

KENYA PIPELINE COMPANY

OUR **TWOTHOUSANDSEVEN**

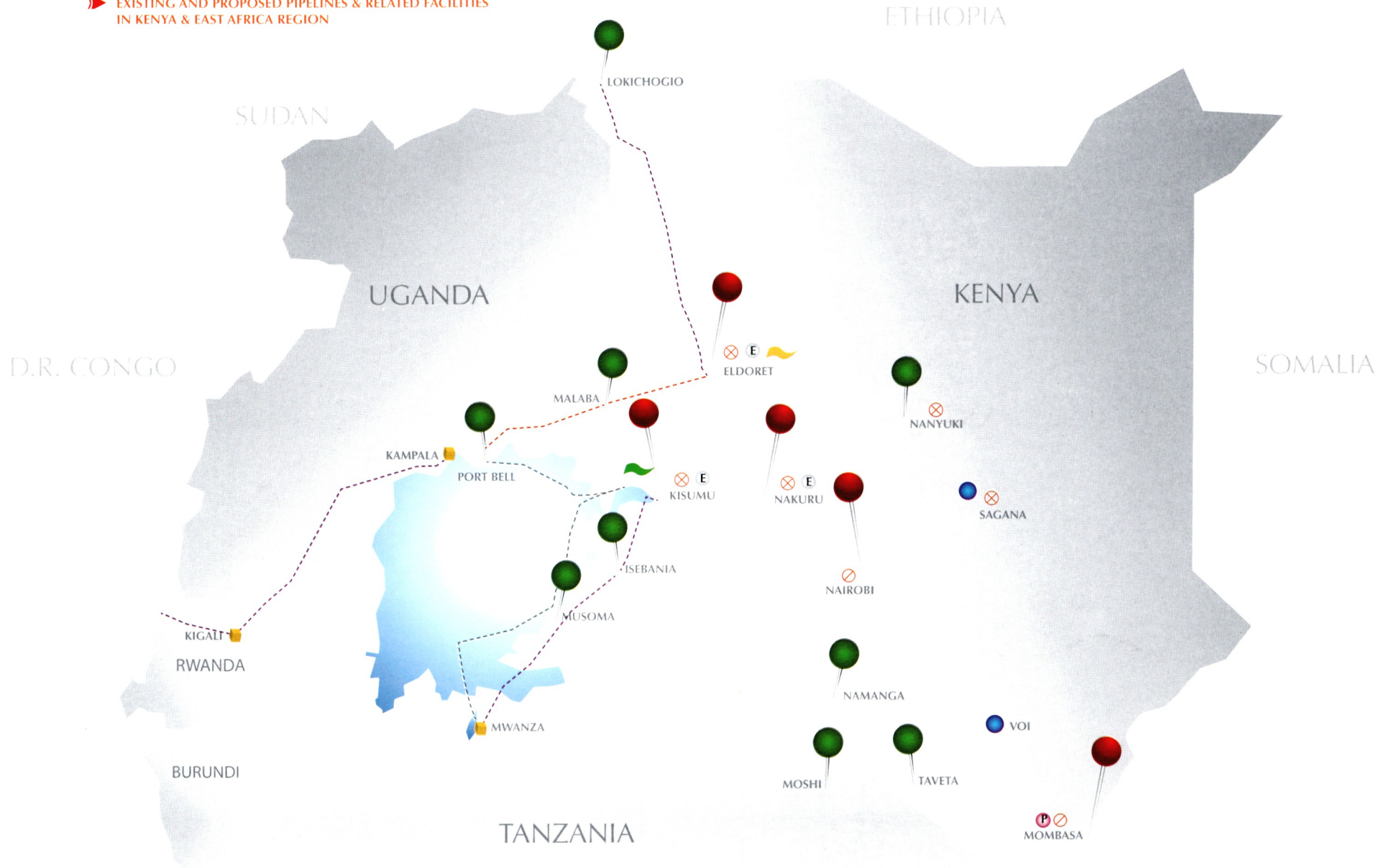
» ANNUAL REPORT AND ACCOUNTS





OIL PIPELINE NETWORK

EXISTING AND PROPOSED PIPELINES & RELATED FACILITIES
IN KENYA & EAST AFRICA REGION



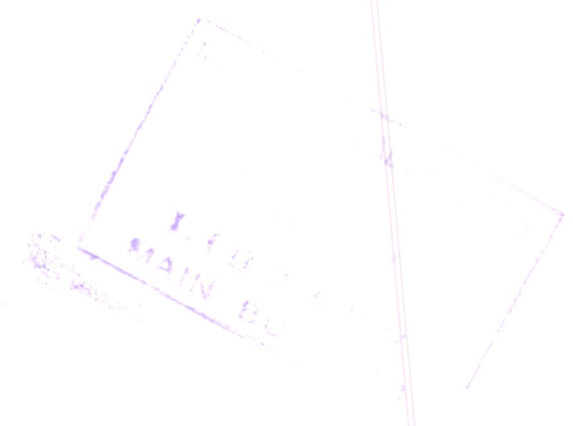
Existing Facilities	Planned Short-Term Projects	Planned Medium-Term Projects	Planned Long-Term (Future) Projects
<ul style="list-style-type: none"> White oil storage tanks Existing Facilities Rail Siding Existing Loading Facility 	<ul style="list-style-type: none"> LPG Storage Facilities Pipeline Extension to Kampala Rail Siding/Mooring Facilities Proposed Fuel Loading Facilities 	<ul style="list-style-type: none"> (PoP) - Points of Presence (white oil storage tanks) Current (PoP) - Points of Presence (white oil storage tanks) 	<ul style="list-style-type: none"> LPG Storage Facilities Pipeline Extensions Spur Lines



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OUR VISION

- ▶ TO BE A WORLD CLASS PETROLEUM PRODUCTS DISTRIBUTION, HANDLING AND SUPPLY NETWORK IN AFRICA.

OUR MISSION

- ▶ RECOGNISING THAT THE MISSION OF A COMPANY IS THE UNIQUE PURPOSE THAT SETS IT APART FROM OTHER COMPANIES OF ITS TYPE AND IDENTIFIES THE SCOPE OF ITS OPERATION, KPC'S MISSION STATEMENT AS FOLLOWS:
- ▶ TO EFFICIENTLY, ECONOMICALLY AND SAFELY TRANSPORT, STORE AND DELIVER PETROLEUM PRODUCTS TO CUSTOMERS, WHILE OPTIMISING SHAREHOLDER VALUE, WITH UTMOST RESPECT FOR THE ENVIRONMENT.

OUR MOTTO

- ▶ TO DO OUR BEST ALWAYS

OUR CORE VALUES

- ▶ IN AN ENDEAVOUR TO BE THE BEST, MOST MODERN AND EFFICIENT COMPANY IN THE OIL AND GAS INDUSTRY IN AFRICA, KPC FRATERNITY SHARES THE FOLLOWING CORE VALUES:
 - ▶ **INTEGRITY** ▶ **TRANSPARANCY** ▶ **ACCOUNTABILITY**
 - ▶ **DILIGENCE** ▶ **HONESTY** ▶ **LOYALTY**



Jackson Mwalulu
George J. Okungu, Managing Director
George Wachira
John Mathenge
Mary Kiptui, Company Secretary



BOARD OF DIRECTORS





Festus Kingori

James Kenani, Chairman

Joseph I. Kinyua

Patrick Nyoike

Gerishom Majanja

Wilfred Deche

Ahmed Msallam

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Rose Osiako, Human Resources Manager

William Ooko, Internal Audit Manager

Joyce Mutungi-Owour, Ag. Finance Manager

Dismas Ongondi, ICT Manager

Billy Aseka, Ag. Engineering Manager

Mary Kiptui, Company Secretary



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MANAGEMENT TEAM



George J. Okungu, Managing Director

Lucy Njoroge, Procurement Manager

Peter Mecha, Operations Manager

Joseph Gichuhi, Corporate Planning
Manager

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CHAIRMAN'S STATEMENT



» On behalf of the Board, I am pleased to present the annual report on the performance of your Company and Financial Statements for the year ended 30th June 2007. ◀

PERFORMANCE REVIEW

During the period under review, KPC achieved a throughput volume of 3,963,361 M³ which was higher than 3,630,759 M³ achieved the previous year representing an increase of 9.2%. The increase in throughput was buoyed by the growth of the national economy which accelerated from 5.8% in 2005/06 to 6.1% in 2006/07.

The Company once again delivered strong financial results, recording an increased turnover from Kshs 8,451,512 to Kshs 8,803,182 representing an increase of 4.2%. It is worth noting that revenue generated did not increase at the same rate as throughput due to strengthening of the Kenya shilling against the US Dollar from Kshs 73.3 in July 2006 to Kshs 66.50 as at 30th June 2007 leading to foreign exchange loss of Kshs 120 million on export sales.

The pipeline system has continued to experience pumping capacity constraints that led to the oil marketers being allowed to load products from Nakuru and Nairobi Terminal. Consequently, the following was noted in regard to the volumes for the year 2006/7:

1. Export throughput at Eldoret and Kisumu declined by 11%.
2. Nakuru export throughput increased to 221,189M³.
3. Nairobi Terminal throughput increased by 23%.

For every 1M³ of export product uplifted from Nakuru, the company lost US\$ 6.50 (Tariff at Kisumu and Eldoret is US\$40 per M³ and at Nakuru is US\$33.5 per M³) while at Nairobi Terminal the loss is about Kshs 1,285 per M³ for every export

throughput. This translates to over Kshs 187 million losses for exports not being uplifted at Kisumu and Eldoret.

Overall expenses increased by Kshs 862 million in 2006/07 which was higher than the increase in revenues mainly due to increases in pipeline maintenance costs, salary increments of 20% awarded to the unionisable staff under the CBA in December 2006, and pipeline rehabilitation costs for the ageing Mombasa - Nairobi pipeline system.

Additionally, the actuarial deficit write back of Kshs 510 million arose as a result of a change in the terms of the Defined Benefit Scheme at the point of its closure. The expected future salary increases were however capped at 3%. A new Defined Contribution Scheme replaced the Defined Benefit Scheme with effect from 1 July 2006.

Against this background, KPC recorded a Profit before Tax (PBT) of Kshs. 4.02 billion compared to Kshs 4.04 billion and Kshs 2.4 billion in financial years 2005/06 and 2004/05 respectively.

After providing for tax (including deferred Tax) of Kshs 1,043 million compared to Kshs 1,244 million during the last financial year, the Profit after Tax indicated an increase of 6.5%, from Kshs 2,793 million to Kshs 2,974 million.

The company's liquidity position improved significantly. The company closed with cash and cash equivalents of Kshs 4.6 billion (in 2005/06 - Kshs 3.9 billion) of which Kshs 2.6 billion was invested in 182-days Treasury Bills. Consequently, the company continuously met its offshore and local financial obligations. As a result, the Company cleared all loan obligations by December 2006.

Our capital base remains one of the strongest in the country due to consistent impressive performance over the last three years. The company's total assets base increased significantly to Kshs 20.2 billion in 2006/07 from Kshs 16.5 billion in 2002/03

as a result of successful completion of several projects such as the Company Headquarters in Nairobi Industrial Area, The Eldoret Office Expansion and The Morendat Training Facility, together with various commitments in respect of the capacity enhancements projects.

The financial results for 2006/07 are attributed to the Company's focus on running a healthy core business that is underpinned by our core values that include honesty, transparency, accountability and teamwork. It is worth noting that Performance contracting has clearly added value to the Company by focusing attention on quality performance at every level and every functional activity.

CORPORATE GOVERNANCE

The company has continued to maintain strong governance structure and defining the roles of the Chairman of the Board, Board, Board Committees, Managing Director and Management. We are committed to the tenets of good corporate governance and sound business ethics. The Board has in place a charter and code of ethics that aligns our corporate behaviour with expectations of our shareholder and other stakeholders.

The Board considers Corporate Governance as good business practice and has continued to strengthen its institutions of governance. The Board Audit committee is mandated to look into Corporate Governance Issues. The Committee meets periodically with the Internal Auditors and the statutory Auditors to review the internal auditors' responsibilities, and to discuss auditing, internal control and independence. To ensure complete independence, the statutory auditors and internal auditors have access to the members of the audit committee to discuss any audit matter.

The Company is committed to zero tolerance to corruption and has therefore set up an integrity secretariat as part of Public Sector Integrity Program (PSIS).

