ANNUAL REPORT
& FINANCIAL STATEMENTS

2020

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

Corporate Information

BACKGROUND INFORMATION

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

The main objective of the Company is to provide efficient, reliable, safe and cost-effective means of transporting petroleum products from Mombasa to the hinterland. In pursuit of this objective, the Company has constructed a pipeline network, storage and loading facilities for transportation, storage and distribution of petroleum products. Current installed system consists of 1,795 kilometres of pipeline with current capacity to handle about 14 billion litres of petroleum products.

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

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

DIRECTORS

Name	Particulars
Rita Okuthe	Chairperson appointed August 7, 2020
Dr. Macharia Irungu, MBS	Managing Director
Amb. Hon. Ukur Yatani, EGH	Cabinet Secretary, National Treasury
Andrew N. Kamau, CBS	Principal Secretary, Ministry of Petroleum and Mining
Iltasayon Neepe Major (Rtd)	Re-appointed on February 8, 2019
Wahome Gitonga	Re-appointed on May 3, 2019
Jinaro Kibet	Appointed June 6, 2018
Elsie Mbugua	Appointed August 7, 2020
Ken Wathome	Appointed August 7, 2020
James Mbagaya Shiganga	Appointed August 7, 2020
Amos Gathecha	Alternate Director - National Treasury
Chege Mwangi	Alternate Director - Ministry of Petroleum and Mining
John Ngumi	Chairman until August 7, 2020
Winnie Mukami	Revoked August 7, 2020
Millicent Onyonyi, OGW	Resigned July 15, 2019

COMPANY SECRETARY

Flora Okoth
Certified Public Secretary

REGISTERED OFFICE

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

PRINCIPAL AUDITORS

Office of the Auditor General
P. O. Box 30084 - 00100
Nairobi

PRINCIPAL BANKERS

NCBA Bank Kenya PLC. Ltd.
Wabera Street
P. O. Box 30437 – 00100
Nairobi

Stanbic Bank Limited
Stanbic Bank Centre - Chiromo road
P. O Box 72833 - 00200
Nairobi

Equity Bank
Kenpipe Plaza, Sekondi Road
Off Lunga Lunga Road
P. O. Box 78569 – 00507
Nairobi

Citibank, N.A.
Citibank House
Upper Hill Road
P. O. Box 30711 - 00100
Nairobi

Standard Chartered Bank
Stanchart Chiromo
P.O. Box 30003-00100
Nairobi

Co-operative Bank of Kenya
Co-operative House Branch
Nanyuki Road
P.O. Box 67881 - 00200
Nairobi

KPC

PRINCIPAL ADVOCATES

Attorney General
Office of the Attorney General,
Department of Justice
P. O. Box 40112 – 00200
Nairobi

Ngatia & Associates
Bishops Garden Towers, 2nd Floor
P.O. Box 56688 - 00200
Harambee Avenue
Nairobi

Mohammed Muigai Advocates
MM Chambers 4th Floor, K-Rep Centre
P.O. Box 613323 - 00200
Nairobi

who we are

Our Vision

Africa's Premier Oil & Gas Company

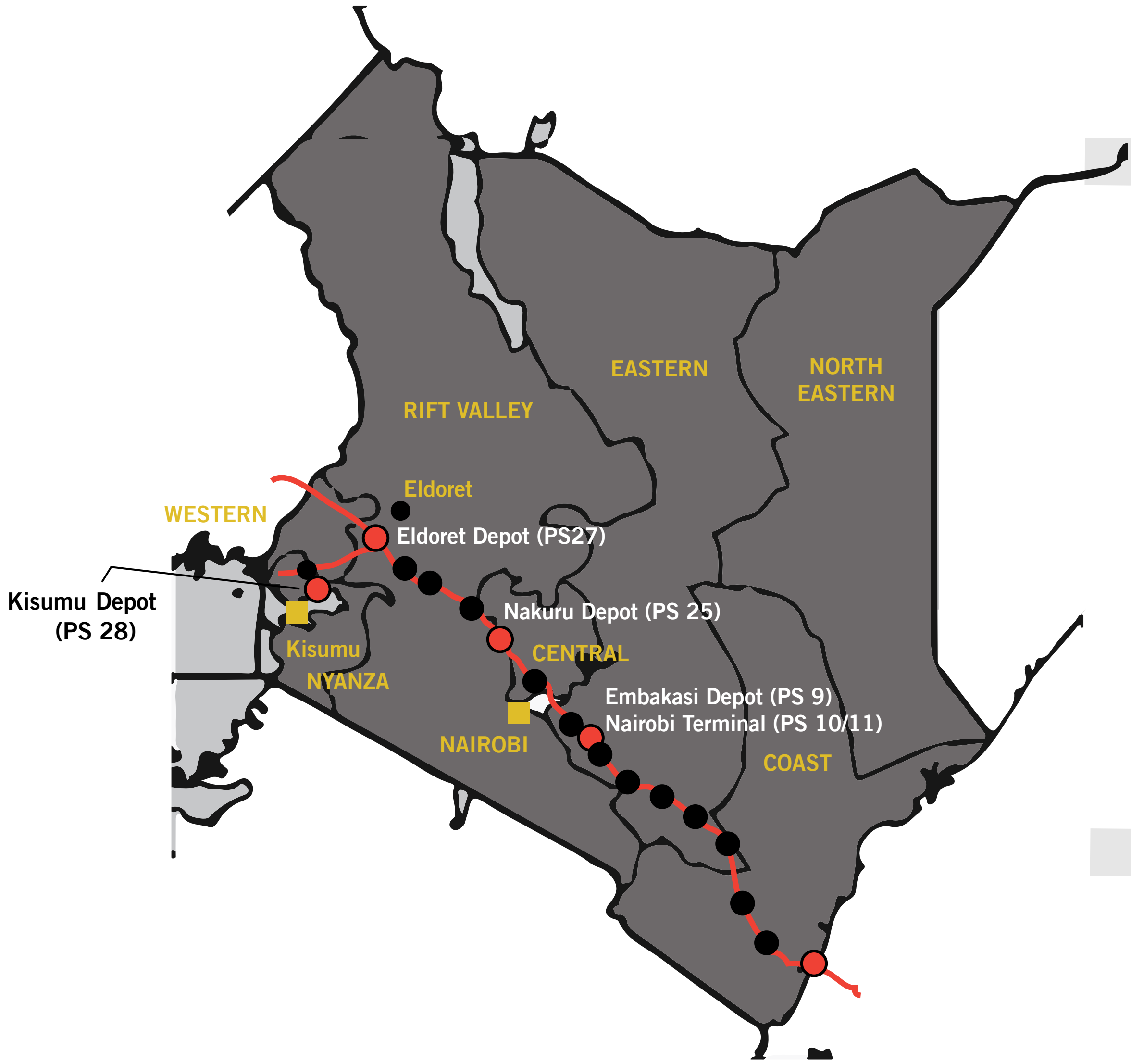
Our Mission

Transforming lives through safe and effecient delivery of quality oil and gas from source to customer

Our Core Values

- Integrity
- Transparency
- Accountability
- Diligence
- Team spirit
- Loyalty
- Care for the Environment

our network



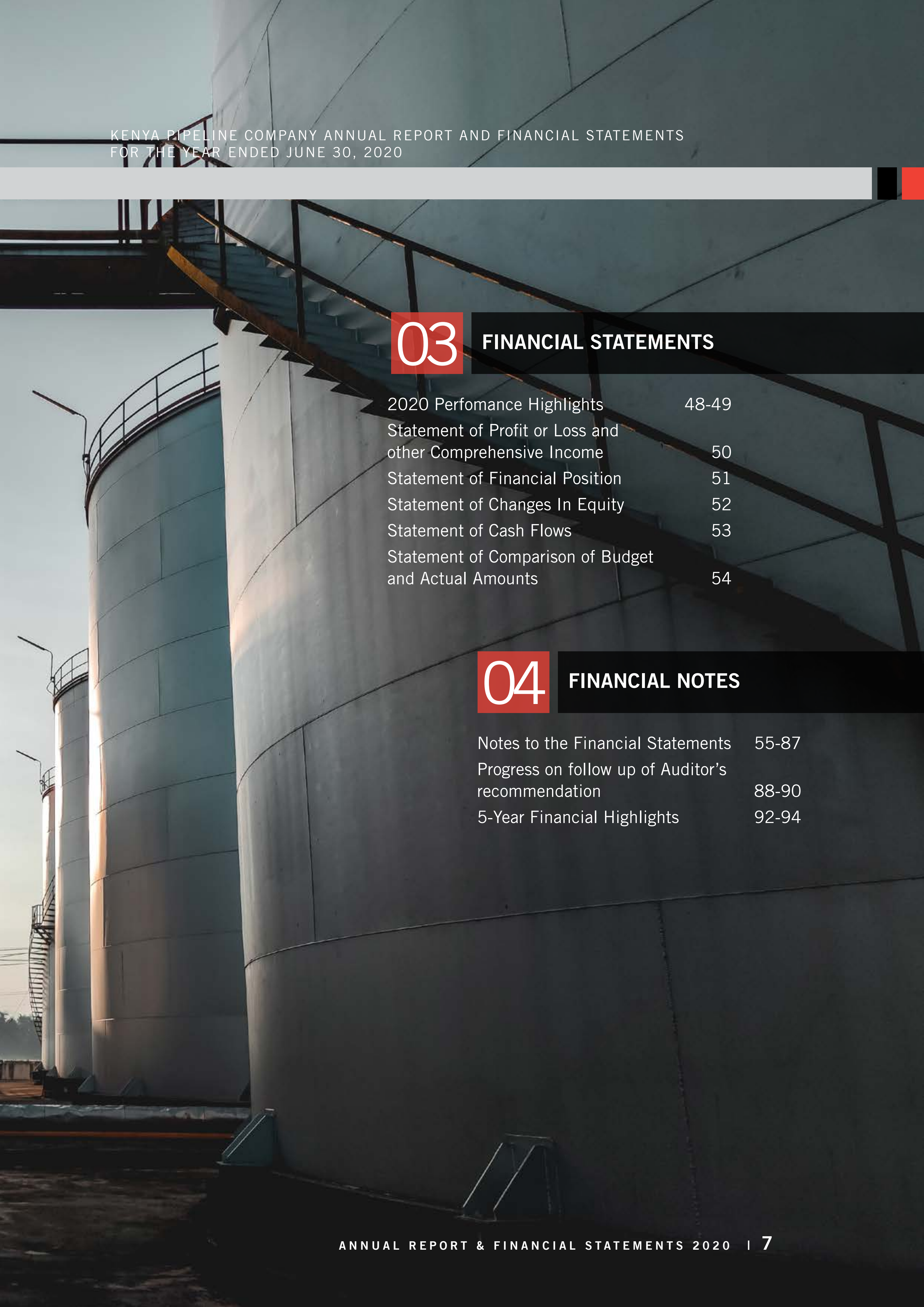
PS 9 - Embakasi Depot
PS 10/11 - Nairobi Terminal
PS 21A/B - Nairobi
PS 22 - Ngema
PS 23 - Morendat
PS 24 - Nakuru
PS 25 - Nakuru Depot
PS 26A - Sinendet
PS 26B - Burnt Forest
PS 27 - Eldoret Depot
PS 28 - Kisumu Depot

Pipeline
Depots
Pump stations

Contents

INTRODUCTION 01

COMPANY REPORT 02



03 FINANCIAL STATEMENTS

04 FINANCIAL NOTES

CHAIRPERSON'S STATEMENT

RITA OKUTHE - BOARD CHAIRPERSON

Dear Shareholders,

On behalf of the KPC Board of Directors, I am pleased to present to you the Annual Report and Financial Statements of the Kenya Pipeline Company Limited ("KPC" or "the Company") for the Fiscal Year ended June 30, 2020.

KPC started out the Fiscal Year with a solid financial performance but, in common with businesses the world over, our performance was affected in the second half following the outbreak of COVID-19 and its adverse impact on economies. Despite the pandemic, KPC remained resilient, and continued with its diversification and expansion from pipeline and storage infrastructure into maritime transport, crude oil storage and fibre-optic commercialisation. Pipeline operations continued uninterrupted and financial stability was maintained.

I am also pleased to report that as a result of the implementation of robust governance processes and systems the Company received an unqualified opinion from the Office of the Auditor General in the period under review. This is the second year in a row that KPC has attained an unqualified set of accounts, thereby laying a solid foundation for the achievement of our Corporate Strategic Plan, and setting the pace amongst State-Owned Enterprises (SOEs).

In the year under review, KPC contributed immensely to the Nation's development agenda and to the well-being of society at large, going above and beyond our core mandate. My statement focuses on these initiatives and the key building blocks that have been laid towards the realisation of KPC's Corporate Vision 2025.

Response to COVID-19

Fiscal Year 19/20 was a challenging one due to the unprecedented impact of COVID-19. I am proud to report that KPC rose to the challenge, emerging as a key player in providing solutions and robust leadership in response to one of the worst public health crises of our time. KPC moved swiftly to work with Government, Private Sector players and Kenyans of goodwill to produce 1.5 million litres of hand sanitiser for distribution free of charge across the country at a time when we needed to cushion our population against the virus. A further grant from KPC of Kshs 55 million went to the National Youth Service (NYS) to produce over 1.5 million masks, also for distribution free of charge to the needy in our society. We remain greatly indebted to all the institutions and individuals who partnered us in these noble initiatives. The COVID-19 pandemic is still with us and it is vitally important that we adhere to the preventive guidelines from the Ministry of Health and the World Health Organisation to curb the spread of this disease, safeguard lives and ensure business continuity and economic wellbeing.

Support to the National Development Agenda and Growth

KPC exists not only to provide a critical service in the petroleum products supply chain, but also to support our shareholder, the Kenya Government, in achieving its development agenda. In the year under review KPC paid the Government of Kenya Kshs 11.8 billion in special dividends. Out of this sum Kshs 1.8 billion was expended by the Government in the rehabilitation of the Nairobi-Nanyuki railway line, the objective being to spur socio-economic development in the Mt. Kenya and Northern regions. This project was undertaken in partnership with Kenya Railways Corporation (KRC), Kenya Defence Forces and the NYS.

In addition, KPC committed resources towards the transformation of Kisumu Port into a regional transport hub contributing to the creation of a blue economy. A collaborative effort between Kenya Ports Authority (KPA) and KRC resulted in a rejuvenated Kisumu Port, including the resumption of maritime transport of fuel through rail loading facilities at our Kisumu Depot. We remain committed to regional expansion through Lake Victoria as a more cost effective and safer option of fuel transportation. This regional expansion drive will be intensified once the Kisumu Oil Jetty is operational, which will happen upon completion of the complementary facility in Uganda, now scheduled for later in 2021.

KPC's Strategic Focus

In keeping with the pace of growth in the oil & gas sector, KPC has in recent years undertaken a number of critical infrastructure projects to increase throughput and availability of petroleum products in Kenya and the East Africa region. Hand in hand with this infrastructure build out is an intense focus on maintenance, in order to ensure we are always ready to meet market needs. Business growth also demands that we enhance our storage capacity, improve our business efficiencies and focus relentlessly on customer satisfaction. We also recognise that for this first class infrastructure to deliver, we need reliable systems, robust processes and continuous investment in our people to ensure superior performance. We are also investing in the Company's image and reputation to engender a strong brand which will help underpin future growth.

During the year under review the 20-inch Mombasa-Nairobi pipeline (Line 5) ensured sustained and consistent supply of fuel to the region. The Kisumu bottom loading facility was completed thereby boosting the evacuation of petroleum products from our depot. These bottom loading facilities are being rolled out into other depots such as Nakuru and Eldoret to improve customer experience, loading turnaround time and safety.

I am happy to report that in the year under review KPC successfully managed the operations and performance of Kenya Petroleum Refineries Ltd (KPRL), posting impressive business returns. Under the guidance of the National Treasury we are now in the final stages of acquiring KPRL. The additional assets KPRL brings on board as well as its strategic location provides an opportunity not only to enhance operational flexibility, but also the opportunity to explore other businesses such as trans-shipment and the development of a trading hub. Ensuring KPRL remains operational and grows is yet another example of how KPC is supporting government in meeting broader development goals.

In the year under review, and working alongside KPA, we commenced the construction of a second terminal at Kipevu, commonly referred to as KOT 2, whose completion is expected by the end of 2021. This will create sufficient capacity for berthing vessels to discharge fuel into KPC's system thereby reducing vessel turnaround time. It will also go a long way in enhancing capacity and efficiency at the port of Mombasa for receipt of imports and reduction of demurrage.

KPC's infrastructure is critical in assisting the Government to achieve its Big Four agenda. Fuel is a key enabler for each of the four focus pillars – universal healthcare, food security, manufacturing and affordable housing. We are committed to continue to direct and align resources to support the Big 4 agenda as we focus on our mission to transform lives through safe and efficient delivery of quality oil and gas from source to customer.

KPC is well placed to continue playing a key role in the regional Oil and Gas Sector. The Board is focused on building a strong foundation to accelerate business diversification. We have already gone into the provision of high-speed data through our fibre-optic business and signed lease agreements with key telecommunication players in the industry. We will continue to rolling out and optimising fibre optic, especially given the advent of 5G services in the country. KPC is also looking into the LPG business as a key revenue diversification stream in the near to medium-term. All these initiatives are underpinned by a strong project governance framework to ensure that projects are prioritised, completed on time and on budget, in full compliance with Government guidelines and regulations.

Appreciation

I take this opportunity to thank our esteemed customers, the Oil Marketing Companies (OMCs) for choosing our services to transport petroleum products. We remain committed to fulfilling our mandate, which is to provide the Kenyan economy with the most efficient, reliable, safe and cost-effective means of transporting petroleum products.

On behalf of KPC's Board, Management and Staff, I would also like to recognise the policy guidance and support accorded to KPC by our shareholders, the Ministry of Petroleum & Mining and the National Treasury. We look forward to your support as we diversify our business in line with our growth strategy.

I would also like to thank my immediate predecessor as Chairperson, Mr. John Ngumi, for 5 years of indefatigable service to KPC and to the country. We congratulate him on his appointment as Chairperson of ICDC and look forward to working together as part of the Kenya Transport and Logistics Network (KTLN).

I am indebted to my fellow Directors on the Board in a very special way. You have contributed immensely to ensuring the growth and sustainability of KPC as a financially strong and responsible organisation that makes a positive and significant contribution to the economy. I am truly honoured to serve alongside you as we strive to redefine the role played by KPC as a pacesetter for SOEs in the country.

Finally, to Management and Staff, I commend you all for your tireless efforts and commitment to the attainment of KPC's set targets and goals. We work in a challenging environment, and in a highly demanding industry, and your dedication and commitment to playing your individual roles has not only enabled the company to remain profitable, but also ensured that the country and the region have a steady and uninterrupted supply of fuel.

RITA OKUTHE
BOARD CHAIRPERSON

BOARD OF DIRECTORS - BIO DATA

Rita Okuthe - **BOARD CHAIRPERSON**

Born in 1971, Rita is a senior business leader with a career spanning over 25 years. She's a marketing turnaround specialist, having worked for MTN Uganda and Safaricom Kenya.

Prior to her appointment as Chairperson of the state-owned corporation Kenya Pipeline Company (KPC), she served as a Director of the Board and Chair of the Board Audit Committee at KPC. She was also a member of Safaricom's Executive management team for 10 years. She sits on several public and private sector boards; currently serves as a Director of the Industrial Commercial and Development Company (ICDC), the British Chamber of Commerce in Kenya (BCCK), CarePay Kenya and the Advisory Board of Global Payment Services in addition to being a Trustee of the Safaricom Foundation. She previously served on the boards of JamboJet; and the Kenya Advertising Standards Board. Rita has won several local and international marketing and leadership awards and has been nominated as one of the top 50 Global Marketeers by the Global Telecoms Magazine in recognition of her contribution to building the Safaricom brand. She is an accredited executive coach. Rita has Bachelor's of Arts Degree, Economics and MSc - Marketing.

Dr. Macharia Irungu, MBS - **MANAGING DIRECTOR**

Born in 1966, Dr. Irungu has over 28 years of experience at Senior Management level in Lubrication, Retail, Real estate, and Supply Trading in the petroleum sector in Kenya and Africa. Most recently he served as Managing Director for Gulf Africa Petroleum Corporation and Director of Total Kenya PLC. Previously, he served in executive and managerial positions in Libya Oil, Mobil Oil and MASI. He has held several Director positions in charitable and government organizations as well as guiding and supervising Masters and PhD Candidates in his area of expertise. Dr. Irungu is a member of the America Chamber of Commerce, Kenya hospital Association, British Business Association, Institute of Directors and the Kenya Institute of Management.

