KENYA PIPELINE COMPANY LIMITED

2004

Annual Report and Financial Statements

KPC

CONTENTS

VISION

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

MISSION

Recognizing that the mission of a Company is the unique purpose that sets it apart from other companies of its type and identifies the scope of its operations, KPC's mission statement is as follows: - To efficiently, economically and safely transport, store and deliver petroleum products to customers, while optimising shareholder value, with utmost respect for the environment.

MOTTO

'To do our best always'.

CORE VALUES

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

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

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

The Pipeline system currently consists of a 14-inch, 450Km long pipeline with a flow rate of $440M^3$ per hour, running from Mombasa – Nairobi which was commissioned in 1978 now upgraded to run at $540M^3$/hour; and a combination of 8-inch and 6-inch, 446Km pipeline extension with a flow rate of $220M^3$/hour, running from Nairobi–Sinendet–Eldoret and Sinendet–Kisumu now upgrading to run at $280M^3$/hour. This Western Kenya Pipeline Extension was commissioned in 1994.

KPC has set up storage facilities at its depots in Nairobi, Nakuru, Kisumu and Eldoret, and two Jet Fuel dedicated depots at Mombasa and Embakasi, Nairobi. In addition to storage, KPC provides loading services at its Western Kenya depots of Nakuru, Kisumu and Eldoret.

The refined petroleum products handled by the Company are

- Motor Spirit Premium (MSP),
- Motor Spirit Regular (MSR),
- Automotive Gas Oil (AGO),
- Jet A-1 and
- Illuminating Kerosene (IK).

These products are transported for the oil marketers, at a competitive tariff, and delivered in high quality.

Organization Structure

The current organization structure comprises a Government appointed Board of Directors headed by a non-executive Chairman and a Management team under the Managing Director. There are nine departments namely,

- Engineering,
- Operations,
- Corporate Planning,
- Finance,
- Human Resources,
- Internal Audit,
- Information Communication Technology,
- Secretarial and
- Administration which are headed by managers.

PRINCIPAL PLACE OF BUSINESS

Nanyuki Road,
Off Lunga Lunga Road,
Industrial Area,
NAIROBI.

MAIN BANKERS

National Bank of Kenya
Harambee Avenue,
P.O. Box 41862,
NAIROBI.

Barclays Bank of Kenya
Queensway House,
P.O. Box 30011
NAIROBI.

Commercial Bank of Africa
Wabera Street,
P.O. Box 30437,
NAIROBI.

AUDITORS

Kenya National Audit Office,
P. O. Box 30084 - 00100
NAIROBI

REGISTERED OFFICE

12th & 13th Floor,
National Bank Building,
Harambee Avenue,
P.O. Box 73442,
NAIROBI.

MAIN SOLICITORS

M/s Kipkenda Lilan & Co. Advocates
Teleposta Towers,
19th Floor, Kenyatta Avenue,
P.O. Box 56832,
NAIROBI.

Kiptui Mbabu & Co. Advocates
Protection House,
10th Floor,
P.O. Box 61435,
NAIROBI.

Kiarie Kariuki & Co. Advocates
Ambalal House,
South Tower, 10th Floor,
P.O. Box 838,
MOMBASA.

SECRETARY

Mrs. Mary Kiptui,
P. O. Box 73442,
NAIROBI.

Hon. Dairus Mbela
Ag. Chairman

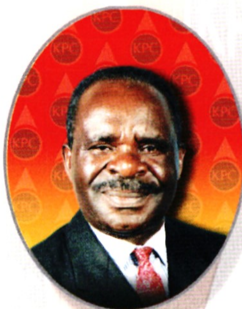
George Okungu
Managing Director

Joseph K Kinyua
PS - Min. of Finance

Patrick Nyoike
PS - Min. of Energy

Njeru Karuana
Director

J.W. Khaemba
Director



Eng. Caleb Olali
Director

John Mathenge
Director

During the 154th Board of Directors meeting held on 13th January 2004, the Board re-constituted the Board Committees as follows:-

TENDER COMMITTEE

Members

1.	Hon. Darius Mbela	-	Chairman
2.	Eng. Caleb Olali	-	Vice Chairman
3.	Mr. John M. Mathenge	-	
4.	Managing Director		
5.	Alternate Director from Ministry of Energy (as Ex-Officio member)		

FINANCE AND AUDIT COMMITTEE

Members

1.	Mr. Gerishom Majanja	-	Chairman
2.	Hon. Darius Mbela		
3.	Mr. Maurice Dantas		
4.	Eng. Caleb Olali		
5.	Managing Director		
6.	Alternate Director from Ministry of Energy (as Ex-Officio member)		
7.	Alternate Director from Ministry of Finance (as Ex-Officio member)		

STAFF COMMITTEE

Members

1.	Ms Aisha R. Jama Haji	-	Chairperson
2.	Mr. John M. Mathenge	-	Vice Chairman
3.	Mr. Maurice Dantas		
4.	Mr. Gerishom Majanja		
5.	Managing Director		

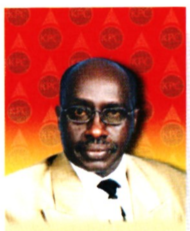
EXECUTIVE COMMITTEE (previously referred to as Emergency Committee)

Members

1.	Mr. Maurice Dantas	-	Chairman
2.	Ms. Aisha R. Jama Haji		
3.	Managing Director		
4.	Alternate Director from Ministry of Energy.		

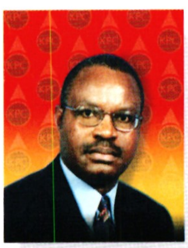
George Okungu
Managing Director

Waithaka Kioni
Deputy Managing Director



Absolom Kosgei
Chief Manager - Technical

Peter Mecha
Operations Manager



Jabes Manyala
Engineering Manager

Rose Osiako
Human Resources Manager

Caleb Manyaga
Finance Manager

Dismas Ong'ondi
Information Communication Technology Manager

Joseph Gichuhi
Corporate Planning Manager

Mary Kiptui
Company Secretary

William Ooko
Internal Audit Manager

The directors submit their report and the audited financial statements for the year ended 30 June 2004, which shows the state of the company's affairs.

1. PRINCIPAL ACTIVITY

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

2. RESULTS

The results of the company for the year are set out on page 6.

3. DIVIDEND

The directors recommend payment of a dividend of KShs 150,000,000, which is approximately 15% of the company's after tax profit (2003 - KShs.36, 346,000).

4. RESERVES

The movements in the company's reserves are shown on page 16.

5. DIRECTORS

Directors who served during the year and to the date of this report were: -

M. Dantas	Chairman	On suspension
Dr S. Ochuodho	Managing Director	On suspension
G.J. Okungu	Acting Managing Director	Appointed on 02.09.2004
J. Kinyua	Permanent Secretary, Ministry of Finance	Appointed on 30.06.2004
J. Magari	Permanent Secretary, Ministry of Finance	Ceased on 30.06.2004
P. Nyoike	Permanent Secretary, Ministry of Energy	
G.K. Guantai	Alternate to PS Ministry of Energy	Appointed 30.08.2004
P.G. Ngatia	Alternate to PS, Ministry of Energy	Ceased on 30.08.2004
Hon. D. M.Mbela, EGH	Ag. Chairman	Appointed 07.09.2004
F. Kingori	Alternate to PS, Ministry of Finance	
G.M.Wachira		Ceased on 16.12.2003
Eng. C.Olali		
G. L. Majanja		Ceased on 01.03.2004
Eng. J. M. Mathenge		
A. R. Haji		
P. N. Karuana		Appointed 02.03.04
J.W. Khaemba		Appointed 02.03.04

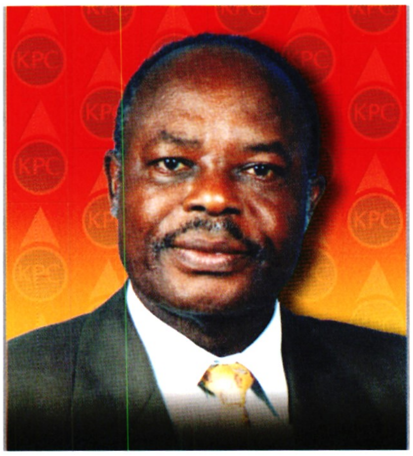
6. AUDITORS

The Kenya National Audit Office continued to audit the accounts of the company in accordance with Public Audit Act, 2003.