TAX COMPLIANCE

As a good corporate citizen, KPC is committed to paying taxes promptly as required by law. The company was able to honor its tax obligations with the Kenya Revenue Authority (KRA) by remitting tax as and when due. During the year under review, the company was recognized by KRA as a distinguished tax payer and contributed to the Exchequer in excess of Kshs 2.7 billion in both direct and indirect taxes. In addition, all statutory payments and deductions were remitted on time. The company has therefore retained its tax compliance status.

COMPANY PROJECTS

The year has seen tremendous improvements in completion of the various projects both in the western and eastern line. It's worth noting the completion of the Company Headquarters in Nairobi Industrial Area and the subsequent relocation of all the offices to the new building.

The Morendat Training Facility in Naivasha was also completed in the course of the year and work is underway to ensure the

proper utilization of the facility. The Eldoret Office Expansion was completed and the official opening graced by the Minister for Energy, Hon. Kiraitu Murungi.

The SAP integrated information systems project went live in June 2007 and most of the modules that were implemented are running smoothly. This will go a long way in ensuring that the company services are fully automated and the information and reporting systems are efficient.

In the efforts to achieve world class operating standards, the company attained the coveted ISO9001:2000 award after rigorous vetting by SGS-Kenya.

To ensure that the welfare and the health of the staff are well catered for, the company put up a fully equipped Health Club in the Kenpipe plaza that was commissioned by the World Marathon Champion Mr. Paul Tergat

EMPLOYEES

We place great emphasis on the role played by our employees and will continue to be involved in offering skills they need to succeed in continuously evolving business environment that unlocks the full potential of our staff. Our success is demonstrated by the passion, discipline, dedication and teamwork of our employees which has been fundamental in delivering our objectives.

FUTURE OUTLOOK

Looking on to the year ahead, the company will be undertaking various capacity enhancement projects which will contribute significantly to the growth of the company's asset base and through put. These projects will be financed by a combination of debt and equity.

The Company will also be participating in Public - Private Partnership Investments on behalf of the Kenya Government in the Kenya - Uganda pipeline extension and the LPG Project.

These projects will not only ensure that the Company is able to meet the demand for petroleum products in the region, but will also ultimately raise the company's annual turnover to over Kshs 15 billion.

ACKNOWLEDGEMENTS

I sincerely acknowledge the high degree of commitment and dedication displayed by the Board, Management and staff who have performed well in a challenging environment. The support and guidance from the shareholder, through the Ministry of Energy is highly appreciated as is that of the Inspectorate of State Corporations.

I express my heartfelt gratitude to KPC's valued customers for their patronage and the vendors and suppliers for their contribution to KPC's success.

JAMES KENANI, CHAIRMAN



MANAGING DIRECTOR'S STATEMENT



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The petroleum industry in Kenya and the East African region is characterized by a challenge of constrained supply and rising demand on account of good economic performance. The sector has witnessed monumental growth inspite of escalations in international crude oil prices. To keep pace with the increasing demand of products, Kenya Pipeline Company Ltd (KPC) engaged Kenya Institute for Public Policy Research and Analysis (KIPPRA), to undertake a comprehensive demand study covering Western Kenya and neighbouring countries of Uganda, Rwanda, Burundi, Northern Tanzania and Eastern Democratic Republic of Congo. The study was to determine the market demand and demand projections upto the year 2030. Having received the KIPPRA report, the company has put in place capacity enhancement projects covering the entire pipeline from Mombasa to Eldoret which will ensure adequacy of petroleum products supply upto the year 2030.

Today, KPC stands head and shoulders above other parastatals as one of the very few offering world class services to its customers and stakeholders. The milestones achieved so far is an indication that the company is on track and has even greater potential for the future. The attainment of International Organization for Standardization specifications (ISO) 9001:2000, in June this year, has pushed KPC a notch higher in providing quality and timely service delivery as benchmarked with world class service providers. The company intends to maintain its ISO certification by continuously improving on its systems and processes.

During the period, the Company implemented Systems Application Product (SAP). The objective of the SAP project is to enhance internal processes in KPC in areas such as finance, operations, procurement, engineering, corporate planning and project management as well as human resources. This has improved our efficiency and ensured better service delivery to all our stakeholders.

In an increasingly competitive environment, the need to rapidly increase our capacity to meet market demands both locally and in the Great Lakes region has never been more urgent. To this end, the company has commenced the Capacity Enhancement

Projects for Lines I (Mombasa to Nairobi) and II (Nairobi to Eldoret). Line I is expected to be commissioned in August 2008 and will double the flow rate from the current 440,000 to 880,000 litres per hour. The project comprises the installation of two parallel pumps with a capacity of 440M³/hr at each of the four future stations (PS 2, PS 4, PS 6, and PS 8) along the pipeline and two new AGO Booster pumps at PS14, Kipevu Oil Storage Facility, together with the necessary associated works. The associated works include pipe work, control buildings, staff houses, fire fighting facilities, power supply, system controls, water supply and other civil works. The Factory Acceptance Testing of the pumps commenced on 29th November 2007.

Line II Capacity Enhancement which commenced in June 2007 will increase the flow rate from Nairobi to Eldoret twofold to 440,000 litres per hour. KPC is augmenting the capacity of the existing pipeline from Nairobi to Eldoret by constructing a parallel pipeline to meet an anticipated throughput of 7.9 million M³ in the year 2030. Preliminary Engineering designs have been finalized and the commissioning of the project is expected in early 2009. International competitive tenders shall be floated in early 2008 for the construction of the parallel line which will be interfaced with Eldoret – Kampala pipeline currently under construction. KPC is investing on behalf of the Government of Kenya on the Kenya – Uganda pipeline extension.

In addressing product shortage and allowing flexibility and efficiency of product transfers in the Coast region, the Company is constructing a 12 inch diameter multi product spur line, stretching 2.88 kilometers between Kipevu Oil Storage Facility (KOSF) and Shimanzi Oil Terminal (SOT). This will allow supply of white petroleum products to oil marketers at SOT directly from KOSF at a flow rate of 450,000 litres per hour. Other benefits to accrue from the connection are augmentation of the supply of white oil products from Kenya Petroleum Oil Refineries (K.P.R.L), additional revenue to the government from tax through enhanced controls, creation of more ullage at Kipevu as well as shortened product delivery time to the Oil marketing companies at SOT.

Further, KPC is diversifying its business portfolio in the



construction and operation of Liquefied Petroleum Gas (LPG) Bulk Import Handling, Storage and Distribution Facilities in Mombasa, Nairobi, Eldoret, Kisumu, Nakuru and Sagana to be implemented in three phases. This is in line with the Government policy objective to facilitate provision of clean, sustainable, affordable, reliable and secure energy thereby reducing environmental degradation and deforestation. The Company has entered into partnership with the Kenya Petroleum Refineries Ltd for the development of the Mombasa LPG import handling, storage and distribution facilities. Private sector investors have also been invited to invest in the Project. The Mombasa LPG project which will involve construction of 6,000MT storage bullets at an approximate cost US\$50million has already been tendered for. The facility will allow for importation of large shipments of the LPG resulting in reduced LPG supply cost through economies of scale. The Nairobi LPG facility which is being undertaken on a Public- Private Sector investment partnership will involve construction of 2,000MT storage bullets at a site in the outskirts of Athi River Town. M/s Bharat Petroleum Corporation of India was selected in a competitive tender as a Private sector investor in the project whose cost is estimated at US\$11million. The construction works for the project are expected to commence early next year.

During the year, the projects which had previously stalled were successfully completed. The projects include: the completion of Head office in Nairobi named The KENPIPE PLAZA, the Office block extension named Westpipe plaza in Eldoret and the completion of Morendat Training and Conference Centre.

The KENPIPE PLAZA is an ambient ultra modern seven (7no) storey building situated along Sekondi Road, Industrial Area, Nairobi. The implementation of the project, initiated in 1998, commenced on 8th May 2000 and was completed on 27th September, 2006. The new Headquarters has resulted in ample office accommodation for all staff formally housed at the National Bank Building, leading to rent savings amounting to over Kshs. 25 million per year. The implementation of the Eldoret Office Extension started in 1999. The objective was to improve the existing office accommodation at PS 27. The overall scope of the works comprised of 1No. single storey staff clinic block, 1No. three storied office block, additional two floors to existing control room building, single storeyed truck drivers ablution block and associated works. The project was completed on 27th August 2007. The Morendat Training and Conference centre commissioned on 30th November 2007 will not only generate additional revenue to KPC but also provide a training facility for the petroleum industry within the East African Region.

The aging SCADA Communication system in the entire pipeline network has been refurbished and linked to the new Pump Stations 2, 4, 6 and 8 to improve pipeline surveillance. Further, in a bid to solve the perennial communication problems, KPC is in the process of installing Fibre Optic Cables to connect all stations and facilitate faster communication. The Company has also successfully refurbished the Tank Gauging Software in PS 25, 27, 28 and is currently undertaking a similar project at PS 9, 10 and 12 to enable accurate and real time (online) product inventory. The Fuel FACS system was also successfully upgraded.

One of the largest environmental and conservation programmes to be implemented by the Government, is the Kenya Energy Environmental Programme (KEEP). KPC is proud to be the first Corporation to implement this project. The programme has since been rolled out at all KPC Stations countrywide and I am happy to report that the company has planted over 2,000 trees in the stations and is still planting more. To ensure sustainability of the environmental programme, the company is setting up tree nurseries at all its stations and tree seedlings shall be provided to neighbouring communities for planting.

KPC continues to give priority to its Corporate Social Responsibility (CSR) activities. In the just-ended financial year, KPC donated Kshs 50 Million to the Ministry of Youth Affairs for the Youth Enterprise Development Fund to promote entrepreneurship amongst our youth and to act as a catalyst for a culture of work, productivity, employment creation and poverty alleviation. A countrywide process of training and mentoring the youth was vigorously undertaken by the Ministry of Youth Affairs under the sponsorship of KPC and other private sector donors. The project has created a substantial number of employment opportunities for the youth.

In the year under review, a system CSR study was undertaken prioritising the less privileged in our society namely the street children and HIV orphans. We are happy to report that the Company donated 6 acres of land at Villa Franca valued at KShs. 30 million for construction of a Centre for training and rehabilitation of Street Children in Nairobi. The Centre is being developed by a trust formed by collaboration of Private sector in Kenya and abroad and we are optimistic its construction will commence soon.

The company has continued to play a dominant role in continental Volleyball championship. The KPC Women Volleyball team has done the company and the country proud. The team won again this year the Africa championship for the fourth year in a row. It is also worth noting that the KPC Women Volleyball team is the bedrock of the national team with eight KPC Volleyballers to its credit. Consequently, KPC salutes its sporting success and has presented Kshs 400,000 to the Kenya Pipeline Volleyball Team as a token of appreciation.

To show faith and commitment to our sports men and women who participated in the IAAF World Athletics Championship held in Osaka Japan, the company donated Kshs 700,000 to the Kenyan team that exhibited exemplary performance and were ranked 2nd overall after the United States of America with 5 gold, 3 silver and 3 bronze medals.

KPC continued supporting community projects and needs by contributing financially to various activities and charities such as Cerebral Palsy Society of Kenya, St Johns Ambulance, Petroleum Institute of Kenya (PIEA), Diabetic Association of Kenya, Kenya Institute of Management (KIM), Sportsman of the Year Award (SOYA), Freedom from Hunger Walk and NEMA amongst many others.

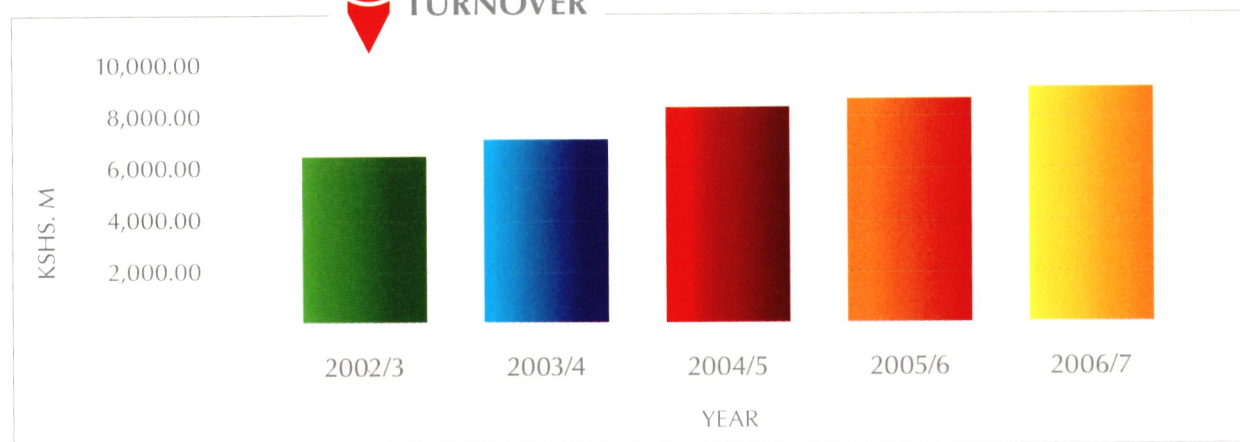
The company is confident to benefit from its existing and planned strategic measures including business diversification and optimal use of its advanced information technology. Service delivery options will continue to be developed to meet our customers' expectations. However the prospects for economic growth will be largely determined by political stability and determination to implement the necessary reforms.



