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**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS  
OF KENYA PIPELINE COMPANY**

**FOR THE YEAR ENDED  
30 JUNE 2013**

*Paper laid*  
*By leader of*  
*majority of*  
*House of*  
*Representatives*  
*on Wednesday*  
*11/6/2014*



**KENYA PIPELINE COMPANY LIMITED**

**ANNUAL REPORT & FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
30 JUNE 2013**

# KENYA PIPELINE COMPANY LIMITED

## CORPORATE INFORMATION

<b>DIRECTORS</b>	<b>Mr. Daniel K. Wamahi</b>	Chairman - appointed 10 <sup>th</sup> January 2014
	<b>Mr. Charles K. Tanui</b>	Managing Director
	<b>Mr. Samuel Manzi Maluki</b>	Retired 10 <sup>th</sup> January 2014
	<b>Mr. Waithaka Kioni</b>	Appointed 12 <sup>th</sup> April 2012
	<b>Mr. Joseph I. Kinyua</b>	Retired 25 <sup>th</sup> January 2013
	<b>Mrs. Faith Jepkemboi Bett - Boinett</b>	Appointed 12 <sup>th</sup> April 2012
	<b>Mrs. Nuru Bwanakombo Mzee</b>	Appointed 12 <sup>th</sup> April 2012
	<b>Mrs. Habon Billow Farah</b>	Appointed 13 <sup>th</sup> November 2012
	<b>Mr. Austin Kapere</b>	Appointed 13 <sup>th</sup> November 2012
	<b>Mrs. Felicity N. Biriri</b>	Appointed 25 <sup>th</sup> January 2013
	<b>Permanent Secretary, Treasury</b>	Alternate - Festus King'ori,
	<b>Permanent Secretary, Ministry of Energy</b>	Alternate – Francis Ongaki
<b>COMPANY SECRETARY</b>	<b>Mrs Flora Okoth</b> P.O. Box 73442 - 00200 Nairobi	
<b>REGISTERED OFFICE</b>	<b>Kenpipe Plaza</b> Sekondi Road Off Nanyuki Road Industrial Area P.O.Box 73442 -00200 Nairobi	
<b>AUDITORS</b>	<b>The Auditor General, Kenya National Audit Office</b> P.O.Box 30084 – 00100 Nairobi	
<b>PRINCIPAL BANKERS</b>	<b>Commercial Bank of Africa Limited</b> Wabera Street P.O.Box 30437 – 00100 Nairobi <b>CfC Stanbic Bank Limited</b> CFC Centre Chiromo Road P.O.Box 72833 – 00200 Nairobi	<b>Equity Bank</b> Kenpipe Plaza, Sekondi Road. Off Lunga Lunga Road P.O.Box 78569-00507 Nairobi <b>Citibank, N.A.</b> Citibank House Upper Hill Road P.O.Box 30711-00100 Nairobi
<b>PRINCIPAL ADVOCATES</b>	<b>Mohamed Muigai Advocates</b> MM Chambers 4th Floor P. O. Box 61323-00200 Nairobi <b>Ochieng, Onyango, Kibet &amp; Ohaga</b> 5th Floor Block C, ACK House 1st Ngong Avenue, Off Bishop's Road P. O. Box 43170- 00100 Nairobi	

## **KENYA PIPELINE COMPANY LIMITED**

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## KENYA PIPELINE COMPANY LIMITED

### REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 30 June 2013.

#### ACTIVITIES

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

RESULTS	Ksh'000
Profit before taxation	8,048,789
Tax charge	(1,843,274)
	-----
Profit for the year transferred to revenue reserve	6,205,515
	=====

#### DIVIDEND

The directors do not recommend payment of a dividend in respect of the year because the return on investment was below 15% (2012 – Ksh 380,000,000).

#### DIRECTORS

The current Board of Directors is shown on page 2.

#### AUDITORS

The Auditor General, Kenya National Audit Office.

BY ORDER OF THE BOARD

Secretary

- Nairobi 2014

**KENYA PIPELINE COMPANY LIMITED**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

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

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

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



**Director**



**Director**

# REPUBLIC OF KENYA

Telephone: +254-20-342330  
Fax: +254-20-311482  
E-Mail: [oag@oagkenya.go.ke](mailto:oag@oagkenya.go.ke)  
Website: [www.kenao.go.ke](http://www.kenao.go.ke)



P.O. Box 30084-00100  
NAIROBI

## KENYA NATIONAL AUDIT OFFICE

### REPORT OF THE AUDITOR-GENERAL ON KENYA PIPELINE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2013

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Pipeline Company Limited set out on pages 5 to 28, which comprise the statement of financial position as at 30 June 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

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

The 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 financial statement 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 (2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229 (7) of the Constitution of Kenya. 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 disclosure in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board, as well as evaluating the overall presentation of the financial statements.

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

## **Basis for Qualified Opinion**

### **1. Trade and Other Receivables**

As similarly reported in 2011/2012, and disclosed under Note 17 to the financial statements, the trade and other receivables balance of Kshs.7,893,802,000 recoverable within one year, includes an amount of Kshs.3.4 billion (2011/2012 – Kshs.3.4 billion) due from an oil marketing company and which amount has been subject of a court case. The case was determined in favour of the oil marketing company and an award of Kshs.1,864,494,783 and USD.37,909,879 granted in December 2009. However, the management on its part appealed against the judgement in the High Court. The Court in January 2012 ruled in favour of the Company and set aside the award and further ordered that the matter be referred back to the arbitrator's tribunal for re-consideration. However, each party decided to file an appeal in the Court of Appeal, both of which are pending hearing and determination. Until the matter is fully concluded, the recoverability of the amount of Kshs.3.4 billion remains doubtful.