By order of the Board

Mrs. Mary Kiptui
Company Secretary

18th January 2006



Hon. Dairus Mbela
Chairman

I have pleasure in submitting my report on the results and activities of the Financial Year 2003/2004.

OPERATING RESULTS

The company's throughput grew by 11.9% from 2,820,610m^3 (Cubic Metres) in the year 2002/03 to 3,157,158m^3 in the year 2003/04. Thus, throughput revenue rose to Ksh 6,737,216,000 against budgeted revenue of Ksh 6,254,053,000. This represented a 7.7% increase over the previous year's revenue of Ksh 6,527,997,000. The profit before tax rose from Ksh 1,041,667,000 in the year 2002/2003 to Ksh 1,716,564,000, which is a 65% increase. Thus, the Earnings Per Share improved from Ksh 28.85 to Ksh 56.35 over the year. As a result of the improved performance, we are proposing to pay a dividend of Ksh 150 million compared to Ksh 36 million proposed in respect of the FY 2002/2003

The company's operating expenditure dropped significantly from Ksh 5.67 billion to Ksh 4.99 billion, a 13.4% reduction. The decrease in operating expenses is mainly attributable to the exclusion of KOSF operating expenses in the FY 2003/04, the drop in the depreciation charge from Ksh 1 billion in the year 2002/03 to Ksh 843 million in the year under review, and the discontinuation of the throughput rebate. In addition, expenditure on pipeline maintenance spares and the Right of Way maintenance reduced significantly. In the early part of the year, the company experienced cash flow difficulties, which necessitated a borrowing from the local market, of Ksh 1.7 billion in order to complete ongoing core projects and to pay off overdue foreign loans. The projects were the Morendat Pump Station, which was commissioned in March 2004, and the additional storage tanks in Kipevu Oil Storage Facility, which were commissioned in January 2004. The benefits accruing from the enhanced flow rate and added storage capacity respectively are already being enjoyed. The overdue loan repayments were the last instalments of the Western Kenya Pipeline Extension loans payable to Canadian and Japanese development financiers.

FUTURE OUTLOOK

The company continues to face challenges posed by prevailing local and global economic conditions. In view of this, the company's 5-year strategic plan lays emphasis on the rehabilitation, maintenance and expansion of the pipeline capacity. In order to meet future customer expectations, the company will continue with the rehabilitation and upgrading Line I in order to be able to sustain the local and export demands of Lines II and III. In addition, the company plans to begin the construction of the truck loading facility in Mombasa. The company will be participating, on behalf of the government, in the pipeline extension to Uganda whose plans for commencement are at an advanced stage.

The company remains committed to maximizing the shareholder's value and will continue to pursue policies that ensure its expansion and continued service within the Eastern Africa region. As part of its long-term strategy, the company will embark on a modernisation program that will enhance its capacity and efficiency in service delivery.

ACKNOWLEDGEMENT

On behalf of my fellow board members, I wish to express my appreciation to the government, our customers, management and the staff of KPC for their continued cooperation and support during the past year.

DARIUS M. MBELA, EGH
AG. CHAIRMAN

Statement of the Directors' Responsibility

FOR THE YEAR ENDED 30 JUNE 2004

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Company's Act Cap 486. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control.

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

....

DIRECTOR **DIRECTOR**

Date 18th January 2006 Date 18th January 2006

I have audited the financial statements of Kenya Pipeline Company Limited for the year ended 30 June 2004 in accordance with the provisions of Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purpose of the audit. The financial statements are in agreement with the books of account.

Respective Responsibilities of the Directors and the Controller and Auditor General

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

Basis of Opinion

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

1. Fixed Assets

The Balance Sheet as at 30 June 2004 reflects an amount of Kshs.11,219,692,000 under fixed assets and Kshs.93,047,000 prepaid leasehold land. Included in the figure of K5hs.11,219,692,000 is freehold property of Kshs.39,680,000 which when added to the prepaid leasehold land brings the total value of land to K5hs.132,727,000. However, the Corporation does not have title deeds for sixteen (16) parcels of land, the value of which is included in the Balance sheet. Available information indicates that the management has been pursuing the matter with the Commissioner of Lands and other relevant Government departments in an effort to speed up the acquisition of the title deeds. However, in the absence of the title deeds, it has not been possible to confirm the Company's ownership of the sixteen (16) parcels of land or to ascertain the effect of such uncertainty on the value of the fixed assets and leasehold land shown in the balance sheet as Kshs.11,219,692,000 and Kshs.93,047,000 respectively.

2. Motor Vehicle Log Books

In the report for the previous year, reference was made to the fact that, the company in 1998/1999 financial year awarded a tender to private firm for the supply of eight (8) Toyota Land cruiser vehicles at a total cost of Kshs.18,944,000. The supplier was paid an advance of

50% (Kshs.9,472,000). However, the supplier delivered only two (2) vehicles valued at Kshs.4,736,000. Subsequently, the Company sued the suppliers and its directors in a court of law for the undelivered vehicles and judgment was entered in favour of the Company and the supplier ordered to pay Kshs.5,558,812. However, the Company has been unable to execute the decree as the supplier and the firm directors apparently did not have any tangible assets. Further, although warrants of arrest were issued against the directors, they have since vanished thereby diminishing chances of recovering the amount. Additionally, the ownership of the two vehicles is still in doubt as the Company does not have the log books for the vehicles.

3. Staff Loans and Advances and Imprest

The balance sheet debtors and prepayment figure of Kshs.1,459,603,000 as at 30 June 2004- includes staff loans and advances figure of Kshs.273,445,000 that include an amount of Kshs.13,472,570 being debts owed by members of management and staff whose services with the Company have since been terminated, Kshs.240,268 debts owed by officers who have already retired, Kshs.1,561,771 debts owed by deceased officers and Kshs.2,170,447 in outstanding imprests issued to officers between 1999 and May 2003, all totalling Kshs.17,445,056. Although the Company has indicated the efforts it is making to recover these debts, their recoverability is doubtful but the provision that would have been necessary in relation to this uncertainty has not been incorporated in these financial statements.

4. Prepaid Amounts -Kshs.Kshs.183,725,717

As reported in the previous year, the Company made advance payments of Kshs.68,296,134 and Kshs.115,429,583 to a contractor for construction of the Company's headquarters and to a computer firm in respect of consultancy for Enterprise Transformation Project respectively. These firms did not meet their contractual obligations and as a result, the Company sued them in a court of law for recovery of the advance payment. In the case of the contractor, the matter was referred to arbitration while for the computer firm, the Company applied to the court to be allowed to amend the defence for recovery of advance payment.