Amb. (Hon) Ukur Yatani, EGH

CABINET SECRETARY, NATIONAL TREASURY

Born in 1967, Hon. Amb. Yatani has over 27 years of experience in Public Administration, Politics, Diplomacy and Governance in public sector since 1992. Between the years 2006-2007 while a Member of Parliament for North Horr constituency, he also served as an Assistant Minister for Science and Technology. At the height of his career (March 2013-August 2017), he served as a pioneer Governor of Marsabit County, the largest County in the Republic of Kenya, (May 2013-June 2015) as the Chair of Foreign Affairs Committee, Council of Governors, (May 2015-June 2017) as Chief Whip, Council of Governors Kenya, and Between June 2009 and October 2012, he also served as Kenya's Ambassador to Austria with Accreditation to Hungary and Slovakia and Permanent Representative to the United Nations in Vienna. In this position, he aggressively pursued and advanced Kenya's foreign interests. He held senior leadership positions at various diplomatic and international agencies such as International Atomic Energy Agency (IAEA), United Nations Organization on Drugs and Crimes (UNODC), United Nations Industrial Development Organization (UNIDO), Vice Chairperson of United Nations Convention Against Transnational Organized Crime (UNTOC), Vice President of Convention on Crime Prevention and Criminal Justice (CCPJ), and Chair of African Group of Ambassadors among others. He also served as the Cabinet Secretary Ministry of Labour and Social Protection between the years 2017 – 2019. He has Master of Arts in Public Administration and Public Policy, University of York, United Kingdom, 2005; and Bachelor of Arts in Economics, Egerton University, Kenya, 1991.

Andrew Kamau, CBS

PRINCIPAL SECRETARY, MINISTRY OF PETROLEUM & MINING

Born in 1966, Andrew Kamau has over 30 years' experience in Petroleum energy gained from several years in leadership position in Bracewell Energy , Engen Kenya limited and Esso Kenya Limited.

Ken Wathome - DIRECTOR

Born in 1962, Kenneth has a BSC Land Economics and a Master's degree-Global Executive MBA. Ken Wathome is a resourceful Professional and Business Executive with proven effectiveness in working with high performance teams to achieve exceptional results in business environments. He has a career experience of over 20 years in Strategy, Leadership, Governance, Corporate Restructuring and Property Development. He currently heads NW Realite and Property One Limited. He has chaired and has been a member of several Boards, such as the Kenya Bureau of Standards, Faulu Kenya, AIB Capital, Opportunity Bank of Uganda, Transformational Business Network (Kenya), Opportunity International United States among others.

Iltasayon Neepe Major (Rtd) - DIRECTOR

Major (Rtd) Iltasayon Neepe was re-appointed to the Kenya Pipeline Company Board of Directors on 8th February 2019. He holds a Bachelor's Degree in Business Development. Born in 1972, Iltasayon has served in the military for many years rising to the rank of Major, a responsibility that saw him serve in the UN air operations unit. He is currently the Board Chair of Boma Fund.

Wahome Gitonga - DIRECTOR

Born in 1966, Wahome Gitonga is a leading entrepreneur, running his own business since 1996 and is a director of several companies with diverse interests in Kenya, Rwanda and Tanzania where he has been instrumental in accomplishing large projects. A trained Economist, Wahome holds a Bachelor's Degree-Economics and Sociology He is also a past President, Owner Manager Program (OMP 2012-3) Strathmore Business School (SBS).

Jinaro Kibet - DIRECTOR

Jinaro is an advocate of the High Court of Kenya, a Commissioner for Oaths and Notary Public and is currently a partner at TripleOKLaw LLP Advocates with over 29 years' experience in both private and public sector. Born in 1965, Jinaro holds a Bachelor's Degree- Law, and is a board member at Unga Group Limited, Prime Bank Ltd, Telkom Kenya, Advisory Board Strathmore Business School among others.

James Mbagaya Shiganga - DIRECTOR

Born in 1962, James has extensive senior executive experience and leadership across major emerging markets in Africa, spanning over 25 years. James started his career with PWC and worked in Boston US prior to joining the French building materials group, Lafarge SA, as a senior global executive. James served as a Country Director and Chief Executive Officer in several of Lafarge's operations across Africa. He was instrumental in the group's Africa growth strategy and development from a single entity in Kenya, Bamburi Cement Ltd, to becoming an industry and market leader in nine countries, including Nigeria and South Africa. James has an intimate understanding of different sub-Sahara markets and is credited with strong expertise in governance, Mergers & Acquisitions, leading and motivating large diverse professional teams, change management and business turnarounds in challenging environments. He founded and recently exited a mining venture in South Africa and currently heads a boutique capital advisory firm, Stratlink Africa Limited, connecting global investors to innovative businesses in Africa with significant growth potential. James holds an MBA from HEC Paris, BSc (Hons) Mathematics from University of Nairobi and is a CPA (K).

Elsie Mbugua - DIRECTOR

Born in 1985, Elsie Mbugua holds an Accreditation at the Chartered Institute of Securities and Investment (CISI) in FSA Financial Regulation and Commodity Derivatives (London). She also holds a Dual Degree in Economics and International Relations from Tufts University, and is a Recipient of the Tufts Research Scholarship on Effective Development Tools in Microfinance and the Tufts Entrepreneur Award 2008, Biology - Harvard University, Physics - Richmond, the American University in London and also a Dean Scholar Award. Elsie also, is the Founder of Elcy Investments Ltd with its power subsidiary Leadwood Energy; a specialist energy advisory company focused on renewable energy projects. She is well known for working on what she terms as ‘first of a kind’ energy transactions in the region to improve and transform East Africa’s energy sector. She has been involved in restructuring various parastatals in the country through Financial Independent Business Reviews, developing the framework for a local currency Power Purchase Agreement, negotiating the Heads of Terms for Kenya’s Upstream Crude Project and the sale of Kenya’s first crude oil cargo.

She was voted 2019 Young Emerging Energy Leader and also received an award recognition for her exceptional leadership in Africa’s energy sector. In 2020, her Firm was voted Best Renewable Energy Consulting Firm in East Africa and was also the recipient of the 2020 East Africa Green Future Leadership Award. Her thoughts on Africa’s energy transformation are widely published in numerous energy journals. Elsie started her career as an energy trader and has more than a decade of experience as a physical energy trader for some of the world’s largest trading houses – Goldman Sachs and J.P Morgan – covering markets in coal, emissions, power, natural gas, liquefied natural gas, and crude oil. During her time as a trader, she participated in the first market-based effort to reduce greenhouse gas emissions in the US. She also assisted in the management and optimization of 3000 MW of power generating asset in California. She was J.P Morgan’s lead North America LNG trader, managing a business with LNG import rights for up to 2 billion cubic feet per day of gas at the Cheniere Sabine Pass import terminal in Louisiana. She has also traded physical crude oil covering the Dated Brent and West African crude oil markets from London. She sits on the United States Board of the BOMA project and is the Chairman of the Board of a US non-profit Ekenywa.

Chege Mwangi

ALTERNATE DIRECTOR - MINISTRY OF PETROLEUM & MINING

Born in 1962, Chege Mwangi has over 30 years’ experience in Public Administration, Project Planning and Management. He is currently the Administrative Secretary at The Ministry of Petroleum and Mining.

Amos Gathecha

ALTERNATE DIRECTOR - THE NATIONAL TREASURY

Born in 1964, Amos has over 30 years’ experience Public Administration and Policy. He is currently the Principal Administrative Secretary at The National Treasury.

Flora Fiona Okoth - COMPANY SECRETARY

Born in 1966, Flora is a competent and highly qualified lawyer with over twenty five years’ legal, business management and administrative experience gained in public and private sectors. She has worked in the insurance sector and practiced law in partnership and as sole practitioner in various stages of her career. She has acquired extensive board experience having served two large organizations as Company Secretary, the longest one being at Kenya Pipeline company. Flora has also chaired the board of a community development NGO, the Community Aid International for 5 years from 2012 - 2017. She is the holder of a Master of Laws Degree (LLM) in International Economic Law from University of Warwick, U.K (2001); an Executive MBA degree from the United States International University (USIU- Kenya, 2012), a Bachelor of Laws degree (LLB) from the University of Nairobi (1990) and a Diploma in Law from the Kenya School of Law (1991). Flora is also a member of the Law Society of Kenya (LSK) and a Certified Public Secretary (CPS) since 2005.

CORPORATE GOVERNANCE STATEMENT

Kenya Pipeline Company (KPC) is committed to maintaining the highest standards of Good Corporate Governance in its systems, processes and operations in order to safeguard the interests of all stakeholders. This ensures Board and Management accountability and helps build public trust in the Company.

The Board of KPC is responsible for overseeing the effective management and control of the Company. Transparency and Disclosure is a key focus area of Board oversight and this is well demonstrated in our audited Financial Statements over the years. Management has implemented an enterprise risk assessment framework where risks are identified, monitored and controlled.

In implementing the Corporate Governance tenets, the Board seeks to add value through constructive dialogue and engagement with stakeholders as well as management with a strong focus on the Company's strategic agenda.

The Board embraces and recognizes the benefits of diversity in skills and experience in its compositions and this engenders the effective discharge of the Boards strategic oversight function.

As at June 30, 2020, the Board was made of eleven (11) members comprising of non-executive Chairman, the Cabinet Secretary Treasury, the Permanent Secretary Ministry of Petroleum and Mining, the Attorney General, the Managing Director and six (6) independent directors of various backgrounds. The non-executive directors are independent of management. One member resigned during this period.

The Board has established four standing Committees with specific terms of reference to exercise delegated responsibilities. The Committees are Audit, Human Resources, Technical and Finance Committees.

Board meetings are held in accordance with the annual calendar and the Board Charter for the respective Committee, save in exceptional instances where special meetings are held when critical business matters arise.

The following meetings were held during the Year ending June 30, 2020:

MEETING	NO. OF MEETINGS	MEMBERSHIP ATTENDANCE %	AVERAGE
Full Board meeting	4	10	98%
Special Board Meeting	18	10	98%
Board Finance Committee Meeting	9	5	98%
Special Board Finance Committee Meeting	1	5	98%
Board Human Resource Committee Meeting	4	5	98%
Special Board Human Resource Committee Meeting	9	5	98%
Board Technical Committee meeting	3	5	98%
Special Board Technical Committee meeting	2	5	98%
Board Ad-hoc meeting	2	10	98%
Annual General meeting	1	12	100%
Board Audit Committee Meeting	4	5	95%
Special Board Audit Committee Meeting	1	5	98%

FLORA OKOTH

Company Secretary


DR.MACHARIA IRUNGU, MBS
Managing Director

THE MANAGING DIRECTOR'S REPORT

Dear Shareholders,

It is my great pleasure to present to you the Kenya Pipeline Company Annual Report and Financial Statements for the year ended 30th June 2020. Kenya Pipeline Company ("KPC" or the "Company") has once again registered another year of sound financial performance despite the challenges associated with COVID-19 which affected our business a great deal. That notwithstanding, the Company continues to make investments towards the attainment of its vision to become Africa's premier oil and gas company. In this regard, we continue to invest in the expansion and rehabilitation of our pipeline-based petroleum distribution and storage networks to enable us to strengthen our regional footprint as a strategic player with financial strength and strategic competitiveness in the absolutely vital and growing oil & gas sector.

Equipped with the most extensive pipeline-based petroleum distribution and storage network in Sub-Sahara Africa, KPC hosts some of the region's most vital and strategic infrastructure. The Company's current combined asset base stands at Kshs. 123 billion, ranking it among the largest firms in East and Central Africa.

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

In FY 2019/20, our commitment to building a strong reputation for excellence in petroleum supply logistics and related services posted remarkable financial results. Below are some of the highlights of the key performance indicators that capture the year under review:

FINANCIAL PERFORMANCE

Pre-Tax Profit

The Company posted a 80% increase in Pre-Tax Profit of Kshs. 5.8 billion for the financial year ended 30th June 2020 compared to Kshs. 3.2 billion achieved in the previous financial year.

The increased profitability is mainly attributed to reduction in operating costs by Kshs. 7.9 billion, primarily due to reduced provision for bad and doubtful debts and deliberate cost containment measures.

Throughput

During the year under review, KPC recorded a 4% growth in throughput volumes to 7,686,227m3 from 7,404,902m3 in FY 2018/19.

On the domestic throughput front, the figures went up by 6% from 3,950,192 m3 for the year ended 30th June 2019 to 4,191,594 m3 for the year ended 30th June 2020.

Export volumes also went up marginally by 1% to 3,494,633 m3 for the year ended 30th June 2020 compared to 3,454,711 m3 for the year ended 30th June 2019.

The growth in throughput performance was severely affected in the last quarter of the Financial year in the backdrop of acute interruption across all activities, restrictions on movement of people, constrained supply chains and reduced production due COVID-19 pandemic.

Revenue

Throughput revenue went down by 17% (Kshs. 5.4 billion) to Kshs. 26.1 billion during the year under review from Kshs. 31.5 billion recorded in FY 2018/19.

This decline is largely attributed to the downward revision of pipeline tariffs by Energy and Petroleum Regulatory Authority (EPRA) by between 19% and 3% for local sales and 48% and 33% for export sales respectively. The revenue was further affected by the decline in sales as a result of covid-19 pandemic.

Operating Expenditure

In the FY 2019/20, KPC operating expenditure reduced by 27% to Kshs. 21.2 billion from the previous year's Kshs. 29.1 billion. This was attributed to reduced provisions in bad and doubtful debts and cost containment initiatives. Further, loan interest expenses decreased compared to similar period last year as a result of favorable LIBOR rates.

Financial Position

The Company's cash reserves went down by 35% to Kshs. 8.4 billion compared to Kshs. 12.9 billion at the end of the previous year. This is largely due to payment of dividend of Kshs.11.8 billion paid in November and December 2019 to National Treasury and repayments of the Syndicated loan acquired to construct Line 5.

KEY PROJECTS/INITIATIVES

The period under review saw the Company undertake the following projects/initiatives:

1 **Rejuvenation of Kisumu Port as a Fuel Transportation Hub:** During the year ended 30th June 2020, the multi-agency initiative comprising KPC, Kenya Railways and Kenya Ports Authority put in place a modern bottom loading facility in KPC Kisumu depot where rail wagons are loaded with product and ferried on the refurbished railway line from KPC depot to KPA Kisumu depot for onward loading into MV Uhuru. These rehabilitation

THE MANAGING DIRECTOR'S REPORT

works were completed and over the last several months, KPC's Kisumu Terminal has been used to load wagons on the wagon-ferried sea vessel MV Uhuru which has so far transported over 12 million litres of diesel to Uganda since December 2019. This graphically demonstrates that marine transportation of fuel is a viable option that the region should capitalize on.

2 **Commercialization of Fibre Optic Cable:** The Company installed a 92 core Fiber Optic Cable for internal use along all the existing pipelines and has sold excess capacity to major telecommunication providers mainly as dark fibre product. During the year under review, this has diversified the Company's revenue base while providing a solid communication backbone that is secure and scalable to meet the growing needs by the business. There is potential for growth in this business line.

3 **Rehabilitation of Nairobi-Nanyuki Railway:** KPC partnered with Kenya Railways, the Kenya Defence Forces and the National Youth Service (NYS) to bring back into operation the Nairobi-Nanyuki Railway line which is going to be transformative for the Mt. Kenya and Northern Kenya regions. Out of the Kshs. 11.8 billion KPC paid in dividends to the Government during the year under review, Kshs. 1.8 billion was expended by the Government in rehabilitating the Nairobi-Nanyuki Railway.

4 **The Early Oil Pilot Scheme (EOPS):** KPC's role in this initiative is to provide crude oil receiving, storage and exporting facilities at KPRL, Mombasa. In the year ending 30th June 2019, KPC provided six heated and insulated storage tanks of about 570,000 barrels for this initiative. The upgrading of the tanks involved installation of heating coils, uprating mixer motors and installation of external insulation among a myriad of other auxiliary facilities and activities.

5 **COVID-19 Support to Government:** On 18th March 2020, President Uhuru Kenyatta mandated KPC to liaise with select oil industry firms and other private sector players to produce alcohol-based sanitizers for free distribution to the public throughout the country as one way of preventing the spread of COVID-19. As a result, KPC moved quickly to work with various government agencies, corporate partners and other Kenyans to produce over 1.5 million litres of sanitisers for free distribution to needy Kenyans across all 47 counties in the country. KPC also made a grant funding of Kshs.55 million to the NYS, which enabled them produce 1.5 million masks that were distributed for free to needy Kenyans around the country.

From the foregoing, it is evident that KPC is gearing up towards a brighter future with these key investments and partnerships. With the recent presidential Executive Order on coordination and integration of public port, rail and pipeline services aimed at fostering the country's competitiveness in the arena of trade and ease of doing business, KPC is now fully focused on leveraging on the efficiencies and synergies of other government entities so as to achieve Kenya's strategic agenda of becoming a regional logistics hub. Indeed, all our investments are anchored on Vision 2030 and guided by KPC's 10-year Corporate Strategic Plan ('Vision 2025') which aims at transforming KPC into a world-class diversified oil & gas company.

> " The Company's current combined asset base stands at Kshs. 123 billion, ranking it among the largest firms in East and Central Africa.

Appreciation

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

On behalf of the entire Management and staff, I wish to thank the Chairperson and the Board of Directors, for their continued support, visionary leadership and guidance they provided to the management team throughout the year.

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

On behalf of the Board of Directors and Management of KPC, I take this opportunity to congratulate KPC's staff for delivering this year's good results and enabling the corporation to remain profitable. It is through your tireless efforts and commitment that we have been able to record this remarkable performance even in the face of the operational and administrative challenges brought about by COVID-19. Now that this disease is still with us, I urge you to strictly observe the preventive guidelines from the Ministry of Health and WHO at all times to flatten the curve of this global pandemic.

I look forward to your continued support as we move to make KPC an institution of impact across Africa by positively transforming the lives of our people.

Dr. Macharia Irungu, MBS
MANAGING DIRECTOR

THE EXECUTIVE TEAM

Dr. Macharia Irungu, MBS
MANAGING DIRECTOR

Joshua Mutea
GENERAL MANAGER
PIPELINE OPERATIONS & MAINTENANCE

David Muriuki
GENERAL MANAGER
INFRASTRUCTURE

Pius Mwendwa
GENERAL MANAGER
FINANCE

Zilper Abong'o
GENERAL MANAGER
STRATEGY

Catherine Kaloki
GENERAL MANAGER
AUDIT

Dr. Aiyabei Jonah
DIRECTOR MORENDAT
INSTITUTE OF OIL & GAS

Flora Okoth
GENERAL MANAGER
COMPANY SEC. & LEGAL SERVICES

Nyambura Kimani
GENERAL MANAGER HR
& ADMNISTRATION

Tom Mailu
AG. GENERAL MANAGER
KPRL

Peter Mwangi
GENERAL MANAGER
SUPPLY CHAIN


Pamela Ondago
AG. CORPORATE FINANCE MANAGER


Antony Ndegwa
AG. REVENUE MANAGER


Laban Kosgey
AG. ICT MANAGER


Beatrice Orgut
SAFETY, HEALTH & ENVIRONMENT MANAGER


Amos Mugira
AG. QUALITY CONTROL MANAGER


James Karanja
AG. SUPPLY & LOGISTICS MANAGER


Martin Wanyama
AG. OPERATIONS MANAGER


Capt. Boniface Ndaka
AIRWING MANAGER


Moses Tawuo
MAINTENANCE MANAGER


Paul M Njuguna
BUSINESS MANAGER


Elizabeth Akinyi
AG. CORPORATE PLANNING MANAGER


Thomas Ngira
HUMAN RESOURCES MANAGER


Bernice Lemedeket
FOUNDATION MANAGER


Disterius Nyandika
ENTERPRISE RISK MANAGER


Sheila Chepsiror
AG. ADMINISTRATION MANAGER


Major (Rtd) Isaac Ondari
AG. SECURITY MANAGER


Jane Tuitoek
AG. MARKETING & BUSINESS DEVELOPMENT MANAGER


Nancy Rono
AG. PROCUREMENT MANAGER


Jacinta Ochieng
AG. CORPORATE COMMUNICATIONS MANAGER


Caxton Njuga
AG. INTERNAL AUDIT MANAGER

INTEGRATED RISK MANAGEMENT REPORT

The company undertook a detailed companywide re-evaluation of its enterprise risks through a risk assessment exercise in FY2019/2020. The Top Ten Corporate risks were identified after evaluating all top departmental risks on overall likelihood and impact. Improvement actions plans were developed, and adequate resources deployed for implementation of the actions.