TURNOVER

TURNOVER (KSHS M)

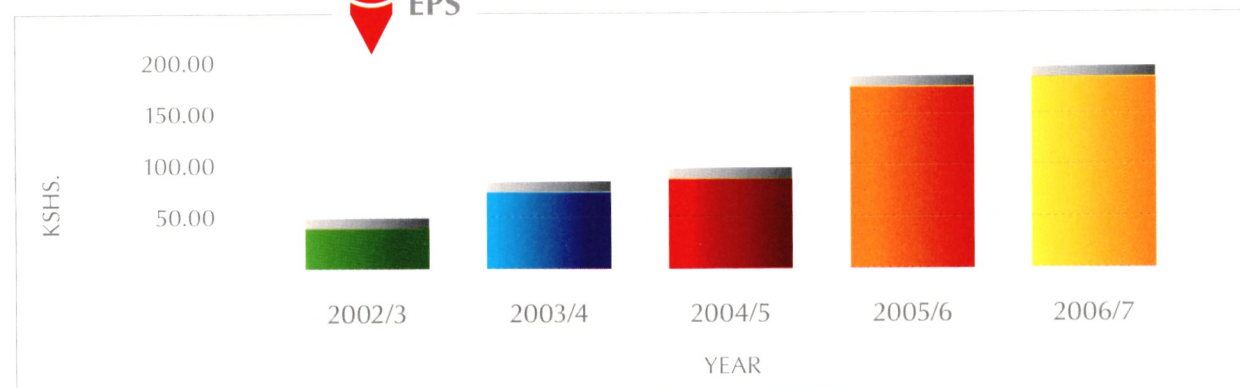
2002/3	6,528.00
2003/4	7,107.24
2004/5	8,108.37
2005/6	8,451.51
2006/7	8,803.18



EPS

EPS (KSHS)

2002/3	28.85
2003/4	51.60
2004/5	76.56
2005/6	153.70
2006/7	163.70



BANK BALANCES

BANK BALANCES (KSHS M)

2002/3	1,295.88
2003/4	936.06
2004/5	2,840.31
2005/6	3,992.40
2006/7	4,553.64



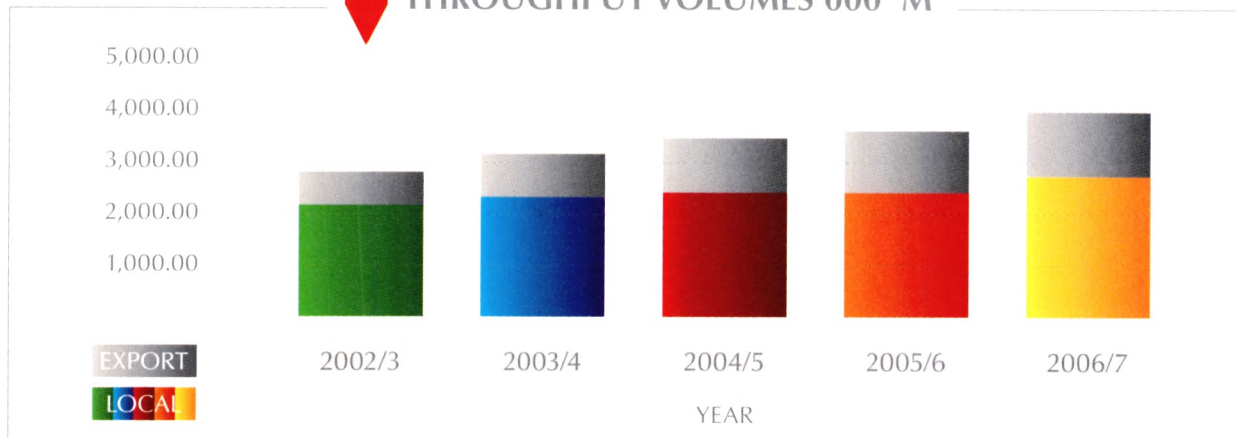
PROFIT BEFORE TAX

PROFIT BEFORE TAX (KSHS M)

2002/3	1,041.67
2003/4	1,604.40
2004/5	2,359.71
2005/6	4,037.90
2006/7	4,018.09



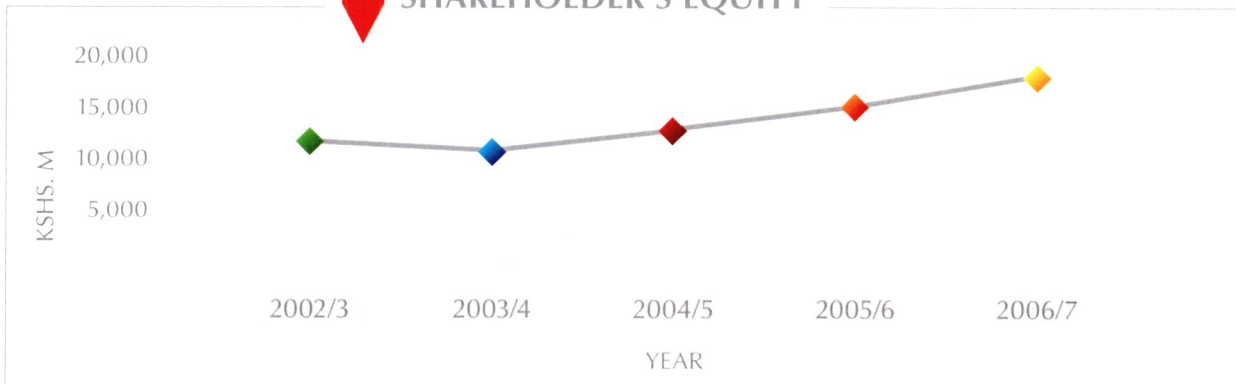
THROUGHPUT VOLUMES 000' M³



THROUGHPUT 000' M³

	Local	Export	Total
2002/3	2,014.44	806.17	2,820.61
2003/4	2,328.64	828.52	3,157.16
2004/5	2,426.18	1,033.12	3,459.30
2005/6	2,439.88	1,187.36	3,627.24
2006/7	2,793.20	1,170.165	3,963.36

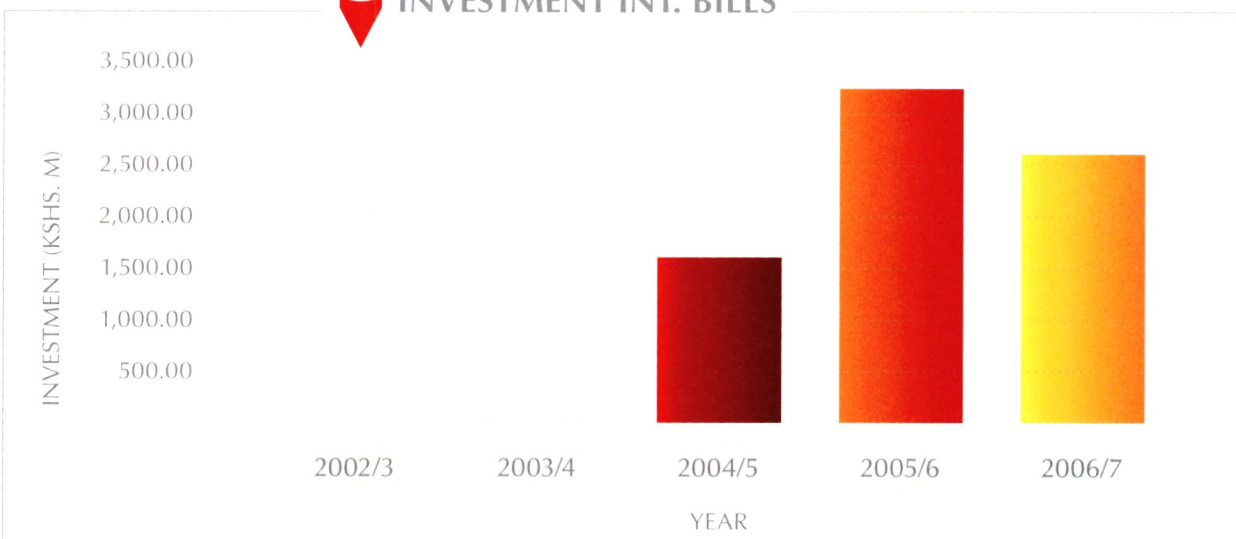
SHAREHOLDER'S EQUITY



SHAREHOLDERS EQUITY (KSHS M)

2002/3	11,547.75
2003/4	11,092.58
2004/5	12,530.60
2005/6	15,023.88
2006/7	17,848.85

INVESTMENT INT. BILLS



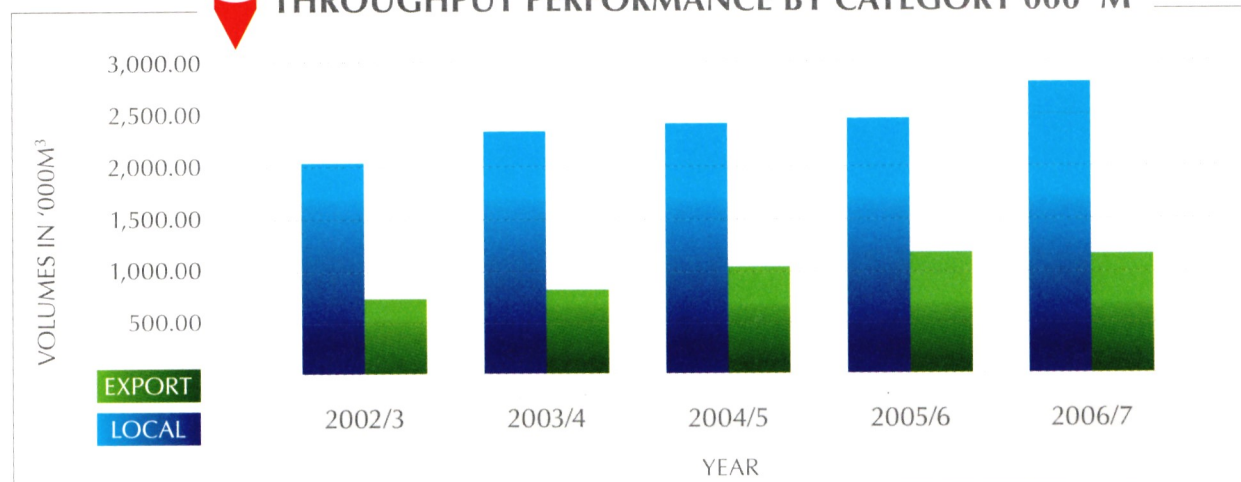
INVESTMENT INT. BILLS (KSHS M)