It is understood that the Company has recently reached an agreement with the contractor on how the amount of Kshs.68,296,134 will be recovered. However the renegotiated agreement and its application will be subject to audit in the year 2005/2006. With regard to the computer firm, the matter is still in court

5. Donations

During the year under review, the Company incurred expenditure on donations amounting to Kshs.16,846,992 without approval from the Board and against an approved budget of only Kshs.2,000,000. Out of this figure an amount of Kshs.11,588,400 was paid to a company for improvement of an access road in Bondo while Kshs.2,489,379 was paid to another company for improvement of a private house in Maragua. An amount Kshs.1,180,963 was paid to a third company for construction of Miritini Secondary School laboratory while Kshs.1,588,250 was paid as donations to other persons, welfare societies and NGOs. The Company does not appear to have an approved policy on donations and as such, the criteria used in granting these donations is not clear. The payments resulted in over expenditure of Kshs.14,846,992 which was not authorized or approved by the board of directors.

Opinion

Except for the matters raised in the foregoing paragraphs, in my Opinion proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the Company as at 30 June 2004 and of its profit and cash flows for the year then ended and comply with the companies Act, Cap 486 of the laws of Kenya.

E.N. Mwai
CONTROLLER AND AUDITOR GENERAL

Nairobi

15 February 2006

Profit and Loss Account

FOR THE YEAR ENDED 30 JUNE 2004

	Note	2004 KShs'000	2003 KShs'000
SALES	17	6,737,216	6,527,997
DIRECT EXPENSES	18	(2,785,901)	(3,500,743)
GROSS PROFIT		3,951,315	3,027,254
OTHER (COSTS)/INCOME	19	(21,529)	191,007
		3,929,786	3,218,261
EXPENSES			
Administration and Establishment	20	1,942,683	1,747,383
Selling and Distribution	21	35,193	45,016
Other Charges and Costs	22	31,717	197,623
		2,009,593	1,990,022
OPERATING PROFIT		1,920,193	1,228,239
NET FINANCE COSTS	23	(203,629)	(186,572)
PROFIT BEFORE TAXATION	24	1,716,564	1,041,667
TAX CHARGE	16	(692,178)	(517,262)
NET PROFIT FOR THE YEAR		1,024,386	524,405
PROPOSED DIVIDENDS		150,000	36,346
EARNINGS PER SHARE (Basic and Diluted)	25	56.35	28.85

ASSETS	Note	2004 KShs'000	2003 KShs'000
NON-CURRENT ASSETS			
Fixed Assets	2(a)	11,219,692	12,622,079
Prepaid Leasehold Land	3	93,047	379,679
Intangible Asset	4	-	2,898
Investment in KOSF	2(b)	1,688,166	-
Investments	5	4	4
		13,000,909	13,004,660
CURRENT ASSETS			
Stocks	6	1,023,885	988,124
Debtors and Prepayments	7	1,459,603	1,253,087
Bank Balances and Cash	8(i)	946,960	1,295,878
		3,430,448	3,537,089
TOTAL ASSETS		**16,431,357**	**16,541,749**
SHAREHOLDER'S FUNDS AND LIABILITIES			
CAPITAL AND RESERVES			
Share Capital	9	363,466	363,466
Reserves	10	11,876,708	11,147,933
Proposed Dividends	11	186,346	36,346
		12,426,520	**11,547,745**
NON-CURRENT LIABILITIES			
Retirement Benefit Obligations	12	366,092	542,900
Deferred Tax	13	11,973	22,222
Term Loans	14	1,008,925	-
		1,386,990	**565,122**
CURRENT LIABILITIES			
Bank Overdraft	8(i)	10,901	52,814
Current Portion of Loans	14	642,945	2,118,107
Retirement Benefit Obligation	12	645,908	469,100
Creditors and Accruals	15	731,932	1,083,235
Tax Payable	16	586,161	669,280
Dividends Declared	11	-	36,346
		2,617,847	**4,428,882**
TOTAL SHAREHOLDER'S FUNDS AND LIABILITIES		**16,431,357**	**16,541,749**

The financial statements were approved by the Board of Directors on 18th January 2006 and signed on its behalf by: -

....

.... Directors

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2004

	Share Capital KShs'000 (Note 9)	Share Premium KShs'000 (Note 10)	Revenue Reserve KShs'000 (Note 10)	Proposed Dividends KShs'000 (Note 11)	Total Equity KShs'000
As at 1 July 2003					
As previously stated	363,466	512,289	10,635,644	72,692	11,584,091
Prior year adjustment (Note 33)					
Deferred Tax					
Depreciation Adjustment (Ngong Plot)			(151,827)		(151,827)
			6,216		6,216
Profit for the year			1,024,386		1,024,121
Dividend paid 2003				(36,346)	(36,346)
Proposed dividend 2004			(150,000)	150,000	-
As at 30th June 2004	**363,466**	**512,289**	**11,364,419**	**186,346**	**12,426,520**

	2004 KShs'000	2003 KShs'000
Cash Flows From Operating Activities		
Net Profit Before Taxation	1,716,564	1,041,667
Adjustments For:		
Depreciation and Amortization	825,456	1,013,466
Amortization of Prepaid Leasehold Land	1,192	4,316
Amortization of Intangible Assets	2,898	3,067
Foreign Exchange Loss/(Gains)	140,717	-78,056
Interest Income	-3,627	-19,851
Loan Interest Expense	183,139	178,329
Profit on Sale of Fixed Assets	-	-7,329
Amortization of Pipeline Rehabilitation Costs	31,442	57,567
Provision for Loss Of Assets – Ngong Plot	291,271	-
Provision for Diminution in Value of Investments	-	-
Provision for Loss of Assets	-	915
Operating Profit Before Working Capital Changes	**3,189,052**	**2,194,091**
Debtors and Prepayments	-202,516	-80,921
Stocks	-35,737	-55,158
Trade and Other Creditors	-287,944	173,944
Cash Generated from Operations	2,658,855	2,231,956
Income Taxes Paid	-785,546	-436,027
Net Cash Flows From Operating Activities	**1,873,309**	**1,795,929**
Cash Flows from Investing Activities		
Dividends Paid	-36,346	-
Interest Received on Deposits	3,301	31,143
Loan Interest Paid	-356,745	-115,303
Purchase of Fixed Assets	-1,118,380	-2,052,593
Proceeds from Disposals of Fixed Assets	-	7,329
Net Cash Utilised In Investing Activities	**-1,508,170**	**-2,129,424**
Cash Flows From Financing Activities		
Loans Received	1,931,824	1,224,361
Loan Repayments	-2,664,345	-922,236
	-732,521	302,125
Net (Decrease)/Increase in Cash and Cash Equivalents	-367,382	-31,370
Effect of Exchange Rate Changes	60,377	-27,267
Cash and Cash Equivalents at the Beginning of the Year	1,243,064	1,301,701
Adjustment for Non Cash Movement		-
Cash and Cash Equivalents at the End of the Year (Note 8 iii)	**936,059**	**1,243,064**

1. ACCOUNTING POLICIES

a) Basis of Accounting

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

b) Revenue Recognition

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

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

c) Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on a straight line basis at annual rates estimated to write off carrying values of the assets over their expected useful lives. The annual depreciation rates used are:

Buildings - domestic	2.5 %
Buildings - industrial	4.0 %
Show ground pavilion, wooden buildings and fences	20 %
Pipeline and tanks	4.0 %
Pumps, transformers and switch-gear	5.0 %
Furniture, fittings and equipment	10 %
Roads	20 %
Helicopters	20 %
Motor vehicles	25 %
Computers	33.3%

