

**KENYA PIPELINE COMPANY  
RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES**



**ANNUAL REPORT  
AND  
FINANCIAL STATEMENTS**

**30 JUNE 2018**

KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

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KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

ADVISORS TO THE SCHEME AND OTHER INFORMATION  
FOR THE YEAR ENDED 30 JUNE 2018

SCHEME ADMINISTRATOR AND REGISTERED ADDRESS

Sammy Njeru  
In-house Pension Administration  
Kenya Pipeline Company Retirement Benefits Scheme  
P.O. Box 13633 - 00800  
Nairobi

INVESTMENT MANAGERS

GenAfrica Asset Managers Limited  
Arlington Block, 14 Riverside Business Park  
Off Riverside Drive  
P.O. Box 79217-00100  
Nairobi, Kenya

Stanlib Investment Management Services (E.A.) Limited  
Liberty House, Nyerere Road  
P.O. Box 30550-00100  
Nairobi, Kenya

CUSTODIAN

Standard Chartered Bank of Kenya Limited  
48 Westlands Road  
P. O. Box 40984 – 00100  
Nairobi, Kenya

ACTUARIAL ADVISORS

Zamara Actuaries, Administrators and Consultants Limited  
Landmark Plaza, Argwings Kodhek Road  
P. O. Box 52439 – 00200  
Nairobi, Kenya

AUDITORS

Deloitte & Touche  
Certified Public Accountants (Kenya)  
Deloitte Place  
Waiyaki Way, Muthangari  
P. O. Box 40092 - 00100  
Nairobi

LEGAL ADVISORS

Professor Albert Mumma & Company Advocates  
5th Avenue Suites, 5th Ngong Avenue  
P. O. Box 10481 - 00100  
Nairobi, Kenya

KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

REPORT OF THE TRUSTEES

FOR THE YEAR ENDED 30 JUNE 2018

The Trustees present their report and financial statements for the year ended 30 June 2018 for Kenya Pipeline Company Retirement Benefit Scheme Registered Trustees (“the Scheme”).

1. PRINCIPAL ACTIVITY

The main purpose of the Scheme is the provision of cash benefits and pensions to members upon their retirement and relief for the dependents of deceased members as defined in the rules and regulations governing the Scheme.

2. REGISTRATION

The Scheme is registered under the Retirement Benefits Act. The address of its registered office is P.O. Box 13633, 00800 Nairobi, Kenya. The registration number of the Scheme is RBA/SC/INT2/00632.

3. MEMBERSHIP

The following changes occurred during the year:

	2018	2017
a) Members in service	1,046	1,082
Pensioners	544	496
	<hr/>	<hr/>
Total members	1,590	1,578
	<hr/> <hr/>	<hr/> <hr/>
b) Members in service at the start of the year	1,082	1,143
Less: Members who left during the year:		
Retired with pension	(31)	(46)
Death in service	(3)	(7)
Other leavers	(2)	(8)
	<hr/>	<hr/>
Members in service at the end of the year	1,046	1,082
	<hr/>	<hr/>
c) Pensioners		
At the start of the year	496	449
Ceased Pension	(15)	(13)
Entrants	63	60
	<hr/>	<hr/>
At the end of the year	544	496
	<hr/>	<hr/>
Total Members	1,590	1,578
	<hr/> <hr/>	<hr/> <hr/>

KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

REPORT OF THE TRUSTEES (continued)  
FOR THE YEAR ENDED 30 JUNE 2018

4. ESTABLISHMENT, NATURE AND STATUS OF THE SCHEME

The Scheme was established on 1 January 1977, and is governed by a trust deed dated 26 August 2002, and amended severally with the latest amendment on 30 March 2011. It is a defined benefit scheme and provides under the rules of the Scheme, retirement benefits for the staff of Kenya Pipeline Company Limited. Income from the registered Scheme is tax exempt under the Income Tax Act. The Scheme is registered with Retirement Benefits Authority.

The Scheme ceased to admit new members in 2006, when the defined contributions Scheme was formed and all the members of the defined benefits Scheme were transferred to and began to contribute to the defined contributions Scheme.