### **2. Liability to Financiers**

(i) As previously reported, following irregular release of products to one of the oil marketing companies, six financiers represented by four international creditors and two local banks have since lodged claims for stock totalling to 122,217.57 metric tons, with an estimated value of Kshs.7,600,000,000. According to information available, two cases were arbitrated and finalized in the year 2010 and awards of Kshs.1,875,271,636 and Kshs.195,033,364 both totalling Kshs.2,070,305,000 made. Other records indicate that out of the above amount of

Kshs.2,070,305,000 only a sum of Kshs.2,011,423,642 was settled between July and November 2010.

(ii) Arising from the unresolved cases, and as reported in 2011/2012, the Company has disclosed under Note 30, a contingent liability totalling Kshs.1,545,442,000 pending law suits.

In the circumstances, it was not possible to confirm correctness of the total liabilities of the Company as at 30 June 2013.

### **3. Non-Current Assets**

Included in the non-current assets balance of Kshs.45,622,950,000 as at 30 June 2013 is an amount of Kshs.1,746,473,000 in respect of capital work in progress. However, it was noted that the capital work in progress balance of Kshs.1,746,473,000 includes an amount of Kshs.1,585,351,341 or 90% which relates to projects which have since stalled. No explanation was given for starting projects which are subsequently abandoned before they are completed.

Further, assets valued at Kshs.1,852,856,200 as per the valuers report were not uploaded into the assets register and are omitted from the financial statements.

In the circumstances, it has not been possible to confirm correctness and accuracy of the non-current assets balance of Kshs.45,622,950,000 as at 30 June 2013.

### **Qualified Opinion**

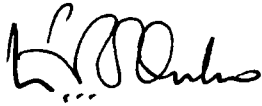
In my opinion, except for the effect of the matters described in the Basis for the Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2013, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap.486 of the Laws of Kenya.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

As required by the Kenya Companies Act, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books; and,

- iii. The Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.



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

**Nairobi**

**16 May 2014**

**KENYA PIPELINE COMPANY LIMITED****STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2013**

	Note	2013 Ksh'000	2012 Ksh'000
Revenue	4	18,487,064	16,480,628
Direct Costs	5	(7,230,469)	(6,537,834)
<b>Gross Profit</b>		<b>11,256,595</b>	<b>9,942,794</b>
Other Income	6	247,891	293,050
Administration Expenses	7	(3,517,209)	(3,072,106)
<b>Operating Profit</b>		<b>7,987,277</b>	<b>7,163,738</b>
Net Finance Income	9	61,512	687,091
<b>Profit Before Taxation</b>		<b>8,048,789</b>	<b>7,850,829</b>
Taxation Charge	10	(1,843,274)	(2,237,381)
<b>Net Profit After Taxation</b>		<b>6,205,515</b>	<b>5,613,448</b>
Earnings Per Share (Ksh)	11	341	309

**KENYA PIPELINE COMPANY LIMITED**

**STATEMENT OF FINANCIAL POSITION AS AT 30<sup>TH</sup> JUNE 2013**

<b>ASSETS</b>	<b>Note</b>	<b>2013 Ksh'000</b>	<b>2012 Ksh'000</b>
<b>Non-Current Assets</b>			
Property, Plant and Equipment	13	40,512,672	29,985,536
Prepaid Operating Lease Rentals	14	4,877,229	38,223
Intangible Assets	15	6,910	109,392
Investments	16	67,032	67,032
Trade and Other Receivables	17	159,107	155,475
		<b>45,622,950</b>	<b>30,355,659</b>
<b>Current Assets</b>			
Inventories	18	1,128,027	1,025,571
Trade and Other Receivables	17	7,824,695	6,474,012
Taxation Recoverable	19	991,313	46,719
Retirement Benefit Recoverable	24	152,200	152,200
Government Securities	20	100,000	100,000
Short Term Deposits	21(a)	1,982,203	3,567,069
Bank and Cash Balances	21(b)	2,336,745	3,977,012
		<b>14,515,183</b>	<b>15,342,584</b>
Non-Current Assets Classified As Held For Sale	22	23,255	35,361
		<b>14,538,438</b>	<b>15,377,944</b>
<b>Total Assets</b>		<b>60,161,388</b>	<b>45,733,604</b>
<b>SHAREHOLDER'S FUNDS AND LIABILITIES</b>			
<b>Capital And Reserves</b>			
Share Capital	23	363,466	363,466
Share Premium		512,289	512,289
Revenue Reserve		39,074,689	33,249,174
Revaluation Reserve		16,780,968	-
		<b>56,731,412</b>	<b>34,124,929</b>
<b>Non-Current Liabilities</b>			
Deferred Taxation	25	883,979	632,284
Long Term Loan	26(c)	-	6,450,541
		<b>883,979</b>	<b>7,082,825</b>
<b>Current Liabilities</b>			
Trade and Other Payables	26(a)	2,545,997	2,382,838
Tax Payable	19	-	-
Dividend Payable	26(b)	-	300,000
Current Loan	26(c)	-	1,843,012
		<b>2,545,997</b>	<b>4,525,850</b>
<b>Total Shareholder's Funds And Liabilities</b>		<b>60,161,388</b>	<b>45,733,604</b>

