2	2
Consolidated Bank of Kenya Limited	67,030	67,030
	<u>67,032</u>	<u>67,032</u>
	=====	=====
<i>Details of the investment in Consolidated Bank of Kenya Limited are shown below:</i>		
746,500 ordinary shares of Kshs 20 each	14,930	14,930
2,605,000 4% non-cumulative irredeemable non-convertible preference shares of Ksh 20 each	52,100	52,100
	<u>67,030</u>	<u>67,030</u>
	=====	=====

The investment in the Petroleum Institute of East Africa comprises one class "A" Redeemable Preference share of Kshs 2,000. The investments are stated at cost as fair value cannot be reliably determined.

18. RETIREMENT BENEFIT OBLIGATIONS

**a) National Social Security Fund**

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

**b) Defined Benefit Scheme (Closed)**

The company's contribution to the scheme during the year amounted to Nil (2013- Kshs 57,000,000). The most recent actuarial valuation of the scheme's assets and the present value of the defined benefits obligation as at 30 June 2014 were carried out in August 2014 by the scheme's Actuaries, Alexander Forbes Financial Services (E.A) Limited. The principal assumptions used for the purpose of the actuarial valuation were as follows:

KENYA PIPELINE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. RETIREMENT BENEFIT OBLIGATIONS (Continued)

**b) Defined Benefit Scheme (Closed) (Continued)**

	2014	2013
Discount rate(s)	13.0%	12.5%
Future salary increases	5.0%	5.0%
Future pension increases <sup>1</sup>	0.0%	0.0%
Mortality (pre-retirement)	A1949-1952	A1949-1952
Mortality (post-retirement)	a(55) m/f	a(55) m/f
Withdrawals	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Retirement age	60 years	60 years

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

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

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

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

KENYA PIPELINE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

**b) Defined Benefit Scheme (Closed) (Continued)**

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

	2014 Shs'000	2013 Shs'000
Net liability at the start of the year	(1,320,984)	(648,673)
Net expense recognised in the income statement	(137,508)	(62,328)
Employer contributions	-	-
Amount recognized in other comprehensive income	51,095	(609,983)
	<hr/>	<hr/>
Present value of overfunded defined benefit asset	(1,407,397)	(1,320,984)
	<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	5,040,205	4,671,434
Current service cost	25,991	17,653
Interest cost	617,050	571,273
Contributions from plan participants	-	-
Actuarial gain due to change in assumptions	(50,916)	-
Actuarial gain due to experience	-	-
Benefits paid	(233,596)	(220,155)
	<hr/>	<hr/>
Closing defined benefit obligation	5,398,734	5,040,205
	<hr/> <hr/>	<hr/> <hr/>

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

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

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

	2014 Shs'000	2013 Shs'000
Equity instruments	2,074,457	1,549,486
Debt instruments	2,956,114	2,959,372
Property	1,548,478	1,544,502
Offshore investments	-	7,129
Cash	227,082	300,700
	<hr/>	<hr/>
Total scheme (assets)	6,806,131	6,361,189
	<hr/> <hr/>	<hr/> <hr/>

KENYA PIPELINE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

**c) Defined Contribution Scheme:**

Contributions to the Kenya Pipeline Company Staff Retirement Benefits Scheme are at 6% and 12% from employee and employer respectively. The company's liability is limited to any unpaid contributions.

19. INVENTORIES

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

20. TRADE AND OTHER RECEIVABLES

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

Included in trade receivables is KSh 3.4 billion (2013-KShs 3.4 billion) due from an Oil Marketing Company that is the subject of a court dispute. No impairment loss has been recognized in respect of this amount as management has opted to wait for the final outcome of an appeal.

The amounts recoverable after one year relate to staff loans and advances. The interest rate on the staff loans and advances is as per prescribed basis of Fringe Benefits tax as given by Kenya Revenue Authority every quarter.

KENYA PIPELINE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. GOVERNMENT SECURITIES

	2014 Kshs'000	2013 Kshs'000
Treasury bonds held to maturity	104,316	100,000
	<u>=====</u>	<u>=====</u>

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

22. CASH AND SHORT TERM DEPOSITS

**a) Short term deposits**

	2014 Kshs'000	2013 Kshs'000
Bank guarantees	-	159,437
Fixed deposits	5,938,961	1,822,766
	<u>-----</u>	<u>-----</u>
	<u>=====</u>	<u>=====</u>

**b) Bank and cash balances**

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

KENYA PIPELINE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. ASSETS HELD FOR SALE

In 2007, the directors resolved to dispose of some of the company's property and the leasehold land on which the properties stand. Negotiations with several interested parties took place and thus the properties were classified as held for sale. The sale was completed in the current year.