5. FINANCIAL REVIEW

The statement of changes in net assets available for benefits on page 8 shows an increase in net assets of the Scheme for the year of KShs. 412,055,850 (2017: KShs. 364,949,613), and the statement of net assets available for benefits on page 9 shows the Scheme's net assets at KShs. 8,060,965,923 (2017: KShs. 7,648,910,073).

6. INVESTMENT OF SCHEMES

Under the terms of their appointment, investment managers, Stanlib Investment Management Services (E.A.) Limited and GenAfrica Asset Managers Limited, are responsible for the investment of Schemes. The overall responsibility for investment and performance however lies with the trustees.

7. ACTUARIAL VALUATION

The last actuarial valuation was done as at 30 June 2017 by an independent firm of actuaries, Zamara Actuaries, Administrators and Consultants Limited. The Scheme was 108.6% funded (surplus Kes. 606.7 million).

8. TRUSTEES

The Trustees who served during the year and up to the date of this report were:

Ms. Felicity Biriri	Chairperson
Ms. Agnes Gituro	Member
Mr. Evans Nyangaya	Member
Ms. Gloria Khafafa	Member
Major (Rtd) Iltasayon Neepe	Member
Mr. Jesse Wahome	Member
Mr. Joe Sang	Member
Ms. Lucy Kariuki	Member
Mr. Washington Oluoch	Member

9. AUDITORS

Deloitte & Touche, who were appointed as auditors during the year have indicated their willingness, continue in office as auditors.

BY ORDER OF THE BOARD OF TRUSTEES



Trust Secretary

21 September 2018

KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

STATEMENT OF TRUSTEES' RESPONSIBILITIES  
FOR THE YEAR ENDED 30 JUNE 2018

Retirement Benefits Scheme Regulations require the Trustees to prepare financial statements for each financial year which give a true and fair view of the disposition of the Scheme's assets and liabilities as at the end of the financial year and of the financial transactions of the Scheme for that year. The Regulations also require the Trustees to ensure that the Scheme keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Scheme. They are also responsible for safeguarding the assets of the Scheme.

The Trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the Retirement Benefits Act, and for such internal controls as the Trustees determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Trustees accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Retirement Benefits Regulations.

The Trustees also accept responsibility for:

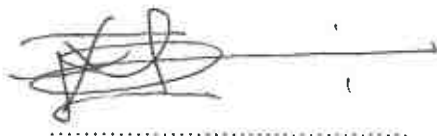
- designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- selecting suitable accounting policies and applying them consistently; and
- making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the Scheme's ability to meet its obligations, the Trustees are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Scheme's ability to meet its obligations.

The Trustees acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the Trustees on 21/09 2018 and signed on its behalf by:

  
.....  
Felicity Birici  
Chairperson

  
.....  
Sammy Njeru  
Trust Secretary

## REPORT OF THE INDEPENDENT AUDITORS TO THE TRUSTEES OF KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME REGISTERED TRUSTEES

### *Opinion*

We have audited the financial statements of Kenya Pipeline Company Retirement Benefits Scheme Defined Benefits (DB) Registered Trustees, set out on pages 8 to 32, which comprise the statement of net assets available for benefits as at 30 June 2018, the statement of changes in net assets available for benefits and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the financial statements give a true and fair view of the financial transactions of the Scheme during the year ended 30 June 2018 and of the disposition at that date of its assets and liabilities, other than liabilities to pay retirement and other benefits falling due after the end of the year in accordance with International Financial Reporting Standards and the requirements of the Retirement Benefits Act.

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Scheme in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Other Information*

The Trustees are responsible for the other information, which comprises the Report of the Trustees as required by the Retirement Benefits Act. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

REPORT OF THE INDEPENDENT AUDITORS  
TO THE TRUSTEES OF KENYA PIPELINE COMPANY RETIREMENT BENEFITS  
SCHEME REGISTERED TRUSTEES (Continued)

*Responsibilities of Trustees for the Financial Statements*

The Trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Retirement Benefits Act, and for such internal controls as the Trustees determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustees are responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Scheme's financial reporting process.