The financial statements on pages 5 to 28 were approved by the Board of Directors on .....  
and signed on their behalf by:

.....  
*James Kariuki*

.....  
*[Signature]*

Director

Director

**KENYA PIPELINE COMPANY LIMITED****STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2013**

	<b>SHARE CAPITAL</b>	<b>SHARE PREMIUM</b>	<b>REVALUATION RESERVE</b>	<b>REVENUE RESERVE</b>	<b>TOTAL EQUITY</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>	<b>Kshs'000</b>	<b>Kshs'000</b>	<b>Kshs'000</b>
At 1st July 2011	<b>363,466</b>	<b>512,289</b>	-	<b>27,634,101</b>	<b>28,509,856</b>
Profit for the Year				5,613,447	<b>5,613,447</b>
<b>At 30th June 2012</b>	<b>363,466</b>	<b>512,289</b>	-	<b>33,247,548</b>	<b>34,123,303</b>
Restatement: Overstated depreciation charge prior year FY2011				1,626	<b>1,626</b>
<b>At 1st July 2012-Restated</b>	<b>363,466</b>	<b>512,289</b>	-	<b>33,249,174</b>	<b>34,124,929</b>
Fixed Assets Revaluation			16,780,968	-	<b>16,780,968</b>
Profit for the Year - 2013				6,205,515	<b>6,205,515</b>
Prior Year Adjustment (Dividend Paid FY - 2012)				(380,000)	<b>(380,000)</b>
<b>At 30th June 2013</b>	<b>363,466</b>	<b>512,289</b>	<b>16,780,968</b>	<b>39,074,689</b>	<b>56,731,412</b>

**KENYA PIPELINE COMPANY LIMITED**

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2013**

	Note	2013 Kshs'000	2012 Kshs'000
<b>OPERATING ACTIVITIES</b>			
Cash Generated From Operations	27(a)	9,074,285	9,901,726
Corporation Taxes Paid	19	(2,536,172)	(2,919,990)
<b>Net Cash Generated From Operating Activities</b>		<b>6,538,113</b>	<b>6,981,736</b>
<b>INVESTING ACTIVITIES</b>			
Purchase Of Property, Plant and Equipment	13	(818,118)	(5,166,040)
Redemption/(Purchase) Of Government Securities – Net		-	-
Proceeds On Disposal Of Assets Held For Sale		8,760	9,100
Proceeds On Disposal Of Property, Plant and Equipment		16,319	27,292
<b>Net Cash Flows Used In Investing Activities</b>		<b>(793,039)</b>	<b>(5,129,648)</b>
<b>FINANCING ACTIVITIES</b>			
Dividends Paid		(680,000)	(150,000)
Dividends Received (Euro Bank)		-	3,000
Loans Received		-	-
Loans Repaid		(8,290,208)	(915,064)
<b>Net Cash Flows Used In Financing Activities</b>		<b>(8,970,208)</b>	<b>(1,062,064)</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(3,225,135)</b>	<b>790,025</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>		<b>7,544,082</b>	<b>6,754,056</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	27(b)	<b>4,318,948</b>	<b>7,544,082</b>

# KENYA PIPELINE COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2013

### 1. ACCOUNTING POLICIES

#### a) Statement of Compliance

The Financial statements are prepared in accordance with and comply with International Financial Reporting Standards.

#### b) Basis of Accounting

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:

##### i. 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.

##### ii. 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%

**KENYA PIPELINE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2013**

**iii. 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.

**iv. Leases**

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

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

**v. 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.

**vi. Assets Held for Sale**

Assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

**vii. 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 financial statements.

**KENYA PIPELINE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2013**

**viii. 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.

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

The amounts recognized in the balance sheet represent the present value of the defined benefit obligations as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and reduced by the fair value of plan assets. The company's contributions in respect of retirement benefit costs are charged to the income statement in the year to which they relate

The company 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.

**x. Taxation**

Current taxation is provided on the basis of operating results for the year as shown on the financial statements adjusted in accordance with the tax legislation.

Deferred taxation is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred taxation.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized.

**KENYA PIPELINE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2013**

**xi. 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.

**xii. 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 sale investments, gains and losses arising from changes in fair value are recognized directly to equity, 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.

**Cash and Cash Equivalents**

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

**Financial Liabilities and Equity**

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

**a. 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.

**b. Trade Payables**

Trade payables are stated at their nominal value.

**KENYA PIPELINE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2013**

**c. Equity Instruments**

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

**xiii. 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 balance sheet date.

**xiv. Currency Translations**

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

**2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

**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.

**Gearing ratio**

The gearing ratio at the end of the year was as follows

	<b>2013</b>	<b>2012</b>
<b>As of 30<sup>th</sup> June</b>	<b>Kshs '000</b>	<b>Kshs '000</b>
Borrowings	-	(8,293,553)
Bank and cash balances	2,336,745	3,977,012
Net borrowings	2,336,745	(4,316,541)
Equity	<b>56,281,480</b>	34,423,303
<b>Net Debt to Equity Ratio</b>	<b>N/A</b>	<b>-12.5%</b>

**Financial Risk Management Objectives**

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.

These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

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.

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**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.

**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:

	Liabilities		Assets	
	2013	2012	2013	2012
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
US Dollars	910,635	80,068	4,333,746	5,017,561
British Pound	2,508	10,027		
HKD	195	198		
Euro	35,353	2,044		
ZAR	-	16		

**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.

Foreign Currency Sensitivity Analysis	USD		EURO		TOTAL	
	2013	2012	2013	2012	2013	2012
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
	'000	'000	'000	'000	'000	'000
Profit or Loss (With 10% change)	433,374	493,749	-	204	433,374	493,953

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.