The Top Ten Corporate risks for the company during the FY 2019/2020 and improvement action plans implemented are outlined below:

No.	Risk	Source of Uncertainty	Improvement Action Plans
1	Loss of Strategy Execution Control Risk	The business environment is dynamic, and strategy is anchored on assumptions. Failure to periodically revalidate these assumptions will affect realization of company strategic objectives	i. A Draft CSP Addendum was prepared and updated to reflect current business environment and is in progress ii. Departmental strategic plans were aligned to the CSP iii. Quarterly Monitoring and Evaluation of CSP status was carried out
2	Fire Risk	KPC transports and stores highly inflammable product. Fire breakout could lead to catastrophic consequences	i. Automation of PS 9 & PS 10 Station firefighting systems is planned for FY2020/21 ii. 20No. staff taken through the Basic Firefighting Course iii. Collaboration with immediate neighbouring stakeholders on Emergency Response Planning was done through joint depot safety and security committee meetings
3	Terrorism Risk	The country is a target for terrorist attacks and KPC is a strategic asset	i. Setting up a Central Command Centre to monitor the effectiveness of the existing security systems is in progress ii. A management paper for capacity building in security management was approved by the Board. iii. Collaboration with multi-agency teams for intelligence on terror alerts/attacks is done monthly
4	People Risk	Slow resolution of staff grievances could negatively impact on productivity and motivation levels. These include unresolved issues such as promotion, stagnation, pay gaps and non-adherence to policy	i. A roadmap for implementation of SCAC approved HR instruments was prepared. ii. Sensitization of supervisors and staff on the SCAC approved HR instruments was carried out iii. Periodic communication on changes taking place in the company has been instituted
5	Pipeline Integrity Risk	Continued operation of Line 1 with highly corroded sections and lack of baseline data on Line 5, Line 4 & Line 6 hence uncertainty on condition of the pipelines	i. The tender for Inline Inspection on Line 4, Line 5 and Line 6 pipelines was awarded ii. The tender for CIPS and DCVG corrosion survey along all cross-country pipelines was awarded iii. A committee was appointed to undertake a study on decommissioning of Line 1 Pipeline iv. Installation of pipeline intrusion and leak detection systems in all wayleaves was planned for FY2020/21
6	Environmental Risk	Hydro-carbon release could lead to environmental pollution if effective response mechanisms are not put in place. Natural disasters such as landslides and flooding could threaten the safety of the pipelines	i. Procurement of Environmental Emergency Response equipment was planned for FY2020/21 ii. Training on 3 No. HSE staff on environmental restoration was done

7	Reputation Risk	Concern on adverse publicity/negative stories about the company which continue to dent the company image and brand	i. The company is in the process of developing partnerships and collaboration with reputable media firms to manage KPC media relations and brand
8	Liquidity Risk	Uncertainty on ability to meet short term financial obligations in light of a dollar dominated loan and reduction in tariff rates	i. A Treasury Policy was developed for approval by the Board ii. Cost containment measures were implemented during the financial year
9	Critical Spares Stockout Risk	Concern that lack of critical spares could impede efficient & effective discharge of critical functions/business	i. Automation of the Material Requirement Planning (MRP) solution is being progressed ii. All tenders for spares and general consumables were placed under a 2- year framework contract iii. Automation of the stock's replenishment process is being progressed
10	Litigation Risk	Due to the nature of KPC business, the company can be sued and can sue. Adverse /unfavourable judgements can negatively impact on bottom line of the company with associated rising cost of litigation	i. Approval of the Alternate Dispute Resolution (ADR) policy is planned for FY2020/21 ii. Periodic sensitizations of staff on lessons learnt from litigation outcomes was carried out.

Risk Rating			
Extreme Risks	High Risks	Medium Risks	Low Risks

Emerging/Evolving Risks

During the period under review, the company actively monitored the business environment to identify if key risks were evolving and if significant risks were emerging. The evolving and emerging risks were assessed, and actions plans developed to mitigate on their impact. The key risks that emerged over the period were: -

1. COVID-19 Pandemic

The Covid-19 pandemic is a global health crisis that has disrupted both daily life and business activities. There is uncertainty on the impact that this pandemic will have on staff health and wellbeing, business performance, global supply chains and cybersecurity. Some of the key mitigations the company has put in place in response to this crisis include: -

a. Setting up of a covid-19 management committee to monitor the situation, recommend mitigations and follow-up on implementation of mitigation strategies. The management committee sits at the company headquarter and is assisted by sub-committees in all depots and stations.

b. Implementation of containment measures in line with all the government protocols and guidelines issued from time to time

c. Putting in place measures such as social distancing, use of PPE and regular cleaning and fumigation of work areas to maintain a safe working environment

d. periodic monitoring and reporting on business performance in order to respond to market dynamics and build resilience in financial management.

2. Slop Management Constraints

With the commissioning of Line 5 facility, management of the increased slop volumes presented challenges due to unavailability of ullage capacity and reduction in operational flexibility. The company has since enhanced slop handling capacity by successfully commissioning two additional slop tanks in Nairobi Terminal. Engagement with OMCs for importation of product of higher quality has yielded further reduction in volume of slop material in the system from approximately 13,000m3to 4,600m3.

3. Tariff Risk

In November 2019, EPRA published reduced pipeline tariffs which drastically cut KPC's ability to meet its operating costs and financial obligations. The company responded by undertaking a root cause analysis and a position paper on business impact analysis was presented to Management and the Board. Consequently, a detailed appeal against the tariff was submitted to EPRA on 2nd December 2019. EPRA has since reviewed and amended the tariff effective 15th February 2020.

4. Cyber Security

Cyberattacks have increased globally taking advantage of the transition to remote working and telecommuting. The company is cognizant of this evolving threat and has reviewed its access controls procedures and has taken reasonable steps to ensure data is managed in a secure manner during this period. Regular updates are also sent out to staff on possible vulnerabilities and how to avoid the pitfalls. The ICT team regularly monitors cybersecurity strategies and threats to identify and close any gaps.

Business Continuity Management

KPC provides critical services to the country and the wider region therefore business continuity planning remains key in ensuring service delivery is not disrupted. The company has implemented a Business Continuity Management framework with established business continuity plans. This framework is anchored in KPC's Vision 2025 under the Systems and Processes pillar. The guiding principle of the framework is to ensure business resilience in the event of a major disruption through timely resumption and delivery of essential business activities

The Covid-19 pandemic is a global crisis that has radically disrupted human life, business activities, supply chains and the global economy. To ensure business continuity during the disruption occasioned by this crisis and in line with government guidelines, the company has so far taken the key actions outlined below.

1. Key Actions

In response to Executive Order No. 2 of 2020 issued on 28th February by H.E. the President Uhuru Kenyatta the company established a Covid-19 committee on 2nd March 2020, comprising of managers to undertake a risk assessment of all business processes and business units and map out high risk areas and spearhead the preparedness of the organisation in case of an outbreak. All loading depots, including the airports at Nairobi and Mombasa and the marine offloading point at Kipevu were classified as high-risk areas. As a result, staff were provided with Personal Protective Equipment (PPE) such as surgical masks and gloves. Hand sanitizers and handwashing facilities were provided for staff, contractors and visitors at all KPC facilities. Temperature screening was instituted before access to any company facility.

Communication to local and export customers on additional measures taken to minimise the risk of infection such as review of loading procedures to minimise handling of documents and crowding in loading depots was also sent out on 16th March 2020. Internally, a communication campaign targeting staff was launched to raise awareness on the COVID-19 pandemic and personal safety measures to control the spread. Weekly e-updates on precautionary measures and periodic circulation of e-newsletter with relevant information and updates is also done. When the first case was detected in Kenya in mid-March, there was a review of company operations to ensure that only essential services progressed in line with the Ministry of Health directive. The company reduced the staff numbers working from the office to 40% and critical services proceeded through rotation of staff to ensure that safe working distances were maintained in the workplace. A fully equipped isolation unit was set up at the KPC clinic located at the Nairobi Terminal.

To sustain business continuity, technology proved pivotal in ensuring a smooth transition into new ways of working. Customers can transact through online platforms, meetings are held online, remote/working for home arrangements have been implemented and vendor collaboration is done through an e-procurement platform. These measures have been maintained and enhanced in line with government directives as well as KPC's own risk assessment of various business areas.

2. Lessons Learnt

As the business environment evolves due to the pandemic, the company has learned key lessons and identified areas of improvement. Some of the key learnings include

- i. the need for continual building of organisational resilience through testing and exercising of business continuity plans
- ii. mitigation of cyber security risks with remote working arrangements
- iii. review of human resources policies to address challenges presented by remote working such as ensuring effective performance management
- iv. Instituting additional hygiene measures to ensure KPC offices are maintained as safe working areas for staff during a pandemic

The company will continuously review its operations in light of the evolving nature of the pandemic to ensure staff safety as it continues to discharge its mandate of uninterrupted supply of petroleum products to Kenya and the region.

Corporate Social Investment (CSI)

CORPORATE SOCIAL INVESTMENT (CSI) REPORT

Corporate Social Investment (CSI) is a global practice employed by Corporates to integrate social, environmental and economic concerns into their values, culture, decision making, strategy and operations in a transparent and accountable manner. CSI enables corporates to establish best commercial practices, create wealth and improve society.

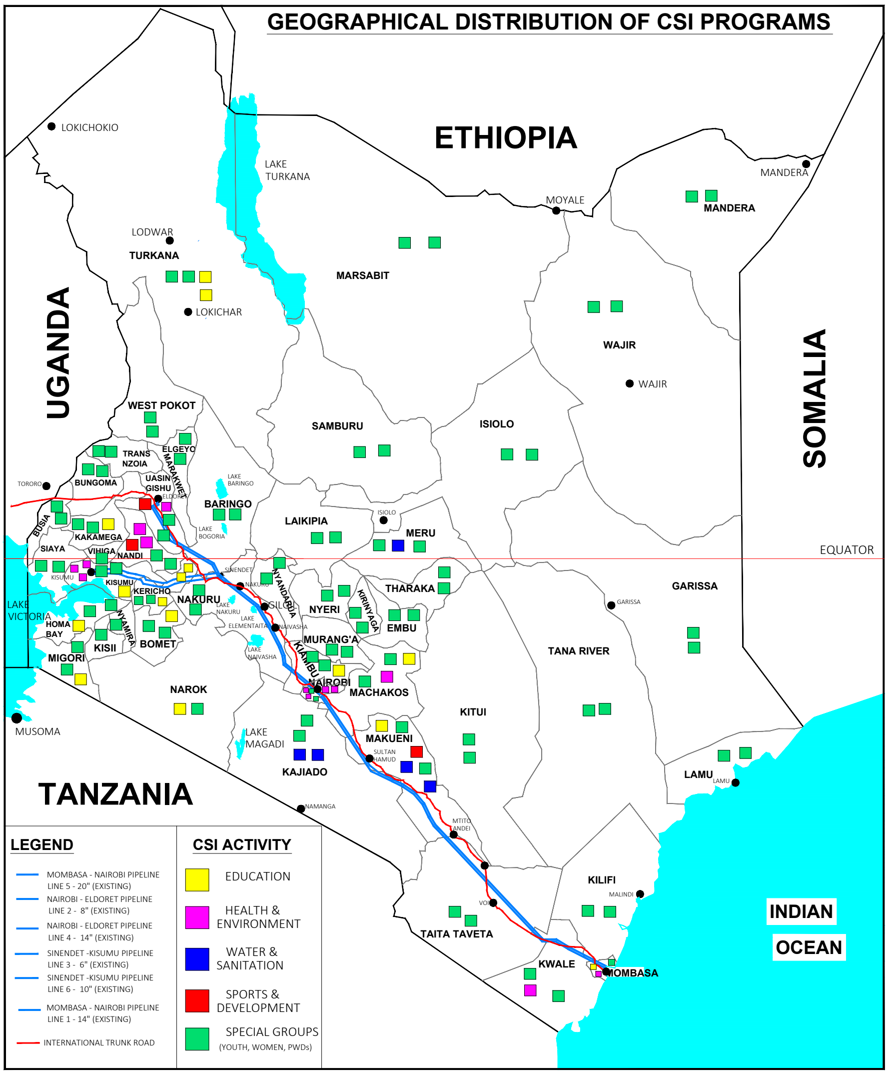
Companies that take corporate citizenship seriously can improve their reputation and operational efficiency, while reducing their risk exposure and encouraging loyalty and innovation. Overall, they are more likely to be viewed as investments of choice by investors, employees, customers, regulators and partners.

Areas of focus

The Company has identified the following as areas of focus that are also aligned with the Government's Big Four strategic goals, and whose overall aim is to attain sustainable growth:

i. Empowerment of Youth, Women and persons with disabilities
ii. Education
iii. Health and sanitation
iv. Clean water
v. Sports
vi. Energy Conservation and Environment restoration
vii. Emergencies

KPC CSI initiatives adopts the principal of national and regional representation. This is demonstrated by presence of KPC CSI footprints in all parts of Kenya as shown in the diagram below.



EDUCATION

Education being a key focus area, has continuously received more than 40% of the total CSI budget and considerably towards infrastructural development of various schools during the period under review as follow;

Construction of a dormitory at Kapsisi Primary School - Kshs. 5,000,000

KPC Board of Directors approved a donation of Kshs.5 Million toward construction of a dormitory. This is a multi-year project that is to be phased in two Financial Years, 50% in 2019/2020 FY and the remaining 50% in 2020/2021 FY.

The donation seeks to decongest the existing facility and provide state of the art Boarding facility for the students.

Construction of a library at North Horr Girls High School - Kshs. 5,000,000

KPC recognizes that pupils/students from marginalized areas face diverse challenges in acquiring education compared to their peers in other areas of the country. It is against this background that KPC decided to sponsor the construction of school library at North Horr Girls High school in Marsabit county at the cost of Kshs. 5 million.

This is a multi-year project to be phased in two Financial Years, 50% in 2019/2020 FY and the remaining 50% in 2020/2021 FY. Construction works have commenced, and will be completed soon.

HEALTH

Our constitution guarantees the right to the highest attainable standard of health, this includes the right to health care services and reproductive health for women. Similarly, vision 2030, in its social pillar, seeks to provide an efficient and high quality/standards health care system for all Kenyans.

As a responsible corporate citizen, KPC through the Foundation has aligned its CSI interventions with the objective of ultimately spurring social development in a sustainable manner. The Company supports programs that complement the national and county governments initiatives which also aligns with the President's BIG 4 Agenda leading to the realization of Universal Health Coverage (UHC).

Beyond Zero Marathon - Kshs. 10,000,000

Aims to support Her Excellency the First Lady to improve maternal and child health in Kenya and to reduce new HIV infections among children.

CORPORATE SOCIAL INVESTMENT (CSI) REPORT

Beyond Zero medical camps taking place at Olkalau H/C.

Migosi Health Centre-Kshs. 4,000,000

Renovation and equipping of Migosi Health Centre Radiology Department (X-ray and Ultrasound) was done to compliment National Government and Universal Health Coverage (UHC).

KPC team handover X-ray & Ultrasound to Migosi hospital management

Construction of a Maternity Wing at Lunga Health Centre-Kshs. 20,000,000

As part of our commitment to reduce maternal and neonatal mortality, the KPC Foundation has partnered with Nairobi County Government to improve health service delivery infrastructure.

The construction of fully equipped maternity wing at Lunga Lunga Health Centre is meant to improve access to maternal health care services for the residents of Viwandani slum and even beyond. This will significantly lead to reduced Child mortality rate, maternal deaths, complications during delivery and other conditions attributed to childbirth. KPC donated 20,000,000 shillings towards construction of the maternity center at Lunga Lunga H/C.

Maternity wing at Lunga Lunga Health Centre, Nairobi

Free Medical Camps & Cancer Advocacy - Kshs. 5,000,000

KPC outreach programs/public Baraza's plays a critical role in providing a platform for deliberately and intentionally cultivating social harmony with the communities. Our nature of business presents adverse effects to the environment hence the need to develop shared interventions/values with the communities. Our outreach programs are designed to address social and environmental risks that our business poses to the communities.

The Board approved Kshs. 5 million for Creating Cancer awareness and advocacy and conducting free medical camps. Due to COVID-19 Pandemic that saw government impose a cessation of movement, Foundation only managed to conduct Free medical camp in Nyeri county on 8th and 9th February 2020.

Free Medical Camps & Cancer Advocacy-Kshs. 5,000,000

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The Board also approved Kshs. 2,500,000 to conduct free medical camps in Makueni, Kajiado, Taita Taveta, Kwale, Kilifi, Nakuru and Eldoret. Due to COVID-19 Pandemic this initiative could not be executed. It was therefore postponed.

Free Medical camp at Endarasha Nyeri County.

SPECIAL GROUPS EMPOWERMENT

Inuka-Kshs. 14,000,000

KPC initiated INUKA Scholarship program in 2016 to enable students with disability to access secondary level education. It was established to empower young persons with Disabilities to overcome their physical limitations and to become fully integrated members of their communities and ultimately be able to add value to their competitiveness that will make them access other opportunities in future.

The Board approved Kshs. 14 million that has benefited 94 students. Further, through this funds KPC has trained 60 individuals under the special category on access to government procurement opportunities (AGPO)

The scholarship program which benefits 2 children from each of the 47 counties, a boy and a girl, is an equalizer because it advocates for social inclusion of those who could have been neglected for lack of school fees. KPC continues to invest on the education of bright children living with disabilities. The third cohort of students joined Form one in 2019 bringing of the total number of children who have benefitted from the programme to 284.

CORPORATE SOCIAL INVESTMENT (CSI) REPORT

Donation of Kshs. 55,000,000 to NYS for manufacture of face masks

Kenya Pipeline Company (KPC) Board of Directors approved Kshs. 55,000,000 (Fifty-Five Million Shillings) donation to the National Youth Service (NYS) towards the production of one million protective face masks to counter COVID-19 spread. The masks have been distributed to vulnerable populations for free.

This donation followed a request by KPC's parent Ministry of Petroleum and Mining, to support the Government's efforts to protect Kenyans against COVID-19 infections.

"We know that the Kenyan youths are incredibly resilient and creative. We see a major role for them to play in the fight against COVID-19. Involving our youth in this fight will provide an opportunity for increased awareness and optimized solutions for our communities," added the NYS Director General, Matilda Sakwa.

"The production and distribution of face masks complement the current efforts by KPC and its partners of producing and distributing free hand sanitizers to the most vulnerable citizens," said the State Department for Petroleum Principal Secretary Andrew Kamau.

"This initiative marks KPC's second major intervention to help stop the spread of COVID-19. The first intervention was KPC coordinating the production and distribution of free alcoholl-based sanitizers through a unique public-private partnership," said the Board's Chairperson John Ngumi.

Andrew N. Kamau, CBS, PS. Ministry of Petroleum and Mining, (left) and KPC Foundation manager, Bernice Lemedeket (right) donate Kshs. 55 million, towards the production of one million protective face masks to counter COVID-19 spread.

CORPORATE SOCIAL INVESTMENT (CSI) REPORT

Production and Distribution of 2 million liters of Government hand sanitizers

In late March, KPC and its partners kicked off the production and distribution of 2 million liters of hand sanitizers whose market value is estimated to be over Ksh. 2 billion.

"The Company is proud to be associated with the Government's efforts to protect Kenyans from COVID-19 infections. The Board applauds and appreciates the tremendous work KPC staff have put into these initiatives, all the way while ensuring that Kenyans and regional consumers continue enjoying uninterrupted access to petroleum supplies, "Ngumi said in a statement.

Foundation Manager distributing sanitizers to Boda Boda operators

"The KPC Board also appreciates the contributions made by all our partners in the sanitizer initiative. It has been humbling to watch corporates, community groups and individuals put aside their normal business and come together to help fellow Kenyans, without expecting or receiving any payment, for what is a major and high monetary value exercise. This shows the true Kenyan spirit," added Ngumi.

Donation of water tanks to Muthurwa Market

Traders of Muthurwa market are better equipped to fight Covid -19 after KPC donated 30 water tanks. The community now has a consistent supply of clean water to maintain good hygiene since that's the most effective preventive measure of Corona virus infection as recommended by World Health Organization (WHO) and the Ministry of Health.

KPC Immediate former Board Chairman John Ngumi (Right) and Nairobi Women Representative Hon. Esther Passaris (Left) wash their hands when they handed over tanks to Muthurwa Market traders.

CORPORATE SOCIAL INVESTMENT (CSI) REPORT

MONITORING & EVALUATION

Trust and relationship are viable assets in an organization, KPC demonstrates the same through listening and integrating community concerns into its policy and practice. It's against this background that KPC CSI programs are identified, implemented and executed.

CSI programs are evaluated on annual basis to review the effectiveness of the initiatives undertaken but also to measure the impact to both beneficiaries' communities and their business and subsequently on KPC Return on investment (ROI)

In 2019/2020 FY, Foundation intergrated Monitoring & Evaluation (M&E) of the CSI projects to ensure that the projects meet the desired impact for the beneficiaries. It is an important component embedded in KPC CSI projects across the Country.

Scenario (Inuka case study)

Inuka

Various interventions have proved that it is possible to minimize the degree of disability and enhance the performance of Persons with Disability (PWDs) through integration and empowerment programs in view of promoting disability mainstreaming in the national development. Empowerment of PWDs is one of the key focus areas of KPC Corporate Social Investment policy. Therefore, in conformity with the CSI policy, KPC has seized an opportunity to contribute to the National empowerment of PWDs in the aspects of socio-cultural, education and economic development in form of the INUKA Program.

The impact assessment aimed at assessing the initial outcomes and impacts that may have been realized at this early stage of the learners and what lessons may be imperative into the program to achieve the long-term goal(s). The major focus of the assessment was to verify if or not the INUKA scholarship program has initiated any desired transformation of the students' life in their perceptions and aspirations in the domains education, social, emotional and economic.