*Auditor's Responsibilities for the Audit of the Financial Statements*

Our 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA's will always detect a material misstatement 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.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We 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 our 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trustees.
- Conclude on the appropriateness of the Trustees' 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 Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme 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.



REPORT OF THE INDEPENDENT AUDITORS  
TO THE TRUSTEES OF KENYA PIPELINE COMPANY RETIREMENT BENEFITS  
SCHEME REGISTERED TRUSTEES (Continued)

*Auditor's Responsibilities for the Audit of the Financial Statements (Continued)*

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*The engagement partner responsible for the audit resulting in this independent auditors' report is CPA Fredrick Aloo - P/No 1537.*



**Certified Public Accountants (Kenya)**

**Nairobi, Kenya**

*28 September* 2018

KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS  
FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 KShs	2017 KShs
<b>CONTRIBUTIONS AND BENEFITS</b>			
Contributions receivable	3	-	-
Benefits payable	4	(381,164,428)	(394,952,618)
		<hr/>	<hr/>
Net payments to members		(381,164,428)	(394,952,618)
<b>ADMINISTRATIVE EXPENSES</b>			
	6	(46,037,220)	(36,015,334)
		<hr/>	<hr/>
		(427,201,648)	(430,967,952)
		<hr/>	<hr/>
<b>RETURN ON INVESTMENTS</b>			
Investment income	7	590,142,951	483,038,730
Changes in market value of investments	5	266,956,331	325,004,001
Investment management expenses	8	(17,841,784)	(15,713,704)
		<hr/>	<hr/>
Net returns on investments		839,257,498	792,329,027
		<hr/>	<hr/>
<b>OTHER INCOME</b>			
	9	-	3,588,539
		<hr/>	<hr/>
<b>INCREASE IN NET ASSETS FOR THE YEAR</b>			
		412,055,850	364,949,613
<b>NET ASSETS OF THE SCHEME AT THE START OF THE YEAR</b>			
		7,648,910,073	7,283,960,460
		<hr/>	<hr/>
<b>NET ASSETS AVAILABLE FOR BENEFITS AT THE END OF THE YEAR</b>			
		8,060,965,923	7,648,910,073
		<hr/> <hr/>	<hr/> <hr/>

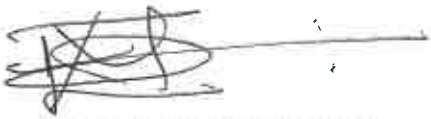
KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS  
AS AT 30 JUNE 2018

	Note	2018 KShs	2017 KShs
<b>NON CURRENT ASSETS</b>			
Property and equipment	10	16,555,018	18,116,186
Intangible assets	11	111,765	223,530
		<u>16,666,783</u>	<u>18,339,716</u>
<b>INVESTMENTS</b>			
Investment property	12	2,293,422,906	2,282,000,000
Government securities	13	3,026,959,834	2,691,007,142
Local quoted equity investments	14 & 25 (b)	2,056,470,923	1,828,005,987
Regional equity investments	15 & 25 (b)	18,239,836	31,971,067
Unquoted equity investments	16 & 25 (a)	1,184,928	11,848,308
Corporate bonds	17	341,646,534	453,108,359
Call and fixed deposits	18	197,500,000	237,500,000
		<u>7,935,424,961</u>	<u>7,535,440,863</u>
<b>TOTAL NON-CURRENT ASSETS AND INVESTMENTS</b>		<u>7,952,091,744</u>	<u>7,553,780,579</u>
<b>CURRENT ASSETS</b>			
Cash and bank balances	19	7,150,055	10,822,601
Other receivables	20	141,262,200	114,713,863
		<u>148,412,255</u>	<u>125,536,464</u>
<b>CURRENT LIABILITIES</b>			
Other payables	21	39,538,076	30,406,970
<b>NET CURRENT ASSETS</b>		<u>108,874,179</u>	<u>95,129,494</u>
<b>NET ASSETS</b>		<u><u>8,060,965,923</u></u>	<u><u>7,648,910,073</u></u>
<b>FINANCED BY:</b>			
<b>TOTAL ACCUMULATED SCHEME</b>		<u><u>8,060,965,923</u></u>	<u><u>7,648,910,073</u></u>