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**Interest Risk Management**

The company is exposed to interest rate risk as it 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<sup>th</sup> June 2013 would decrease/increase by Kshs 4 million (2012 – Kshs 41 million).

**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 2013 is analyzed in the table below:

	<b>Fully Performing</b>	<b>Past due</b>	<b>Impaired</b>	<b>Gross Total</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>	<b>Kshs '000</b>	<b>Kshs '000</b>
Trade Receivables	1,820,076	4,041,066	211,161	<b>6,072,303</b>
Other Receivables	1,271,934	850,726		<b>2,122,660</b>
	<b>3,092,010</b>	<b>4,891,792</b>	<b>211,161</b>	<b>8,194,963</b>

The company's maximum exposure to credit risk as at 30 June 2012 is analysed in the table below:

	<b>Fully Performing</b>	<b>Past due</b>	<b>Impaired</b>	<b>Gross Total</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>	<b>Kshs '000</b>	<b>Kshs '000</b>
Trade Receivables	1,522,591	3,911,599	(210,565)	<b>5,223,625</b>
Other Receivables	1,498,019	118,408		<b>1,616,427</b>
	<b>3,020,610</b>	<b>4,030,007</b>	<b>(210,565)</b>	<b>6,840,052</b>

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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.

**Liquidity Risk Management**

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.

	<b>Within 12 Months Kshs '000</b>	<b>Over 12 Months Kshs '000</b>	<b>Total Kshs '000</b>
<b>At 30 June 2013:</b>			
Due to Related Parties	188,840	81,766	<b>270,606</b>
Trade Payables	1,526,993		<b>1,526,993</b>
Other Payables and Accruals	757,357		<b>757,357</b>
	<b>2,473,190</b>	<b>81,766</b>	<b>2,554,956</b>
<b>At 30 June 2012:</b>			
Due to Related Parties	154,819	81,766	<b>236,585</b>
Trade Payables	1,044,885		<b>1,044,885</b>
Other Payables and Accruals	1,101,368		<b>1,101,368</b>
	<b>2,301,072</b>	<b>81,766</b>	<b>2,382,838</b>

**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

In the process of applying the company's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within current and future financial years. Estimates and judgments 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 critical areas of accounting estimates and judgments in relation to the preparation of these financial statements are as set out below:

**Impairment of Assets**

At each balance sheet 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

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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.

**4. REVENUE**

	<b>2013</b>	<b>2012</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
Local Service Fees	6,701,655	6,181,229
Export Service Fees	10,371,450	8,997,786
Kipevu Oil Storage Facility Fees	1,307,363	1,123,540
Penalties On Overstayed Product	106,597	178,073
	<b>18,487,065</b>	<b>16,480,628</b>

**5. DIRECT COSTS**

	<b>2013</b>	<b>2012</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
Pipeline Maintenance Staff Costs	1,746,507	1,612,682
Depreciation (Note 13)	2,220,770	1,965,844
Pipeline Maintenance Costs	958,040	765,239
Electricity and Fuel	1,915,984	1,826,270
Insurance	244,302	236,925
Other Maintenance Costs	30,209	22,500
Amortization of Prepaid Lease Rentals (Note 14)	7,502	741
Amortization Of Intangible Assets(Note 15)	107,155	107,633
	<b>7,230,469</b>	<b>6,537,834</b>

**6. OTHER INCOME**

	<b>2013</b>	<b>2012</b>
	<b>Kshs</b>	<b>Kshs</b>
Helicopter income	-	3,509
Rent income	63,720	71,335
Gain on disposal of property, plant and equipment and leasehold land	16,319	28,163
Hydrant Income	53,989	55,584
Income from communication equipment	450	2,283
Retirement benefit scheme actuarial Surplus/(deficit)	0	0
Miscellaneous income:	<u>113,413</u>	<u>132,175</u>
	<b>247,891</b>	<b>293,050</b>

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2013**

**7. ADMINISTRATION EXPENSES**

	<b>2013</b>	<b>2012</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
Administrative Staff Costs	2,873,680	2,285,082
Other Office and General Expenses	278,337	304,208
Travelling and Entertainment	22,601	18,256
Advertising and Printing Expenses	80,166	90,671
Rent and Rates	3,435	3,648
Consultancy Fees	21,466	80,837
Telephone and Postage	20,879	19,080
Legal and Professional Expenses	47,517	98,657
Court Awards	-	26,608
Licenses and Other Fees	75,654	-
Motor Vehicle Expenses	54,146	101,678
Buildings Repairs and Maintenance	3,246	1,300
Bank Charges	7,991	5,112
Auditors Remuneration	4,837	6,703
- Prior year overprovision reversed in current year	(4,851)	-
Directors: - Performance Incentive	5,400	8,400
- Other Emoluments (including MD)	16,436	11,415
Sitting /Duty allowance	6,268	10,451
	<b>3,517,208</b>	<b>3,072,106</b>

**8. STAFF COSTS**

	<b>2013</b>	<b>2012</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
Salaries and Wages	3,844,749	3,248,585
Group Life and Medical Cover	298,571	256,307
Pension-Company Contribution	245,331	218,297
Staff Welfare	156,831	120,474
Training	66,601	45,848
Recruitment Costs	655	506
NSSF-Company Contribution	4,247	4,165
Staff Uniforms	3,202	3,581
	<b>4,620,187</b>	<b>3,897,764</b>
<b>Split As Follows:</b>		
Direct Staff Costs (Note 5)	1,746,507	1,612,682
Administrative Staff Cost (Note 7)	2,873,680	2,285,082
	<b>4,620,187</b>	<b>3,897,764</b>