2002/3	-
2003/4	-
2004/5	1,642.32
2005/6	3,266.49
2006/7	2,554.67





THROUGHPUT PERFORMANCE BY CATEGORY 000' M³

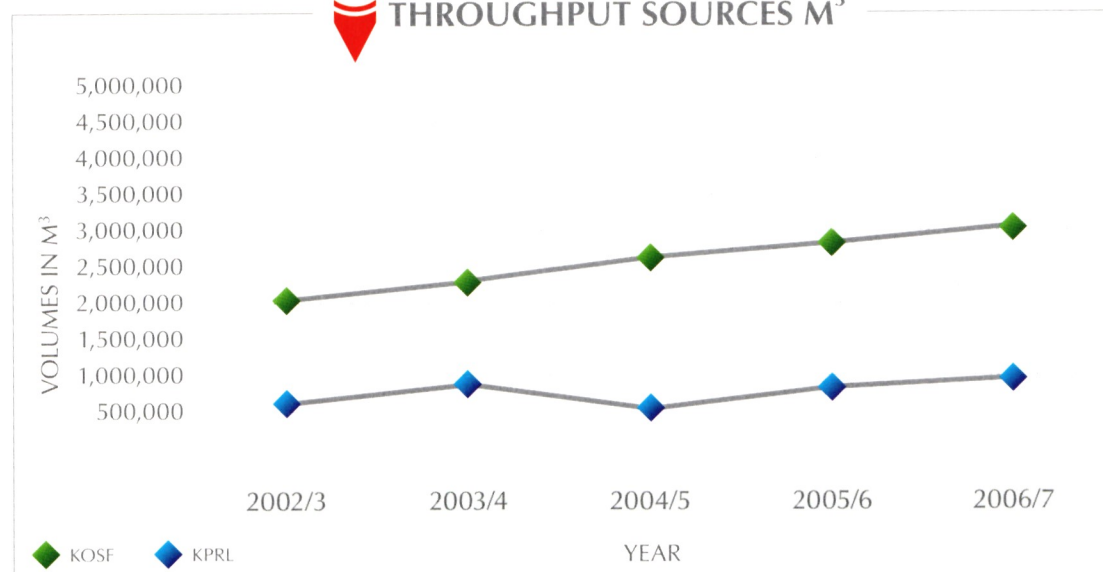


THROUGHPUT BY DESTINATION – LOCAL/EXPORT (M³)

	Local	%	Export	%	Total
2002/3	2,014,444	71.4%	806,167	28.6%	2,820,611
2003/4	2,328,638	73.8%	828,520	26.2%	3,157,158
2004/5	2,426,183	70.1%	1,033,116	29.9%	3,459,298
2005/6	2,439,876	67.3%	1,187,363	32.7%	3,627,239
2006/7	2,793,196	70.5%	1,170,165	29.5%	3,963,361



THROUGHPUT SOURCES M³

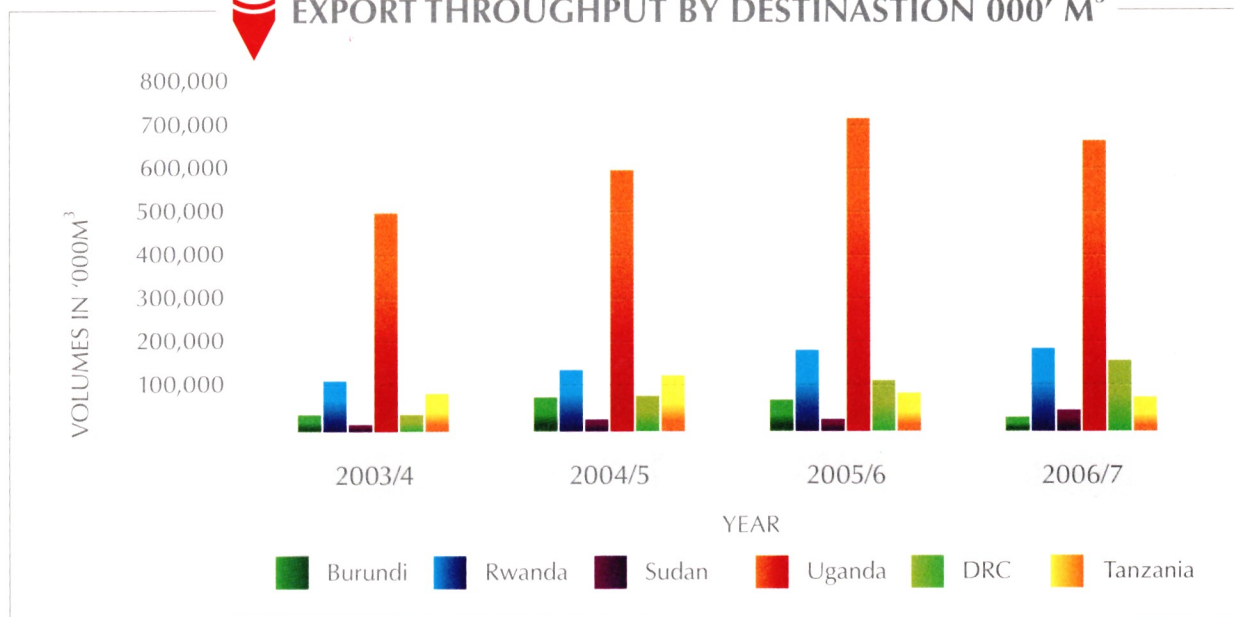


THROUGHPUT SOURCES M³

	KOSF	%	KPRL	%
2002/3	2,023,072	71.7%	797,539	28.3%
2003/4	2,298,866	72.8%	858,292	27.2%
2004/5	2,692,247	77.8%	767,051	22.2%
2005/6	2,796,596	77.1%	830,643	22.9%
2006/7	3,032,474	76.5%	930,887	23.5%



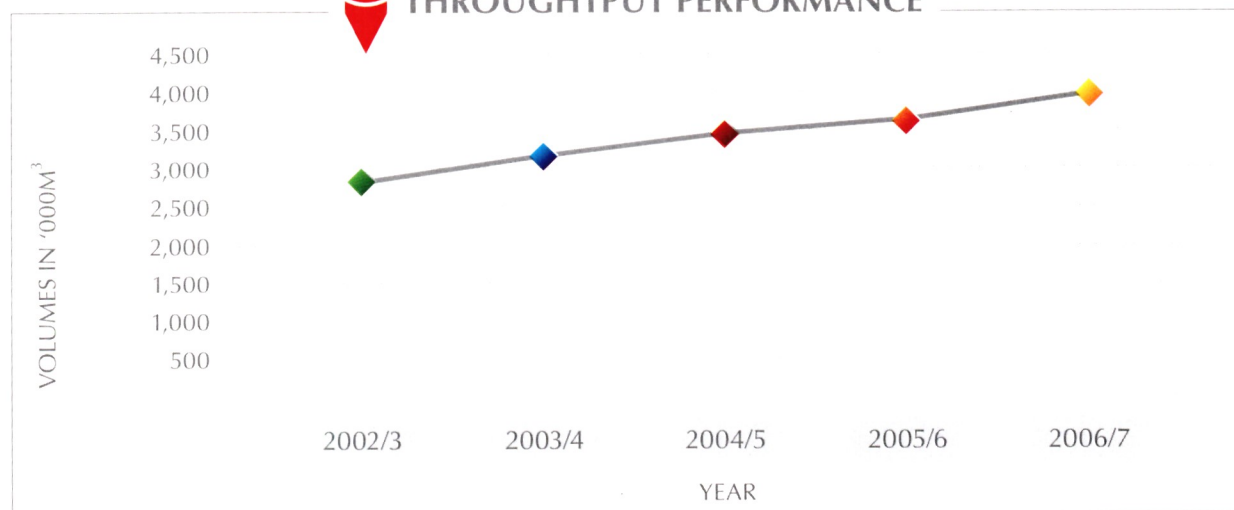
EXPORT THROUGHPUT BY DESTINATION 000' M³



EXPORT THROUGHPUT BY DESTINATION M³

	Burundi	Rwanda	Sudan	Uganda	DRC	Tanzania
2003/4	54,644	114,374	19,808	501,568	54,159	83,967
2004/5	70,344	145,744	30,945	594,777	75,225	116,082
2005/6	67,002	179,280	33,592	712,055	110,508	84,925
2006/7	41,266	175,911	53,337	666,894	161,373	71,383

THROUGHPUT PERFORMANCE



THROUGHPUT PERFORMANCE '000 M³

2002/3	2,820.61
2003/4	3,157.16
2004/5	3,459.30
2005/6	3,627.24
2006/7	3,963.36





KPC INVESTS in major projects

► **Kenya Pipeline Company Limited has embarked on several major projects in a bid to offer quality and satisfactory services to both its stakeholders and customers.**

In January 2007, the Company signed a contract with China Petroleum Pipeline Engineering Corporation (CPPE) for Capacity Enhancement along the Line I (Mombasa-Nairobi) pipeline. CPPE won the international tender after competitive tendering by those who expressed interest. The project, to be completed in 18 months, will see product flow along Line I increase twofold from the current 440,000 liters per hour to 888,000 liters per hour.

► **Kshs 2 billion-the amount to be used to finish new pumping stations.**

Four new pumping stations, whose works have begun, will be constructed at Konza, Makindu, Manyani and Samburu. The over Kshs 2 billion project will be supervised by Petroleum India International of India (PII).

KPC has also successfully implemented the enviably efficient System Application Product (SAP) software on which all KPC operations now run. With this, inter departmental communication has been boosted, work-flow simplified, staff designated assignments and spheres of operation clearly defined. Consequently, KPC can boast of being one of the very few organizations in Kenya to run on SAP.

In a bid to meet the fuel demand in the region, KPC has

contracted Messrs Shengli Engineering & Consulting Company of China and Runji Consulting Engineers and Planners Limited of Kenya to develop a detailed engineering design for a parallel pipeline from Nairobi to Eldoret. Upon construction, the pipeline is envisaged to double the product flow rate from 220,000 litres per hour to 440,000 litres per hour.

► **Tanks have increased storage capacity from 3,600 cubic meters to 12,396 cubic meters.**

In the 2006/07 financial year, KPC was involved in several major projects in Western Kenya as part of its targets in the performance contract. Among them are the commissioning of additional Jet A-1 tanks and their accessories in both Kisumu and Eldoret, a modern office block, new shippers offices, and modified bottom rail siding in Eldoret by the Energy Minister Hon. Kiraitu Murungi on 16th July 2007, was attainment of the set target by KPC.

The additional Jet A-1 tanks have increased the product storage capacity from 3,600 cubic meters to 12,396 cubic meters.

Other projects that KPC has embarked on are the upgrading and commissioning of the Programmable Logic Control system which was done internally, thus saving the company over Kshs 11 million.

Moi Airport - Mombasa has a second Jet A-1 tank thanks to a KPC Management decision to create a by-pass at Pump Station 1. Design, fabrication and other related works that allow Jet A-1 to flow from Kipevu to Moi International Airport have also been completed, thus saving the company over Kshs 2 million.





Five projects in the Instrumentation and Control Section are currently going on, of which four will be completed by the end of the year.

► Refurbishing going on.

Refurbishing of Control Systems for Pump Stations 3, 5 and 7 is on-going. The project is aimed at modernizing the Station control systems.

The failed Western Kenya Pipeline Extension (WKPE) VHF Radio Network is yet another project being implemented by M/S Goldrock.

Tank Gauging System Software, a vital component in product measurements (inventory) within Depots, has been successfully upgraded at Pump Stations 25, 27, and 28. Similar project are going on at Pump Stations 9, 10 and 12.

On communication, KPC is in the process of installing Fibre Optic Cables in a bid to solve perennial communication problems. M/s Huawei Technologies of China are undertaking the project and when completed, all KPC Stations will be interconnected to facilitate faster communication.

With regard to Fuel FACS systems in WKPE, KPC has successfully refurbished and upgraded the systems at Pump Station 25, 27, and 28. The system is used for loading control and product accounting at the depots.

► Massive programme to help ease cooking gas shortage.

Under the Government's Economic Recovery Strategy for Wealth and Employment Creation policy paper, KPC has rolled-out a massive program to help ease the cooking gas shortage in the country. This program involves the construction of LPG import, handling, storage and distribution facility in Mombasa and LPG storage and distribution facility in Nairobi and other hinterland towns of Nakuru, Eldoret, Kisumu and Sagana. The main objective of the LPG project is to enhance supply of LPG, promote consumption of clean fuel thereby reducing environmental degradation.

Private sector investors have also been invited to invest in the project. The Mombasa LPG project will involve the construction of 6000MT storage bullets at an approximate cost of US\$50 million.

The facility will allow for the importation of large shipments of LPG resulting in reduced LPG supply cost through economies of scale. The Nairobi LPG facility is being promoted by KPC, and will involve construction of 2000 MT (Metric Tonnes) storage bullets at a site on the outskirts of Athi River town. The estimated cost of the project is US\$13.5 million.