Site visit data and Foundation Department records were used in the informative analysis. Forty-seven (47) students out of the expected 282 students (16.7%) from 9 special secondary schools and respective principal/teacher were interviewed as a representative sample for the whole scholarship program.

The selected schools and the respective number of students under INUKA Scholarship program are as below:

No.	Name of the School	No. of students	County
1	Thika High school	18	Kiambu
2	Joy Town Secondary School for the Physically Handicapped	21	Kiambu
3	St. Lucy High School for the Visually Impaired	8	Meru
4	Salvation Army Likoni High School for the Visually Impaired	3	Mombasa
5	Pwani Secondary school for the Deaf	3	Kilifi
6	Mombasa High School	3	Mombasa
7	Bahari Malindi Secondary School	2	Kilifi
8	Sahajanand Inclusive Technical Secondary School	2	Kilifi
9	Kwale High School for The Deaf	2	Kwale

The assessment suggests that INUKA program has contributed to the overall well-being of all the students who are beneficiaries, the beneficiaries indicated that INUKA has brought about hope and a bright future in them. The program has particularly been instrumental in transforming the lives of the beneficiaries socially, emotionally, physically and mentally. confessions from them indicated that the program has positively helped them in turning their lives from disability to able people

Therefore, INUKA program has imparted hope and positive inspirations to the special needs students from the analysis of the impact assessment.


(Left) Kwale School for The Deaf and, (right) Thika High School for The Blind

Akithii Girls Secondary school- Construction of a borehole and storage tanks

Akithii Girls Secondary School located in Tigania West Sub-County, Meru County. The school initially lacked adequate clean water therefore the girls were forced to walk long distances over long hours in search of the same. They were exposed to dangers of insecurity, rape and abduction thus a borehole was constructed to mitigate the challenges.

This project was completed in 2017 and started operating immediately thereafter. As KPC endeavors impacting the society economically and socially through CSI, this post impact assessment aimed at assessing the impacts the CSI initiative have achieved. The major focus was to take a holistic view of how the project has impacted the beneficiaries in the school and the surrounding community.

PROJECT IMPACTS

The School Administration and the board affirmed that the water sourced from the borehole project has brought about positive impact in the school and the community in terms of increased school enrollment and performance, social, environmental and economic effects.

i. Improved performance

a) Position 3 out of 47 schools reported by the administration and noted as major stride. Attained Position 11 in the large Tigania of 120 schools and mean of 4.1 from mean grate of 3.9.

b) The school reported as the “Best Girls’ School” in the sub-county after the completion of the water project.

ii. Positive culture change

The School is currently quite attractive as a girl learning center

a) Currently at high student enrolment from 480 to current 751, until the administration has capped it,
b) High level hygiene attained (classes and dormitories clean, low health issues)
c) School stable and programmes run as scheduled,
d) Has become a venue of choice for hosting events/activities in the Tigania region,
e) Has attracted and retained teachers,
f) High Student retention rate.
g) Behavioral change (The girls attitude has changed into high confidence and self esteem
h) Positive perception on the school by the community

iii. Transformation of lives

a. The Borehole become source of water for the Akithii primary school unit and the Akithii Catholic Church
b. The water has transformed the school to an environmentally conducive and attractive compound (flowers, trees, grass)

iv. Agricultural learning projects

c. Irrigation Projects

The School has initiated and progressed the following irrigation projects that utilize the borehole water to subsidize food and better diet for the Akithii Girls Community;

d. Job creation

The various irrigation projects and the keeping of the compound has created job opportunities for the locals.

CORPORATE SOCIAL INVESTMENT (CSI) REPORT

Manyonyi Primary School

Manyonyi primary school is a mixed day school, Located in Lugari Ward, Lugari Sub County in Kakamega County. The school is in a low-income society, essentially famers and several orphaned children under the care of grandparents.

The Impact evaluation aims at assessing the impacts that the CSI initiative have achieved after the realization of the project. The major focus on the assessments is to assess how the projects has impacted the beneficiaries in the school (pupils & teachers) and how it has helped the local people in improving their social-economic standards.

Between 2010 to 2016 Manyonyi Primary School was in dilapidated and wanting condition described by:

i. Poor state of classes
   - ❖ Cracked walls
   - ❖ Potholes in classrooms
   - ❖ Some collapsed classrooms
   - ❖ Leaking roofs
   - ❖ Open apertures of what was meant to be windows

ii. Sunk toilets

iii. Unhealthy and unhygienic environment

iv. Generally poor academic performance

Prior to KPC interventions teachers opted to hold classes under the trees or in open grounds to avoid the risk of collapsing classrooms. The Board approved Kshs. 10 million Shillings to refurbish 12 classrooms, construction of 10 pit latrines and school gate. The project initiated in April 2017 and completed in February 2018.

A Happy School

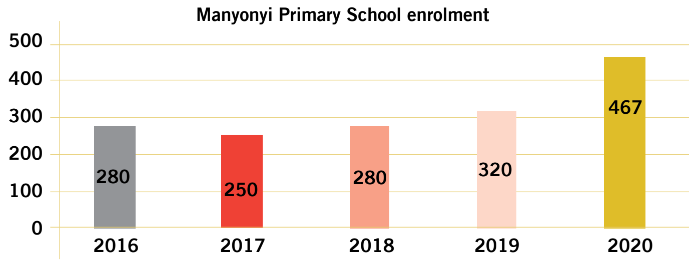
Project impacts

The school management acknowledged that the project brought about positive impacts in the school and in the community in terms of increased school enrollment, improved performance, motivation among the pupils and teachers, improved discipline among pupils; social, environmental and economic effects as articulated below:

Increased School enrollment

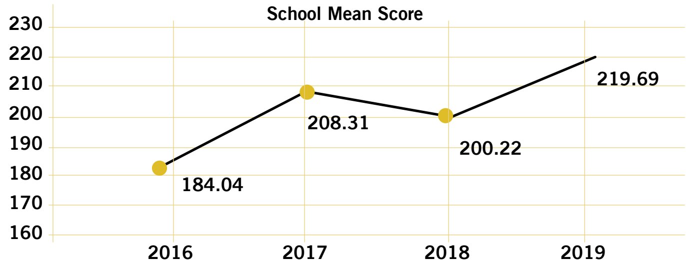
The school enrollment went up from 250 pupils in the year 2017 to 467pupils by the year 2020 which was attributed to the CSI Initiative which motivated parents to enroll their children in the school and retention of the enrolled pupils.

CORPORATE SOCIAL INVESTMENT (CSI) REPORT



From the graph, it is evident that the school enrollment increased gradually from 2017 after completion of the school upgrade. This is an 87% increase from year 2017. During the project implementation, the school situation was quite pathetic resulting to some pupils transferring to other schools and others dropping out, as indicated by the drop from year 2016 to year 2017 as indicated in the graph above.

Improved Performance



The school mean score increased from 184.04 in 2016 to 219.69 in 2019. The school management associated the improved performance to the completion of the project which motivated the pupils and teachers and gave the learners conducive environment for studies. The drop in the mean score in 2018 was because of absence of the school head teacher due to health issues. The head teacher was one year old in the school and was in the process of rolling out the formulated plans (programs) and coordination of the school activities. The absence had a negative impact to the pupils, parents and the teachers.

Positive culture change

The overall upgrading of the school has changed the overall attitude of both students and teachers in terms of adequate and beautiful learning environment. The improved positive perception of the school resulted behavioral change among the pupils resulting to improved discipline.

Image and Reputation

The project positively uplifted the image of the school in the County. The school has become a benchmark point for other primary schools in the ward and beyond. The project has also attracted other students from other school (inter school transfers).

Transformation of lives

- The KPC funding to refurbish Manyonyi primary school in Lugari has brought about transformation of lives within the community;
- Improved community living standards by creation of more jobs (casual and permanent) opportunities due to increased school population,
- The school has been able to admit more students in the surrounding community. The school has also enlightened the society to value education as more parents have enrolled their children in school.

Improved Security in the school

Extra classrooms are used to safely keep schoolbooks and other valuable materials. The constructed school gate has also given an image of an improved school security.

Extra opportunities

Efficient utilization of the CSI funds by the school created more classrooms than envisaged and the school management was able to convert two of them into Headteacher's Office, Staffroom and Bursar Office.

ENVIRONMENTAL SUSTAINABILITY STATEMENT

KPC has in place a detailed Health, Safety and Environment (HSE) Policy that guides its implementation of occupational health, safety and environmental programs. KPC management recognizes its responsibility to ensure that all reasonable steps are taken to protect and preserve the environment in which it operates; hazards are removed and controlled, and health preservation and injury protection of employees is achieved, whilst also being a good neighbour.

Guided by the HSE policy, the company has continued to implement its HSE Management System. It is worth noting that KPC has received certification to ISO 14001 Environment Management Standard and the BS OHSAS 18001, the framework for Occupational Health and Safety Management, through Certification body Bureau Veritas. The company is now embarking on integrating the HSE, Quality and Laboratory Management Systems, in a bid to achieve resource efficiency, whilst ensuring its systems are Best in Class.

HSE Management System

The HSE Management System implementation falls in four (4) buckets, namely Compliance, Culture, Prevention and Resource & Capability.

Under the Compliance pillar, KPC complies with Environment Management and Coordination Act 2012 CAP 387, Occupational Safety and Health Act 2007 CAP 514, Water Act, 2016, and the Energy Act 2012, now the Petroleum Act 2019.

SHEQ department partnered with the Morendat Institute of Oil and Gas (MIOG), to train depot-based Emergency Response Teams in Level 2 and 3 Basic Fire Fighting, as part of the Resource and Capability pillar. This training served to enhance the firefighting emergency response capability of depot-based staff. Fire risk is considered one of the top Enterprise risks.

As part of the Culture pillar, the World Environment day was marked on 5th June 2020 with the theme 'Celebrating Biodiversity'. KPC marked the day by planting 520 trees across KPC facilities, in partnership with Kenya Forest Services. Turkana was the host county for the national celebrations, and KPC sponsored NEMA to the tune of Kshs. 500,000 to go towards purchasing of indigenous tree seedlings for establishing a green belt in Turkana.

Corrective actions from risk assessments, audits, and incident investigation and nearmiss reports continue to be implemented under the Prevention pillar.

Corona Virus Pandemic

This year the country has been impacted by the Corona Virus pandemic. Ever since the first case was reported in Kenya on 12th March 2020, the company has put in place various measures to protect employee health and safety and ensure that KPC maintains its ability to supply petroleum product to its customers.

KPC has provided hand sanitizers, hand washing facilities, masks, and temperature guns as protection measures for all facilities. Fumigation and sanitization of KPC facilities to include offices, common areas, external spaces and vehicles coming to the facilities continues to be done. Through various communication channels, the company has kept staff abreast of important information on the COVID-19 pandemic.

The company has also complied to Ministry of Health and Head of Public Service guidelines on allowing staff to work from home where this is possible, including those with underlying conditions, or over the age of 58. In addition trainings and meetings are now held virtually in an effort to comply with social / physical distancing requirements.

The company has recorded two (2) Corona Virus cases in the financial year. These cases have been managed as per MoH guidelines. The company has ensured that the affected staff and their families receive the required medical attention. Contact tracing has been key in minimizing the spread of the virus in the workplace and protecting those with underlying conditions. The company has therefore been able to continue fulfilling its mandate of safely and efficiently delivering petroleum products to its customers.

Headline performance

153 near misses were reported in the financial year. Reporting of near misses is important because it helps to predict where actual incidents are likely to occur, and therefore enables preventative and corrective action to be taken, before an incident occurs. This number was lower than the previous year number of 292, mainly due to reduced staff in the workplace, as a result of the COVID pandemic. The company continues to focus on raising awareness on nearmiss reporting and encouraging staff to do the same.

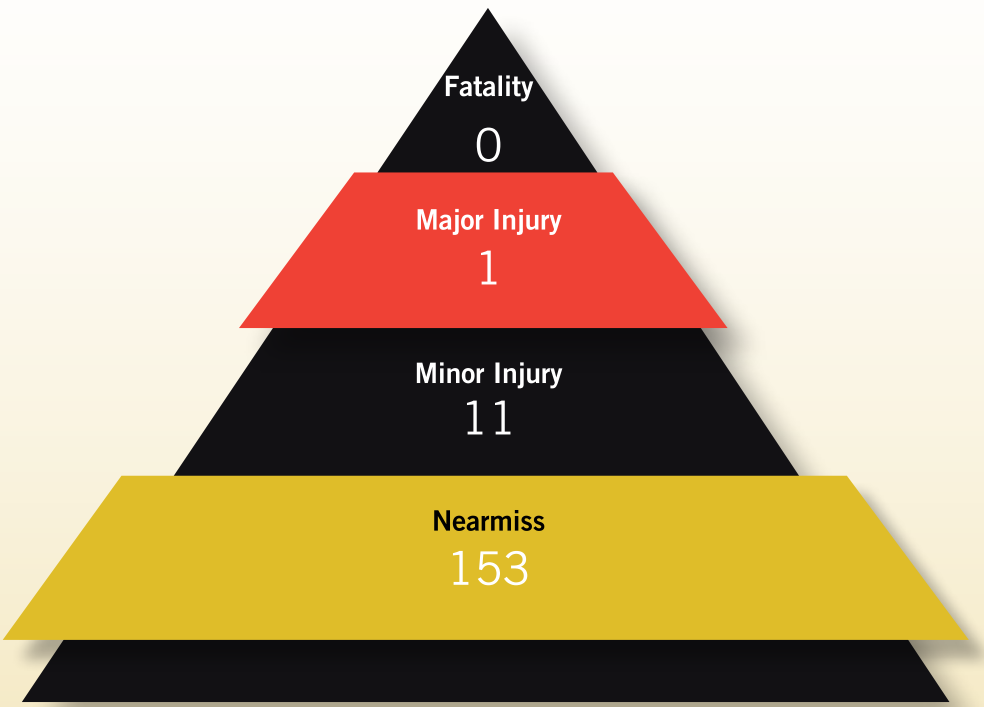
The highest severity incident recorder in 2019/20 was a Lost Time Accident that occurred on 6th March 2020. The incident involved a contractor staff who sustained an eye injury whilst using an automatic wire brush. The staff received first aid at the company clinic and was later taken to hospital where he received further treatment. The staff was away from the workplace for 15days to enable full recovery.

During the financial year, there were three (3) spills on KPC Line 1. The spills were as a result of corrosion of pipeline, thereby making it unable to withstand internal pressure build up. The spills were experienced in KM 39.7, KM 38.8 and KM 23.5. Line 1 is an aging pipeline - it has been in operation for over 40 years - and currently there are plans and preparations for its decommissioning.

The KM 304 Kiboko clean-up is nearing completion. The spill occurred on the 30th March 2019. KPC will carry out an Environmental Socio- Economic Impact Assessment (ESEIA) through a NEMA licensed company. On completion of the clean up, KPC will undertake an Environmental sampling, to include a hydrogeological study. This will be the basis for a decommissioning request from NEMA.

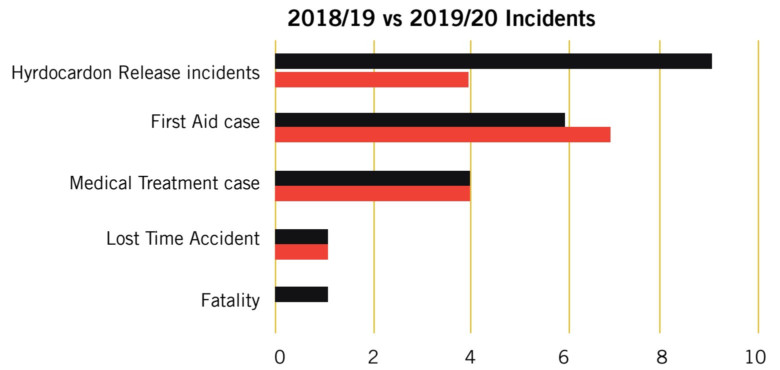
Climate Change Reporting and Financial Flows at Kenya Pipeline Company

Kenya Pipeline Company in line with Kenya's and the World's quest to transition to low carbon and climate resilient development pathway by 2050 is ensuring its business and operations adapt effectively to climate change through its business model diversification, and its operations robustness, resourcefulness and speedy recovery in event of climate disruptions. In so doing, KPC is contributing to the implementation of Kenya's "Intended Nationally Determined Contribution (INDC)" through greenhouse gas emission avoidance while also addressing concerns over local air quality, congestion, and safety as well as ensuring its business continuity.



2019/2020 Incidents per Classification

ENVIRONMENTAL SUSTAINABILITY STATEMENT



Besides direct impact to KPC infrastructure, operations will be greatly affected by adverse weather effect on interdependent services like electricity supply where transmission, storage and distribution (TS&D) networks are very vulnerable to extreme weather events with frequent outage of supply. In addition, high ambient temperatures may reduce power plant efficiency and increase demand for cooling water thereby cumulatively affecting KPC operations in the long term.

However, the most significant impact of climate change policies on KPC will be on the business model continuity where the global decarbonization policy by 2050 will result in potential replacement of the diesel engine as is presently with innovative renewable energy-based engines such electric & hydrogen operated engines. For example, European Union has signed off its climate policy with net neutral emission by 2050 across its various sectors from the power sector to industry, mobility, buildings, agriculture and forestry. United Nations (2019) projects that by 2040, electric cars would make up 90 percent of the world's 2 Billion cars resulting in 11B barrels of Oil a year use avoided. That is equivalent to 50 percent of annual global production.

Therefore, to adapt and mitigate against climate change implications and related global climate policies, KPC under the stewardship of national climate change policy has implemented and is in the process of implementing various activities to meet these targets. Among this are; -

i. Undertake an economic diversification to ensure new streams of revenue for its business continuity. This diversification is prioritizing LNG/LPG option. Developing countries, under the Paris Agreement have been allowed a leeway to transition on use of LPG/LNG in lieu of reducing deforestation and domestic (indoor) health pollution and its consequence from use of biomass as fuel. To this end, KPC has budgeted for development of LPG depots in Mombasa and Nairobi for FY 2020/21 at the cost of Kshs.520 million as a graduated investment overtime.

ii. Undertaking a holistic climate change operational impact risk assessment to anticipate future risks posed by a changing climate and their management in view to minimize disruptions and setting up robust and resilient systems and recovery within shortest period. This will be factored into climate risk management through obtaining of climate change impact insurance cover in the near future.

iii. Assessment of fugitive emissions from all its product tanks and retrofit tanks roofing system and valves where fugitive emissions occur to minimize enhanced product loss attributed to increase in temperatures as the world warms thereby minimizing loss above industry allowable limits. As a result, KPC has tendered for retrofit of tank TK 201 in Nairobi Terminal with installation of a dome and floating roofs to minimize fugitive emissions at a cost of Kshs. 158.6 million. In the long term, all floating roofs would be retrofitted.

iv. Review existing emergency preparedness and response strategies to keep critical infrastructure functioning and protect lives and livelihoods in particular for jetties, valve chambers along ROW; pump rafts, and minimizing ROW washout protections.

v. Setting up of electricity back-up systems to ensure quick response and recovery in event of severe weather disruptions. As a result, KPC has installed backup generators at all its stations countrywide. This is an average investment cost of Kshs. 100 million.

vi. KPC has installed solar infrastructure for its remote cathodic protection system for pipeline corrosion management thereby contributing to renewable energy generation for part of its energy use. This infrastructure is set up along Line 1 from Mombasa to Nairobi. The installation is estimated to cost Kshs.37.9 million

STAKEHOLDER ENGAGEMENT

Stakeholder relationship management has been pivotal in realization of the Company's revenue targets by enhancing collaborative partnerships across sectors in the oil and gas supply chain. Oil Marketing Companies (OMCs) are the most integral stakeholders to the Company's operations alongside governmental and other private sector actors. The OMCs primarily comprise multi-national companies (Majors) and independent players in the sub-sector.

In FY2019/20, the Company surpassed its market share growth performance indicators by attaining 96% market share for the local market against imports into the Port of Mombasa, and 79% export market share against the same basis. This is defined as the throughput volume from the pipeline as a quotient of the total imports into the country. Last year, local market share was at 89% and export market share was at 62%. On the local market spectrum, the top ten (10) OMCs command a combined market share of 65% compared to 68% in FY2018/19. They include; Vivo Energy Kenya Ltd - (17.2%), Total (K) PLC - (16.1%), Rubis Energy Kenya PLC - (10.4%), Ola Energy Kenya - (4.8%), Oilcom - (3.90%), Lake Oil Limited - (3.8%), Be Energy Limited - (2.7%), Petro Oil (K) Ltd - (2.3%), Galana Oil (K) Ltd. – (2.0%) and Royal Energy (K) Ltd - (2.0%). The other 67 active customers contribute 35% to KPC's top-line revenue.

1.The Export Market Engagement

One of the Company's key strategic objectives is to grow the regional market share to 90% under the Geographic Expansion (GE) pillar in the Corporate Strategic Plan by 2025. During the period under review, the Company developed elaborate export market recovery strategies with a view to enhancing competitiveness in pipeline utilization. In FY2019/20 the export market share growth plan included a stakeholder engagement forum headlined by the KPC Board Technical Committee (BTC) and Management team in Uganda between 2nd to 6th March 2020.