Prepaid leasehold land is amortised over the unexpired period of the lease.

d) Translation of Foreign Currency

Transactions during the year are converted into Kenya shillings at exchange rates ruling at the transaction dates. Assets and liabilities which are expressed in foreign currencies are translated into Kenya shillings at exchange rates ruling at the balance sheet date. The resulting differences from conversion and translation are dealt with in the profit and loss account in the year in which they arise.

e) Stocks

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

f) Investments

Investments are stated at cost less provision for any permanent diminution in value.

g) Pipeline Rehabilitation

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

h) Retirement Benefits

The company contributes 24.9% of employee's pensionable emoluments while the employee contributes 5% to a defined benefit pension scheme. In determining the contributions to be made, the recommendations of independent actuaries are taken into account. The pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the plan once in every three years. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates of government securities, which have terms to maturity approximating the terms of the related liability. All actuarial gains and losses are spread over the average remaining service lives of the employees. In the year 2001 the company implemented IAS 19 (revised) Employee Benefits and accounted for the transitional liability by adjusting retained earnings at 1 July 1999.

The company also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and in the year under audit were limited to KShs 200 per employee per month.

The company's contributions to the above schemes are charged to the profit and loss account in the year to which they relate.

i) Taxation

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

j) Bad and Doubtful Debts

Specific provision is made for all known doubtful debts. Bad debts are written off when all reasonable steps to recover them have been taken without success.

k) Dividends

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

2 FIXED ASSETS

	Freehold Property Kshs'000	Buildings and roads Kshs'000	Pipeline Tanks Kshs'000	Pipeline Equipment, Furniture & Fittings Kshs'000	Helicopters Kshs'000	Motor Vehicles & Tractors Kshs'000	Capital Work-in-Progress Kshs'000	Total Kshs'000
COST								
At 1 July 2003	**39,564**	**4,612,208**	**8,921,034**	**4,465,822**	**268,240**	**303,289**	**3,586,713**	**22,196,870**
Additions	116	273,275	106,261	161,963	-	13,443	1,109,095	1,731,153
Disposals	-	-	-		-	-	-	-
Adjustments/ Reclassification	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-		(2,304,245)	(2,304,245)
	39,679	**4,885,485**	**9,027,295**	**4,627,782**	**268,240**	**316,732**	**2,458,564**	**21,623,777**
At 30th June 2004								
DEPRECIATION								
At July 2003	-	1,528,745	4,314,391	3,185,002	268,240	220,846	57,567	9,574,790
Charge for the year	-	176,726	317,222	209,154	-	27,751	31,442	762,295
Disposals	-	-	-	-	-	-	-	-
At June 2004	-	**1,705,471**	**4,631,613**	**3,394,156**	**268,240**	**248,597**	**89,009**	**10,337,084**
NET BOOK VALUE								
At 30th June 2004	**39,680**	**3,180,012**	**4,395,682**	**1,233,629**	-	**68,135**	**2,302,555**	**11,219,692**
At 30th June 2003	**39,563**	**3,083,463**	**4,606,644**	**1,280,820**	-	**82,443**	**3,529,146**	**12,622,079**

Investment at Kipevu Oil Storage Facility has been treated in Note 2 (b). *Assets with costs of Kshs. 4,831,711,140 (2002-4,538,930,939) are fully depreciated in the period, a charge of Kshs.612,984,334 (2002 - Ksh 226,946,547)* **would** *have been charged to income in respect of them as depreciation.*

2 (b) KPC INVESTMENT IN KIPEVU OIL STORAGE FACILITY (KOSF)

COST At 1 July 2003	Buildings and roads Kshs'000	Pipeline Tanks Kshs'000	Pipeline Equipment, Furniture & Fittings Kshs'000	Total Kshs'000
Additions	10,490	1,325,796	446,499	1,782,785
Disposals	-	-	-	-
Adjustments/Reclassification	-	-	-	-
Transfers	-	-	-	-
	10,490	**1,325,796**	**446,499**	**1,782,785**
At 30th June 2004				
DEPRECIATION				
At July 2003				
Charge for the year	420	57,759	36,440	94,619
Disposals	-	-	-	-
At June 2004	**420**	**57,759**	**36,440**	**94,619**
NET BOOKVALUE				
At 30th June 2004	**10,070**	**1,268,037**	**410,059**	**1,688,165**
At 30th June 2003	-	-	-	-

Included in Capital Work-in-Progress is KShs 43,835,696 (2003- 44,385,604) relating to Mombasa- Nairobi pipeline rehabilitation costs which are amortised over a period of five years on a straight line basis. Amortisation for the year was KShs. 31,441,888 (2003 - 57,566,971)

	2004 KShs'000	2003 KShs'000

3 PREPAID LEASEHOLD LAND

	2004 KShs'000	2003 KShs'000
Cost	404,109	388,732
Reclassification	-	(4,023)
Additions	-	19,400
Provision for loss of asset	(291,673)	-
Total cost	112,436	404,109
Accumulated amortisation	(24,414)	(20,114)
This year's	(1,192)	(4,316)
Provision for bad debt	6,216	
Total amortisation	(19,390)	(24,430)
Net Book Value	93,047	379,679

4 INTANGIBLE ASSETS

	2004 KShs'000	2003 KShs'000
COST		
At the beginning of the year	13,118	13,118
Additions	-	-
	13,118	13,118
Accumulated amortisation	(10,220)	(7,153)
For the year	(2,898)	(3,067)
Total Amortisation	-	(10,220)
Net Book Value	-	2,898

Intangible asset comprises cost of purchased software. Software costs are amortised over 3 years.

5. INVESTMENTS

	2004 KShs'000	2003 KShs'000
Consolidated Bank of Kenya Limited	2	2
Petroleum Institute of East Africa	2	2
	4	4

i) Investments in Consolidated Bank of Kenya Limited are stated at cost less provision for permanent diminution in value as shown below. Cost represents the nominal value of shares received in exchange for deposits held in defunct financial institutions taken over by the bank.

	2004 KShs'000	2003 KShs'000
746,500 Ordinary Shares of Kshs.20 Each	14,400	14,400
2,605,000 4% Non- Cumulative Preference Shares of Kshs.20 Each	52,630	52,630
	67,030	67,030
Provision for Permanent Diminution in Value	(67,028)	(67,028)
	2	2

	2004 KShs'000	2003 KShs'000
6. STOCKS		
Spare Parts and Consumables	1,027,140	991,379
Provision for Obsolete Stocks	(3,255)	(3,255)
	1,023,885	988,124

7. DEBTORS AND PREPAYMENTS

	2004 KShs'000	2003 KShs'000
Purchase Deposits	36,140	7,749
Trade Debtors	859,479	672,669
Staff Loans and Advances	273,445	373,146
Interest Receivable	326	339
Prepaid Construct Costs	183,726	183,726
Refundable Deposits	5,543	6,143
Prepaid Expenses	58,471	4,431
Government Debtors	38,275	2,636
Other Debtors	462,550	464,365
	1,917,955	1,690,131
Provision for Bad and Doubtful Debts	(458,352)	(462,117)
	1,459,603	1,253,087

Government debtors relate to expenses incurred on behalf of the Ministry of Energy in operating the Kipevu Oil Storage Facility during the year 2003/04. Revenue received on behalf of the Ministry of Energy was Kshs 370,023,793 and remittances to the same ministry were Kshs 300,000,000.