KPC inaugurates Western Kenya projects

► **Energy Minister Hon. Kiraitu Murungi on July 16th 2007 commissioned Kenya Pipeline Company's five successfully completed projects in the Western Kenya region.** ◀

The five major projects factored in the 2006/07 fiscal year have been successfully completed and commissioned. They are Jet A-1 tanks and accessories at both Kisumu and Eldoret depots, a modern office block, bottom rail siding, shippers annex and sewerage system all situated in Eldoret. These form part of KPC's attempts to surmount the ever increasing challenges of meeting the demand for white petroleum products within the country and the region at large.

There is no doubt that the demand for petroleum product in the country and the region as a whole is on an upward trend. KPC has therefore rolled out massive capacity enhancement programs to see to it that incessant petroleum products shortage within the region is alleviated once and for all. Extension of the pipeline from Eldoret to Uganda is part of this solid investment plan by KPC. The Lines I and II Capacity Enhancement Projects which are akin to constructing new pipelines are envisaged to double the product flow-rate from 440,000 liters to 880,000 liters an hour along Line I and from 220,000 liters to 444,000 liters per hour along Line II once completed.



KPC gives back generously to society

Though a business is principally founded to make profits, social investments remain a key plank in shaping the relationship and future of the entity with its stakeholders.

It is in this spirit that the Kenya Pipeline Company has seen fit to give back what it has earned from its business to the community through its Corporate Social Responsibility (CSR) programme.

» Youth and Entrepreneurial Skills

In a bid to spur entrepreneurial skills amongst the youth, increase productivity, create employment and alleviate poverty, KPC became the principal sponsor of the National Youth Enterprise Development Fund with a donation of Kshs 50 Million. The fund is meant to stimulate business creativity among the youth by encouraging them to come up with competitive and innovative business ideas.

» Water Supply

In an effort to help alleviate the persistent famine and water problem in five drought prone areas of Kinango, Taita, Kajiado, North Eastern, Nyanza and Mai Mahiu, KPC Board of Directors in the 2006/07 financial year approved the sinking of five boreholes at a cost of Kshs 21 million. This program is being implemented in liaison with the respective District Development Committees and once completed, the project will provide a permanent solution to the persistent water problem in these areas.

» Rehabilitation of street children

Child delinquency is a big problem in the country today. A multi-sectoral approach is the only solution if the worrying trend is to be curbed. KPC has subsequently donated a 6 acre parcel of prime land at Villa Franca in Nairobi valued at Shs. 30 million for the construction of a centre for training and rehabilitation of street children in Nairobi.

» Environmental Conservation

Taking cognisance of potential pollution posed by the white petroleum products transported by the KPC pipeline, the company partnered with National Environmental Management Authority (NEMA) to organise a 30 km walk in Nairobi. The walk was to sensitize the public on the importance of conserving the environment. Over 100 KPC employees took part in the event. The Company has also donated 50,000 tree seedlings to communities living along the Right Of Way (ROW) and planted over 2,000 trees in its Pump Stations.

KPC was also the first parastatal to roll out its chapter of Kenya Energy Sector Environmental Program (KEEP).

» Workers Day

KPC has continued to participate in Labour Day celebrations. This is in recognition of the fact that at KPC, employees are the most valuable assets and participating in activities close to their heart lifts their morale.

» Food Provision

The annual Freedom from Hunger Council organized walks have always benefited from KPC's generosity. In the 2007 financial year, KPC donated Kshs 100,000 to the Council as sponsorship for the walk. A total of 60 employees participated in the event.

» Health and Safety

Other organizations and groups that have benefited from KPC donations are The St. Johns Ambulance, Kenya Diabetes Association, and Mater Hospital Heart Run.

» Sports

KPC boasts of having one of the strongest ladies volleyball teams in Africa and the company has been consistent in its contribution towards sports. The Company donated Kshs 700,000 to the national athletics team for the superb performance at the World Athletics Championships in Japan. Similarly, the National ladies volleyball team were rewarded with Kshs 300,000 for winning the Africa Championships. The annual Sportsman of the Year Award (COYA) also received a contribution of Kshs 250,000 from KPC.

» Donations

Other organizations/community groups to have benefited from KPC's CSR activities include Kenya Institute of Management, Society for the Blind, Cerebral Palsy Society of Kenya, Kenya Scouts Association, National Economic and Social Council Vision, Sokoke Community Development Program, Nyosia Community water Project, and Isukha Community Communication Network.





ISO: TRANSFORMING OPERATIONS AT KPC

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KENYA PIPELINE COMPANY LIMITED IS NOW ISO 9001:2000 CERTIFIED.

The company attained the much coveted International Standardization Certification for implementing a universally accepted Quality Management System.

The award comes close on the heels of the Service Charter launched earlier in the year in which KPC resolved to offer the best to the public in tandem with our motto 'To do our best always'.

With ISO accreditation, KPC is duly compelled to offer services commensurate with the certification.

- ▶ **KPC has set a precedent which should be emulated by other government institutions.**

With the attainment of its new status, KPC is now set to offer unparalleled high levels of services to both its customers and stakeholders. The company has now set a precedent which should be emulated by other government institutions. The ISO certification is among many initiatives by the company

to improve service delivery to both customers and stakeholders. One other initiative is the Service Charter which places the customer at the centre of operations.

The Charter is a statement of intent that defines the manner in which KPC intends to relate with its customers and stakeholders. It spells out the services to be offered, the manner in which the services will be delivered, and the recourse to take in the event of inadequacies.

- ▶ **For an effective realization of the Service Charter, development of both human and equipment capacity is inevitable.**

KPC believes that for an effective realization of the Service Charter, development of both human and equipment capacity is inevitable. Consequently, the company has made sure that staff are trained on quality management system (QMS) to conform to the new systems in place.



SERVICE DELIVERY



ISO CERTIFICATION IS ONE AMONG MANY INITIATIVES BY KPC TO IMPROVE SERVICE DELIVERY TO BOTH CUSTOMERS AND STAKEHOLDERS.

The Company is increasingly becoming customer focused as shown in the Service Charter and these standards ensure uniformity, consistency, reliability and safety as well as providing quality benchmarks for operations.

- **The introduction of Systems Application Product (SAP) has eased the manual-work burden that had hitherto slowed down deliverables. Most KPC operations are today automated. KPC staff are now able to navigate through SAP and ensure deliverables without compromising on standards. All departments/sections in KPC have internalized the need for records and are religiously developing and keeping them. The documented procedures have since constituted the institutional memory.** ◀

To maintain a high degree of discipline and to ensure maximum efficacy, KPC Management is developing a comprehensive Code of Conduct to regulate staff behaviour to inculcate discipline, good management and good results. In the nascent government performance contract regime for the financial year

2005/06, KPC emerged the 2nd best institution in the parastatals category. The essence of Performance Contracting has since been fully cascaded in its entire KPC workforce. KPC staff have been trained on ISO 9001:2000 standards. Upholding these prescribed standards can only serve to invigorate the staff with the zeal and tenacity to take this company all the way to the top.

The introduction of an ERP system has eliminated the need for external interfaces previously required between systems, and provides additional benefits that range from standardization and lower maintenance (one system instead of two or more) to easier and/or greater reporting capabilities (as all data is typically kept in one database). Examples of modules in an ERP which formerly would have been stand-alone applications include: Manufacturing, Supply Chain, Financials, Customer Relationship Management (CRM), Human Resources, Warehouse Management and Decision Support System.





CORPORATE INFORMATION

DIRECTORS

J Kenani - Chairman
G J Okungu - Managing Director
G M Wachira
G L Majanja
A M Msallam
J Ichunge Kinyua
J M Mathenge
Hon J M Mwalulu
J K Kinyua (alternate - F Kingori)
P M Nyoike (alternate - W Deche)

SECRETARY

Mrs Mary Kiptui
P O Box 73442 - 00200 Nairobi

REGISTERED OFFICE

Kenpipe Plaza
Sekondi Road
Off Nanyuki Road
Industrial Area
P O Box 73442 -00200 Nairobi

AUDITORS

Kenya National Audit Office
P O Box 30084 - 00100 Nairobi

PRINCIPAL BANKERS

Commercial Bank of Africa Limited
Mara and Ragatti Roads
Upperhill
PO Box 30437 - 00100 Nairobi

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

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

Co-operative Bank of Kenya
Industrial Area
P O Box 18119 - 00500 Nairobi

PRINCIPAL ADVOCATES

Mohammed & Kinyanjui Advocates
Corner House, 9th Floor
P O Box 79692 - 00200 Nairobi

Kipkenda Lilan & Co. Advocates
Teleposta Towers, 19th Floor
P O Box 56832 - 00200 Nairobi

M/s Mathenge and Muchemi Advocates
Bishop Garden Towers,
Bishop Road
P O Box 28638 - 00200 Nairobi



REPORT OF THE DIRECTORS

► The directors present their report together with the audited financial statements for the year ended 30 June 2007. ◀

ACTIVITIES

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

RESULTS	KSHS'000
Profit before taxation	4,018,094
Taxation charge	(1,043,125)

Profit for the year transferred to	
REVENUE RESERVE	2,974,969
	=====

DIVIDEND

The directors recommend payment of a dividend of Kshs 150,000,000 (2006 – Kshs 150,000,000) in respect of the year.

AUDITORS

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

DIRECTORS

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

J Kenani	Chairman	Appointed on 2 August 2007
W Deche	Alternate to PS, Ministry of Energy	Appointed 11 May 2007
A M Msallam	Director	Appointed 27 July 2007
J Ichunge Kinyua	Director	Appointed on 2 March 2007
Amb. M Ngali	Chairman	Resigned on 2 August 2007
P N Karuana	Director	Resigned on 1 March 2007
S E Oreta	Alternate to PS, Ministry of Energy	Resigned 11 May 2007

BY ORDER OF THE BOARD



Secretary

Nairobi, 19 November, 2007



STATEMENT OF

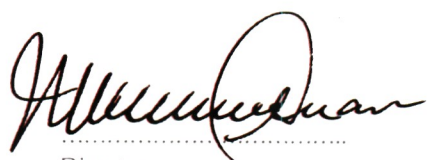
DIRECTORS' RESPONSIBILITIES

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 that 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 error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

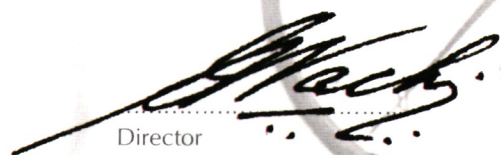
The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the 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.



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Director



.....

Director



REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF KENYA PIPELINE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2007

The financial statements of Kenya Pipeline Company Limited set out on pages 25 to 45, which comprise the balance sheet at 30 June 2007, the income statement, statement of changes in equity and cash flow statement for the year then ended, together with a summary of significant accounting policies and other explanatory notes have been audited on my behalf by Deloitte & Touche, auditors appointed under section 39 of the Public Audit Act 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements which give a true and fair view of the company's state of affairs and its operating results 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 error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Controller and Auditor General

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and the audit be planned and performed with a view to obtaining reasonable assurance that 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 judgment, 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 controls 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 directors, as well as evaluating overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

Trade and other receivables

The balance sheet as at 30th June 2007 reflects a balance of Kshs.1,532,731,000 under Trade and Other Receivables. Included in this amount is Trade Receivables balance of Kshs.1,209,317,000. The Kshs.1,209,317,000 includes an amount of Kshs.347,677,000 due from a petroleum company that is subject of a court case. It is not possible to give an opinion on the recoverability of this amount as the outcome of the court case is still uncertain. No impairment has, however, been recognized in respect of this amount as the directors are confident the amount will be fully recovered.

Opinion

Except for the effect on the financial statements of the matter referred to in the preceding paragraph, proper books of account have been kept and the accompanying financial statements give a true and fair view of the state of the financial affairs of the company as at 30 June 2007 and of its profit and cash flows of the year then ended in accordance with International Financial Reporting Standards, and comply with the Companies Act (Cap. 486 of the Laws of Kenya).