The main objective of the engagement was to propagate the now-gazetted Energy and Petroleum Regulatory Authority's (EPRA) multi-year pipeline and storage tariffs - a 27% reduction of pipeline transit tariff from $54.44 to $39.84 which translated into a pipeline landed cost competitiveness to Kampala of 8% over road transportation ex-Mombasa private depots. The other main activity in Uganda was to evaluate the construction progress of the Mahathi-Infra jetty facility, and efficiency of Port Bell and Jinja-based storage terminals, all of which are complementary receipt facilities to Kisumu Oil Jetty (KOJ) and key in operationalizing it.

The engagement was finally aimed at interfacing with the Uganda market's service delivery concerns and communicating corresponding improvement measures taken towards the desired growth in the Company's regional market share. Other stakeholder activities were one-on-one engagements with the Kenya High Commission - Kampala, Uganda's Ministry of Energy and Mineral Development, Uganda Revenue Authority and the Oil Marketing Companies.

Pictorials – Uganda Stakeholder Engagements

At Kenyan High Commission – Kampala Offices

At Ministry of Energy and Mineral Development - Kampala

Dinner at Kampala Serena Hotel

2. Customer Service Week

Customer Service Week (CSW) is a platform to champion the value of Customer Experience (CX) in sustaining businesses. Customer experience is continuously receiving global focus as a key corporate principle in revenue growth, as well as the need to bridge the divide between the brand and the customers' perception, which at corporate level is well stipulated under our Business Leadership and Image and Reputation pillars of the Corporate Strategic Plan (CSP).

This year's Customer Service week was held between 7th and 11th October 2019 with the theme: "Behind the Smile." Some of the activities for the CSW included: an e-card conveyed to appreciate internal customers (staff members) as well as OMCs, among other stakeholders to appreciate their business partnership; cake cutting for internal and external customers at all service delivery points, especially the depots; courtesy call and trophy award to Vivo Energy Kenya Limited as the top throughputter (utilizer of the pipeline) in FY2019/20; KPC facility tour with OMCs and demonstrations to appreciate behind the scenes activities.

3. Partnership with Stakeholders (OMCs, Government Institutions, CBOs & Corporates)

KPC partnered with oil industry players that expressed willingness to produce alcohol-based sanitizers for free distribution to the public throughout the country in a President-led effort to prevent the spread of COVID-19. This landmark public-private partnership (PPP) was successfully undertaken with over twenty-seven (27) corporates, sixteen (16) government institutions including the Head-of-Public-Service-appointed Multi Agency Team (MAT), hundreds of Community Based Organizations (CBOs) and other entities in the following services: blending, packaging/bottling, donation of bottles/ containers for packaging, supply of glycerol, hydrogen peroxide and lime cordial for blending, warehousing and dispatch of blended sanitizers, transportation and logistics, provision of surgical masks as part of personal protective equipment (PPE), printing of awareness posters for media, mobilizing entities such as the Council of Governors, County Commissioners and other political players such as Members of Parliament (MPs) and senators for the last mile distribution drive. The initiative yielded and distributed over 1.5 million litres of sanitizer produced in nine (9) blending plants in Mombasa, Nairobi and Muhoroni.

The partnership has further gelled the Company with its key stakeholders – OMCs and governmental bodies – thus fostering solid relationships that will aid in KPC's alignment to stakeholder expectations and facilitate proactive resolution of issues to further grow the business. It has also yielded a transformation of the Company's brand and reputation thus fortifying its public and international image. Some of the principal stakeholders engaged were as indicated in the infographic shown on next page.

4. Inter-agency Collaborations

A decline in regional export market share has largely been attributed to the trade barriers along the Northern Corridor Transit Route (NCTR). To resolve this, KPC has been engaging various agencies pertinent to its service delivery. For effective resolution of Non-Tariff Barriers (NTBs), a structured inter-agency collaboration engagement plan was developed for implementation in FY2019/20. During the prevailing COVID-19 mitigation period, stakeholders were engaged remotely through online platforms. The parties the Company has had fruitful engagement with include Kenya National Highways Authority (KeNHA), Kenya Revenue Authority (KRA), Energy & Petroleum Regulatory Authority (EPRA), National Transport and Safety Authority (NTSA), East Africa Petroleum Transporters Association (EAPTA), Uganda Revenue Authority (URA) and the County Governments.

5. Customer Needs & Satisfaction Survey & Customer Complaints Management

FY2019/20 Customer Needs & Satisfaction Survey was undertaken in June 2020 with a Customer Satisfaction Index (CSI) of 79% reported. Customer feedback from the survey were identified for implementation in FY2020/21. Compliments and complaints received from customers were acknowledged, registered and closed out with a customer complaints closure rate of 86%, a 5% increase from 81% in FY2018/19.

6. Vessel Scheduling Meetings (VSM) & Supply Coordination Meetings (SCM)

KPC participated in all meetings held by the industry to plan for import cycles and address industry challenges. These meetings foster expedient resolution of industry matters and progressive relationships with the key stakeholders in the supply chain.

STAKEHOLDER ENGAGEMENT

LIST OF CORPORATE PARTNERS

1. Vivo Energy Kenya Ltd
2. Total Kenya PLC
3. RUBIS Energy Kenya (Kenol Kobil)
4. OLA Energy Kenya Ltd
5. National Oil Corporation of Kenya (NOCK)
6. Hass Petroleum
7. Asharami Synergy (K) Ltd
8. Hashi Logistics Ltd
9. Calana Oil Kenya Ltd
10. Skanem Interlabels Nairobi
11. Pwani Oil Products Ltd
12. Solvochem East Africa Ltd
13. The Sameer Group
14. Kenya Wine Agencies Limited (KWAL)
15. Diversity Kenya Ltd
16. Polysynthentics East Africa
17. Agro-Chemical & Food Company Ltd (AGFC)
18. Maersk Kenya Ltd
19. East Africa Brewery Ltd
20. Bollore Transport & Logistics
21. BAT Kenya Ltd
22. Coca-Cola Company Ltd
23. Kenya Airways (KQ)
24. Kurrent Technologies Ltd
25. Kenya Private Sector Alliance (KEPSA)

KPC

GOVERNMENT INSTITUTIONS

1. Kenya Revenue Authority (KRA)
2. Office of the Director of Public Prosecutions (DCPP)
3. Directorate of Criminal Investigations (DCI)
4. Ethics and Anti-Corruption Commission (EACC)
5. Kenya Ports Authority
6. Kenya Bureau of Standards (KEBS)
7. National Police Service (NPS)
8. Kenya Railways Corporation (KRC)
9. National Youth Service
10. Port Health (Ministry of Health)
11. Ministry of Petroleum & Mining
12. Ministry of Interior & Coordination of National Government
13. Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works
14. Ministry of ICT, Innovation and Youth Affairs
15. Council of Governors

COMMUNITY BASED ORGANIZATIONS (CBOs)

1. Shining Hope for Communities (SHOFCO), Kibera
2. PROWE
3. Ghetto Classics, Korogocho
4. Wide-Network, Kibera
5. Women in Business
6. Green Card Mtaani
7. Torch Women
8. Overcomers
9. Boda Boda Safety Association of Kenya
10. Kenya Agency for International Development (KENFAID)
11. BOMA
12. Kenya Drylands Education Fund (KDEF)

STAKEHOLDERS WHO PARTNERED WITH KPC

STATEMENT ON LEADERSHIP AND ETHICS

KPC Management is committed to promoting and fostering an organizational culture that does not tolerate any acts of fraud or corruption and continues to strive towards ensuring that appropriate structures are instituted to facilitate mainstreaming integrity and promoting an ethical culture in the Company. To achieve this objective, the Company has put in place various structures and policies to support this effort of minimizing corruption which includes: Mainstreaming of Integrity, ethics and compliance into a fully-fledged Section imbedded in the Internal Audit Division to spearhead and coordinate the Integrity program companywide; In line with the government model provided in the Public Service Integrity Program Manual, which is committee based, adopted a three-tier operating structure with a Management oversight Committee chaired by the Managing Director and members drawn from the Executive Management team to oversight the integrity program, a Secretariat based at the headquarters comprised of representatives from major functional areas to work hand-in-hand with the Integrity Section to provide technical support, and seven Regional Committees based in the major Stations with trained Integrity Officers where staff can report suspected issues of corruption within their respective regions. Staff are encouraged to report any suspected incidences of corruption to any of the Committees through email, telephone, or verbally without fear of reprisal. An anonymous email address – report.corruption@kpc.co.ke. has also provided for reporting anonymously.

Several Integrity policies have been developed and operationalized as guidelines for the staff and Stakeholders and have been made available on the KPC website – www.kpc.co.ke. This includes the Code of Conduct and Ethics to provide guidelines on the ethical values as well as regulate the behavior, relationships, and actions of staff; the Gift Policy to provide guidelines on the receiving and giving of gifts, declaration and disposal process, with the Gift registers placed in all the Company Depots/Stations for ease of declaration; the Anti-Corruption Policy, to outline the roles and responsibilities of various Officers in the corruption prevention process; and the Whistleblower Policy to encourage staff to report on suspected corrupt activities anonymously while assuring them protection against reprisal.

To identify corrupt prone areas within the corporate processes, Corruption Risk Assessments (CRA) are regularly undertaken, and the Corruption Prevention/Mitigation Plans developed. The recommendations once adopted are then passed to the relevant departments for implementation with regular follow-ups and reports to Management and other regulatory authorities.

During the FY 2018/2019, the company carried out CRA on four thematic areas which included: Operations & Maintenance; ICT; Procurement & Financial Management; and Payroll Management and analysis of their likelihood of materializing and the consequences therein identified. Mitigation plans to guide the company to take necessary steps to avoid or control the risks were developed.

As part of the integrity strategy, the Company periodically carries out corruption perception surveys and corruption prevalence surveys in an exercise that involves both internal and external stakeholders. These surveys are aimed at identifying areas that are prone to corruption and the associated corruption levels. The results of the surveys inform various corruption prevention interventions.

The Managing Director maintains an ‘open-door policy’’ and encourages staff to walk into his office to report any suspected corruption that they may be afraid to report through other channels and has circulated the communique from the office of the president providing a telephone number 0791333222 for use by anyone who wishes to report corrupt activities/incidents anonymously to the presidency.

Nairobi,

2020

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of Kenya Pipeline Company Limited (the "Company") for the year ended June 30, 2020, which disclose the Company's state of affairs.

Activities

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

RESULTS	Kshs
Profit before tax	5,814,880,229
Tax charge	(1,820,869,707)
Profit after tax for the year	**3,994,010,522**

Dividend

The directors recommended and approved payment of Kshs. 2.7 Billion as dividend in respect of the year.

(2019 –Kshs.11.5 Billion).

Directors

The current directors are as shown on page 10 to 12.

Auditors

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

By Order of the Board

Company Secretary

Nairobi

February 22, 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the Companies Act. The Directors are of the opinion that the company's financial statements give a true and fair view of the state of company's transactions during the financial year ended June 30, 2020, and of the company's financial position as at that June 30, 2020. The Directors further confirm the completeness of the accounting records maintained for the company, which have been relied upon in the preparation of the company's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements:

The entity's financial statements were approved by the Board on **February 22, 2021** and signed on its behalf by:

Rita Okuthe
BOARD CHAIRPERSON

Dr Macharia Irungu
MANAGING DIRECTOR

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR GENERAL

Enhancing Accountability

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA PIPELINE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Kenya Pipeline Company Limited set out on pages 63 to 118, which comprise the statement of financial position as at 30 June, 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Kenya Pipeline Company Limited as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Pipeline Company Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

1. Property Plant and Equipment

1.1 Land Without Title Deeds

The statement of financial position reflects property, plant and equipment with a book value of Kshs.93,503,556,831. Included in the balance, are freehold properties valued at Kshs.881,963,445 as shown in Note 16 to the financial statements. However, the Company did not have title deeds for five (5) parcels of freehold land with a book value of Kshs.32,250,000, allocated to the Company in the 1970s and 1990s for pipeline infrastructure. According to the Management, the land was allotted from trust land, and there has been delays in demarcation of the areas and the adjudication process required to facilitate acquisition of title deeds.

1.2 Pending Contract Variation Claims

Further, the property, plant and equipment balance of Kshs.93,503,556,831 includes an amount of Kshs.51,416,165,547 incurred on cost of works on a new Mombasa-Nairobi Oil Pipeline commonly referred to as Line 5. As previously reported, construction of Line 5 commenced in July, 2014 following the award of its tender at a cost of US$ 484,502,887 equivalent to Kshs.49,563,821,685. At the time of completion of the pipeline in June, 2018, the Project Engineer had submitted eight (8) variation orders totaling US$.38,109,717 (Kshs.3,898,559,263) out of which only a sum of US$.17,445,639 (Kshs.1,784,659,212) was approved for payment. The orders were reported to have resulted from change of design specifications and omission of works in the initial contract.

The contractor had submitted five (5) Extension of Time (EoT) requests with claims amounting to US$.204,511,827 (Kshs.20,921,212,232). However, the claims were contested by the Project Engineer resulting in the appointment of an independent expert scheduler in January, 2018 to verify the claims. The expert scheduler assessed the total amount payable to the contractor for four of the EoTs to be US$.44,019,025 (Kshs.4,503,071,425) down from the contractor's claim of US$.189,290,732 (Kshs.19,364,120,089). The fifth EoT claim of US$.15,221,095 (Kshs.1,557,092,143) was not reviewed by the expert scheduler. The Construction of the pipeline (Line 5) was completed and the line commissioned during the year ended 30 June, 2018.

The contractor has since been awarded an amount of Kshs.4,689,011,724 following a successful petition at the High Court. A subsequent appeal by the Company to set aside the award is pending at the Court of Appeal.

1.3 Unused New Kisumu Oil Jetty

In addition, the property, plant and equipment balance of Kshs.93,503,556,831 includes an oil jetty at Kisumu built at a cost of Kshs.2,056,719,681. The Construction works on the jetty were executed from May, 2017 to March, 2018 when the jetty was completed and handed over to the Company by the Contractor. Thereafter, the assets were capitalized during the 2017/2018 financial year. However, the is not optimally in use due to delays in completion of the infrastructure for receipt and storage of the products in Uganda but has been depreciated by Kshs.283,955,806 as at 30 June, 2020.

Although Management indicated that significant progress has been made in construction of one of the two planned similar jetties in Uganda, it is not clear when these will be completed and operationalized.

My opinion is not qualified in respect of the effects of these matters.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

Dispute in Reallocation of Land

Kenya Pipeline Company Limited (KPC) was allotted a parcel of land - LR No.209/10777 in Upper Hill, Nairobi in 1988 for the proposed construction of the Company's Headquarters. However, the land was fraudulently allocated to a private company. The Ethics and Anti-Corruption Commission (EACC), formerly Kenya Anti-Corruption Commission, investigated the matter following which, the title held by the private company was revoked. The land was subsequently re-allocated to the Judiciary under title No. 209/19723 under unclear circumstances.

Dissatisfied with the re-allocation of the land to the Judiciary, the private company filed a constitutional petition seeking a declaration that they were the rightful owners of the property. The High Court, on 19 September, 2013, ruled that the allocation was irregular as the land had been allocated to KPC and therefore not available for alienation. Efforts by Management to have the Judiciary surrender the land to KPC have been in vain.

Subsequently, in 2019, the Company filed a suit in an attempt to reclaim ownership of the land but the matter has not been determined by the close of the financial year

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Unrealized Insurance Risk Compensation

Included in the trade and other receivables balance of Kshs.9,008,195,881 reflected in the statement of financial position and Note 22 to the financial statements, is an amount of Kshs.224,334,328 in respect of River Thange clean-up expenses. The amount represents expected compensation from an insurance firm for an industrial, and other insurable risk policy cover undertaken by the Company in 2013, at an annual premium of US$ 1,405,341, through an insurance brokerage firm. During the insurance period, there was an oil spillage at Thange area which was an insurable risk covered in the policy. Upon KPC lodging a claim for compensation with the underwriting firm, the underwriter asserted that in their opinion, the risk fell within the exclusion clause as normal wear and tear. The Company has however, not sought clarification from the Insurance Regulatory Authority for an independent interpretation or arbitration toward closure of the matter but continues to engage the Underwriter through meetings and correspondences most of which were never responded to. As a result of the impasse, no compensation has been received against the insured risk.

In view of the above, the likelihood of compensation remains in doubt.

2. Stalled Projects

The property, plant and equipment balance of Kshs.93,503,556,831 reflected in the statement of financial position and Note 16 to the financial statements, includes Kshs.286,465,439 in respect of stalled capital work-in-progress, some dating back to the year 2007. No plausible explanation has been provided on why the projects were abandoned before completion. Although Management has made an impairment provision in respect of the projects, no clear roadmap has been provided on how the Company intends to address the matter.

In the circumstances, the objectives for which these projects were intended to achieve remains unattained, and the Company is yet to obtain value for money incurred on the projects.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report based on my audit, that:

i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;

ii. In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and

iii. The financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and the Board of Directors

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

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless Management is aware of the intention to liquidate the Company or have its operations cease.

The Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

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

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

Nancy Gathungu
AUDITOR-GENERAL

Nairobi

31 March, 2021

2020 at a glance

Revenue
Kshs.
26bn

Profits before Tax
Kshs.
5.8bn

Assets base
Kshs.
123bn

Litres of petroleum transported
Kshs.
7.7bn

Market share

96% Local

79% Export

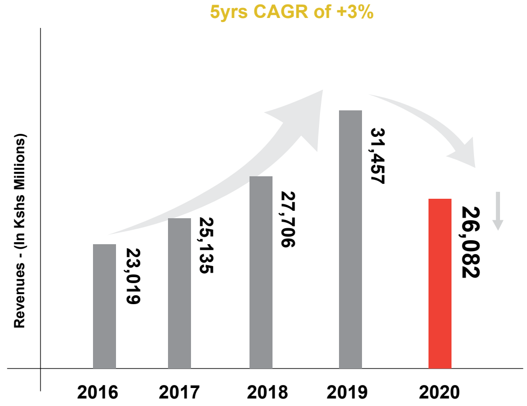
No. of staff
1,569

Pipeline network
1,795km

2020 Performance Highlights

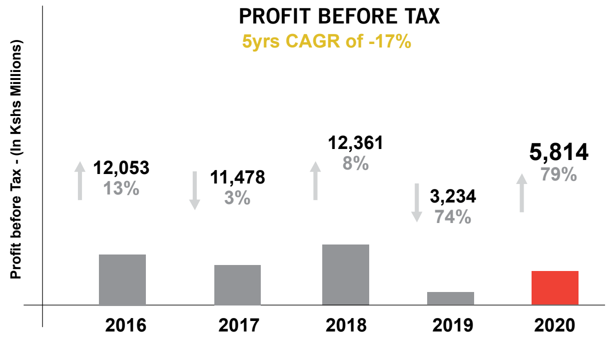
TOTAL REVENUE

5yrs CAGR of +3%



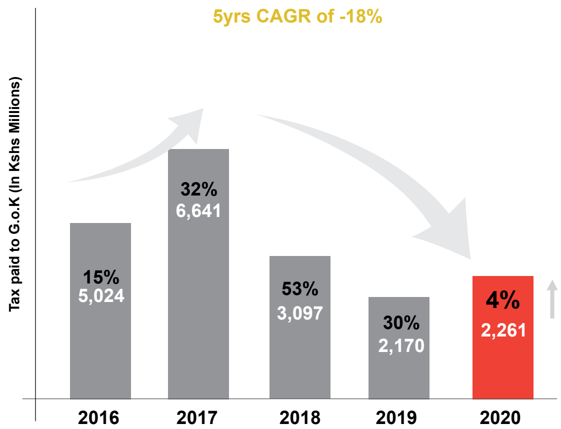
PROFIT BEFORE TAX

5yrs CAGR of -17%



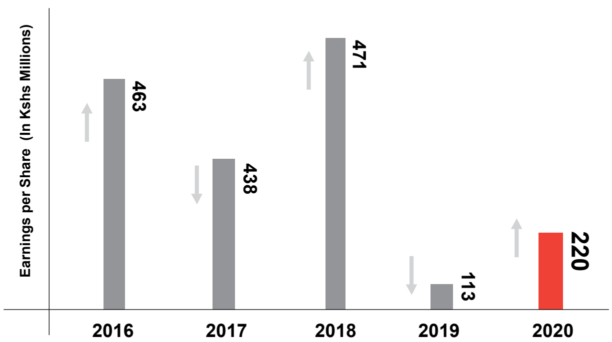
TOTAL TAX PAID TO G.O.K

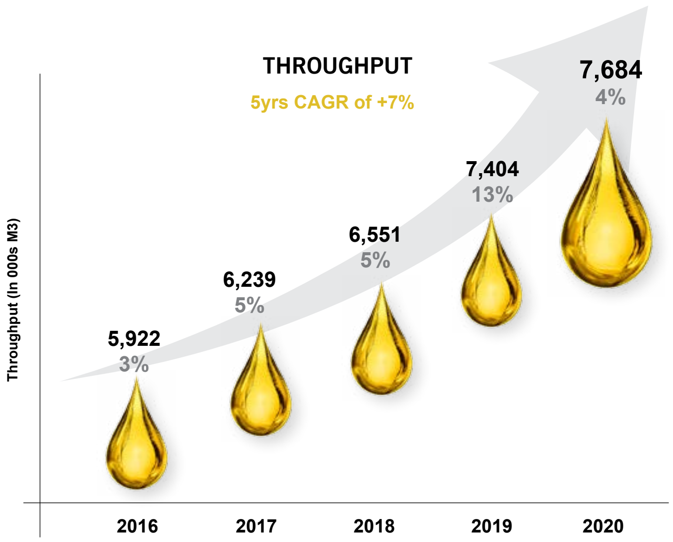
5yrs CAGR of -18%



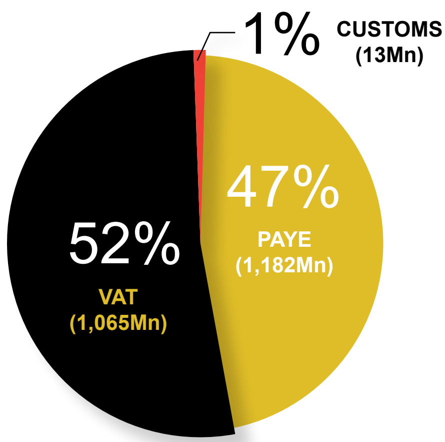
EARNINGS PER SHARE

5yrs CAGR of -17%





2020 TAXES PAID (KSHS MILLIONS)



STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020	2019
Revenue	6	26,082,251,486	31,457,618,208
Direct Costs	7	(12,860,135,055)	(14,259,924,080)
Gross Profit		**13,222,116,432**	**17,197,694,127**
Other Income	8	413,959,497	415,798,178
Interest Income	9(a)	542,391,045	494,176,891
Foreign Exchange Gains/(Losses)	9(b)	(97,303,503)	(15,366,791)
Finance Costs	9(c)	(1,884,648,957)	(2,300,298,527
Administration Expenses	10(a)	(6,240,541,367)	(6,437,672,470)
Provision for Bad Debts	10(b)	(141,092,919)	(6,119,537,986)
PROFIT BEFORE TAXATION		**5,814,880,229**	**3,234,793,422**
Taxation Charge	13	(1,820,869,707)	(1,186,873,779)
PROFIT AFTER TAXATION		**3,994,010,522**	**2,047,919,643**
Other Comprehensive Income (OCI)/ (Loss			
Items that will not be reclassified subsequently to profit or loss; Re-measurement (Other Comprehensive Income – DB Retirement Benefit Scheme)		-	-
Deferred Tax On OCI		-	-
OTHER COMPREHENSIVE LOSS		**-**	**-**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,994,010,522**	**2,047,919,643**
		Kshs	**Kshs**
Earnings per Share	14	**220**	**113**