The decrease in Bad Debts Provision of Ksh.3,765,000.00 is in relation to Ksh.4,680,542.95 being remittance of employee pension contributions for the year and Ksh.915,274.00 in respect of a bad debt provision for an insurance claim due from Lakestar Insurance in respect of a stolen vehicle Registration No. KAL 360U.

8. BANK BALANCES AND CASH

	2004 KShs'000	2003 KShs'000
i) Bank Balances, Cash and Overdraft comprise the following:		
Short-Term Deposits with Banks and Non-Bank Financial Institutions	627,007	825,697
Less Provision for Deposits in Ailing Institutions	(152,735)	(153,235)
Net of Provisions	474,272	672,462
Treasury Bills	-	-
Bank Balances and Petty Cash	472,688	623,416
Total Bank Balance and Cash	946,960	1,295,878
Bank Overdraft	10,901	52,814

Included in the Short-term deposits is a sinking fund amount of Ksh 194,352,000 held with Kenya Commercial Bank.

ii) Deposits previously held in the following ailing financial institutions have been fully provided for.

	2004 KShs'000	2003 KShs'000
Continental Credit Finance	52,720	52,720
Pioneer Building Society	20,265	20,265
Trade Bank	13,173	13,173
Pan African Bank	-	-
Thabiti Finance	1,432	1,932
Middle Africa Finance Company	6,333	6,333
United Trustees	1,603	1,603
Kenya Finance Corporation	7,309	7,309
Eurobank	49,900	49,900
	152,735	153,235

iii) Cash and cash equivalents included in the cash flow statement comprises the following balance sheet amounts

Cash at Bank and in Hand	752,608	1,295,878
Kcb Sinking Account	194,352	-
Treasury Bills	-	-
Bank Overdraft	(10,901)	(52,814)
Cash and Cash Equivalents at the End of the Year	936,059	1,243,064

iv) Banking facilities
The company has the following banking facilities with various banks.

Specific Loan	-	96,000
Revolving Overdraft	100,000	100,000
Bonds and Guarantees	61,000	60,000
Letters of Credit	100,000	240,000
Specific Guarantees	163,820	568,619
Pledged Deposits	81,035	-
	505,855	1,064,619

The facilities are secured by:

a) Specific pledge of fixed deposits amounting to US$ 5,403,453.88 (KShs 423,900,956.90) to secure overdraft and letters of credit.

b) Specific pledge of fixed deposit amounting to KShs. 58,796,000 to secure the guarantees.

c) General pledge of various funds in the various accounts to the extent that overall deposit balances will not at any time fall below the overall outstanding balances.

	2004 KShs'000	2003 KShs'000

9. SHARE CAPITAL

	2004 KShs'000	2003 KShs'000
Authorised:		
19,369,580 Ordinary Shares of KShs. 20 each	387,392	387,392
Issued and Fully Paid:		
18,173,306 Ordinary Shares of KShs.20 each.	363,466	363,466

10. RESERVES

	2004 KShs'000	2003 KShs'000
Share Premium	512,289	512,289
Retained Earnings	11,364,419	10,119,810
	11,876,708	10,632,099

Share premium arose from the issue of 10,454,874 shares of per value Ksh 20 at Ksh 69.

11. DIVIDENDS

	2004 KShs'000	2003 KShs'000
Proposed Dividends Brought Forward	72,692	36,346
Prior Year Dividends Approved and Paid	(36,346)	-
Proposed Dividends	150,000	36,346
At 30 June 2004	186,346	72,692
Proposed Dividends	150,000	36,346
Dividend Per Share	8.25	2

a) During the year, a dividend totalling to Kshs. 36,346,000 was paid. A dividend of KShs 8.25 per share (totalling KShs 150,000,000) has been proposed and the amount disclosed as a separate component of equity on the balance sheet at 30 June 2004. The dividend will be submitted for formal approval at the Annual General Meeting.

b) Dividend per share is arrived at by dividing the total dividend by the number of shares in issue at the balance sheet date.

12. RETIREMENT BENEFIT OBLIGATIONS

	2004 KShs'000	2003 KShs'000
The year end defined benefit liability was determined as follows:		
Present value of funded obligations	2,188,000	2,188,000
Fair value of plan assets	(1,095,000)	(1,095,000)
Present value of net assets	1,093,000	1,093,000
Unrecognised actuarial loss	(81,000)	(81,000)
Net retirement benefit liability	1,012,000	1,012,000

			2004 KShs'000	2003 KShs'000
Movements in the net liability recognised in the balance sheet are as follows:				
Net liability at beginning of the year			940,000	940,000
Net expense recognised in the income statement			194,000	194,000
Employer's contributions			(122,000)	(122,000)
Net liability as at 30th June	Current	645,908		
	Non-current	366,092	1,012,000	1,012,000
The year 2002/03 retirement benefit liability has been restated as follows:				
	Current Portion	469,100		
	Non-current	542,900	1,012,000	

	2004 KShs'000	2003 KShs'000
The expense recognised in the income statement is as follows:		
Current service costs net of employees contributions	101,000	101,000
Interest on obligations	193,000	193,000
Expected return on plan assets	(100,000)	(100,000)
Total included in staff costs	194,000	194,000

The principal actuarial assumptions at the balance sheet and comparative dates were:

Discount rate (p.a.)	10%
Expected return on scheme assets (p.a.)	10%
Future salary increases (p.a.)	8%
Future pension increases (p.a.)	0%

The latest valuation done is for the year ended June 2001 by Alexander Forbes Consultant Actuaries (formerly Hymans Robertson) which revealed a deficit of KShs 1,012,000,000. The full amount was provided for in the financial statements for the year ended 30 June 2001. A valuation was not carried out for the current financial year. The directors are of the opinion that the liability has not changed materially from that of the previous year.

Since the last valuation, the Company has only been able to meet the normal contribution to the fund, leaving the element of under-funding as outstanding. Hence there is no reduction on the under-funded amount.

However, actual valuation is expected to be done this year to ascertain the extent to which the fund is under-funded upon which Management will be able to state on how to finance the same.

13. DEFERRED TAX

	2004 KShs'000	2003 KShs'000
The provision for deferred tax comprises:		
Excess of tax wear and tear allowance over depreciation	11,9731	169,715
Unrealised exchange loss	-	(147,493)
	11,973	22,222

14. TERM LOANS

The company entered into long term loan agreements with international lenders who availed the funds in various foreign currencies. The amounts outstanding as at 30 June were as follows:-

Western Kenya Pipeline Extension	Currency	2004 KShs'000	2003 KShs'000
Export Development Corporation	US$	-	939,531
Export Import Bank of Japan	J¥	-	251,312
Natexis Banques Populaires	FrF	-	81,990
Standard Chartered Bank of Kenya	US$	-	752,813
Commercial Bank of Africa	US$	-	87,600
Standard Chartered Bank	Kshs.	1,418,160	
Triple A Capital	Kshs.	136,358	
"	Kshs.	93,674	
Rehabilitation of the Eastern Pipeline			
European Investment Bank	Euro	3,678	4,861
Construction of Jet A1 Tanks in Kisumu and Eldoret			
Union Bank of India	US$		-
Total outstanding as at 30 June		1,651,870	2,118,107
Less: Current portion of loans		(642,945)	(2,118,107)
Long term portion		**1,008,925**	**NIL**

The loans are repayable in the currencies in which they are drawn and are guaranteed by the Government of Kenya. The repayment terms and interest rates of the above outstanding loans are as follows:-

a) Export Development Corporation - (EDC)

The original loan of US$ 46,620,300 was for the Western Kenya Pipeline Extension. It was made up of foreign portion of US$ 39,627,300 and a local portion of US$ 6,993,000 bearing interest at a rate of 8.3% p.a. and 9.45% p.a. respectively. The first drawdown was made on 28 January 1991.