**9. NET FINANCE INCOME**

Interest Income On Deposits	366,723	388,785
Foreign Exchange Gains/(Losses)	(64,534)	516,013
	<b>302,189</b>	<b>904,798</b>
<b>Interest Expense:</b>		
Loan Interest	(240,372)	(214,736)
Interest On Bank Overdraft	(305)	(2,970)
	<b>(240,677)</b>	<b>(217,706)</b>
	<b>61,512</b>	<b>687,092</b>

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**10. TAXATION**

	<b>2013</b>	<b>2012</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
<b>a) Tax Charge</b>		
Current Taxation Based On Taxable Profit For The Year at 30% (Note 19)	2,212,670	2,226,914
Deferred Tax Charge (Note 25)	251,695	10,467
Prior Year Adjustment	-	-
Tax overpayment from FY 2010 – Sect 90 Application	(621,091)	-
	<b>1,843,274</b>	<b>2,237,381</b>
<b>b) Reconciliation of Expected Tax Based on Accounting Profit to Tax</b>		
Accounting Profit Before Tax	<b>8,048,789</b>	<b>7,850,829</b>
Tax at the Applicable Rate of 30%	2,414,636	2,355,249
Tax Effect of Expenses Not Deductible for Tax Purposes	1,350,397	136,920
Income Not Subject to Tax	(1,214,338)	(209)
Prior Year Adjustments	(86,330)	(254,578)
Tax overpayment from FY 2010 – Sect 90 Application	(621,091)	-
	<b>1,843,274</b>	<b>2,237,381</b>

**11. EARNINGS PER SHARE – BASIC AND DILUTED**

	<b>2013</b>	<b>2012</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
Net Profit After Taxation	6,205,515	5,613,447
Number Of Ordinary Shares In Issue	18,173	18,173
Earnings Per Share - Ksh	341	309

Earnings per Share are calculated based on the profit attributable to shareholders divided by the number of ordinary shares in issue.

Diluted Earnings per Share is the same as the Basic Earnings per Share as there were no potentially dilutive instruments outstanding as at Statement of Financial Position date.

**12. 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 2013 (2012 – 380Million ).

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**13. PROPERTY, PLANT AND EQUIPMENT**

	Freehold Property	Buildings and Roads	Pipeline, Pumps & Tanks	Equipment, Furniture & Fittings	Helicopters	Motor Vehicles & Tractors	Capital Work-in-Progress	Total
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
<b>COST:</b>								
<b>1st July 2011</b>	<b>30,162</b>	<b>9,350,682</b>	<b>16,178,529</b>	<b>7,057,629</b>	<b>147,586</b>	<b>690,543</b>	<b>10,472,808</b>	<b>43,927,938</b>
Additions	-	-	65,658	84,624	-	93,682	4,922,075	5,166,040
Transfers from WIP	-	297,661	11,849,706	1,984,537	-	-	(14,131,904)	0
Disposals	-	-	-	-	-	(100,904)	0	(100,904)
<b>30th June 2012</b>	<b>30,162</b>	<b>9,648,343</b>	<b>28,093,893</b>	<b>9,126,791</b>	<b>147,586</b>	<b>683,321</b>	<b>1,262,979</b>	<b>48,993,074</b>
Restated: WIP erroneously depreciated							996	996
<b>1st July 2012</b>	<b>30,162</b>	<b>9,648,343</b>	<b>28,093,893</b>	<b>9,126,791</b>	<b>147,586</b>	<b>683,321</b>	<b>1,263,975</b>	<b>48,994,070</b>
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)	(81,837)	-	(4,620,331)
<b>30th June 2013</b>	<b>31,742</b>	<b>6,156,075</b>	<b>31,904,644</b>	<b>4,538,060</b>	<b>125,000</b>	<b>675,584</b>	<b>1,746,473</b>	<b>45,177,578</b>
<b>DEPRECIATION:</b>								
<b>1st July 2011</b>	-	<b>3,720,005</b>	<b>8,055,255</b>	<b>4,741,462</b>	<b>147,586</b>	<b>477,753</b>	-	<b>17,142,194</b>
Charge for the Year	-	351,331	1,001,900	532,783	-	79,830	-	1,965,844
Eliminated on disposal	-	-	-	-	-	(99,372)	-	(99,372)
<b>30th June 2012</b>	-	<b>4,071,468</b>	<b>9,057,155</b>	<b>5,274,246</b>	<b>147,586</b>	<b>458,211</b>	-	<b>19,008,665</b>
Restated: Overstated charge prior year FY2011		(132)						(132)
<b>1st July 2012</b>	-	<b>4,071,337</b>	<b>9,057,155</b>	<b>5,274,246</b>	<b>147,586</b>	<b>458,211</b>	-	<b>19,008,534</b>
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)
Revaluation	-	(3,462,546)	(9,295,450)	(3,442,836)	(147,586)	(206,374)	-	(16,554,791)
<b>30th June 2013</b>	-	<b>960,868</b>	<b>965,061</b>	<b>2,404,066</b>	<b>2,083</b>	<b>332,829</b>	-	<b>4,664,907</b>
<b>NET BOOK VALUE</b>								
<b>30th June 2013</b>	<b>31,742</b>	<b>5,195,207</b>	<b>30,939,583</b>	<b>2,133,995</b>	<b>122,917</b>	<b>342,755</b>	<b>1,746,473</b>	<b>40,512,672</b>
<b>30th June 2012</b>	<b>30,162</b>	<b>5,577,007</b>	<b>19,036,738</b>	<b>3,852,545</b>	-	<b>225,110</b>	<b>1,263,975</b>	<b>29,985,536</b>

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 42,236,955,600.00. As at 30<sup>th</sup> June 2013, the values incorporated in the Fixed Asset Register is Kshs 40,384,099,400.00 resulting in a net revaluation surplus of Kshs 16,780,968,000.00. The balance will be uploaded in the financial year 2013/2014.