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020		2020	2019
ASSETS	**Note**	**Kshs**	**Kshs**
Non-Current Assets			
Property, plant and equipment	16	93,503,556,831	100,274,854,331
Leasehold land	17	4,701,104, 872	4,835,251,272
Intangible assets	18	93,593,013	414,431,974
Investments	19	36,306,359	36,306,359
Retirement benefits	20	1,285,627,233	1,285,627,233
Trade and other receivables	22	2,910,465,319	2,146,883,113
Total Non-Current assets		**102,530,653,628**	**108,993,354,282**
Current Assets			
Inventories	21	2,182,234,022	2,232,089,622
Trade and other receivables	22	9,008,195,881	10,488,462,618
Taxation recoverable		876,808,106	977,416,079
Short term deposits	23(a)	6,904,213,188	9,059,660,261
Bank and cash balances	23(b)	1,487,229,820	3,809,591,698
Total Current Assets		**20,458,681,018**	**26,567,220,278**
Total Assets		**122,989,334,647**	**135,560,574,560**
SHAREHOLDER'S FUNDS AND LIABILITIES			
Capital and Reserves			
Share capital	24	363,466,007	363,466,007
Share premium		512,288,916	512,288,916
Retained earnings		73,595,346,577	81,101,336,056
Revaluation reserve		10,004,768,990	10,004,768,990
		84,475,870,490	**91,981,859,969**
Non-Current Liabilities			
Deferred taxation	25	11,909,797, 273	10,265,753,100
Syndicated Long Term Loan	27(a)	17,703,118,633	21,364,418,281
		29,612,915,906	**31,630,171,382**
Current Liabilities			
Trade and other payables Due to Related Parties	26	4,255,790,808	7,186,408,232
Due to related parties	29(c)	80,000,000	80,000,000
Dividend Payable		-	300,000,000
Current Portion of Long-Term Loan	27(b)	4,564,757,441	4,382,134,978
		8,900,548,250	**11,948,543,209**
Total Shareholder's Funds and Liabilities		**122,989,334,647**	**135,560,574,560**

The financial statements on pages 50 to 87 were approved and authorized for issue by the Board of Directors on **22 February 2021** and signed on their behalf by:

Board Chairperson
Rita Okuthe

Managing Director
Dr. Macharia Irungu, MBS

Head of Finance
Pius Mwendwa
ICPAK M/NO: 4454

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020

	Share Capital	Share Premium	Retained earnings	Revaluation Reserve	Total Equity
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
As at 1st July 2018	**363,466,007**	**512,288,916**	**79,453,028,142**	**10,004,768,990**	**90,333,552,055**
Profit for the year	-	-	2,047,919,643	-	2,047,919,643
Dividends paid	-	-	(300,000,000)	-	(300,000,000)
Other Comprehensive Income (OCI)	-	-	-	-	-
Adjustment to RB Asset	-	-	-	-	-
Deferred Tax in FY 2018 OCI	-	-	(99,611,731)	-	(99,611,731)
As at 1 July 2019	**363,466,007**	**512,288,916**	**81,101,336,056**	**10,004,768,990**	**91,981,859,969**
Profit for the year	-	-	3,994,010,522	-	3,994,010,522
Dividends Paid	-	-	(11,500,000,000)	-	(11,500,000,000)
Under Provision of Deferred tax in prior year	-	-	-	-	-
As at 30 June 2020	**363,466,007**	**512,288,916**	**73,595,346,577**	**10,004,768,990**	**84,475,870,490**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020		2020	2019
	Note	Kshs.	Kshs.
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	28(a)	13,434,352,514	16,853,681,873
Interest received	9(a)	542,391,045	494,176,891
Interest expense	9(c)	(1,884,648,957)	(2,300,298,527)
Tax refund		1,027,090,888	-
Withholding and Advance taxes paid		(49,500)	(54,140,873)
Net cash generated from operating activities		**13,119,135,990**	**14,993,419,364**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	16	(507,537,083)	(1,783,922,667)
Proceeds from disposal of property, plant and equipment		5,655,174	12,203,400
Purchase of intangible assets	18	(102,995,299)	(394,869,291)
Purchase of investment - KPRL		(709,819,411)	(862,608,481)
Net cash flows used in investing activities		**(1,314,696,619)**	**(3,029,197,039)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan Drawdown		-	-
Dividends paid		(11,800,000,000)	-
Repayment of borrowings		(4,482,248,321)	(4,353,755,003)
Net cash flows from financing activities		**(16,282,248,321)**	**(4,353,755,003)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(4,477,808,951)**	**7,610,467,323**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		**12,869,251,959**	**5,258,784,637**
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**8,391,443,008**	**12,869,251,959**

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2020

	Budget	Actual	Performance difference	% Var
Revenue	Kshs	Kshs	Kshs	
Throughput Revenue	34,441,849,935	26,082,251,487	(8,359,598,448)	(24%)
Other income	679,422,935	956,350,543	276,927,607	41%
Total Income	**35,121,272,870**	**27,038,602,030**	**(8,082,670,840)**	
Expenses				
Compensation of employees- employee costs	6,809,453,457	6,547,344,642	262,108,815	4%
Direct Costs excl. depreciation and electricity	4,343,337,204	2,240,642,310	2,102,694,894	48%
Administration Costs excl. depreciation and electricity	1,922,125,968	2,095,914,492	(173,788,525)	(9%)
Depreciation	7,252,659,507	7,095,541,022	157,118,485	2%
Electricity	1,963,000,000	1,315,840,962	647,159,038	33%
Finance cost	1,808,747,499	1,787,345,455	21,402,044	1%
Provision for bad debts	-	141,092,919	(141,092,919)	
Total Expenditure	**24,099,323,635**	**21,223,721,801**	**2,875,601,834**	
Surplus for the period	**11,021,949,235**	**5,814,880,229**	**(5,207,069,006)**	
Capital Expenditure				
Capital investments	**2,923,170,566**	**1,320,351,793**	**1,602,818,773**	55%
Total Approved Budget	**27,022,494,201**	**22,544,073,594**	**4,478,420,607**	17%

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

REMARKS:

(i) Decline in revenue is attributed to:
   a) Impact of COVID-19 containment measures.
   b) Downward revision of pipeline tariffs by Energy and Petroleum Regulatory Authority (EPRA) from 15th November 2019 and 14th February 2020.

(ii) Low absorption of recurrent and capital expenditure budget was due to adverse effects of COVID-19 movement restriction measures on the supply chain.

(iii) Reduction in electricity consumption was due to the decline in throughput volumes and the energy saving operating philosophy adopted by the company after operationalization of the 20-inch Mombasa – Nairobi Line 5 pipeline.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

1. GENERAL INFORMATION

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

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

The financial statements have been prepared in accordance with the PFM Act, the Company Act, Cap 486 of the laws of Kenya, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

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

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019

IFRS 16: Leases

The new standard, effective for annual periods beginning on or after 1st January 2019, introduces a new lessee accounting model, which requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

Application of IFRS 16 requires right-of-use assets and lease liabilities to be recognized in respect of most operating leases where the Company is the lessee.

IFRIC 23: Uncertainty Over income tax treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

Amendments to IFRS 9 titled Prepayment Features with Negative Compensation (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1 January 2019, allow entities to measure pre-payable financial assets with negative compensation at amortized cost or fair value through other comprehensive income if a specified condition is met.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Amendments to IAS 28 titled Long-term Interests in Associates and Joint Ventures (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures.

Amendments to IFRS 3 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017.

The amendments, applicable to annual periods beginning on or after 1st January 2019, provide additional guidance on applying the acquisition method to particular types of business combination.

Amendments to IFRS 11 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that when an entity obtains joint control of a business that is a joint operation, it does not re-measure its previously held interests

Amendments to IAS 12 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that all income tax consequences of dividends should be recognized when a liability to pay a dividend is recognized, and that these income tax consequences should be recognized in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions to which they are linked.

Amendments to IAS 23 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.

Amendments to IAS 19 titled Plan Amendment, Curtailment or Settlement (issued in February 2018)

The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1st January 2019, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity re-measures its net defined benefit liability (asset) in the manner specified in the amended standard.

The above new and revised International financial reporting standards were effective in the current year and the directors of the company do not anticipate that application of these Amendments/Interpretations will have significant impact on the company financial statements.

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019

IFRS 17 Insurance Contracts (Issued 18 May 2017)

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.

Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018- Applicable for annual periods beginning 1 January 2020)

Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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

iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2019.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue recognition

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

i) Revenue from transportation and storage of petroleum products; is recognised in the year in which the company delivers services to the customer, the customer has accepted the service and collectability of the related receivables is reasonably assured.

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

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

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

v) Other income is recognised as it accrues.

b) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items and are recognised in profit or loss in the income statement.

c) Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are;

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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 switchgear	5%
Furniture, fittings and equipment	10%
Roads	20%
Helicopters	20%
Motor vehicles	25%
Computers	33%

A prorated depreciation charge is recognised both in the year of asset purchase and in the year of asset disposal. Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

d) Intangible assets

Intangible assets comprise purchased computer software licenses, which are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

e) Amortization and impairment of intangible assets

Amortization is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

f) Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the entity, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

g) Finance and operating leases

Leases which confer substantially all the risks and rewards of ownership to the entity are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

All other leases are treated as operating leases and the leased assets are recognised in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

h) Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss.

i) Quoted investments

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value.

j) Unquoted investments

Unquoted investments stated at cost under non-current assets and comprise equity shares held in other Government owned or controlled entities.

k) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handing charges, and is determined on the moving average price method.

l) Trade and other receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

m) Taxation

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

n) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various Commercial Banks at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

o) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing.

Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

p) Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

q) 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 closed to new members and a defined contribution pension scheme was established.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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

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

For defined retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Re-measurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as service costs (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), net interest expense or income and re-measurement.

The company presents the first two components of defined benefit costs in profit or loss in the line item of pension cost-defined benefit scheme (included in staff costs). Curtailment gains and losses are accounted for as past service costs.

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

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

r) Provision for staff leave pay

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

s) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

t) Budget information

The rationalized budget for FY 2019/20 was approved by the National Treasury on 27th September 2019. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under page 59 of these financial statements.

u) Service concession arrangements

The Entity analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Entity recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

v) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

w) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2020.

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Entity's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur.

Sources of Estimation Uncertainty

- **Actuarial valuation of defined benefits plan**

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

- **Impairment of assets**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

• Impairment losses on trade and other receivables

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

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

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets
- Changes in the market in relation to the asset

Provisions

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

6. REVENUE	2020	2019
	Kshs	Kshs
Local service fees	9,715,291,161	10,514,539,991
Export service fees	11,851,377,622	13,787,017,282
Kipevu oil storage facility fees	3,577,384,638	4,578,652,706
Penalties on overstayed product	808,144,107	2,392,109,646
Penalties from ASE	1,048,868	816,252
Hospitality	-	2,319
KPRL Lease Income	8,904,442	48,498,680
Liquefied Petroleum Gas Sales	31,478,674	44,245,918
Crude Oil Revenue (EOPS)	88,621,974	91,735,414
	26,082,251,486	**31,457,618,208**

7. DIRECT COST	2020	2019
	Kshs	Kshs
Pipeline maintenance staff costs (note 11)	2,875,075,248	2,966,946,851
Depreciation	6,081,945,118	5,924,362,068
Pipeline maintenance costs	2,170,624,121	2,436,956,833
Electricity and fuel	1,326,928,061	2,451,182,243
Insurance	209,569,104	215,339,381
Other maintenance costs	70,018,189	87,379,403
Amortization expense	125,975,215	177,757,300
	12,860,135,055	**14,259,924,080**

8. OTHER INCOME	2020	2019
Helicopter income	-	7,815,825
Rent income	82,628,486	78,646,521
Gain on disposal of PPE	4,457,238	11,911,516
Hydrant Income	75,968,726	72,351,168
Income from Collateral Financing	69,797,424	81,066,859
Non-Refundable Tender Deposits	(2,000)	-
MTCC /MIOG collections	90,328,042	141,945,375
FOC Lease Income	82,309,379	10,161,572
Income from communication equipment	1,022,244	-
Miscellaneous income	7,449,959	11,899,342
	413,959,497	**415,798,178**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

9. a) INTEREST INCOME	2020	2019
Interest from commercial banks	498,459,781	453,201,043
Interest on staff loans	43,931,265	40,975,847
	542,391,045	**494,176,891**

b) FOREIGN EXCHANGE LOSS	**(97,303,503)**	**(15,366,791)**

c) FINANCE COSTS		
Loan interest	1,884,648,957	2,300,298,527
	1,884,648,957	**2,300,298,527**

10. a) ADMINISTRATION EXPENSES	2020	2019
	Kshs	**Kshs**
Administrative staff costs	3,471,867,783	3,336,920,400
Depreciation and Lease Amortization	887,620,689	980,296,138
Other office and general expenses	973,888,854	900,108,857
Travelling, mileage and entertainment	38,376,276	53,176,348
Advertising and printing expenses	191,290,111	195,164,896
Staff Training	162,025,335	171,692,178
Rent and rates	47,868,588	26,804,551
Consultancy fees	146,054,595	488,236,993
Telephone and postage	36,936,620	48,326,342
Legal and professional expenses	144,466,210	81,506,637
Motor vehicle expenses	75,825,011	78,322,008
Buildings repairs and maintenance	1,686,464	10,226,062
Bank charges	8,040,915	7,060,505
Auditors remuneration	13,200,000	13,200,000
Directors Expenses:		
- Directors Fees	12,000,000	-
- Board Retreats and general expenses	1,152,738	1,719,719
- Sitting /duty allowance	9,696,000	16,326,666
- Training expenses	6,902,533	11,867,709
- Travel expenses and Subsistence allowance	11,642,645	16,716,462
	6,240,541,367	**6,437,672,470**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

b) PROVISION FOR BAD DEBTS	2020	2019
	Kshs	Kshs
Provision for a long outstanding trade debt	-	4,267,952,874
Provision for product aging penalties	141,092,919	1,851,585,112
	141,092,919	**6,119,537,986**

This provision relates to Kshs. 141,092,919 for amounts contested by OMCs on product aging penalties during the financial year (FY) 2020 and 2019 respectively.

11. STAFF COSTS	2020	2019
	Kshs	Kshs
Salaries and wages	4,959,164,823	4,902,923,194
Group life and medical cover	394,537,687	418,949,316
Pension-company contribution	401,167,414	320,325,443
Staff welfare	30,147,751	54,319,246
Training	162,025,335	171,692,178
Recruitment costs	4,109,755	20,000
Travel, Mileage & Entertainment	59,963,675	81,007,030
Subsistence Allowance	532,732,704	575,265,428
NSSF-company contribution	3,696,532	4,036,156
Staff uniforms	(201,036)	197,786
	6,547,344,642	**6,528,735,777**
Split as follows:		
Direct staff costs (Note 7)	2,875,075,248	2,966,946,851
Administrative staff cost, Travelling, mileage and entertainment, Staff Training (Note 10(a))	3,672,269,393	3,561,788,926
	6,547,344,642	**6,528,735,777**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

The average number of employees at the end of the year was:	2020	2019
Permanent Management	565	588
Permanent Unionaisble	848	885
Contract Managers	14	23
All other Contract staff i.e. MTCC, GYM, Volleyballers	108	108
Temporary staff (Relief Drivers)	34	24
TOTAL	**1,569**	**1,628**
Provision for Leave Pay		
Balance at beginning of the year	235,431,777	226,392,231
Additional provision at end of year	78,015,977	65,456,616
Leave paid out or utilized during the year	(68,599,882)	(56,417,069)
Balance at the end of the year	**244,847,872**	**235,431,777**

12. PROFIT BEFORE TAX	2020	2019
	Kshs	**Kshs**
The profit before tax is arrived at after charging/(crediting):		
Staff costs (note11)	6,547,344,642	6,528,735,777
Depreciation of property, plant and equipment	6,537,560,361	6,375,177,837
Amortization of intangible assets	557,980,660	707,237,669
Provision for bad and doubtful debts	141,092,919	6,119,537,986
Directors' expenses	41,393,917	46,630,556
Auditors' remuneration	13,200,000	13,200,000
Gain on disposal of property, plant and equipment	(4,457,238)	(11,911,516)
Net foreign exchange Loss	(97,303,503)	15,366,791
Interest receivable	(498,459,781)	(453,201,043)
Interest payable	1,884,648,957	2,300,298,527
Rent receivable	(82,628,486)	(78,646,521)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

13. TAXATION	2020	2019
	Kshs	Kshs
a) Tax charge		
Current taxation	176,825,533	174,895,495
Deferred tax	3,355,033,023	1,011,978,283
Deferred tax – OCI	-	-
Prior year adjustment	(1,710,958,850)	-
Total taxation charge	**(1,820,869,706)**	**1,186,873,779**
b) Reconciliation of expected tax based on profit before taxation to taxation charge		
Profit before taxation	5,814,880,229	3,324,793,422
Tax at the applicable rate of 25%	1,453,720,057	970,438,027
Expenses not deductible for tax purposes	241,011,848	216,457,642
Income not subject to tax	(147,869,561)	(21,890)
Effect of change in tax rate	1,984,966,212	-
Tax underpayment – Prior year	(1,710,958,850)	-
Total taxation charge	**(1,820,869,706)**	**1,186,873,779**

c) Taxation (recoverable)/payable	2020	2019
	Kshs	Kshs
Balance brought forward	(977,416,079)	(1,098,170,701)
Charge for the year (note 13(a))	176,825,533	174,895,495
Installment tax payments in the year	-	-
Balance of FY 2019 tax paid	-	-
Withholding tax paid on rent income	-	(440,969)
Advance tax paid	(49,500)	(264,900)
Tax over-provision 2019	-	-
Withholding tax paid on interest income	(76,168,060)	-
	(876,808,106)	**(977,416,079)**

14. EARNINGS PER SHARE

Earnings per share is calculated based on the profit attributable to shareholders divided by the number of ordinary shares in issue. Diluted earnings per share is the same as the basic earnings per share as there were no potentially dilutive instruments outstanding at the balance sheet date.