Additional financing of US$ 13,500,000 made up of US$ 2,025,000 as local portion and US$ 11,475,000 as foreign portion with interest rate of LIBOR plus 1.5% p.a. and 8.05% p.a. respectively was sourced from EDC for the completion of the project. The first drawdown was made on 20 December 1991.
The two loans are repayable in twenty semi-annual equal instalments ending in December 2003 and are now fully repaid.

b) Triple A Capital Ltd

a) During the year, the company refinanced the following loans through an arrangement facilitated by Triple A Capital Limited with Standard Chartered Bank Kenya Ltd.-

EDC	Kshs. 1,250,577,549.00
Japan Bank International Corporation	Kshs. 397,699,893.00
Total	**Kshs.1,658,277,492.00**

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

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

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

In addition to the payments made by Stanchart, Triple A had also made some payments directly, hence the loan due to it of Sh 221,040,000. The company is disputing this amount on various grounds and has not accrued any interest on this balance. The matter is now in court.

As per the loan agreements between Triple A and KPC failure to pay the amounts due in 30 days attracts liquidated damages calculated at 0.4% of the total amount owed compounded monthly until full settlement of the amount outstanding. The loan from Triple A is unsecured.

c) Export Import Bank of Japan

The loan was for the Western Kenya Pipeline Extension with a maximum drawdown amount of JYen8,244,687,000, bearing interest at a rate of 5.7% p.a. The first drawdown was made on 15 March 1991.

The loan was repayable in 20 equal semi-annual instalments ending on December 2003 and is now fully repaid.

d) Natexis Banques Populaires

The loan was for the Western Kenya Pipeline Extension with maximum drawdown amount of FFr 135,842,367, foreign portion being FFr 119,350,067 and local portion being FFr 16,492,300. Interest accrued at a rate of 8.3% p.a. and 10.15% p.a. respectively. The first drawdown was made on 12 July 1991.

The loan was repayable in 20 equal semi-annual instalments ending in November 2003 and is now fully repaid.

e) European Investment Bank

The loan was sourced to finance a study for the Pipeline extension to Uganda. The amount of the loan was Euro 98,158.00 accruing interest at a rate of 1% p.a. and was repaid in seven equal annual instalments ending October 2002.

f) Standard Bank of Kenya

This loan amounting to US$ 15 Million was sourced to finance the various capital projects, which the company was undertaking at the time. The loan bears interest at LIBOR plus 1.85%,p.a. payable monthly over a period of 16 months starting February 2003 and ending May 2004 . The loan is therefore now fully repaid.

g) Commercial Bank of Africa.

This loan was also sourced to finance duty and VAT on imported material for the Jet A-1 tanks under construction in Eldoret and Kisumu depots. The amount was US$ 1,200,000.00 with an interest rate of 30 days LIBOR plus 1.0% p.a. and was to be liquidated in December 2003.

15. CREDITORS AND ACCRUALS

	2004 KShs'000	2003 KShs'000
Trade Creditors	202,484	378,870
Loan Interest Payable	25	173,585
Other Payables	283,128	188,570
W/Tax	9,817	14,469
Land Levy	181,776	181,776
VAT	(97,125)	130,703
Corporation Tax Penalties	151,827	15,262
	731,932	1,083,235

The corporation tax penalties are in respect of a VAT audit assessment undertaken in 2003.

16 TAXATION

a) Balance Sheet - Tax Payable

	2004 KShs'000	2003 KShs'000
Balance Brought Forward	669,280	599,881
Charge for the Year	702,427	505,426
Paid During the Year	(785,546)	(436,027)
	586,161	669,280

b) Profit And Loss Account-Tax Charge

	2004 KShs'000	2003 KShs'000
(i) Current tax at 30% on the taxable profit for the year	713,461	505,426
Prior year under/(over) provision	(11,034)	-
Deferred tax (credit) /charge	(10,249)	11,836
	692,178	517,262
(ii) Reconciliation of taxation expense to tax based on accounting profit:	1,716,564	1,041,667
Tax applicable rate of 30% (2003: 30%)	514,969	312,500
Tax effect of items not deductible for tax purposes	188,243	204,762
Prior year under/(over) provision	(11,034)	-
	692,178	517,262

Tax assessments have been agreed with the Kenya Revenue Authority up to the financial year ending June 2002. The application for the waiver of penalties and interest on late payments for the same period is with the Treasury for consideration.

During the year, the Kenya Revenue Authority undertook a compliance audit on all aspects of taxation within the company. The agreed assessment stands at Kshs. 163.8 million comprising Corporation Tax, Withholding Tax and Value Added Tax and the final assessment is expected.

17. SALES

	2004 KShs'000	2003 KShs'000
Local Sales	3,114,801	2,734,620
KOSF	-	337,588
Export Sales	3,622,415	3,455,789
Refer to Note 7 concerning KOSF revenue.	6,737,216	6,527,997

18. DIRECT EXPENSES

Depreciation and Amortisation	829,546	1,020,439
Insurance	110,420	92,353
Amortisation of Pipeline Rehabilitation Costs	31,442	57,566
Rebates to Shippers	-	79,797
Maintenance Staff Costs	1,040,342	1,021,977
Electricity and Fuel	305,286	321,865
Pipeline Maintenance Costs	418,954	617,499
Kipevu Oil Storage Facility Costs	-	223,524
Other Maintenance Costs	49,911	65,723
	2,785,901	3,500,743

19. OTHER / (COSTS) / INCOME

(Loss)/Gain on Foreign Exchange	(140,717)	78,056
Gain on Disposal of Fixed Assets	-	7,329
Miscellaneous Income	119,188	105,622
	(21,529)	191,007

During the year, the company lost Ksh 261 million of which Ksh 144 million was as a result of the Triple A Capital Ltd. transaction, and a gain of Ksh 121 million resulting in a net loss of ksh 139 million.

20. ADMINISTRATION AND ESTABLISHMENT EXPENSES

Rent and Rates		37,235	36,466
Legal and Professional Expenses		24,732	2,807
Auditors' Remuneration – Current Year		2,600	3,016
Mbela Commission – Special Audit		247	287
Provision of Stolen Motor Vehicles		-	915
Directors' Emoluments	– as Executives	7,515	7,043
	– as Non Executives	20,522	6,276

	2004 KShs'000	2003 KShs'000
Administrative Staff Costs	1,230,516	1,228,468
Consultancy Fees	118,368	193,350
Buildings Repairs and Maintenance	16,947	102,172
Telephone and Postage	35,146	29,042
Motor Vehicle Expenses	17,746	21,109
Travelling and Entertainment	42,709	60,882
Other Office and General Expenses	96,729	55,550
Provision for Loss of Asset – Ngong Plots	291,671	-
	1,942,683	1,747,383

21. SELLING AND DISTRIBUTION

Bad Debts Provision	-	-
Advertising and Printing	35,193	45,016
	35,193	45,016

22. OTHER CHARGES AND COSTS

Penalty on Withholding tax	11,717	157,623
Unclaimable VAT	20,000	40,000
	31,717	197,623

23. NET FINANCE COSTS

Loan Interest Payable	183,139	178,329
Bank Interest	9,949	10,154
Bank Charges	14,168	17,940
Interest Income on Deposits	(3,627)	(19,851)
	203,629	186,572

24. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging: -		
Depreciation	829,546	1,020,439
Auditors' Remuneration - Current Year	2,600	3,303
Directors' Emoluments - as Executives	7,515	7,043
- as Non Executives	20,522	6,276
Loan Interest	183,139	178,329
Loss on Exchange	(6,042)	(147,826)
Provision for Bad Debts	-	915
Provision for Loss of Asset	291,671	-
Pension Scheme Costs	-	188,234
Amortisation of Intangible Assets	2,898	3,067
Amortisation of Leasehold Land	1,192	4,316
and after crediting:-		
Gain on Disposal of Fixed Assets	-	7,329

25. EARNINGS PER SHARE – BASIC AND DILUTED

Earnings per share are calculated on the profit after tax and on the average number of shares in issue at the Balance Sheet date. Basic and Diluted Earnings Per Share are the same.