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**14. PREPAID LEASEHOLD LAND**

	<b>2013</b>	<b>2012</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
<b>COST</b>		
Beginning of the year	351,817	351,817
Revaluation	4,823,906	-
Provision for loss of leasehold land	(291,671)	(291,671)
<b>Adjusted cost at beginning of the year</b>	<b>4,884,052</b>	<b>60,146</b>
<b>AMORTIZATION</b>		
Beginning of the year	(21,923)	(21,182)
Revaluation	22,602	-
Charge for the period	(7,502)	(741)
<b>At the end of the year</b>	<b>(6,823)</b>	<b>(21,923)</b>
<b>NET BOOK VALUE</b>	<b>4,877,229</b>	<b>38,223</b>

Payments to acquire leasehold interests in land are treated as prepaid lease rentals and amortized over the term of the lease. The provision for loss of leasehold land relates to land which is still gazetted as forest land and thus cannot be utilised or accessed by the company.

**15. INTANGIBLE ASSETS**

	<b>2013</b>	<b>2012</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
<b>COST</b>		
At the Beginning of the Year	360,368	360,368
Additions : From WIP	4,673	-
Direct Purchase	-	-
<b>At the End of the Year</b>	<b>365,041</b>	<b>360,368</b>
<b>AMORTIZATION</b>		
At The Beginning Of The Year	(250,976)	(143,343)
Charge For The Period	(107,155)	(107,633)
<b>At The End Of The Year</b>	<b>(358,131)</b>	<b>(250,976)</b>
<b>NET BOOK VALUE 30TH JUNE 2012</b>	<b>6,910</b>	<b>109,392</b>

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

**16. INVESTMENTS**

	<b>2013</b>	<b>2012</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
Petroleum Institute of East Africa	2	2
Consolidated Bank of Kenya Limited	67,030	67,030
	<b>67,032</b>	<b>67,032</b>

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

746,500 Ordinary Shares of Kshs20 each	14,930	14,930
2,605,000 4% Non-Cumulative Irredeemable Non-Convertible Preference Shares of Ksh 20 each	52,100	52,100
	<b>67,030</b>	<b>67,030</b>

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The investment in the Petroleum Institute of East Africa comprises one class "A" Redeemable Preference share of KShs 2,000. The investment is stated at cost. Investments in Consolidated Bank of Kenya Limited are stated at cost.

**17. TRADE AND OTHER RECEIVABLES**

	<b>2013</b>	<b>2012</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
Trade Receivables	6,072,303	5,652,079
Staff Loans and Advances	211,663	231,149
VAT Recoverable	-	-
Prepaid Construction Costs	106,656	106,656
Prepaid Expenses	8,739	8,338
Refundable Deposits	9,535	9,185
Other Debtors	1,786,067	832,645
	<b>8,194,963</b>	<b>6,840,052</b>
Provision for Bad and Doubtful Debts	(211,161)	(210,565)
	<b>7,983,802</b>	<b>6,629,487</b>
Recoverable as Follows:		
Within one Year	7,824,695	6,474,012
After One Year (Staff Loans)	159,107	155,475
	<b>7,983,802</b>	<b>6,629,487</b>

Trade receivables from the top five oil marketing companies, namely Total, Hashi Vivo, Oil Libya, and NOCK were given as security for the loan financing the Line IV Nairobi – Eldoret parallel pipeline in 2009. The loan was fully repaid on 28th June 2013 and the discharge of the security is in progress.

Included in trade receivables is KShs 3.4 billion (2012-KShs 3.4 billion) due from an Oil Marketing Company that is in 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.

**18. INVENTORIES**

	<b>2013</b>	<b>2012</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
Spare Parts and Consumables	1,294,403	1,191,947
Provision For Obsolete Stocks	(166,376)	(166,376)
	<b>1,128,027</b>	<b>1,025,571</b>

**19. TAXATION PAYABLE/ (RECOVERABLE)**

	<b>2013</b>	<b>2012</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
At Beginning Of The Period	46,719	(646,356)
Charge For The Period (Note 10)	(1,843,274)	(2,237,381)
Installment Tax Payments In The Year	2,513,264	2,868,913
Withholding Tax On Interest Income	22,909	51,076
Deferred Tax Credit	251,695	10,467
<b>At End of the Period</b>	<b>991,313</b>	<b>(46,719)</b>

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2013**

**20. GOVERNMENT SECURITIES**

	<b>2013</b>	<b>2012</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
Treasury Bonds Held to Maturity	<b>100,000</b>	<b>100,000</b>

The Treasury Bond matures in 2014. The interest rate on Treasury bond is 9.75% p.a.