P. N. KOMORA
CONTROLLER AND AUDITOR GENERAL

Nairobi
10 December, 2007

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 KShs'000	2006 KShs'000
REVENUE	3	8,803,182	8,451,512
DIRECT COSTS	4	(3,730,249)	(3,220,666)
GROSS PROFIT		5,072,933	5,230,846
OTHER INCOME	5	262,120	190,814
ADMINISTRATION EXPENSES	6	(1,915,399)	(1,563,926)
RETIREMENTS BENEFITS SCHEME ACTUARIAL WRITEBACK	8	510,063	-
OPERATING PROFIT		3,929,717	3,857,734
NET FINANCE INCOME	9	88,377	180,166
PROFIT BEFORE TAXATION		4,018,094	4,037,900
TAXATION CHARGE	10	(1,043,125)	(1,244,621)
NET PROFIT AFTER TAXATION		2,974,969	2,793,279
EARNINGS PER SHARE (basic and diluted)	11	Sh 163.70	Sh 153.70
DIVIDENDS PER SHARE-Proposed	12	8.25	8.25

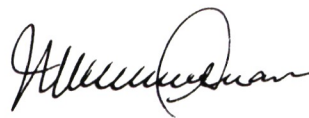
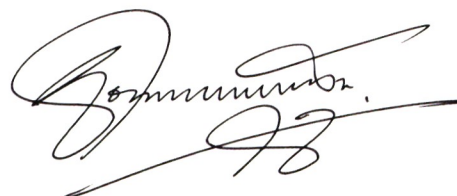


BALANCE SHEET AS AT 30 JUNE 2007

	Note	2007 KShs'000	2006 KShs'000
ASSETS			
Non current assets			
Property, plant and equipment	13	12,939,208	12,577,135
Prepaid leasehold land	14	89,022	90,631
Intangible assets	15	43,602	54,665
Investments	16	4	4
Trade and other receivables	17	97,239	-
		<hr/>	<hr/>
		13,169,075	12,722,435
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories	18	632,745	604,379
Trade and other receivables	17	1,532,731	1,423,455
Taxation recoverable	19	209,044	-
Government securities	20	2,554,669	3,266,493
Short term deposits	21	191,044	196,554
Bank and cash balances		1,807,927	529,352
		<hr/>	<hr/>
		6,928,160	6,020,233
Non current assets classified as held for sale	22	138,845	-
		<hr/>	<hr/>
		7,067,005	6,020,233
		<hr/>	<hr/>
		20,236,080	18,742,668
		=====	=====
SHAREHOLDER'S FUNDS AND LIABILITIES			
Capital and reserves			
Share capital	23	363,466	363,466
Share premium		512,289	512,289
Revenue reserve		16,973,091	14,148,122
		<hr/>	<hr/>
		17,848,846	15,023,877
		<hr/>	<hr/>
Non current liabilities			
Retirement benefit obligations	24	518,400	1,228,463
Deferred taxation	25	474,955	618,240
		<hr/>	<hr/>
		993,355	1,846,703
		<hr/>	<hr/>
Current liabilities			
Borrowings	26	221,040	792,209
Trade and other payables	27	1,172,839	941,909
Taxation payable	19	-	137,970
		<hr/>	<hr/>
		1,393,879	1,872,088
		<hr/>	<hr/>
Total shareholder's funds and liabilities		20,236,080	18,742,668
		=====	=====

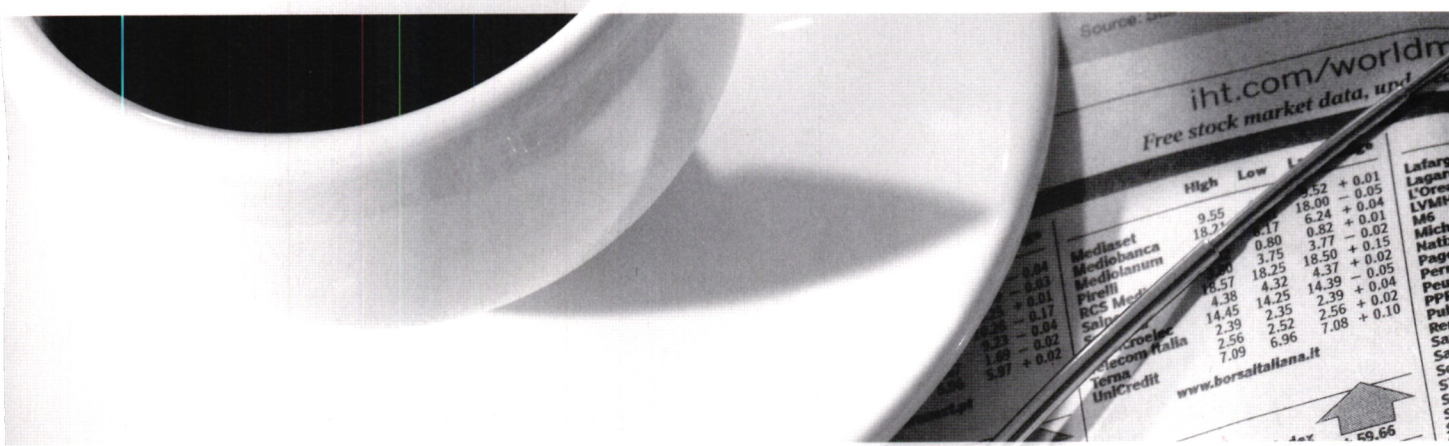
The financial statements on pages 25 to 45 were approved by the board of directors on 29th October, 2007 and were signed on its behalf by:

Directors

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2007



	Share capital KShs'000	Share premium KShs'000	Revenue reserve KShs'000	Proposed dividends KShs'000	Total equity KShs'000
AT 1 JULY 2005	363,466	512,289	11,354,843	300,000	12,530,598
Profit for the year	-	-	2,793,279	-	2,793,279
2005 dividends paid	-	-	-	(300,000)	(300,000)
AT 30TH JUNE 2006	363,466	512,289	14,148,122	-	15,023,877
AT 1 JULY 2006	363,466	512,289	14,148,122	-	15,023,877
Profit for the year	-	-	2,974,969	-	2,974,969
2006 dividends paid	-	-	(150,000)	-	(150,000)
AT 30 JUNE 2007	363,466	512,289	16,973,091	-	17,848,846



CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 KShs'000	2006 KShs'000
OPERATING ACTIVITIES			
Cash generated from operations	28(a)	3,929,589	4,614,357
Interest received		281,860	288,316
Interest paid		(47,581)	(85,491)
Taxation paid	19	(1,533,424)	(1,915,130)
		2,630,444	2,902,052
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	13	(1,486,893)	(1,256,652)
Purchase of intangible assets	15	(24,351)	-
Redemption/(purchase) of government securities -net		711,824	(1,624,175)
Proceeds on disposal of property, plant and equipment and leasehold land		163,210	88,184
		(636,210)	(2,792,643)
Net cash flows used in investing activities		(636,210)	(2,792,643)
FINANCING ACTIVITIES			
Dividends paid		(150,000)	(300,000)
Loan repayments	28(b)	(285,398)	(567,264)
		(435,398)	(867,264)
Net cash flows used in financing activities		(435,398)	(867,264)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		1,558,836	(757,855)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR			
		440,135	1,197,990
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
	28(c)	1,998,971	440,135

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

1 ACCOUNTING POLICIES

Statement of compliance

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

Adoption of new and revised international financial reporting standards

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IAS 1 Amendment, Capital Disclosures – The amendment introduces disclosures about the level of the company's capital and how it manages capital.
- IFRS 7 - Financial Instruments Disclosures
- IFRS 8 - Operating Segments
- IFRIC 10 - Interim Financial Reporting and Impairment
- IFRIC 11 - IFRS 2 Group and Treasury Share Transactions
- IFRIC 12 - Service Concession Arrangements
- IFRIC 13 - IAS 18 Revenue: Customer Loyalty Programs
- IFRIC 14 – IAS 19 Employee Benefits: Effect of Minimum Funding Requirements on Asset Ceiling.

The adoption of these standards and interpretations, when effective, will have no material impact on the financial statements of the company.

(A) 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, which are set out below, remain unchanged from the previous year.

(B) 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 recognised based on deliveries

made to customers on a monthly basis. Storage fee is recognised on an accrual basis once customer products are delivered to the companies storage facilities. Amounts become payable once sales invoices are raised and delivered to customers.

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

(C) PROPERTY, PLANT AND EQUIPMENT

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





NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007



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1 ACCOUNTING POLICIES (CONTINUED)

(D) LEASEHOLD LAND

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

(E) LEASES

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

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

(F) IMPAIRMENT

At each balance sheet date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where 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.

(G) 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.

(H) INVENTORIES

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

Fuel stocks belong to the shippers as per Transportation and Storage Agreement signed between the company and the shippers. Fuel stocks are therefore not included in the financial statements.

(I) INTANGIBLE ASSETS

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

(J) PIPELINE REHABILITATION

Costs relating to the rehabilitation of the Mombasa to Nairobi pipeline are amortised over a period of five years on a straight-line basis.

(K) RETIREMENT BENEFIT OBLIGATIONS


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 converted to a defined contribution pension scheme.

The assets of these schemes are held in separate trustee administered funds. The schemes are 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 amortised over the expected average remaining working lives of the participating employees. Past service cost was recognised immediately to the extent that the benefits are already vested, otherwise it was amortised on the straight-line basis over the average period until the amended benefits become vested.

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

The company'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 Sh 200 per month per employee.

(L) 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 recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised.

(M) DIVIDENDS

Dividend income from investments is recognised 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.

(N) 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 amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired.

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

Cash and cash equivalents

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

Financial liabilities and equity

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



I) BORROWINGS

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

II) TRADE PAYABLES

Trade payables are stated at their nominal value.

III) EQUITY INSTRUMENTS

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

(O) PROVISION FOR LIABILITIES AND CHARGES

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

(P) 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 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

3 REVENUE

- Local service fees
- Kipevu Oil storage facility fees
- Export service fees

future financial years. 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 critical areas of accounting estimates and judgements 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 recognised 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 judgements 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.

2007 KShs '000	2006 KShs '000
3,773,657	3,248,074
741,318	711,827
4,288,207	4,491,611
8,803,182	8,451,512
=====	=====



	2007 KShs '000	2006 KShs '000
4 DIRECT COSTS		
Pipeline maintenance staff costs	1,248,817	1,077,296
Depreciation	924,527	888,479
Pipeline maintenance costs	760,379	548,130
Electricity and fuel	581,760	522,824
Insurance	119,366	91,385
Other maintenance costs	58,798	64,029
Amortisation of prepaid lease rentals	1,188	1,191
Amortisation of intangible assets	35,414	27,332
	3,730,249	3,220,666
	=====	=====
5 OTHER INCOME		
Helicopter income	7,729	4,440
Miscellaneous income	62,200	34,046
Rent income	79,978	64,200
Gain on disposal of property, plant and equipment and leasehold land	112,213	88,128
	262,120	190,814
	=====	=====
6 ADMINISTRATION EXPENSES		
Administrative staff costs	1,473,728	1,227,148
Other office and general expenses	99,441	88,132
Travelling and entertainment	35,021	36,499
Advertising and printing expenses	114,009	36,999
Rent and rates	19,179	36,638
Consultancy fees	1,044	34,466
Telephone and postage	62,422	23,535
Legal and professional expenses	33,810	19,603
Motor vehicle expenses	26,447	18,633
Buildings repairs and maintenance	16,564	13,289
Bank charges	2,981	3,020
Auditors' remuneration - current year	5,733	3,587
Directors - fees	3,240	6,480
- other emoluments	10,908	15,897
Write off of property, plant and equipment	10,872	-
	1,915,399	1,563,926
	=====	=====
7 STAFF COSTS		
Salaries and wages	2,408,132	2,033,834
Group life and medical cover	145,747	123,755
Pension-company contribution	75,939	102,260
Staff welfare	68,466	25,545
Training	18,660	13,501
Recruitment costs	929	3,187
National Social Security Fund - company contribution	2,046	1,919
Uniforms	2,626	443





7 STAFF COSTS (CONTINUED)

Split as follows:

Direct staff costs (note 4)
Administration staff costs (note 6)

8 RETIREMENT BENEFITS SCHEME ACTUARIAL WRITEBACK

This relates to write back of excess provision relating to the defined retirement benefits scheme as disclosed in note 24.