26. DIVIDENDS PER SHARE

Dividends per share is calculated on proposed dividends for the year of KShs.150,000,000 and on the number of shares in issue at the Balance Sheet date.

27. CONTINGENT LIABILITY

(i) Local banks had opened letters of credit in favour of the company's various foreign suppliers amounting to KShs. 139,874,519.64 (2003 – 24,416,494).

(ii) As at the 30 June 2004 there were various undetermined litigations against the company whose claims amounted to KShs.306,752,313.The amount of claims is based on specific claims launched against the company as at September 2004.

(iii) As reported in the previous year, the three main stalled projects are the Headquarters Building, Morendat Staff Housing and the Eldoret Staff Clinic and Office Extensions. So far, the company has spent Kshs 760,213,084.00, Kshs 486,839,827.00 and Kshs 120,376,672 respectively on the three projects.
As at the time of submitting these accounts for audit, the agreement of the contractor of the Headquarters Building has been terminated.

28. CAPITAL COMMITMENTS

	2004 Kshs'000	2003 Kshs'000
Approved Capital Commitments	1,901,208	2,188,823

The amount of Kshs 1,901,208,000 (Kshs 2,188,823 in 2003)in respect of capital expenditure is included in the approved budget.

29. EMPLOYEES

The average number of employees during the year was 1,434 (2003 - 1,415)

30. INCORPORATION

The company was incorporated in Kenya in 1973 under the Companies Act (Cap 486).

31. CURRENCY

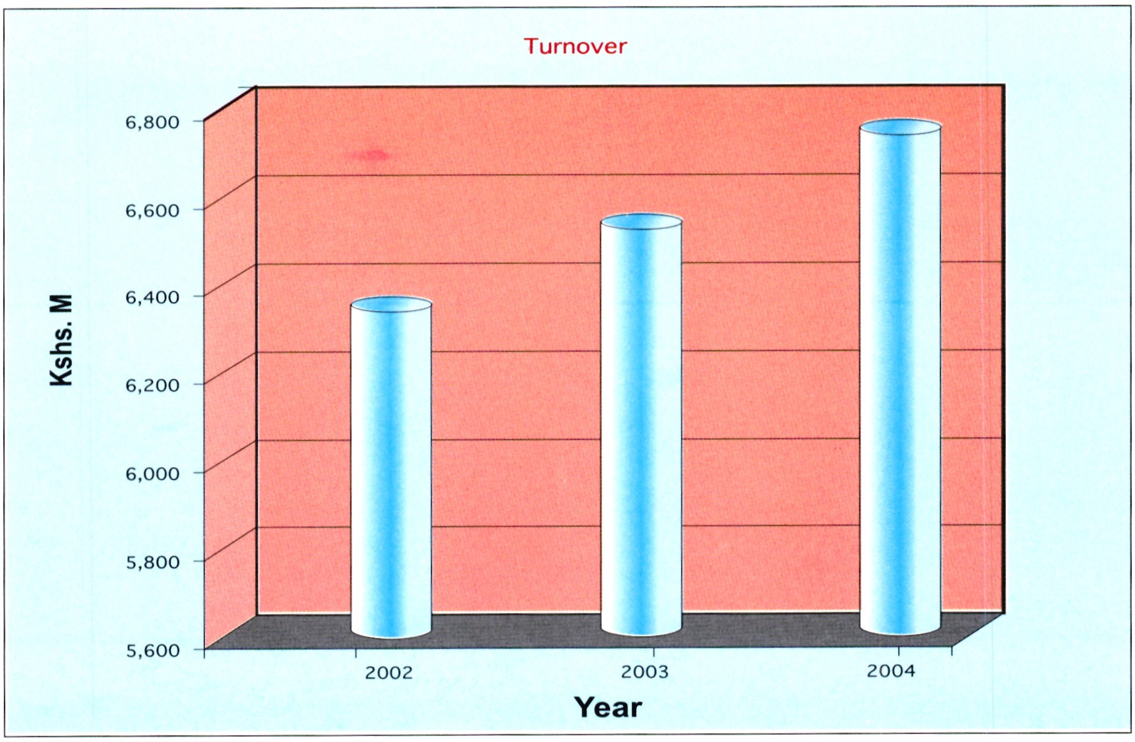
The financial statements have been presented in thousands of Kenya shillings (KShs'000).