The financial statements on pages 8 to 32 were approved and authorised for issue by the Board of Trustees on 21 September 2018 and were signed on their behalf by:

  
.....  
Felicity Biriri  
Chairperson

  
.....  
Sammy Njeru  
Trust Secretary

KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018	2017 Kshs
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
RBA levy paid		(5,000,000)	(5,000,000)
Rent deposit received		2,377,733	-
Pensions returned		-	89,593
Transfer from defined contributions Scheme		26,129,243	9,220,002
Administrative expenses paid		(35,179,980)	(35,898,425)
Benefits paid		(376,185,279)	(394,807,900)
Tax paid (VAT)		(18,596,668)	(12,010,455)
		<hr/>	<hr/>
Net cash used in operating activities		(406,454,951)	(438,407,185)
		<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income received		547,177,165	533,750,347
Investment management expenses paid		(22,349,275)	(13,567,804)
Purchase of property and equipment	10	(1,553,969)	(966,200)
Improvements to investment property	12	(11,422,906)	-
Purchase of treasury bills	13(a)	(462,485,702)	(551,629,348)
Purchase of treasury bonds	13(b)	(658,000,000)	(265,143,125)
Purchase of corporate bonds	17	-	(19,407,010)
Purchase of quoted equities	14	(80,548,654)	(9,916,228)
Proceeds from sale of treasury bills		434,911,268	371,653,090
Proceeds from sale of treasury bonds		403,468,347	289,006,030
Proceeds from sale of corporate bonds		113,492,502	35,707,439
Proceeds from sale of equities		100,093,629	-
		<hr/>	<hr/>
Net cash generated from investing activities		362,782,405	369,487,191
		<hr/>	<hr/>
DECREASE IN CASH AND CASH EQUIVALENTS		(43,672,546)	(68,919,994)
CASH AND CASH EQUIVALENTS AT THE START OF THE YEAR		248,322,601	317,242,595
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	23	<u>204,650,055</u>	<u>248,322,601</u>

KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

I. ACCOUNTING POLICIES

**Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Kenyan Retirement Benefits Act.

**Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC)**

*i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018*

At the date of authorisation of these financial statements, various revised standards and interpretations were issued and effective. These standards and interpretations did not result in any changes in the accounting policies or result in any material impact on the financial statements.

*ii) Relevant new and amended interpretations in issue but not yet effective in the year ended 30 June 2018*

<i>New and amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 9 (as revised in 2016)	1 January 2018

*iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2018 and future annual periods*

**IFRS 9 Financial Instruments**

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include:

- impairment requirements for financial assets; and
- limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI.

All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.

KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENT (continued)

I ACCOUNTING POLICIES (Continued)

**Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)**

iii) *Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2018 and future annual periods (Continued)*

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Trustees are currently reviewing the impact of IFRS 9 to the Scheme's financial statements.

iv) Early adoption of standards

The Scheme did not early-adopt any new or amended standards in 2018.

**Basis of Preparation**

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied, unless otherwise stated.

a) **Contributions receivable**

Under the rules of the Scheme, Kenya Pipeline Company Limited shall contribute to the Scheme at such a rate or rates as the trustees shall determine from time to time with the advice of the actuary. Ordinary contributions are included on the accrual basis as they fall due. Special contributions are accounted for when received.

b) **Benefits payable**

Pensions and other benefits payable are taken into account in the period in which they fall due.

c) **Investment income**

Investment income includes interest and dividends receivable and net exchange gains/ (losses) in the year. Interest income is accrued in the financial statements when earned, taking into account the effective yield rate of the assets or an applicable floating rate. Interest income includes the amortization of any discount or premium or other difference between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis. Dividend income is recognized when the shareholders right to receive payment is established. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENT (continued)

1. ACCOUNTING POLICIES (Continued)

d) **Foreign currency conversion**

Foreign currency income is converted into Kenya Shillings at the rate ruling when the income is received. Income accrued at the period end is converted at the rate ruling at that date. Investments and current assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the period-end date. The resulting differences from conversion and translation are dealt with in the statement of changes in net assets in the period in which they arise.