9 NET FINANCE INCOME

Interest income on deposits
Foreign exchange losses

Interest expense:
Loan interest
Bank interest

10 TAXATION

(A) Tax charge
Current taxation based on the taxable profit for the year at 30% (note 19)
Prior year over provision

Deferred tax (credit)/charge (note 25)

	2007 KShs '000	2006 KShs '000
	2,722,545 =====	2,304,444 =====
	1,248,817	1,077,296
	1,473,728	1,227,148
	<hr/>	<hr/>
	2,722,545 =====	2,304,444 =====
	281,860	288,316
	(145,902)	(22,659)
	<hr/>	<hr/>
	135,958	265,657
	<hr/>	<hr/>
	(46,346)	(85,227)
	(1,235)	(264)
	<hr/>	<hr/>
	(47,581)	(85,491)
	<hr/>	<hr/>
	88,377 =====	180,166 =====
	1,200,396	1,231,435
	(13,986)	-
	<hr/>	<hr/>
	1,186,410	1,231,435
	(143,285)	13,186
	<hr/>	<hr/>
	1,043,125 =====	1,244,621 =====

(B) Reconciliation of expected tax based on tax charge
Accounting profit before taxation

Tax at the applicable rate of 30%
Tax effect of expenses not deductible for tax purposes
Income not subject to tax
Prior year over provision

	2007 KShs '000	2006 KShs '000
	4,018,094	4,037,900
	=====	=====
	1,205,428	1,211,370
	36,273	44,184
	(184,590)	(10,933)
	(13,986)	-
	-----	-----
	1,043,125	1,244,621
	=====	=====

11 EARNINGS PER SHARE – BASIC AND DILUTED

Earnings per share is calculated based on the profit attributable to shareholders divided by the number of ordinary shares in issue as follows:

Net profit after taxation (Kshs '000)

Number of ordinary shares in issue (in thousands)

Earnings per share (Kshs)

	2007	2006
	2,974,969	2,793,279
	=====	=====
	18,173	18,173
	=====	=====
	163.70	153.70
	=====	=====

Diluted earnings per share is the same as the basic earnings per share as there were no potentially dilutive instruments outstanding at balance sheet date.

12 DIVIDENDS PER SHARE

Proposed dividends are not accounted for until they have been ratified at the Annual General Meeting, a first and final dividend is to be proposed in respect of 2007 of Kshs 8.25 per share (2006 – Kshs 8.25 per share) amounting to a total of Kshs 150,000,000 (2006 – Kshs 150,000,000). The financial statements for the year ended 30 June 2007 do not reflect this resolution which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ended 30 June 2008 after approval by the shareholders.



13 PROPERTY, PLANT AND EQUIPMENT

	Freehold property KShs'000	Buildings and roads KShs'000	Pipeline tanks KShs'000	Pipeline equipment, furniture & Fittings KShs'000	Helicopters KShs'000	Motor vehicles & tractors KShs'000	Capital rehabilitation costs KShs'000	Capital Work-in- progress KShs'000	Total KShs'000
COST									
AT 1 JULY 2005	39,680	4,920,943	10,431,034	5,158,787	268,240	335,257	153,395	2,456,057	23,763,393
Additions	73	86	121,099	66,097	-	47,072	-	1,022,225	1,256,652
Disposals	-	-	-	(139)	(120,654)	(5,760)	-	-	(126,553)
Transfers from capital work in progress	-	26,659	887,217	135,896	-	-	-	(1,131,769)	**(81,997)
AT 1 JULY 2006	39,753	4,947,688	11,439,350	5,360,641	147,586	376,569	153,395	2,346,513	24,811,495
Additions	1,000	190	186,621	74,237	-	24,723	-	1,200,122	1,486,893
Disposals	(1,328)	(77,836)	-	(429)	-	(31,979)	-	-	(111,572)
Write offs	-	-	-	-	-	-	-	(10,872)	(10,872)
Transfers to assets held for sale (note 22)	(2,848)	(206,508)	-	-	-	-	-	-	(209,356)
Transfers from capital work in progress	-	2,546,149	21,860	14,561	-	-	-	(2,582,570)	-
AT 30TH JUNE 2007	36,577	7,209,684	11,647,831	5,449,010	147,586	369,313	153,395	953,193	25,966,589
DEPRECIATION									
AT JULY 2005	-	2,111,868	4,995,129	3,676,611	268,240	300,517	120,013	-	11,472,378
Charge for the year	-	183,110	418,608	241,637	-	30,368	14,756	-	888,479
Eliminated on disposal	-	-	-	(83)	(120,654)	(5,760)	-	-	(126,497)
AT 1 JULY 2006	-	2,294,978	5,413,737	3,918,165	147,586	325,125	134,769	-	12,234,360
Charge for the year	-	215,572	426,783	247,013	-	25,941	9,218	-	924,527
Eliminated on disposal	-	(28,447)	-	(429)	-	(31,979)	-	-	(60,855)
Transfers to assets held for sale (note 22)	-	(70,653)	-	-	-	-	-	-	(70,653)
AT 30 JUNE 2007	-	2,411,450	5,840,520	4,161,236	147,586	322,600	143,987	-	13,027,381
NET BOOK VALUE									
AT 30TH JUNE 2007	36,577	4,798,234	5,807,311	1,287,774	-	46,713	9,408	953,193	12,939,208
AT 30TH JUNE 2006	39,753	2,652,710	6,025,613	1,442,476	-	51,444	18,626	2,346,513	12,577,135

NOTES

36

TO

THE

FINANCIAL

STATEMENTS



** Related to software transferred to intangible assets (note 15).
Work in progress relates to ongoing capital projects. The write offs related to impaired show stands. Assets with a cost of Kshs 4,936,052,262 (2006 - 5,012,321,283) are fully depreciated.

Kshs 663,335,588 (2006 - Kshs. 676,159,982) would have been charged to the income statement in respect of these assets as depreciation. These assets are still in use.

14 PREPAID LEASEHOLD LAND COST

AT BEGINNING OF YEAR

Provision for loss of leasehold land
Disposals
Transfers to assets held for sale (note 22)

AT END OF YEAR

AMORTISATION

AT BEGINNING OF YEAR

Charge for the year
Eliminated on disposal
Transfers to assets held for sale (note 22)

AT END OF YEAR

NET BOOK VALUE

AT 30 JUNE

	2007 KShs'000	2006 KShs'000
AT BEGINNING OF YEAR	404,109	404,109
Provision for loss of leasehold land	(291,671)	(291,671)
Disposals	(356)	-
Transfers to assets held for sale (note 22)	(183)	-
AT END OF YEAR	111,899	112,438
AMORTISATION		
AT BEGINNING OF YEAR	21,807	20,616
Charge for the year	1,188	1,191
Eliminated on disposal	(76)	-
Transfers to assets held for sale (note 22)	(41)	-
AT END OF YEAR	22,877	21,807
NET BOOK VALUE		
AT 30 JUNE	89,022	90,631

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

15 INTANGIBLE ASSETS

COST

AT BEGINNING OF THE YEAR

Additions
Transfer from work in progress (note 13)

AT END OF THE YEAR

	2007 KShs'000	2006 KShs'000
AT BEGINNING OF THE YEAR	95,115	13,118
Additions	24,351	-
Transfer from work in progress (note 13)	-	81,997
AT END OF THE YEAR	119,466	95,115



AMORTISATION
AT BEGINNING OF THE YEAR

Charge for the year

AT END OF THE YEAR

NET BOOK VALUE
AT 30 JUNE

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

16 INVESTMENTS

Petroleum Institute of East Africa
Consolidated Bank of Kenya Limited

► 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 less accumulated impairment losses. Details of the investment in Consolidated Bank of Kenya Limited are shown below: ◀

746,500 Ordinary Shares of Kshs 20 each
2,605,000 4% non-cumulative irredeemable
non convertible preference shares of Kshs 20 each

Provision for impairment losses

17 TRADE AND OTHER RECEIVABLES

Trade receivables
Staff loans and advances
Prepaid construction costs
Prepaid expenses
Refundable deposits
Purchase deposits
Other debtors

Provision for bad and doubtful debts

	2007 KShs '000	2006 KShs '000
	40,450	13,118
	35,414	27,332
	75,864	40,450
	43,602	54,665
	=====	=====
	2	2
	2	2
	4	4
	=====	=====
	14,400	14,400
	52,630	52,630
	67,030	67,030
	(67,028)	(67,028)
	2	2
	=====	=====
	1,209,317	1,180,890
	146,802	141,042
	106,656	136,479
	26,223	6,088
	5,144	5,843
	196,895	58,780
	72,409	34,821
	1,763,446	1,563,943
	(133,476)	(140,488)
	1,629,970	1,423,455
	=====	=====

Recoverable as follows:

Within one year
AFTER ONE YEAR

The amounts recoverable after one year relate to staff loans and advances.

	2007 KShs'000	2006 KShs'000
Within one year	1,532,731	1,423,455
AFTER ONE YEAR	97,239	-
	1,629,970	1,423,455
	=====	=====

► Included in trade receivables are amounts of Kshs 347,677,000 due from a petroleum company that are in dispute. No impairment loss has been recognised in respect of these amounts as management is confident that the amounts will be fully recovered. ◀

18 INVENTORIES

Spare parts and consumables
Provision for obsolete stocks

946,316	917,950
(313,571)	(313,571)
632,745	604,379
=====	=====

19 TAXATION RECOVERABLE/(PAYABLE)

AT BEGINNING OF THE YEAR

Charge for the year (note 10)
Paid in the year

(137,970)	(821,665)
(1,186,410)	(1,231,435)
1,533,424	1,915,130

AT END OF THE YEAR

209,044	(137,970)
=====	=====

20 GOVERNMENT SECURITIES

Held to maturity:

Treasury bond

102,966	100,000
---------	---------

Treasury bills

Redemption value

2,483,884	3,193,250
-----------	-----------

Less unearned interest

(32,181)	(26,757)
----------	----------

2,451,703	3,166,493
-----------	-----------

2,554,669	3,266,493
=====	=====

The treasury bond matures in 2008 while the treasury bills mature within six months of the contract date. The effective interest rate on the treasury bond and bills was 6% and 8.39% (2006-8.9%) respectively.



21 SHORT TERM DEPOSITS

Commercial Bank of Africa Limited
Citibank N.A
Accrued interest

▶ The short term deposits mature within six months of the contract date. The weighted average interest rate earned on the deposits during the year was 4.6 % (2006 – 3.6 %). Deposits amounting to Kshs 159,437,000 (2006 – Kshs 159,437,000) were pledged in favour of the Commercial Bank of Africa Limited. ◀

2007 KShs'000	2006 KShs'000
159,437	159,437
31,328	31,328
279	5,789
191,044	196,554
=====	=====

22 ASSETS HELD FOR SALE

During the year, 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 have subsequently taken place and thus the properties have been classified as held for sale.

The proceeds of disposal are expected to exceed the net carrying amount of the property and, accordingly no impairment loss has been recognised on the classification of this property as held for sale.

The assets held for sale comprise:

COST

Transfer from property, plant and equipment (note 13)
Transfer from prepaid lease hold land (note 14)

DEPRECIATION

Transfer from property, plant and equipment (note 13)
Transfer from prepaid lease hold land (note 14)

NET BOOK VALUE

At 30 June

23 SHARE CAPITAL

Authorised:
19,369,580 Ordinary shares of Kshs 20 each

Issued and fully paid:
18,173,306 ordinary shares of Kshs 20 each

209,356	-
183	-
209,539	-
70,653	-
41	-
70,694	-
138,845	-
=====	=====
387,392	387,392
=====	=====
363,466	363,466

24 RETIREMENT BENEFIT OBLIGATIONS

The Company's defined benefits plan, the Kenya Pipeline Company Limited Staff Retirement Benefits Scheme was closed to new entrants and to future accrual of benefits with effect from 30 June 2006. A new defined contribution scheme, the Kenya Pipeline Company Staff Retirement Benefits Scheme 2006 replaced the defined benefit scheme with effect from 1 July 2006. All eligible new and existing employees were eligible to join the new arrangement. Contributions to the new

scheme by members are at 5% of an employees pensionable salary while the company contributes 12% of the members pensionable salary per month. Company contributions to the pension scheme in the year amounted to Kshs 148,237,080 (2006 – Kshs 168,823,903). The company's liability in the new defined contribution pension scheme is limited to the extent of its unpaid contributions to the scheme. As regards the defined benefit scheme, benefits on retirement or earlier exit will be



based on the final pensionable salary of the member with a cap of further salary increases that will be deemed to be pensionable at 3% per annum. The most recent actuarial valuation of the defined benefit scheme's assets and the present value of the defined benefits obligation was carried out as at 30 June 2007 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
Expected return on plan assets	10
Expected rate of salary increase	3

The amount included in the balance sheet as at 30 June 2007 arising from the Company's obligation in respect of the defined retirement benefit plan is determined as follows:

Present value of funded defined benefit obligations
Fair value of plan assets
Present value of unfunded obligations

2007 KShs'000	2006 KShs'000
4,156,600	4,732,963
(3,638,200)	(3,504,500)
518,400	1,228,463
=====	=====

The movement in the year in the defined benefit plan unfunded obligation was as follows:

BALANCE AT THE BEGINNING OF YEAR

Payments in the year
Credit to the income statement (note 8)

BALANCE AT THE END OF THE YEAR

2007 KShs'000	2006 KShs'000
1,228,463	1,382,000
(200,000)	(153,537)
(510,063)	-
518,400	1,228,463
=====	=====

In accordance with the requirements of the International Accounting Standard Number 19 on employee benefits, the company recognized in the income statement during the year a sum of Kshs 510,063,000 (2006 - Nil). This represented a reversal of the excess actuarial liabilities recognised in prior

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

25 DEFERRED TAX

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

Deferred tax liabilities:

Accelerated capital allowances on property, plant and equipment
Unrealised exchange gain

Deferred tax assets:

General stock provision
Leave pay provision
General bad debts provision
Unrealised exchange losses

649,479	736,818
-	3,733
649,479	740,551
(94,071)	(94,071)
(39,365)	(22,326)
(3,811)	(5,914)
(37,277)	-
(174,524)	(122,311)
474,955	618,240
=====	=====



The movement in deferred tax was as follows:

AT THE BEGINNING OF THE YEAR

Income statement (credit)/charge (note 10)

AT END OF THE YEAR

26 BORROWINGS

Loans (note 28 (b))

Bank overdraft

The borrowings are repayable as follows:

Within one year

ANALYSIS OF BORROWING

BY CURRENCY

BORROWINGS

2007

Triple A capital Limited

2006

European Investment Bank

Standard Chartered Bank Kenya Limited

Triple A capital Limited

Commercial Bank of Africa Limited

	2007 KShs'000	2006 KShs'000
AT THE BEGINNING OF THE YEAR		
Income statement (credit)/charge (note 10)	618,240 (143,285)	605,054 13,186
AT END OF THE YEAR	474,955	618,240
26 BORROWINGS		
Loans (note 28 (b))	221,040	506,438
Bank overdraft	-	285,771
	221,040	792,209
The borrowings are repayable as follows:		
Within one year	221,040	792,209

	Borrowings in Euros	KShs. in equivalent KShs'000	Borrowing in local currency KShs'000	Total KShs'000
2007				
Triple A capital Limited	-	-	221,040	221,040
	-	-	221,040	221,040
2006				
European Investment Bank	19,631	1,766	-	1,766
Standard Chartered Bank Kenya Limited	-	-	283,632	283,632
Triple A capital Limited	-	-	221,040	221,040
Commercial Bank of Africa Limited	-	-	285,771	285,771
	19,631	1,766	790,443	792,209

The weighted average effective interest rates paid were as follows:

	2007	2006
	%	%
European Investment Bank	-	1%
Standard Chartered Bank Kenya Limited	10%	10%
Triple A capital Limited	19%	19%
Commercial Bank of Africa Limited	15%	15%



The Standard Chartered Bank Kenya Limited loan was fully repaid during the year.

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

Following government intervention, the Triple A contract was cancelled and remittances made by Standard Chartered Bank Kenya Limited to Triple A were converted into a loan payable directly to the bank.

The company is disputing the amount of Kshs 221,040,000 due to Triple A Capital on various grounds. These include the fact that the amount remitted by the bank included advance interest and at an exchange rate which was higher than the prevailing market rate. The matter is in court. The loan from Triple A is unsecured. The loan from the European Investment Bank was fully repaid by the Ministry of Finance on the company's behalf after the bank requested the government to settle all loans payable by itself and also by its institutions before the bank could advance the government further loans. The balance has been reclassified to amounts due to the Ministry of Finance as disclosed under note 27.

27 TRADE AND OTHER PAYABLES

	2007 KShs'000	2006 KShs'000
Trade payables	392,780	382,255
Other payables	521,270	333,267
Leave pay provision	131,216	74,421
Withholding tax payable	32,373	47,734
VAT payable	15,434	30,232
Ministry of Energy-LPG Project	78,000	74,000
Ministry of Finance	1,766	-
	1,172,839	941,909
	=====	=====

28 NOTES TO THE CASH FLOW STATEMENT

(A) RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATIONS

	2007	2006
Operating profit	3,929,717	3,857,734
Adjustments for:		
Depreciation	924,527	888,479
Amortisation of prepaid leasehold land	1,188	1,191
Amortisation of intangible assets	35,414	27,332
Property, plant and equipment write off	10,872	-
Foreign exchange losses	(145,902)	(22,659)
Gain on disposal of property, plant and equipment and leasehold land	(112,213)	(88,128)
	4,643,603	4,663,949
Operating profit before working capital changes		
(Increase)/decrease in inventories	(28,366)	46,942
Increase in trade and other receivables	(206,515)	(221,375)
Increase in trade and other payables	230,930	278,378
Decrease in retirement benefit obligations	(710,063)	(153,537)
	3,929,589	4,614,357
Cash generated from operations	=====	=====

(B) LOAN MOVEMENT
AT BEGINNING OF THE YEAR
 Repaid in the year
AT END OF THE YEAR (NOTE 26)

2007 KShs'000
506,438
(285,398)
221,040
=====

2006 KShs'000
1,073,702
(567,264)
506,438
=====

(C) ANALYSIS OF CASH AND CASH EQUIVALENTS

Short term deposits (note 21)
 Cash at bank and in hand
 Bank overdraft (note 26)

191,044
1,807,927
-
1,998,971
=====

196,554
529,352
(285,771)
440,135
=====

29 RELATED PARTIES

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

(A) Key management
 Salaries and other short-term employment benefits

72,340
=====
3,240
10,908
14,148
=====

61,569
=====
6,480
15,897
22,377
=====

(B) Directors' remuneration
 Fees for services
 Other emoluments

382,825
=====

277,598
=====

2) Value of services provided to the National Oil Corporation Of Kenya Limited

The National Oil Corporation of Kenya Limited is a related party by virtue of common ownership.

3) Due to related parties:
 Ministry of Energy-LPG Project
 Ministry of Finance

78,000
1,766
79,766
=====

74,000
-
74,000
=====

30 FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

The company as a lessor:
 Within one year
 Between two and five years

89,575
358,301
447,876
=====

62,764
188,292
251,056
=====

► The lease rental income earned during the year in respect of company property rental amounted to Kshs 79,978,000 (2006 - Kshs 64,200,000). ◀◀

The company as a lessee:

Within one year
Between two and five years

2007 KShs'000	2006 KShs'000
8,950	15,750
25,450	47,250
<u>34,400</u>	<u>63,000</u>
=====	=====

► The lease rental expense incurred during the year in respect of company offices rental amounted to Kshs 19,179,000 (2006 - Kshs 36,638,000). ◀◀

31 CONTINGENT LIABILITIES

Products held on behalf of shippers (note 32)

Pending law suits

Guarantees and letters of credit

Pending lawsuits relate to civil suits lodged against the company by various parties in the normal course of business. The directors are of the opinion that the pending cases are unlikely to result in any liability to the company.

13,440,282	36,345,964
966,613	1,152,757
1,786,302	70,232
<u>16,193,197</u>	<u>37,568,953</u>
=====	=====

32 FUEL STOCKS

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

► As at 30 June 2007, the company held third party fuel stocks amounting to 348,509 M³ (2006 – 856,958 M³) worth Kshs 13,440,281,692 (2006 - Kshs 36,345,964,265). ◀◀

33 CAPITAL COMMITMENTS

Authorised and contracted for

Authorised but not contracted for

5,663,000	92,282
=====	=====
458,016	4,023,289
=====	=====

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

34 INCORPORATION

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

35 CURRENCY

Financial statements have been presented in Kenya Shillings Thousands (Kshs 000).



INCOME STATEMENT & CASH FLOW STATEMENT

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	2007 KShs'000	2006 KShs'000	2005 KShs '000	2004 KShs '000	2003 KShs '000
REVENUE	8,803,182	8,451,512	8,108,365	7,107,240	6,527,997
DIRECT COSTS	(3,730,249)	(3,220,666)	(3,465,036)	(3,184,200)	(3,500,743)
GROSS PROFIT	5,072,933	5,230,846	4,643,329	3,923,040	3,027,254
OTHER INCOME	262,120	190,814	187,903	108,371	191,007
ADMINISTRATION EXPENSES	(1,915,399)	(1,563,926)	(1,748,013)	(2,107,650)	(1,990,022)
PENSION DEFICIT (PROVISION)/ADD-BACK	510,063	-	(548,159)	-	-
OPERATING PROFIT	3,929,717	3,857,734	2,535,060	1,923,761	1,228,239
NET FINANCE INCOME/(COSTS)	88,377	180,166	(175,354)	(319,361)	(186,572)
PROFIT BEFORE TAXATION	4,018,094	4,037,900	2,359,706	1,604,400	1,041,667
TAXATION CHARGE	(1,043,125)	(1,244,621)	(968,417)	(666,619)	(517,262)
NET PROFIT AFTER TAXATION	2,974,969 =====	2,793,279 =====	1,391,289 =====	937,781 =====	524,405 =====
EARNINGS PER SHARE (basic and diluted)	163.70 =====	153.70 =====	76.56 =====	51.60 =====	28.85 =====
DIVIDEND PER SHARE (KShs)	8.25 =====	8.25 =====	8.25 =====	8.25 =====	2.00 =====
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007					
Net cash from operating activities	2,630,444	2,892,127	2,942,578	1,580,132	2,194,091
Net cash from / (to) investing activities	(636,210)	(2,782,718)	(2,066,133)	(1,118,380)	(2,129,424)
Net cash from / (to) financing activities	(435,398)	(867,264)	(614,514)	(768,757)	302,125
Net increase/decrease in cash and cash equivalents	1,558,836	(757,855)	261,931	(307,005)	(31,370)



BALANCE SHEET

	2007 KShs '000	2006 KShs '000	2005 KShs '000	2004 KShs '000	2003 KShs '000
ASSETS					
Non current assets					
Property, plant and equipment	12,939,208	12,577,135	12,291,015	12,710,719	12,622,079
Prepaid leasehold land	89,022	90,631	91,822	93,046	379,679
Intangible assets	43,602	54,665	-	-	2,898
Investments	4	4	4	4	4
Trade and other receivables	97,239				
	13,169,075	12,722,435	12,382,841	12,803,769	13,004,660
	=====	=====	=====	=====	=====
Current assets					
Inventories	632,745	604,379	651,321	722,960	988,124
Trade and other receivables	1,532,731	1,423,455	1,202,080	1,436,321	1,253,087
Taxation recoverable	209,044				
Government securities	2,554,669	3,266,493	1,642,318	-	-
Short term deposits	191,044	196,554	314,512	474,272	-
Bank and cash balances	1,807,927	529,352	883,478	461,787	1,295,878
Non Current assets held for sale	138,845	-	-	-	-
	7,067,005	6,020,233	4,693,709	3,095,340	3,537,089
	=====	=====	=====	=====	=====
Total assets	20,236,080	18,742,668	17,076,550	15,899,109	16,541,749
	=====	=====	=====	=====	=====
SHAREHOLDER'S FUNDS AND LIABILITIES					
Capital and reserves					
Share capital	363,466	363,466	363,466	363,466	363,466
Share premium	512,289	512,289	512,289	512,289	-
Revenue reserve	16,973,091	14,148,122	11,354,843	10,066,825	11,147,933
Proposed dividends		-	300,000	150,000	36,346
	17,848,846	15,023,877	12,530,598	11,092,580	11,547,745
	=====	=====	=====	=====	=====
Non current liabilities					
Retirement benefit obligations	518,400	1,228,463	1,382,000	1,012,000	1,012,000
Deferred taxation	474,955	618,240	605,054	699,338	22,222
Borrowings	-	221,040	504,672	1,008,925	-
	993,355	2,067,743	2,491,726	2,720,263	1,034,222
	=====	=====	=====	=====	=====
Current liabilities					
Borrowings	221,040	571,169	569,030	642,945	2,170,921
Trade and other payables	1,172,839	941,909	663,531	820,814	1,083,235
Taxation payable	-	137,970	821,665	586,161	669,280
Dividends declared				36,346	36,346
	1,393,879	1,651,048	2,054,226	2,086,266	3,959,782
	=====	=====	=====	=====	=====
Total shareholder's funds and liabilities	20,236,080	18,742,668	17,076,550	15,899,109	16,541,749
	=====	=====	=====	=====	=====

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