**21. CASH AND SHORT TERM DEPOSITS**

**a) SHORT TERM DEPOSITS**

	<b>2013</b>	<b>2012</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
Bank Guarantees	159,437	159,437
Fixed Deposits	1,822,766	3,407,632
	<b>1,982,203</b>	<b>3,567,069</b>

**b) CASH BOOK BALANCES**

	<b>2013</b>	<b>2012</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
Barclays Bank of Kenya	3,140	2,673
Commercial Bank of Africa (KES)	19,695	107,414
Commercial Bank of Africa (USD)	1,731,337	2,112,501
CFC Stanbic (KES)	43,406	242,034
CFC Stanbic (USD)	275,398	1,206,771
Citi Bank (KES)	79,028	51,241
Citi Bank (USD)	124,126	195,618
Coop-Bank	38,610	23,967
Equity Bank	17,359	31,125
Kenya Commercial Bank	373	378
Petty Cash	4,273	3,290
	<b>2,336,745</b>	<b>3,977,012</b>

**22. 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 proceeds of disposal were expected to exceed the net carrying amount of the property and, accordingly no impairment loss has been recognized on the classification of this property as held for sale. The assets held for sale comprise:

**ASSETS HELD FOR SALE**

	<b>2013</b>	<b>2012</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
<b>COST</b>		
At The Beginning Of The Year	71,431	71,431
Prior Year Adjustment	13,474	13,474
Eliminated on Disposal-PY	(39,847)	(39,847)
Eliminated on Disposal-CY	(12,106)	-
	<b>32,952</b>	<b>45,058</b>
<b>DEPRECIATION</b>		
At The Beginning Of The Year	(9,698)	9,698
<b>End of Year</b>	<b>(9,698)</b>	<b>(9,698)</b>
<b>NET BOOK VALUE</b>		
At 30th June 2012	<b>23,255</b>	<b>35,361</b>

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**23. SHARE CAPITAL**

	<b>2013</b>	<b>2012</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
Authorized:		
19,369,580 Ordinary Shares of Ksh 20 each	387,392	387,392
Issued and Fully Paid:		
18,173,300 Ordinary Shares of Ksh 20 each	<b>363,466</b>	<b>363,466</b>

**24. RETIREMENT BENEFIT OBLIGATIONS**

**Defined Benefit Scheme (Closed)**

The company's contribution to the scheme during the year amounted to NIL (2012- Kshs 57,000,000). The most recent actuarial valuation of the scheme's assets and the present value of the defined benefits obligation were carried out in October 2012 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:

Discount Rate	12.5%,
Expected Rate of return on Plan Assets	10%
Expected rate of salary Increase	5%

The status of the scheme was determined to be as follows:

	<b>2013</b>	<b>2012</b>
	<b>Kshs'000</b>	<b>Kshs'000 – Restated</b>
Present Value of Funded Defined Benefit Obligations as per 2012 valuation	4,671,434	4,671,434
Fair Value Of Plan Assets	6,361,189*	5,320,107
Actuarial Deficit/ (Surplus)	<b>(1,689,755)</b>	<b>(648,673)</b>

\*Compliance with IAS 19 requires scheme assets to be stated at their market value; value of scheme assets in 2013 is based on the audited financial statements of the scheme. The surplus has not been recognized in the Statement of Comprehensive Income as it is not deemed to have a realizable benefit to the sponsor i.e. KPC.

In the interest of prudence, the amount included in the balance sheet as at 30th June 2013 has been maintained at the same level of the year 2012.

	<b>2013</b>	<b>2012</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
Balance at the Beginning of the year	(152,200)	(95,200)
Payments in the Year	-	(57,000)
Actuarial Deficit /(Surplus) (Note 6)	-	-
Balance at the End of the Year	<b>(152,200)</b>	<b>(152,200)</b>

**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.

**KENYA PIPELINE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2013**

**25. DEFERRED TAX**

	<b>2013</b>	<b>2012</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
The Net Deferred Tax Liability is attributable to the following items:		
Accelerated Capital Allowance on Property, Plant and Equipment	<b>933,624</b>	<b>827,809</b>
<b>Deferred Tax Assets</b>		
General Inventory Provisions	(49,913)	(49,913)
Provision for Legal Expenses	(28,358)	(11,041)
Leave Pay Provision	(30,939)	(34,731)
General Bad Debts Provision	(4,847)	(4,847)
Unrealized Exchange Losses - Trading	(895,281)	(278,779)
Unrealized Exchange Gains	959,693	183,786
	<b>(49,645)</b>	<b>(195,525)</b>
	<b>883,979</b>	<b>632,284</b>
<b>The Movement in Deferred Tax was as follows:</b>		
At the Beginning of the Year	632,284	621,817
Prior Year Over / (Under) Provision		-
<b>Restated at the Beginning of the Year</b>	<b>632,284</b>	<b>621,817</b>
Statement of Comprehensive Income Debit (Note 10(a))	251,695	10,467
<b>At End of the Year</b>	<b>883,979</b>	<b>632,284</b>

**26. PAYABLES AND LOANS**

	<b>2013</b>	<b>2012</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
<b>a) TRADE AND OTHER PAYABLES</b>		
Trade Payables	1,518,034	1,281,470
Other Payables	864,043	898,816
Catering, Training & Tourism Development Levy	39	52
Leave Pay Provision	103,129	115,770
Withholding Tax Payable	(21,014)	4,964
Ministry of Energy-LPG Project	80,000	80,000
Ministry of Finance	1,766	1,766
	<b>2,545,997</b>	<b>2,382,838</b>
<b>b) DIVIDEND PAYABLE</b>		
Dividend Payable	-	300,000
	-	<b>300,000</b>
<b>c) LOANS</b>		
CFC Stanbic Bank Syndicated Loan -CEP Line 4	-	8,057,356
Loss /(Gain)on Valuation on 30th June.{ 2012 (Ex.R 84.2333); 2011(Ex.R 89.8639)}	-	236,197
Loan Balance At Year End	-	<b>8,293,553</b>
<b>Analyzed As:</b>		
Long Term	-	6,450,541
Short Term	-	1,843,012
Loan Balance At Year End	-	<b>8,293,553</b>