e) **Investments**

All purchases and sales of investments are recognised on the trade date, which is the date the Scheme commits to purchase or sell the asset. The cost of purchase includes transaction costs. The trustees subsequently determine the appropriate classification of the Scheme's investments and re-evaluate such designation on a regular basis as follows:

- i. Marketable securities are valued at market valuation on each reporting date. Accumulated unrealised profits less unrealised losses on investments are included as part of the change in market value of investments.
- ii. Treasury bills are classified as held to maturity and are stated at amortised cost. Treasury bonds are held at fair value through profit or loss. Investments in commercial paper and call and term deposits are stated at amortized cost.
- iii. Unlisted securities are stated at the trustees' valuation based on the advice of the Scheme's Investment Managers.
- iv. Investment properties comprise land and buildings and parts of buildings held to earn rentals and/or for capital appreciation and are carried at market values, based on valuations by external independent valuers. Accumulated unrealised surpluses less unrealised losses on investments are included as part of the change in fair value of investments as shown in the statement of changes in net assets. On disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to the statement of changes in net assets. Investment properties are not subject to depreciation. Repairs and maintenance expenses in respect of investment property are charged to income in the period in which the expense is incurred.

f) **Intangible assets**

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired.

g) **Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Financial assets**

*Initial measurement and recognition*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available –for- sale financial assets. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Scheme commits to purchase or sell the asset.

The Scheme's financial assets include government securities, quoted equity investments, unquoted equity investments, offshore investments, corporate bonds, commercial paper, call and fixed deposits, bank balance and contributions receivable.



KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENT (continued)

1. ACCOUNTING POLICIES (continued)

g) **Financial instruments (continued)**

Financial assets (continued)

*Subsequent measurement*

For purposes of subsequent measurement financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Available –for-sale financial assets

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Financial assets at fair value through profit or loss are carried in the statement of net assets available for benefits at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of changes in net assets available for benefits .

*Loans and receivables*

Receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Bad debts are written off after all efforts of recovery have been exhausted. This category generally applies to contributions receivable and dividends receivable.

*Held to maturity*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Scheme has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the Effective Interest Rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance income in the statement of changes in net assets available for benefits.

The losses arising from impairment are recognised in the statement of changes in net assets available for benefits as finance costs.

*Available- for-sale financial investments*

Available-for-sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and advances. They include equity instruments, investments in money market and other debt instruments.

*Cash and cash equivalents*

Cash and cash equivalents in the statement of net assets available for benefits comprise cash at banks and short term deposits with less than 3 months. Short term deposits have been categorised under investments.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above and other short term highly liquid investments with original maturities of three months or less.

Cash and cash equivalents are measured at amortised cost subsequent to initial recognition.



KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENT (continued)

I. ACCOUNTING POLICIES (continued)

g) **Financial instruments (continued)**

Financial assets (continued)

*Derecognition*

A financial asset is primarily derecognised when:

- The rights to receive cash flows from the asset have expired
- Or
- The Scheme has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

*Impairment of financial assets*

The Scheme assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Financial liabilities

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Scheme's financial liabilities include other payables and benefits payable.

*Subsequent measurement*

*Other payables*

Other payables are carried at cost which is the fair value of the consideration to be paid in future for goods and services received, whether billed or not.

*Benefits payable*

Pensions and other benefits payable are taken into account in the period in which they fall due.

*Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

h) **Management and other expenses**

Management and other expenses are accounted for on accrual basis.

KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES (continued)

i) **Actuarial Position**

The last actuarial valuation was done as at 30 June 2017 by M/s Zamara Actuaries, Administrators and Consultants Limited. The actuarial valuation report showed that there was an actuarial surplus of KShs. 606.7 million as at 30 June 2017.

Scheme investments in Uganda and Tanzania securities are treated as domestic investments.

j) **Property, equipment and depreciation**

Property and equipment are stated at cost less accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment.

Depreciation is calculated on the reducing balance basis, at annual rates estimated to write off carrying values of the assets over their expected useful lives.

The annual depreciation rates in use are:

Equipment	12.5%
Computers	30%

The carrying values of the property, plant and equipment are assessed annually and adjusted for impairment where it is considered necessary.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit/loss in the year the asset is derecognised.