EARNINGS PER SHARE - BASIC AND DILUTED	2020	2019
	Kshs	Kshs
Net Profit After Taxation	3,994,010,522	2,047,919,643
Number of ordinary shares in issue	18,173,000	18,173,000
Earnings Per Share	**220**	**113**

15. DIVIDENDS

Proposed dividends are not accounted for until they have been ratified at the Annual General Meeting. A special dividend of Kshs. 2.7 billion was declared and approved for payment by shareholders from the revenue reserves for the financial year ended 30 June 2020.

16. PROPERTY, PLANT AND EQUIPMENT

FIXED ASSET MOVEMENT SCHEDULE AS AT 30 JUNE 2020

Particulars	Freehold Property	Buildings and Roads	Pipeline Pumps & Tanks	Equipment, Furniture & Fittings	Helicopters	Motor Vehicles & Tractors	Capital Work-in-Progress	Total
	Ksh	Ksh	Ksh	Ksh	Ksh	Ksh	Ksh	Ksh
COST								
1 July 2018	**881,963,445**	**7,710,669,781**	**79,567,321,737**	**24,385,461,506**	**438,914,541**	**1,107,173,550**	**3,822,570,903**	**117,914,075,464**
Additions (Acquisitions)	-	-	229,313,992	81,735,071	-	143,537,643	1,329,335,962	**1,783,922,667**
Transfers from WIP	-	300,764,176	809,785,243	3,081,099,778	-	1,152,200	(4,192,801,397)	-
Disposals	-	-	-	-	-	(16,264,897)	-	**(16,264,897)**
Adjustment (impairment in value -budgeting system)	-	-	-	-	-	-	(26,498,339)	**(26,498,339)**
Impairment 2	-	-	-	-	-	-	23,514,086	**23,514,086**
30 June 2019	**881,963,445**	**8,011,433,957**	**80,606,420,972**	**27,548,296,356**	**438,914,541**	**1,235,598,496**	**956,121,215**	**119,678,748,982**
1 July 2019	881,963,445	8,011,433,957	80,606,420,972	27,548,296,356	438,914,541	1,235,598,496	956,121,215	**119,678,748,982**
Additions (Acquisitions)	-	-	2,120,222	74,228,244	-	41,972,116	389,216,502	**507,537,083**
WIP Adjustments	-	-	-	-	-	-	(656,627,122)	**(656,627,122)**
Transfers from WIP	-	210,608,576	(443,986,989)	455,852,784	-	-	(222,474,371)	-
Disposals	-	-	-	(11,072,254)	-	(15,351,735)	-	**(26,423,989)**
Adjustment (Impairment in value -stalled projects)	-	-	-	-	-	-	(83,449,164)	**(83,449,164)**
At 30 June 2020	**881,963,445**	**8,222,042,533**	**80,164,554,205**	**28,067,305,129**	**438,914,541**	**1,262,218,876**	**382,787,060**	**119,419,785,790**
Depreciation								
1 July 2018	-	1,874,462,928	7,481,617,756	2,620,978,908	404,482,816	663,439,222	-	**13,044,981,630**
Charge for the year	-	381,912,359	3,153,730,209	2,659,475,812	19,848,574	160,210,883	-	**6,375,177,837**
Eliminated on Disposal	-	-	-	-	-	(16,264,817)	-	**(16,264,817)**
30 June 2019	-	2,256,375,287	10,635,347,965	5,280,454,720	424,331,390	807,385,287	-	**19,403,894,650**
1 July 2019	-	**2,256,375,287**	**10,635,347,965**	**5,280,454,720**	**424,331,390**	**807,385,287**	-	19,403,894,650
Charge for the year	-	391,799,543	3,185,326,013	2,778,725,757	14,583,310	167,125,739	-	**6,537,560,361**
Eliminated on Disposal	-	-	-	(9,874,318)	-	(15,351,735)	-	**(25,226,053)**
At 30 June 2020	**-**	**2,648,174,830**	**13,820,673,978**	**8,049,306,159**	**438,914,700**	**959,159,291**	**-**	**25,916,228,958**
Net Book Value:								
At 30 June 2020	**881,963,445**	**5,573,867,703**	**66,343,880,226**	**20,017,998,970**	**(159)**	**303,059,586**	**382,787,060**	**93,503,556,831**
At 30 June 2019	**881,963,445**	**5,755,058,670**	**69,971,073,006**	**22,267,841,635**	**14,583,151**	**428,213,209**	**956,121,215**	**100,274,854,331**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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

	Level 1	Level 2	Level 3	Fair value as 30 June
30 June 2020	**Kshs**	**Kshs**	**Kshs**	**Kshs**
Buildings and roads	-	-	5,573,867,703	5,573,867,703
Pipeline, pumps & tanks	-	-	66,343,880,226	66,343,880,226
Equipment, furniture and fittings	-	-	20,017,998,970	20,017,998,970
Helicopters	-	-	(159)	(159)
Motor vehicles and tractors	-	-	303,059,586	303,059,586
	-	-	**92,238,806,326**	**92,238,806,326**
30 June 2019				
Buildings and roads	-	-	5,755,058,670	5,755,058,670
Pipeline, pumps & tanks	-	-	69,971,073,006	69,971,073,006
Equipment, furniture and fittings	-	-	22,267,841,635	22,267,841,635
Helicopters	-	-	14,583,151	14,583,151
Motor vehicles and tractors	-	-	428,213,209	428,213,209
	-	-	**98,436,769,672**	**98,436,769,672**

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

	2020	2019
	Kshs	**Kshs**
Cost	120,574,167,409	119,636,044,051
Accumulated depreciation	(38,439,538,576)	(32,369,275,525)
Net book value	**82,134,628,833**	**87,366,768,526**

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

	2020	2019
	Kshs	**Kshs**
Total depreciation as per property, plant & equipment (note 16)	**6,537,560,361**	**6,375,177,837**
Direct costs (note 7)	6,081,945,118	5,924,362,068
Administrative costs	455,615,244	450,815,769
	6,537,560,361	**6,375,177,837**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

17. LEASEHOLD LAND	2020	2019
COST\VALUATION	**Kshs**	**Kshs**
1 July	5,640,368,221	5,640,368,221
Additions	-	-
Disposals	-	-
	5,640,368,221	**5,640,368,221**
AMORTIZATION		
1 July	805,116,949	640,484,651
Charge for the year	134,146,400	164,632,298
Eliminated on Disposal	-	-
30 June	**939,263,349**	**805,116,949**
NET BOOK VALUE	**4,701,104,872**	**4,835,251,272**

Payments to acquire leasehold interests in land are treated as prepaid lease rentals and amortized over the term of the lease. Leasehold land is held at valuation and categorized under level 3 of the fair value hierarchy.

Included under leasehold land is land valued at Kshs.869,759,420 relating to the JKIA Embakasi Depot whose title is held under the Kenya Airports Authority (KAA). KPC is pursuing a separate title.

18. INTANGIBLE ASSETS	2020	2019
COST	**Kshs**	**Kshs.**
1 July	1,793,588,818	1,398,719,527
Additions	102,995,299	394,869,291
30 June	**1,896,584,118**	**1,793,588,818**
AMORTIZATION		
1 July	1,379,156,844	836,551,473
Charge for the year	423,834,260	542,605,371
30 June	**1,802,991,104**	**1,379,156,844**
NET BOOK VALUE	**93,593,013**	**414,431,974**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

19. INVESTMENTS – at cost	2020	2019
	Kshs	Kshs
Unquoted investments		
Consolidated Bank of Kenya Limited	67,030,000	67,030,000
Impairment charge on Consolidated Bank of Kenya Limited preference shares	(30,725,641)	(30,725,641)
	36,304,359	**36,304,359**
Petroleum Institute of East Africa	2,000	2,000
	36,306,359	**36,306,359**
Details of the investment in Consolidated Bank of Kenya Limited are shown below:		
746,500 Ordinary Shares of Kshs.20 each	14,930,000	14,930,000
2,605,000 preference shares of Kshs.20 each	52,100,000	52,100,000
Impairment charge on Consolidated Bank of Kenya Limited preference shares	(30,725,641)	(30,725,641)
	36,306,359	**36,306,359**

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

20. RETIREMENT BENEFITS

a) National Social Security Fund

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

b) Defined Benefit Scheme (Closed)

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

b) Defined Benefit Scheme (Closed) (Continued)

	2020	2019
Discount rate(s)	13.9%	13.9%
Future salary increases	5.0%	5.0%
Future pension increases	0.0%	0.0%
Mortality (pre-retirement)	A1949-1952	A1949-1952
Mortality (post-retirement)	a (55) m/f	a (55) m/f
	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Withdrawals	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Ill health	50% at 55 and 100%	50% at 55 and 100%
Retirement age	at 60 years	60 years

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

	2020	2019
	Kshs	**Kshs**
Total service cost	**46,037,220**	**46,037,220**
Interest costs:		
Interest cost on defined benefit obligation	813,148,388	813,148,388
Interest income on plan assets	(1,018,795,042)	(1,018,795,042)
Interest on the effect of the asset ceiling	86,464,621	86,464,621
Net interest income	(119,182,034)	(119,182,034)
Components of defined benefits plan recognized in profit or loss	**(73,144,814)**	**(73,144,814)**
Actuarial gain obligation	(636,698,606)	(636,698,606)
Return on plan assets (excluding amount in interest cost)	73,689,031	73,689,031
Change in effect of asset ceiling (excluding amount in interest cost)	230,970,470	230,970,470
Components of defined benefits plan recognized in other comprehensive income	**(332,039,104)**	**(332,039,104)**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

	2020	2019
	Kshs	Kshs
Present value of funded defined benefit obligation	5,835,855,968	5,835,855,968
Fair value of plan assets	(8,060,965,923)	(8,060,965,923)
Effect of asset ceiling	939,482,722	939,482,722
Present value of defined benefit asset	**(1,285,627,233)**	**(1,285,627,233)**

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

	2020	2019
	Kshs	Kshs
Net asset at the start of the year	(880,443,315)	(880,443,315)
Net income recognized in the income statement	(73,144,814)	(73,144,814)
Employer contributions		
Amount recognized in other comprehensive income	(332,039,104)	(332,039,104)
Present value of overfunded defined benefit asset	**(1,285,627,233)**	**(1,285,627,233)**

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

Opening defined benefit obligation	6,040,570,614	6,040,570,614
Current service cost	46,037,220	46,037,220
Interest cost	813,148,388	813,148,388
Contributions from plan participants	-	-
Actuarial gain due to change in assumptions	(82,357,463)	(82,357,463)
Actuarial gain due to experience	(554,341,143)	(554,341,143)
Benefits paid	(427,201,648)	(427,201,648)
Closing defined benefit obligation	**5,835,855,968**	**5,835,855,968**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Opening fair value of plan assets	(7,543,061,560)	(7,543,061,560)
Interest income on plan assets	(1,018,795,042)	(1,018,795,042)
Contributions from the employer	-	-
Employee contributions	-	-
Benefits paid	427,201,648	427,201,648
Return on plan assets	73,689,031	73,689,031
Closing fair value of plan assets	**(8,060,965,923)**	**(8,060,965,923)**

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

	2020	2019
	Kshs	Kshs
Equity instruments	2,075,895,687	2,075,895,687
Debt instruments	3,368,606,368	3,368,606,368
Property	2,418,963,868	2,418,963,868
Cash	197,500,000	197,500,000
Total Scheme (Assets)	**8,060,965,923**	**8,060,965,923**

a) Defined Contribution Scheme:

Contributions to the Kenya Pipeline Company Staff Retirement Benefits Scheme are at 7.5% and 15% from employee and employer respectively from July 2019. The company's liability is limited to any unpaid contributions.

21. INVENTORIES	2020	2019
	Kshs.	Kshs.
Spare parts and consumables	2,346,158,996	2,311,821,466
Provision for obsolete stocks	(79,731,844)	(79,731,844)
Provision for Stock (HPV)	(84,193,129)	-
	2,182,234,022	**2,232,089,622**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

22. TRADE AND OTHER RECEIVABLES	2020	2019
	Kshs	Kshs
Trade receivables	9,628,678,337	11,144,514,246
Staff loans and advances	1,707,309,276	1,606,894,336
VAT recoverable	2,207,222,156	3,642,347,300
Prepaid construction costs	108,606,451	108,606,451
Prepaid expenses	949,827,669	747,749,861
Refundable deposits	9,477,446	9,477,446
Other debtors	2,794,436,534	2,056,551,965
	17,405,557,870	19,316,192,005
Provision for bad and doubtful debts	(5,486,896,669)	(6,680,846,274)
	11,918,661,201	**12,635,345,731**

Recoverable as follows:		
Current Assets:		
Within one year	**9,008,195,881**	**10,488,462,618**
Non-current Assets:		
After one year -staff loans-	1,338,037,428	1,284,274,632
Long-term Receivables	1,572,427,891	862,608,481
	2,910,465,319	**2,146,883,113**

The amounts recoverable after one year relate to staff loans and advances and a long-term receivable in respect of KPRL capital expenditure.

Ageing analysis of the Trade receivables was as follows:

	2020	2019
	Kshs	Kshs
Less than 30 days	630,488,083	3,488,502,756
Between 30 and 60 days	6,660,209	56,216,897
Between 61 and 90 days	98,085,541	228,666,762
Between 91 and 120 days	23,044,251	31,861,643
Over 120 days	8,870,400,252	7,339,266,188
	9,628,678,337	**11,144,514,246**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

23. CASH AND SHORT-TERM DEPOSITS

a) Short Term Deposits	2020	2019
	Kshs.	Kshs.
Fixed deposits	**6,904,213,188**	**9,059,660,261**

The fixed deposits have a tenor of 3 months and the effective interest rate in the year was 10% p.a. (2018 – 10%).

	b) Bank and Cash Balances	Account No.	2020	2019
			Kshs	Kshs
1.	Barclays Bank of Kenya	1108981062	-	-
2.	NCBA Bank Kenya (Kshs)	6634970017	102,553,773	148,176,252
3.	NCBA Bank Kenya (USD)	6634970025	281,893,163	863,758,253
4.	Standard Bank (Kshs)	104023872500	186,389,393	187,409,955
5.	Standard Bank (USD)	8704023872500	566,177,729	1,199,093,542
6.	CfC Stanbic (Kshs)	100000534425	20,600,819	114,950,725
7.	CfC Stanbic (USD)	100000681347	148,510,977	970,838,728
8.	Citibank (Kshs)	104052002	60,813,180	38,009,886
9.	Citibank (USD)	104052029	134,414,628	137,848,754
10.	Coop-Bank	1136028439200	10,511,607	50,210,915
11.	Coop-Bank (USD)	2120028439200	1,500,731	1,448,713
12.	Equity Bank (Kshs)	560291247368	75,411,812	57,499,940
13.	Equity Bank (USD)	560261355277	26,069,871	28,525,355
14.	Kenya Commercial Bank	1108981061	5,089,998	350,976
15.	Petty Cash	-	11,805,961	11,469,704
			1,631,743,642	**3,809,591,698**

c) NCBA (Kshs) Payments in transit			
	6634970017	(144,513,822)	-
		1,487,229,820	**3,809,591,698**

* The book balance for NCBA Bank (Kshs) account is an overdraw of Kshs. 41,960,049 attributable to timing differences between payment in transit and funding of the bank account.

24. SHARE CAPITAL	2020	2019
Authorized:		
19,369,580 Ordinary Shares of Kshs.20 each	387,391,600	387,391,600
Issued and fully paid:		
18,173,300 Ordinary Shares of Kshs.20 each	363,466,007	363,466 ,007

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

25. DEFERRED TAX LAIABILITY

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

	2020	2019
	KShs'000	**KShs'000**
Deferred tax liability		
Accelerated capital allowances	20,087,342,289	21,449,735,375
Deferred tax on retirement benefit plan assets	-	-
Deferred tax on interest received	-	(1,835,861,396)
Unrealized exchange gains	34,068,585	-
	20,121,410,873	**19,613,873,979**
Deferred tax assets		
Provisions	(1,177,683,414)	288,616,245
Deferred tax on Un-realized exchange loss	-	(877,104)
Deferred tax on tax losses	(6,937,855,383)	(9,539,785,218)
Retirement Benefit - OCI	(96,074,803)	(96,074,803)
	(8,211,613,600)	**(9,348,120,880)**
Net deferred tax liability	**11,909,797,273**	**10,265,753,100**
The movement in Deferred Tax was as follows:		
At 1 July (as previously reported)	10,265,753,100	9,154,163,087
Prior year adjustment	-	99,611,730
	10,265,753,100	**9,253,774,817**
Deferred tax charge (note 13(a))	1,664,044,173	1,011,978,283
Deferred tax - Retirement Benefit Obligation a/c	-	-
At the end of the year	**11,909,797,273**	**10,265,753,100**

26. TRADE AND OTHER PAYABLES	2020	2019
	Kshs	**Kshs**
Trade payables	1,287,061,288	2,207,030,795
Other payables	2,686,336,155	4,665,223,098
Catering, training &tourism development levy	(74,191)	75,228
Leave pay provision	244,847,873	235,431,778
Withholding tax payable	37,619,683	78,647,334
	4,255,790,808	**7,186,408,233**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

27. LONG TERM LOAN	2020	2019
	Kshs	Kshs
(a) Syndicated Loan (Long Term Portion)	17,703,118,633	21,364,418,281
(b) Syndicated Loan (Current Portion)	4,564,757,441	4,382,134,979

The long-term loan represents loan drawdowns as at 30 June 2020 on a United States Dollar 350 million Facility Agreement signed on 15 July 2015 between KPC and a consortium of the following six banks:

	Bank	Underwritten Amount USD	Drawn as at 30 June 2020 USD	Drawn as at 30 June 2019 USD
1	Commercial Bank of Africa	58,333,333	57,950,846	57,950,846
2	Citibank N.A.	58,333,333	57,950,846	57,950,846
3	CfC Stanbic Bank	58,333,333	57,950,846	57,950,846
4	Standard Chartered Bank	58,333,333	57,950,846	57,950,846
5	Rand Merchant Bank	58,333,333	57,950,846	57,950,846
6	Cooperative Bank of Kenya	58,333,333	57,950,846	57,950,846
	TOTAL	**350,000,000**	**347,705,076**	**347,705,076**

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

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

28. NOTES TO THE STATEMENT OF CASH FLOWS		2020	2019
		Kshs	Kshs.
a)	**Reconciliation of operating profit to cash generated from operations**		
	Profit before tax	5,814,880,299	3,234,793,422
	Adjustments for:		
	Depreciation (note 16)	6,537,560,361	6,375,177,837
	Provisions	83,449,164	
	Amortization of leasehold land (note 17)	134,146,400	164,632,298
	Amortization of intangible assets (note 18)	423,834,260	542,605,371
	Movement in retirement benefit asset	-	-
	Loss/(gain) on disposal of property, plant and equipment	(4,457,238)	(11,911,516)
	Interest income	(542,391,045)	(494,176,891)
	Interest expense	1,884,648,957	2,300,298,527
	Operating profit before working capital changes	**14,331,671,088**	**12,111,419,048**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

NOTES TO THE STATEMENT OF CASH FLOWS		2020	2019
		Kshs	Kshs
	Increase in inventories	49,855,600	33,927,822
	Increase in trade and other receivables	1,426,503,941	3,881,534,097
	(Decrease)/increase in trade and other payables	(2,830,992,638)	479,730,017
	Increase/(Decrease) in Loan Adjustment	457,314,167	347,070,889
	Movement in related party balances	-	-
	Cash generated from operations	**13,434,352,514**	**16,853,681,873**
b)	Analysis of cash and cash equivalents		
	Short term deposits (note 22(a)	6,904,213,188	9,059,660,261
	Bank and cash balances	1,487,229,820	3,809,591,698
		8,391,443,008	**12,869,251,959**
c)	Analysis of non-cash transactions:		
	Total additions to property, plant and equipment	507,537,083	1,479,742,118
	Capital work in progress items pending settlement as at 30 June	-	
	Cash used in the purchase of property, plant and equipment as presented on the cash flow statement	**507,537,083**	**1,479,742,118**

29. RELATED PARTIES

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

Other related parties include:

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

Transactions with related parties include:

(a) Sales to related party	2020	2019
	Kshs	Kshs
Services provided to National Oil Corporation (K)	**407,658,109**	**815,250,524**

(b) Expenses incurred on behalf of related parties		
Services received from Kenya Power & Lighting Co Limited	1,315,840,962	2,439,700,449
Services received from Ministry of Energy	384,000,000	384,000,000
	1,699,840,962	**2,823,700,449**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

(c) Due to related party		
Deferred Income from Ministry of Petroleum & Mining – LPG Project	80,000,000	80,000,000
(d) Key management compensation		
CEO salaries and benefits	12,584,365	13,009,574
Key Management salaries and benefits	271,492,093	237,130,333
	284,076,458	**250,139,907**
Directors Expenses:		
- Fees	12,000,000	-
- Board Retreats and general expenses	1,152,738	1,719,719
- Sitting /duty allowance	9,696,000	16,326,666
- Training expenses	6,902,533	11,867,709
- Travel expenses and Subsistence allowance	11,642,645	16,716,462
	41,393,917	**46,630,556**

30. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES	2020	2019
	Kshs	**Kshs**
The company as a lessor:		
Within one year	82,628,486	78,646,521
In the second to fifth year inclusive	330,513,944	314,586,084
	413,142,430	**393,232,605**

The lease rental income earned during the year in respect of company's property amounted toKshs.82 million (2019 – Kshs.79 million).