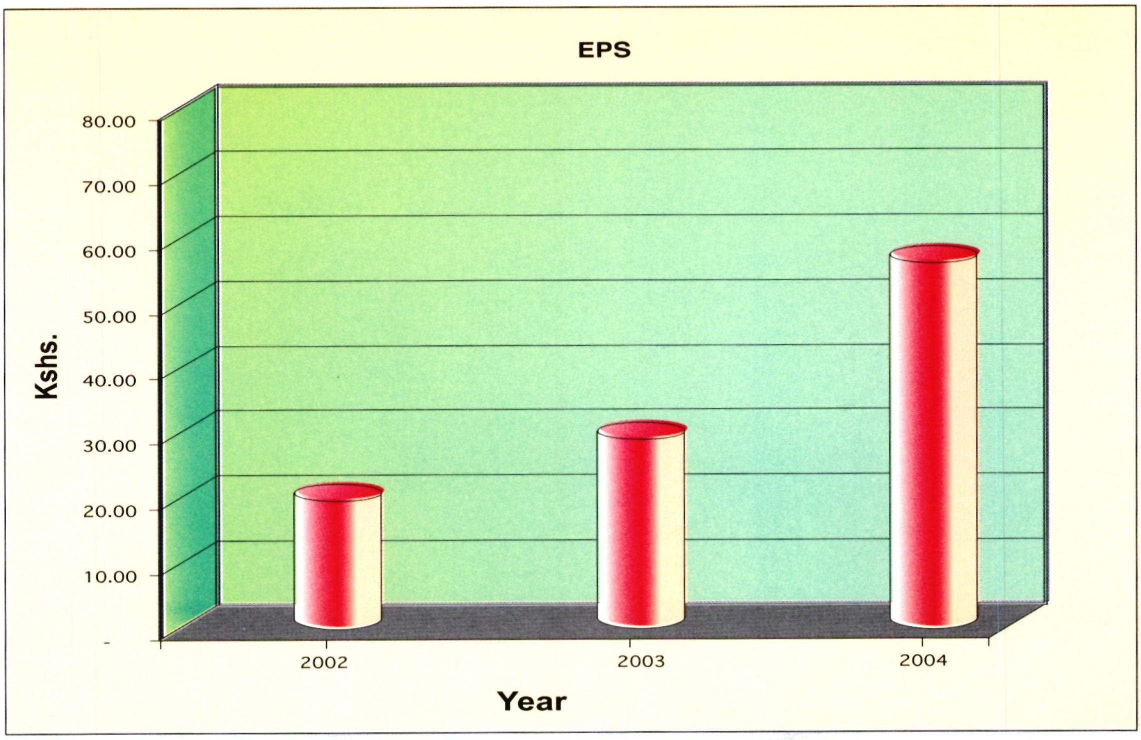
32. PRIOR YEAR ADJUSTMENT

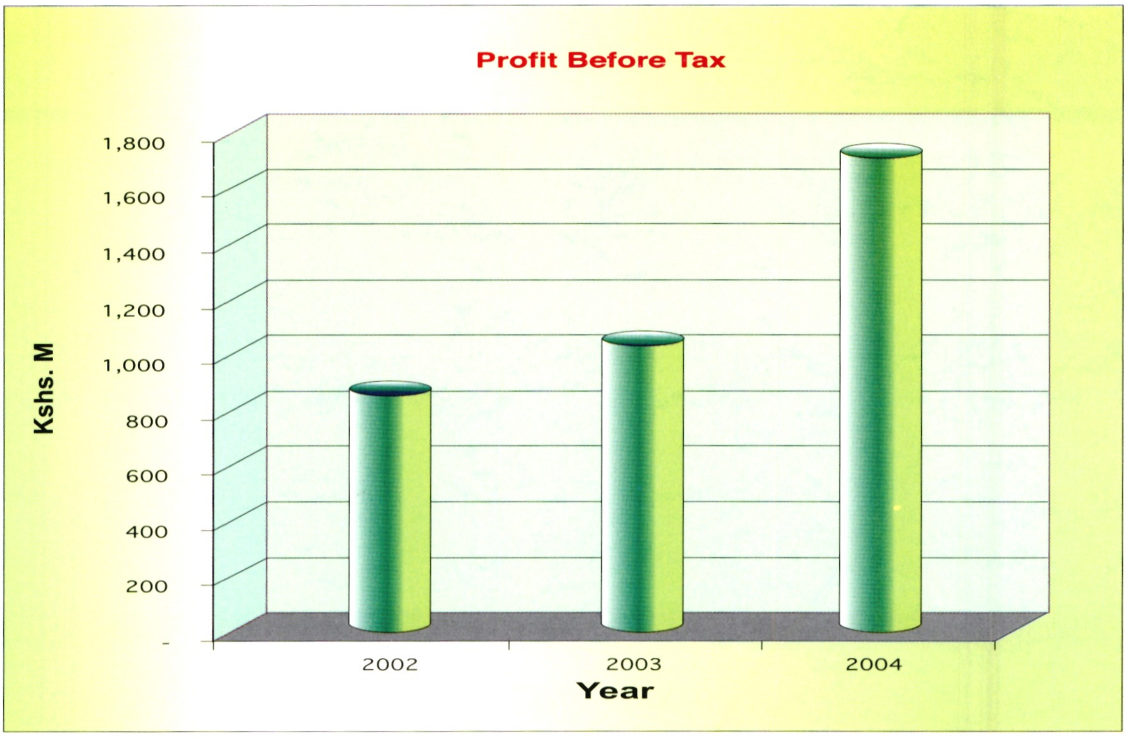
The amount of Ksh 151,827,000 is in respect of the 2004 tax audit which resulted in backdated taxes.

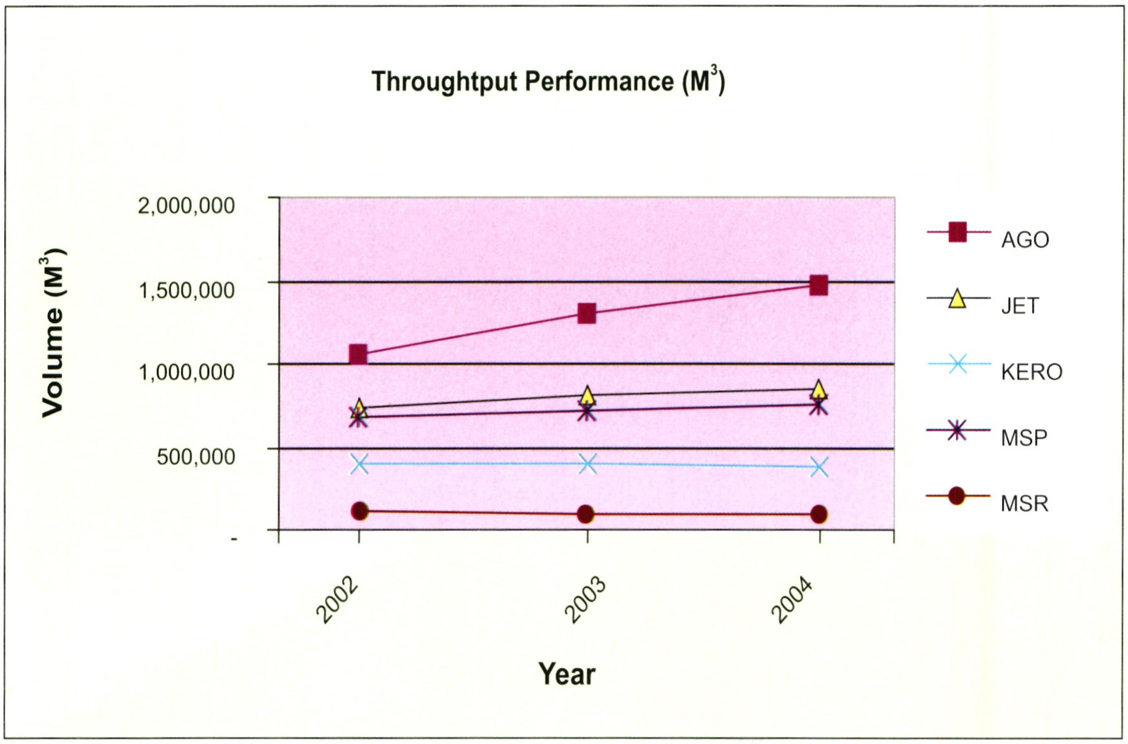
33. COMPARATIVES

Where necessary, comparative figures have been adjusted to conform with changes in the current year's presentation. In particular, the comparative figures have been adjusted to take into account the adoption of International Accounting Standards Numbers 10, 17 and 19 (revised).


Turnover
Kshs. M
6,800
6,600
6,400
6,200
6,000
5,800
5,600
2002
2003
2004
Year


EPS
Kshs.
80.00
70.00
60.00
50.00
40.00
30.00
20.00
10.00
-
2002
2003
2004
Year


Profit Before Tax
Kshs. M
1,800
1,600
1,400
1,200
1,000
800
600
400
200
-
2002
2003
2004
Year


Throughtput Performance (M3)
Volume (M3)
2,000,000
1,500,000
1,000,000
500,000
-
2002
2003
2004
Year
AGO
JET
KERO
MSP
MSR

OIL PIPELINE NETWORK

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

Key

Existing facilities	Planned short term projects	Planned medium term projects	Current
White oil storage tanks	Proposed fuel loading facilities	(PoP) - Points of Presence (White oil storage tanks)	Waterways transport in Lake Victoria.
Pipeline	LPG storage facilities	**Planned long term/future projects**	
Existing loading facility	Pipeline extension to Kampala	LPG storage facilities	
Rail siding	Rail siding/Mooring facilities	Pipeline extensions	
		Spur lines	

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