The assets residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively if appropriate.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE SCHEME'S ACCOUNTING POLICIES

In the process of applying the Scheme's accounting policies, Trustees have made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

*Impairment losses on financial assets*

At the end of each reporting period, the Scheme reviews the carrying amounts of its financial assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognised in the statement of changes in net assets available for benefits whenever the carrying amount of the asset exceeds its recoverable amount.

*Equipment*

Critical estimates are made by the scheme management in determining depreciation rates for equipment.

KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2018 KShs	2017 KShs
3 CONTRIBUTIONS RECEIVABLE		
From employer - Additional deficit financing	-	-
	<u>          </u>	<u>          </u>

The Scheme is not receiving any more contributions from members, thus contributions are nil. The defined benefits Scheme ceased to admit new members in 2006, when the defined contributions Scheme was formed and all the members of the defined benefits Scheme were transferred to and began to contribute to the defined contributions Scheme.

	2018 KShs	2017 KShs
4 BENEFITS PAYABLE		
Retirees benefits	381,164,428	394,952,618
	<u>                  </u>	<u>                  </u>
5 CHANGES IN MARKET VALUE OF INVESTMENTS		
Change in fair value of treasury bonds (Note 13(b))	48,973,454	82,969,546
Change in fair value of quoted equity investments (Note 14)	235,852,103	109,822,050
Change in fair value of regional equity investments (Note 15)	(7,205,846)	3,876,233
Change in fair value of unquoted equity investments (Note 16)	(10,663,380)	10,609,713
Change in fair value investment property	-	117,726,460
	<u>                  </u>	<u>                  </u>
	<u>266,956,331</u>	<u>325,004,001</u>

KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2018	2017
	KShs	KShs
6 ADMINISTRATIVE EXPENSES		
AGM expenses	742,811	585,381
Audit fees	1,175,834	914,941
Bank charges	119,230	96,766
Depreciation (Note 10)	3,115,137	2,860,433
Scheme master maintenance fees	324,000	216,000
Insurance	1,014,519	861,844
Land search, valuation and rates expenses	158,625	842,254
Legal fees	1,002,240	1,002,240
Meeting expenses	1,315,409	1,089,848
Office expenses	1,148,498	1,134,142
Printing and stationery	468,659	866,942
Professional/Scheme advisors fees	2,944,000	1,101,912
RBA levy (Note 22)	5,000,000	5,000,000
Software amortization (note 11)	111,765	896,260
Staff medical cover	167,364	277,624
Staff salaries	10,828,966	8,604,739
Leave days accrual	791,188	-
Staff professional membership Subscriptions	111,132	34,980
Telephone and postage expenses	100,067	89,660
Tendering expenses	71,000	72,860
Training expenses	4,567,938	3,959,998
Travelling and subsistence BOT	2,503,358	2,047,454
Trustees allowances	1,147,000	1,526,666
Website maintenance	9,000	9,000
E-Board software subscriptions	947,851	961,414
Advertising	132,797	385,866
Member education	505,527	280,110
Security- Properties	5,513,305	292,000
Repairs & Maintenance	-	4,000
	<u>46,037,220</u>	<u>36,015,334</u>

**KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

7 INVESTMENT INCOME	GENESIS		STANLIB		TOTAL	
	2018 KShs	2017 KShs	2018 KShs	2017 KShs	2018 KShs	2017 KShs
Dividend income	72,780,203	92,287,587	10,980,546	14,409,361	83,760,749	106,696,948
Interest and discounts:						
Treasury bonds	94,652,564	34,593,309	214,729,685	185,023,213	309,382,249	219,616,522
Treasury bills	36,167,389	20,061,710	2,812,759	8,249,104	38,980,148	28,310,814
Rent income	-	-	-	-	89,693,579	72,412,597
Corporate bonds	14,151,760	1,258,316	23,761,118	34,877,382	37,912,878	36,135,698
Call and fixed deposits	3,743,114	8,357,159	12,503,714	8,150,515	16,246,828	16,507,674
Bank interest	-	1,406	-	6,779	-	8,185
Gain on equity investments sold	12,232,568	-	(4,904,987)	-	7,327,581	-
Gain on other investments sold	2,342,241	2,138,213	4,496,698	1,212,079	6,838,939	3,350,292
<b>Total income</b>	<b>282,192,197</b>	<b>158,697,700</b>	<b>264,379,533</b>	<b>251,928,433</b>	<b>590,142,951</b>	<b>483,038,730</b>

KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS (continued)

		2018 KShs	2017 KShs	
8	INVESTMENT MANAGEMENT EXPENSES			
	Management fees - Scheme Managers	9,376,566	8,133,448	
	Custody fees	8,465,218	7,580,256	
		<u>17,841,784</u>	<u>15,713,704</u>	
9	OTHER INCOME			
	Reversal of previously accrued expenses	-	1,030,043	
	Disposal of Impaired Imperial bank deposit	-	2,558,495	
		<u>-</u>	<u>3,588,539</u>	
10	PROPERTY AND EQUIPMENT:			
		Computers KShs	Equipment and fixtures KShs	Total KShs
	COST			
	At 1 July 2016	5,349,861	18,093,810	23,443,671
	Additions	828,600	137,600	966,200
	At 30 June 2017	<u>6,178,461</u>	<u>18,231,410</u>	<u>24,409,871</u>
	At 1 July 2017	6,178,461	18,231,410	24,409,871
	Additions	666,560	887,409	1,553,969
	At 30 June 2018	<u>6,845,021</u>	<u>19,118,819</u>	<u>25,963,840</u>
	DEPRECIATION			
	At 1 July 2016	2,553,912	879,340	3,433,252
	Charge for the year	830,868	2,029,565	2,860,433
	At 30 June 2017	<u>3,384,780</u>	<u>2,908,905</u>	<u>6,293,685</u>
	At 1 July 2017	3,384,780	2,908,905	6,293,685
	Charge for the year	1,011,726	2,103,412	3,115,137
	At 30 June 2018	<u>4,396,506</u>	<u>5,012,317</u>	<u>9,408,822</u>

KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 PROPERTY AND EQUIPMENT: (Continued)				
At 30 June 2018:		Computers KShs	Equipment and fixtures KShs	Total KShs
NET CARRYING AMOUNT				
At 30 June 2018		<u>2,448,515</u>	<u>14,106,503</u>	<u>16,555,018</u>
At 30 June 2017		<u>2,793,681</u>	<u>15,322,505</u>	<u>18,116,186</u>
			2018 KShs	2017 KShs
11 INTANGIBLE ASSETS				
COST				
At 1 July			3,585,042	3,585,042
Additions			-	-
At 30 June			<u>3,585,042</u>	<u>3,585,042</u>
AMORTISATION				
At 1 July			3,361,512	2,465,252
Charge for the year			111,765	896,260
At 30 June			<u>3,473,277</u>	<u>3,361,512</u>
NET CARRYING AMOUNT				
At 30 June			<u>111,765</u>	<u>223,530</u>

Intangible assets relate to E-Board software costs incurred by the Scheme.

KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2018 KShs	2017 KShs
12 INVESTMENT PROPERTY		
Land and buildings:		
At 1 July	2,282,000,000	2,164,273,540
Improvements	11,422,906	-
Revaluation gain	-	117,726,460
	<hr/>	<hr/>
At 30 June	2,293,422,906	2,282,000,000
	<hr/> <hr/>	<hr/> <hr/>
Comprising of:		
Cost	1,722,597,261	1,711,174,355
Revaluation	570,825,645	570,825,645
	<hr/>	<hr/>
	2,293,422,906	2,282,000,000
	<hr/> <hr/>	<hr/> <hr/>

The Scheme's investment property consists of land in Athi River, Valley Road and a commercial building, Crescent Business Centre, located in Parklands, Nairobi. The properties were revalued as at 30th June 2018 by Proland Realtors Ltd on the basis of their market values.