**KENYA PIPELINE COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2013**

The loan amount in 2012 represents the loan drawn down from a credit facility of USD 109,399,240 obtained from a consortium of banks with CFC Stanbic Bank as the Facility Agent, to finance the Line 4 Capacity Enhancement Project. The loan is repayable in 20 quarterly instalments starting from March 2012, and is secured by receivables from the top five oil marketing companies. The loan was fully repaid during the year.

**27. NOTES TO THE CASH FLOW STATEMENT**

	<b>2013</b>	<b>2012</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
<b>Reconciliation of Operating Profit to Cash Generated from Operations</b>		
Profit Before Tax	8,048,789	7,850,829
Adjustments For:		
Depreciation	2,220,770	1,965,844
Amortization Of Prepaid Leasehold Land	7,502	741
Amortization Of Intangible Assets	107,155	107,633
Unrealized Foreign Exchange (Gain)/Loss	-	-
Gain On Asset Disposal	(16,319)	(28,163)
Property Plant and Equipment Write-Off (Note 13)	-	-
Understated Depreciation Charge Prior Year	-	-
Un-Posted Depreciation Charge On Assets Held For Sale(Prior Year)	-	-
Operating Profit Before Working Capital Changes	<b>10,367,897</b>	<b>9,896,884</b>
(Increase)/Decrease In Inventories	(102,455)	(6,858)
(Increase)/Decrease In Trade & Other Receivables	(1,354,315)	323,476
Increase/(Decrease) In Trade and Other Payables	163,159	(254,775)
Increase/(Decrease) In Retirement Benefit Obligations	-	(57,000)
<b>Cash Generated From Operations</b>	<b>9,074,285</b>	<b>9,901,727</b>
<b>a) Analysis Of Cash And Cash Equivalents</b>		
Short Term Deposits (Note 21)	1,982,203	3,567,069
Cash at Bank and in Hand	2,336,745	3,977,012
	<b>4,318,948</b>	<b>7,544,081</b>

**28. RELATED PARTIES**

	<b>2013</b>	<b>2012</b>
	<b>KShs'000</b>	<b>KShs'00</b>
<b>a. Key Management Salaries and Benefits</b>	231,211	277,712
<b>b. Directors' Remuneration</b>		
- Fees for Services	6,268	5,460
- Other Emoluments	21,835	24,806
	<b>28,103</b>	<b>30,266</b>

**KENYA PIPELINE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2013**

<b>28. RELATED PARTIES (continued)</b>	<b>2013</b>	<b>2012</b>
	<b>KShs'000</b>	<b>KShs'00</b>
c. Value of Services Provided to National Oil	1,067,057	1,109,566
d. Value of Services Received from KPLC Ltd)	1,909,030	1,821,651
e. Value of Services Received from Ministry of Energy	384,000	324,000
f. Due to Related Parties:		
Ministry of Energy-LPG Project	80,000	80,000
Kenya Power & Lighting Co Ltd	188,840	178,515
Ministry of Finance	1,766	1,766
Ministry of Energy	32,000	27,000
	<b>302,606</b>	<b>287,281</b>

**29. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES**

	<b>2013</b>	<b>2012</b>
	<b>KShs'000</b>	<b>KShs'000</b>
a. The Company as a lessor:		
Within One Year	63,719	71,335
Between Two and Five Years	254,878	285,341
	<b>318,597</b>	<b>356,676</b>

The lease rental income earned during the year in respect of company property rental amounted to KShs 71,335,220 (2011 – KShs 66,888,061)

b. The company as a lessee:		
Within One Year	436	76
Between Two and Five Years	1,747	302
	<b>2,183</b>	<b>378</b>

There was no rental expense incurred during the year (2011-Nil)

**30. CONTINGENT LIABILITIES**

	<b>2013</b>	<b>2012</b>
	<b>KShs'000</b>	<b>KShs'000</b>
Products Held on Behalf of Shippers (Note 31)	27,719,227	23,356,422
Pending Law Suits	1,545,442	2,358,671
Guarantees and Letters of Credit	1,212,901	1,038,954
	<b>30,477,570</b>	<b>26,754,047</b>

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

**KENYA PIPELINE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2013**

**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 2013, the company held third party fuel stocks amounting to 424,179.400M<sup>3</sup> (2012 – 331,790.78M<sup>3</sup>) with a Hydro-Carbon Value (HCV) of KShs 27,719,227,633.12 (2012- KShs 23,356,421,974).

**32. CAPITAL COMMITMENTS**

	<b>2013</b>	<b>2012</b>
	<b>KShs'000</b>	<b>KShs'000</b>
Authorized and Contracted For	1,211,040	3,288,532
Authorized but Not Contracted For	11,281,720*	120,827
	<b>12,492,760</b>	<b>3,409,359</b>

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

\* The major item is the delayed Line 5 project of Kshs. 12 billion.

**33. INCORPORATION**

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

**34. CURRENCY**

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



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