	2014 Kshs'000	2013 Kshs'000
<b>COST</b>		
At 1 July	32,953	71,431
Prior year adjustment	-	13,475
Eliminated on disposal – prior year	-	(39,847)
Eliminated on disposal – current year	(23,255)	(12,106)
At 30 June	<u>9,698</u>	<u>32,953</u>
<b>DEPRECIATION</b>		
At 1 July and 30 June	<u>(9,698)</u>	<u>(9,698)</u>
<b>NET BOOK VALUE</b>	<u>-</u>	<u>23,255</u>

24. SHARE CAPITAL

**Authorized:**

19,369,580 Ordinary Shares of Ksh 20 each	387,392	387,392
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**Issued and fully paid:**

18,173,300 Ordinary Shares of Ksh 20 each	363,466	363,466
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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:

	2014 Kshs'000	2013 (Restated) Kshs'000	1 July 2012 (Restated) Kshs'000
<b>Deferred tax liability</b>			
Accelerated capital allowances	456,415	452,850	827,809
Deferred tax on retirement benefit plan assets	422,219	396,295	194,602
Deferred tax on revaluation surplus	5,094,647	5,082,537	-
Unrealized exchange gains	32,784	959,693	183,786
	<u>6,006,065</u>	<u>6,891,375</u>	<u>1,206,197</u>

KENYA PIPELINE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. DEFERRED TAX LIABILITY

	2014 Kshs'000	2013 (Restated) Kshs'000	1 July 2012 (Restated) Kshs'000
<b>Deferred tax assets</b>			
General inventory provisions	(49,913)	(49,913)	(49,913)
Provision for legal expenses	-	(28,358)	(11,041)
Leave pay provision	(37,778)	(30,939)	(34,731)
General bad debts provision	(5,164)	(4,847)	(4,847)
Unrealized exchange losses - trading	-	(895,281)	(278,779)
	<u>(92,855)</u>	<u>(1,009,338)</u>	<u>(379,311)</u>
<b>Net deferred tax liability</b>	<u>5,913,210</u>	<u>5,882,037</u>	<u>826,886</u>

*The movement in deferred tax was as follows:*

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

	2014 Kshs'000	2013 Kshs'000
26. (a) TRADE AND OTHER PAYABLES		
Trade payables	2,335,279	1,297,194
Other payables	1,004,112	843,029
Catering, training & tourism development levy	114	39
Leave pay provision	125,749	103,129
	<u>3,465,254</u>	<u>2,243,391</u>

KENYA PIPELINE COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. (b) DIVIDENDS PAYABLE

	2014 Kshs'000	2013 Kshs'000
At the beginning of the year	-	300,000
Declared in the year	-	380,000
Dividends paid	-	(680,000)
	<u>          </u>	<u>          </u>
	-	-
	=====	=====

27. NOTES TO THE STATEMENT OF CASH FLOWS

	2014 Kshs'000	2013 (Restated) Kshs'000
a) Reconciliation of operating profit to cash generated from operations		
Profit before tax	10,222,945	8,111,117
<i>Adjustments for:</i>		
Depreciation (Note 14)	2,201,488	2,220,770
Amortization of leasehold land (note 15)	89,349	7,502
Amortization of intangible assets (Note 16)	3,925	107,155
Unsupported movement in revaluation reserve	40,367	-
Gain on disposal of property, plant and equipment	(8,872)	(16,319)
Interest income	(156,905)	(366,723)
Interest expense	-	240,677
	<u>          </u>	<u>          </u>
Operating profit before working capital changes	12,392,297	10,304,179
Increase in inventories	(315,940)	(102,456)
Increase in trade and other receivables	(1,574,944)	(1,354,315)
Increase in trade and other payables	1,221,863	149,836
Movement in related party balances	(3,766)	13,325
Movement in retirement benefit asset (Note 18(b))	(137,508)	(62,328)
	<u>          </u>	<u>          </u>
Cash generated from operations	11,582,002	8,948,241
	=====	=====
b) Analysis of cash and cash equivalents		
Short term deposits (Note 22(a))	5,938,961	1,982,203
Bank and cash balances	5,143,892	2,336,745
	<u>          </u>	<u>          </u>
	11,082,853	4,318,948
	=====	=====



KENYA PIPELINE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

	2014 Kshs'000	2013 Kshs'000
c) BORROWINGS		
<i>Loan movement:</i>		
At 1 July 2012	-	8,293,553
Loan repayment	-	(8,290,208)
Foreign exchange difference	-	(3,345)
	-----	-----
At 30 June 2013	-	-
	=====	=====