	2020	2019
	Kshs	**Kshs**
The company as a lessee:		
Within one year	1,145,854,795	1,261,409,311
In the second to fifth year inclusive	4,583,419,180	5,045,637,243
	5,729,273,975	**6,307,046,554**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

The total rental expense incurred during the year amounted to Kshs.1.1 million (2019-Kshs. 1.3 million).

31. CONTINGENT LIABILITIES	2020	2019
	Kshs	Kshs
Pending lawsuits	2,532,359,619	1,481,464,956
Extension of Time claims	4,689,011,724	3,384,212,870
Guarantees and letters of credit	130,570,853	186,040,851
Disputed Claim by an oil Marketing Company (OMC) against KPC	2,104,732,928	1,996,606,025
	9,456,675,124	**7,048,324,702**

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

32. FUEL STOCKS

Fuel stocks belong to the Oil Marketing Companies (OMCs) as per Transportation and Storage Agreement signed between the Kenya Pipeline Company Limited and the OMCs. Fuel stocks are therefore not included in the financial statements. As at 30 June 2020 the company held 493,845 m3 (2019 – 679,686 m3) third party fuel stocks with a Hydro-Carbon Value (HCV) of Kshs. 12,927,636,004 (2018 – Kshs. 35,299,620,506).

33. CAPITAL COMMITMENT	2020	2019
Amounts Authorized	2,923,170,566	12,513,097,756
Less: Amounts incurred and included in work-in-progress	1,745,087,907	7,115,826,082
The above amounts are included in the approved budget for the year		

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

34. FINANCIAL RISK MANAGEMENT

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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

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

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

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

a) Market risk

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

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

(i) Foreign Currency Risk Management

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

	GBP	EUR	USD	CAD	ZAR
	Kshs	Kshs	Kshs	Kshs	Kshs
At 30 June 2020					
Financial assets	-	-	-	-	-
Bank and cash balances	-	-	1,158,567,100	-	-
Short term deposits	-	-	3,958,198,512	-	-
Trade receivables	-		6,688,568,840		
	-	**-**	**11,805,334,452**	**-**	**-**
Financial liabilities	-	-		-	-
Trade payables	(68,273,029)	(197,317,686)	2,233,413,900	-	(532,134)
Long Term Loan	-	-	(22,267,876,074)	-	-
Net exposure	**(68,273,029)**	**(197,317,686)**	**(20,034,462,174)**	**-**	**(532,134)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

	GBP Kshs	EUR Kshs	USD Kshs	CAD Kshs	ZAR Kshs
At 30 June 2019					
Financial assets					
Bank and cash balances	-	-	6,430,391,923	-	-
Short term deposits	-	-	4,335,002,832	-	-
Trade receivables	-	-	8,593,684,563	-	-
	-	**-**	**19,359,079,318**	**-**	**-**
Financial liabilities					
Trade payables	(22,426,160)	(139,217,548)	2,495,497,325	-	(501,220)
Long Term Loan	-	-	(25,746,553,259)	-	-
	(22,426,160)	**(139,217,548)**	**(23,251,055,934)**	**-**	**(501,220)**

(ii) Foreign Currency Sensitivity Analysis

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

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

	2020 Kshs		2019 Kshs	
	Effect on Profit	Effect on Equity	Effect on Profit	Effect on Equity
Currency - GB pounds				
+ 10 percentage point movement	(6,827,303)	(4,779,112)	(2,242,616)	(1,569,831)
- 10 percentage point movement	6,827,303	4,779,112	2,242,616	1,569,831
Currency – Euro				
+ 10 percentage point movement	(19,731,769)	(13,812,238)	(13,921,755)	(9,745,228)
- 10 percentage point movement	19,731,769	13,812,238	13,921,755	9,745,228
Currency - US dollars				
+ 10 percentage point movement	2,003,446,217	1,402,412,352	232,510,559	162,757,391
- 10 percentage point movement	(2,003,446,217)	(1,402,412,352)	(232,510,559)	(162,757,391)
Currency – CAD				
+ 10 percentage point movement	-	-	-	-
- 10 percentage point movement	-	-	-	-
Currency – ZAR				
+ 10 percentage point movement	(53,213)	(37,249)	(50,122)	(35,085)
- 10 percentage point movement	53,213	37,249	50,122	35,085
Currency – HKD				
+ 10 percentage point movement	-	-	-	-
- 10 percentage point movement	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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

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

(iii) Interest Risk Management

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

Management of interest rate risk

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

Sensitivity analysis

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

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of Kshs.90,596,603 (2018: Kshs.48,152,149). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax ofKshs.452,983,013 (2018 –Kshs.240,760,747).

b) Credit Risk Management

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

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

The company's maximum exposure to credit risk as at 30 June 2020 is analyzed in the table below:

	Fully Performing Kshs	Past Due Kshs	Impaired Kshs	Gross Total Kshs
Trade Receivables	3,488,502,756	7,656,011,490	529,267,441	11,673,781,687
Other Receivables	18,276,221	741,414,731	315,467,733	1,075,158,685
Bank Balances	1,487,229,820	-	-	1,480,138,613
Short Term Deposits	6,904,213,188	-	-	6,779,795,163
	11,898,221,985	**8,397,426,221**	**844,735,174**	**21,008,874,148**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

The company's maximum exposure to credit risk as at June 30, 2019 is analyzed in the table below:

	Fully Performing Kshs	Past Due Kshs	Impaired Kshs	Gross Total Kshs
Trade Receivables	3,488,502,756	7,656,011,490	529,267,441	11,673,781,687
Other Receivables	18,276,221	741,414,731	315,467,733	1,075,158,685
Bank Balances	3,809,563,357	-	-	3,809,563,357
Short Term Deposits	9,059,660,261	-	-	9,059,660,261
	16,376,002,595	**8,397,426,221**	**24,773,428,816**	**25,618,163,990**

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

c) Liquidity Risk Management

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

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

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

	Within 12 months Kshs.	Over 12 months Kshs	Total Kshs
At 30 June 2020:			
Due to related parties	-	80,000,000	80,000,000
Trade payables	1,287,061,288	-	1,287,061,288
Other payables and accruals	2,968,729,520	-	2,968,729,520
	4,255,790,808	**80,000,000**	**4,335,790,808**

	Within 12 months Kshs	Over 12 months Kshs	Total Kshs
At 30 June 2019:			
Due to related parties	-	80,000,000	80,000,000
Trade payables	2,207,030,795	-	2,171,634,703
Other payables & accruals	4,979,377,438	-	4,979,377,438
	7,186,408,233	**80,000,000**	**7,266,408,233**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

d) Capital Risk Management

The objective of the entity's capital risk management is to safeguard the entity's ability to continue as a going concern. The entity capital structure comprises of the following funds:

	2020 Kshs	2019 Kshs
Revaluation reserve	10,004,768,990	10,004,768,990
Retained earnings	73,595,346,577	81,101,336,056
Capital reserve	875,754,923	875,754,923
Total funds	**84,475,870,490**	**91,981,859,969**
Total borrowings	22,267,876,074	25,746,553,259
Less: cash and bank balances	(8,391,443,008)	(12,869,223,618)
Net debt/ (excess cash and cash equivalents)	**13,876,433,066**	**12,877,329,641**
Gearing	**16%**	**14%**

35. INCORPORATION

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

36. EVENTS AFTER THE REPORTING PERIOD

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

37. CURRENCY

Financial statements are presented in Kenya Shillings (Kshs)

APPENDIX I:

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Ref. No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue *(Name and designation)*	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
1.	**Parcels of land without title deeds** The statement of financial position for the year ended 30th June 2020 shows Property, Plant Equipment balance of Kshs.93,561,316,642. Included in this as per note 16 to the financial statements is freehold property valued at Kshs.881,963,445, of which land with book values of Kshs.32,250,000 had no title deeds. Further, records at the Company shows minimal or no efforts were being made to ensure that the process of land adjudication is hastened as most of this land were allocated to Kenya Pipeline Company more than 20 years ago. A further review of the records maintained by the legal department at the company revealed that a parcel of land referenced L.R No block 4/4224 that was purchased from a private vendor could not be registered as the title deed for the plot is charged to Kenya Commercial Bank for loan taken by the owner. No records of the said land were available at the company and as such could not confirm existence, ownership and the carrying amount of the said parcel of land. As a result, the accuracy and completeness of Property Plant and Equipment of Kshs.93,561,316,653 could not be ascertained.	KPC has been following up on the adjudication issue. However, due to delays in completing the demarcation of the areas, the adjudication process has not been completed. The parcel of land is on KPC ROW. KPC is following up for clearance of the loan amount by the Vendor to pave way for Discharge and registration of the title in favour of the Company.	Managing Director	Not Resolved	31st December 2021
2.	**Pending contract Variation Claims** The property plant and equipment balance amounting to Kshs.104,869,093,834 reflected in the statement of financial position as at 30 June 2018 and analyzed in note 16 to the financial statements includes an amount of Kshs.51,416,165,547 incurred on cost of works on a new Mombasa-Nairobi Oil Pipeline commonly referred to as Line 5. The balance was transferred from work-in-progress during the year under review. Construction of Line 5 started on 1 July 2014, following the award of the tender at a cost of US$ 484,502,887 equivalent to Kshs.48,474,513,784 at the ruling exchange rate of 30 June 2018. As at 30 June 2018, the project engineer had submitted eight (8) variation orders totaling to US$ 38,109,717 (Kshs.3,812,877,186). The variation orders are reported to have resulted from change of design specifications and omission of works in the initial contract. Of the aggregate variation amount, a sum of US$. 17,445,639 (Kshs.1,745,436,145) was approved for payment.	KPC has put a defense to the claims which is pending in courts.	Managing Director	Not resolved	Subject to final court ruling

Ref. No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue *(Name and designation)*	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
	In addition, the contractor submitted five (5) Extension of Time (EoT) claims amounting to US$. 204,511,827 (Kshs. 20,461,408,302). However, the claims were contested by the Project Engineer resulting in the appointment of an independent expert scheduler to verify the claims. As at 30 June 2018, the expert scheduler had assessed the total amount payable to the contractor for the four EoTs to be US$. 44,019,0125 (Kshs.4,404,103,425) down from the contractor's claim of US $ 189,290,732 (Kshs. 18,938,537,727). The fifth EoT claim of US $ 15,221,095 (Kshs. 1,522,870,576) had not been reviewed by the expert scheduler. Construction of the pipeline (Line 5) was completed and the line commissioned during the year under review. Until the matters related to the contract variation and extension of time are resolved, it is not possible to confirm that the carrying value of the pipeline reflected in the financial statements as at 30 June 2018 is true and fair.				
3.	**Supply of Hydrant Pit Valves** As reported in prior years, the Company awarded a US$6,409,492 (Kshs.647,679,167) contract for the supply of hydrant pit valves - C/W isolation valves and spare parts for two years' operations to a vendor through direct procurement, contrary to the requirements of the Public Procurement and Asset Disposal Act, 2015. Although the management has indicated that the United States of America-based vendor was invited to bid for the tender on account of being the original manufacturer of the equipment, no evidence has been made available to validate this assertion. Therefore, the basis for the award of the tender to the vendor cannot be confirmed. In addition, no plausible explanation has been provided by management for procurement of spares parts to cover two years of operations. At the time of concluding this audit, the matter was under prosecution in Court after investigation by the Ethics and Anti-Corruption Commission. In the circumstances, I am not able to confirm the Company's compliance with procurement procedures, and whether it obtained value- for-money on the contract sum of Kshs.655,880,009 paid to the vendor for supply of the hydrant pit valves	The matter of irregular procurement of the Hydrant Pit Valves (HPV) is before the court of law and may not dwell on the facts of this procurement. However, the amount paid to the vendor is Kshs. 215,617,057.90 and not Kshs. 655,880,009.	Managing Director	Not Resolve	Subject to final court ruling

APPENDIX I:

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS (Continued)

Ref. No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue *(Name and designation)*	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
4.	**Unutilized New Kisumu Oil Jetty** The statement of financial position as at 30 June 2018, reflects property plant and equipment with a net book value of Kshs.104,869,093,834. The balance includes assets valued at Kshs.1,937,515,726 being construction costs for the Kisumu Oil Jetty transferred from work-in-progress during the year under review. Construction works on the jetty were executed from May 2017 to March 2018 when they were completed and handed over to the Company by the contractor. The assets were thereafter capitalized and depreciated by Kshs.11,037,699 for the year under review. The jetty was constructed under the Northern Corridor Integration Projects portfolio of the East African Community with a view to improve the distribution of refined petroleum products to Uganda and other neighboring countries. However, it has remained unutilized due to lack of infrastructure for receipt and storage of the products in Uganda. Although management has indicated that some progress has been made in construction of one of the two planned similar jetties on Uganda side, it is not certain when all the facilities due for construction in Uganda will be completed and operationalized.	KPC invested in Kisumu Oil Jetty with a view of improving the throughput across the neighboring countries. The project was completed, tested and handed over to KPC and it is operationally functional. The project is largely dependent on completion of a complimentary receiving facility with storage facilities and assembling barges for ferrying the oil product on the Uganda side. It had been estimated that by the time the jetty is completed on the Kenyan side, Uganda would be ready. However, the Kisumu Oil Jetty was completed ahead of the Ugandan side which is still under construction. The complimentary facility (Mahathi) in Uganda is at an advanced stage KPC is closely monitoring the progress. In the meantime, KPC is looking at using other OMC's to leverage on the facility to increase throughput and the project remains a viable investment for the Company and cannot be impaired at this point.	Managing Director	Not Resolved	Subject to completion of Complementary facility

APPENDIX II: PROJECTS IMPLEMENTED BY KPC

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

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

The Company is not funded by development partners.

Status of Projects completion

S/No	Project	Total Project Cost	Total Expended to Date	Completion % to Date	Budget Kshs	Actual Spent Kshs	Sources of Funds
1							
2							

APPENDIX III: INTER-ENTITY TRANSFERS

	ENTITY NAME:			
	Break down of Transfers			
	FY 2019/2020			
a.	Recurrent Grants	N/A		
b.	Development Grants	N/A		
c.	Direct Payments	N/A		
d.	Donor Receipts	N/A		

The Company is not a recipient of any grants.

APPENDIX IV:
RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

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

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

APPENDIX V: 5- YEAR FINANCIAL PERFOMANCE HIGHLIGHTS

KENYA PIPELINE COMPANY LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE

	2020	2019	2018	2017	2016
			Kshs		
Total Revenue	26,082,251,486	31,457,618,208	27,705,848,487	25,134,869,469	22,982,003,338
Direct Costs	(12,860,135,055)	(14,259,924,080)	(11,135,712,478)	(9,285,805,904)	(7,781,792,550)
Gross Profit	**13,222,116,432**	**17,197,694,127**	**16,570,136,009**	**15,849,063,565**	**15,200,210,788**
Other Income	413,959,497	415,798,178	452,661,842	362,564,293	290,415,562
Administration Expenses	**(6,381,634,286)	**(12,726,196,302)	(5,642,393,932)	(5,295,614,817)	(4,100,346,177)
Operating Profit	**7,254,441,643**	**4,887,296,003**	**11,380,403,919**	**10,916,013,041**	**11,390,280,173**
Net Finance Income	(1,439,561,415)	(1,821,488,427)	980,535,373	562,427,612	626,085,305
Profit Before Taxation	**5,814,880,229**	**3,234,793,422**	**12,360,939,292**	**11,478,440,653**	**12,016,365,478**
Taxation Charge	(1,820,869,707)	(1,186,873,779)	(3,792,865,597)	(3,516,913,825)	(3,606,835,608)
Net Profit After Taxation	**3,994,010,522**	**2,047,919,643**	**8,568,073,695**	**7,961,526,828**	**8,409,529,870**
Earnings Per share	220	113	471	438	463

***Administrative Expenses in Financial Years 2019/20 and 2018/19 are inclusive of Kshs.141,092,919 and Kshs. 6,119,537,986 as provision for bad debts respectively.*

KENYA PIPELINE COMPANY LIMITED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE	2020	2019	2018	2017	2016
			Kshs		
Non- Current Assets					
Property, plant and equipment	93,503,556,831	100,274,854,331	104,869,093,834	98,091,185,919	64,832,559,060
Leasehold land	4,701,104,872	4,835,251,272	4,999,883,570	5,167,287,314	4,766,260,609
Intangible assets	93,593,013	414,431,974	562,168,054	858,296,848	110,999,161
Investments	36,306,359	36,306,359	36,306,359	36,306,359	36,306,359
Retirement Benefit recoverable	1,285,627,233	1,285,627,233	1,285,627,233	880,443,315	1,006,105,000
Trade and other receivables	2,910,465,319	2,146,883,113	1,263,891,181	769,762,736	422,596,994
	102,530,653,628	**108,993,354,282**	**113,016,970,231**	**105,803,282,491**	**71,174,827,183**
Current Assets					
Inventories	2,182,234,022	2,232,089,622	2,266,017,444	1,591,777,921	1,688,297,234
Trade and other receivables	9,008,195,881	10,488,462,618	14,390,380,166	12,048,271,443	8,407,859,021
Taxation recoverable	876,808,106	977,416,079	1,098,170,701	1,176,703,986	-
Government securities	-	-	-	-	-
Short term deposits	6,904,213,188	9,059,660,261	4,815,214,935	6,063,946,835	9,141,970,606
Bank and cash balances	1,487,229,820	3,809,591,698	443,569,702	1,478,365,330	2,787,706,279
	20,458,681,018	**26,567,220,278**	**23,013,352,948**	**22,359,065,515**	**22,025,833,140**
			-		
Total Assets	**122,989,334,647**	**135,560,574,560**	**136,030,323,179**	**128,162,348,006**	**93,200,660,323**
Shareholders' Funds and Liabilities					
Capital and Reserves					
Share capital	363,466,007	363,466,007	363,466,007	363,466,007	363,466,007
Share premium	512,288,916	512,288,916	512,288,916	512,288,916	512,288,916
Revenue reserve	73,595,346,577	81,101,336,056	79,453,028,143	70,967,940,523	63,092,108,956
Revaluation Reserve	10,004,768,990	10,004,768,990	10,004,768,990	10,004,768,990	10,022,711,045
	84,475,870,490	**91,981,859,969**	**90,333,552,056**	**81,848,464,436**	**73,990,574,924**
Non-Current Liabilities					
Deferred taxation	11,909,797,273	10,265,753,100	9,154,163,086	5,381,329,078	5,221,714,992

continued on page 94 >>

KENYA PIPELINE COMPANY LIMITED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE	2020	2019	2018	2017	2016
			Kshs		
Long term loan	17,703,118,633	21,364,418,281	25,425,678,726	22,983,317,480	9,697,497,096
	29,612,915,906	**31,630,171,382**	**34,579,841,812**	**28,364,646,558**	**14,919,212,088**
Current Liabilities					
Trade and other payables	4,255,790,809	7,186,408,232	6,706,678,215	14,585,905,944	2,726,808,236
Due to related parties	80,000,000	80,000,000	80,000,000	80,000,000	320,089,228
Tax payable	-	-	-	-	943,975,847
Dividend Payable	-	300,000,000	-	-	300,000,000
Current Loan	4,564,757,441	4,382,134,978	4,330,251,096	3,283,331,068	-
	8,900,548,250	**11,948,543,209**	**11,116,929,311**	**17,949,237,012**	**4,290,873,311**
Total Shareholder's Funds and Liabilities	**122,989,334,647**	**135,560,574,560**	**136,030,323,179**	**128,162,348,006**	**93,200,660,323**

5-YEAR FINANCIAL HIGHLIGHTS KENYA PIPELINE COMPANY LIMITED STATEMENT OF CASH FLOWS					
FOR THE YEAR ENDED 30 JUNE	**2020**	**2019**	**2018**	**2017**	**2016**
			Kshs		
Net cash generated from operating activities	13,119,135,990	14,993,419,365	3,195,240,413	16,506,231,596	14,124,202,379
Net cash from/(to) investing activities	(1,314,696,619)	(3,029,197,039)	(10,022,049,028)	(37,161,868,585)	(23,251,822,725)
Net cash from/(to) financing activities	(16,282,248,321)	(4,353,755,003)	4,543,281,087	16,268,272,269	9,388,097,096
Net increase/(Decrease) in cash and cash equivalents	**(4,477,808,951)**	**7,610,467,323**	**(2,283,527,528)**	**(4,387,364,720)**	**260,476,750**
Cash and Cash Equivalents at beginning of the period	12,869,251,959	5,258,784,637	7,542,312,165	11,929,676,885	11,669,200,135
Cash and Cash Equivalents at end of the Year	**8,391,443,008**	**12,869,251,959**	**5,258,784,637**	**7,542,312,165**	**11,929,676,885**

Beyond being the vein of the nation's fuel

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