28. RELATED PARTIES

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

**(a) Key management compensation**

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

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

KENYA PIPELINE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28. RELATED PARTIES (Continued)

**(b) Related party transactions**

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

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

**(c) Due to related parties**

Ministry of Energy - LPG Project	80,000	80,000
Kenya Power & Lighting Co Limited	218,840	188,840
Ministry of Finance	-	1,766
Ministry of Energy	-	32,000
	<u>298,840</u>	<u>302,606</u>
	=====	=====

29. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

	2014 KShs'000	2013 KShs'000
<i>The company as a lessor:</i>		
Within one year	393,267	63,719
In the second to fifth year inclusive	1,573,067	254,878
	<u>1,966,334</u>	<u>318,597</u>
	=====	=====

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

	2014 KShs'000	2013 KShs'000
<i>The company as a lessee:</i>		
Within one year	82,122	63,719
In the second to fifth year inclusive	328,488	318,595
	<u>410,610</u>	<u>382,314</u>
	=====	=====

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



KENYA PIPELINE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30. CONTINGENT LIABILITIES

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

Pending lawsuits relate to civil suits lodged against the company by various parties.

31. FUEL STOCKS

Fuel stocks belong to the Oil Marketing Companies (OMCs) as per Transportation and Storage Agreement signed between the Kenya Pipeline Company Limited and the OMCs. Fuel stocks are therefore not included in the financial statements. As at 30 June 2014, the company held third party fuel stocks amounting to 366,939.88 M<sup>3</sup> (2013 – 454,143M<sup>3</sup>) with a Hydro-Carbon Value (HCV) of KShs 26,222,679,445 (2013 – KShs 29,682,486,687).

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

The variance has been further analysed as follows;

	2014		2013	
	Cubic meters (M <sup>3</sup> )	Hydrocarbon value Kshs'000	Cubic meters (M <sup>3</sup> )	Hydrocarbon value Kshs'000
Quantity per customer statement	366,940	26,222,679	454,143	29,682,487
Quantity per fuel dip exercise	353,972	25,316,100	424,179	27,720,136
	<u>12,968</u>	<u>906,579</u>	<u>29,964</u>	<u>1,962,351</u>

32. CAPITAL COMMITMENTS

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

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

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



KENYA PIPELINE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33. PRIOR YEAR ADJUSTMENTS

**(i) Retirement benefits restatement**

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

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

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

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

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

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

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

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

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



KENYA PIPELINE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33. PRIOR YEAR ADJUSTMENTS (CONTINUED)

(i) Retirement benefits restatement (Continued)

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

	Year ended 30 June 2013 (as previously reported) Shs'000	IAS 19 adjustments Shs'000	Year ended 30 June 2013 (as restated) Shs'000
<b>Impact on profit for the year</b>			
Profit before tax	8,048,789	62,328*	8,111,117
Taxation credit	(1,843,274)	(18,698)	(1,861,972)
	<hr/>	<hr/>	<hr/>
Profit for the year	6,205,515	43,630	6,249,145
	<hr/>	<hr/>	<hr/>
<b>Impact on other comprehensive income for the year</b>			
Remeasurement of defined benefit liability	-	609,983	609,983
Deferred tax relating to items of other comprehensive income	-	(182,995)	(182,995)
	<hr/>	<hr/>	<hr/>
Other comprehensive income for the year	-	426,988	426,988
	<hr/>	<hr/>	<hr/>
Total comprehensive income	6,205,515	470,618	6,676,133
	<hr/>	<hr/>	<hr/>

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

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

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

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

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

\*\* Relates to the accumulated depreciation reversed for assets uploaded in the fixed assets register in the year ended 30 June 2014 that had been revalued as at 30 June 2013 but not uploaded in the year of revaluation.



KENYA PIPELINE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33. PRIOR YEAR ADJUSTMENTS (CONTINUED)

(ii) Property, plant & equipment and leasehold land restatement (Continued)

b) Impact on total comprehensive income for the year

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

(iii) Deferred tax on revaluation surplus

Impact on total comprehensive income for the year

	30 June 2013 (as previously reported) Shs'000	Prior year adjustment Shs'000	30 June 2013 (as restated) Shs'000
<b>Impact on other comprehensive income for the year</b>			
Remeasurement of surplus on revaluation	16,780,968	160,823*	16,941,791
Deferred tax	-	(5,082,537)**	(5,082,537)
Other comprehensive income for the year	16,780,968	(4,921,714)	11,859,254
Total comprehensive income	16,780,968	(4,921,714)	11,859,254

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

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

34. INCORPORATION

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

35. CURRENCY

Financial statements are presented in Kenya Shillings (KShs'000)