	2018 KShs	2017 KShs
13 GOVERNMENT SECURITIES		
Treasury bills	363,574,970	336,000,536
Treasury bonds	2,663,384,864	2,355,006,606
	<hr/>	<hr/>
	3,026,959,834	2,691,007,142
	<hr/> <hr/>	<hr/> <hr/>

(a) TREASURY BILLS HELD TO MATURITY

At the beginning of the reporting period	336,000,536	156,024,278
Additions	462,485,702	551,629,348
Disposals	(434,911,268)	(371,653,090)
	<hr/>	<hr/>
At the end of the reporting period	363,574,970	336,000,536
	<hr/> <hr/>	<hr/> <hr/>

The weighted average interest rate as at 30 June 2018 was 10.36 % (2017: 11.61 %).



KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS (continued)

13 GOVERNMENT SECURITIES (Continued)

(b) TREASURY BONDS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 KShs	2017 KShs
At the beginning of the reporting period	2,355,006,606	2,301,047,444
Additions	658,000,000	265,143,125
Disposals	(398,595,196)	(294,153,511)
Change in fair value	48,973,454	82,969,548
	<hr/>	<hr/>
At the end of the reporting period	2,663,384,864	2,355,006,606
	<hr/> <hr/>	<hr/> <hr/>

The weighted average interest rate as at 30 June 2018 was 12.47% (2017: 12.23 %).

	2018 KShs	2017 KShs
14 QUOTED EQUITY INVESTMENTS		
Valuation as at 1 July	1,828,005,987	1,708,267,709
Purchases during the year	80,548,654	9,916,228
Sales during the year	(87,935,821)	-
Change in market value	235,852,103	109,822,050
	<hr/>	<hr/>
Valuation as at 30 June	2,056,470,923	1,828,005,987
	<hr/> <hr/>	<hr/> <hr/>

15 REGIONAL EQUITY INVESTMENTS

Stanbic Uganda	5,082,194	4,760,734
Umeme Limited	10,834,278	23,559,758
Umeme Limited (Unquoted)	2,188,805	3,442,575
Crystal	134,559	208,000
	<hr/>	<hr/>
	18,239,836	31,971,067
	<hr/> <hr/>	<hr/> <hr/>

Movements in regional equity investments is analysed as follows:

Valuation as at 1 July	31,971,067	28,094,834
Sales during the year	(6,525,385)	-
Change in market value	(7,205,846)	3,876,233
	<hr/>	<hr/>
Valuation as at 30 June	18,239,836	31,971,067
	<hr/> <hr/>	<hr/> <hr/>

KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 UNQUOTED EQUITY INVESTMENTS (continued)

	2018 KShs	2017 KShs
Lonrho EA	108	108
Anglo Africa Property Holdings	1,184,820	11,848,200
	<u>1,184,928</u>	<u>11,848,308</u>

Movements in unquoted equity investments is analysed as follows:

Valuation as at 1 July	11,848,308	1,238,595
Change in market value	(10,663,380)	10,609,713
	<u>1,184,928</u>	<u>11,848,308</u>

17 CORPORATE BONDS

Cost as at 1 July	467,108,328	484,622,296
Purchases during the year	-	19,407,010
Sales during the year	(111,461,794)	(36,920,947)
Provision of Imperial Bank Limited bond	(14,000,000)	(14,000,000)
	<u>341,646,534</u>	<u>453,108,359</u>

18 CALL AND FIXED DEPOSITS

Commercial Bank of Africa	-	62,300,000
Cooperative Bank	26,000,000	28,500,000
Diamond Trust Bank	-	35,000,000
Equity Bank	50,000,000	81,200,000
Imperial Bank	22,441,505	22,441,505
Kenya Commercial Bank	59,000,000	6,000,000
NIC Bank	55,000,000	-
Stanbic	7,500,000	24,500,000
Provision for impairment of Imperial Bank Limited investments	(22,441,505)	(22,441,505)
	<u>197,500,000</u>	<u>237,500,000</u>

The weighted average interest rate as at 30 June 2018 was 8% (2017: 8%).

KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2018 KShs	2017 KShs
<b>19 CASH AND BANK BALANCES</b>		
Standard Chartered Custody balances	1,241,377	4,438,274
Equity Bank balance	5,889,474	6,368,462
Cash at hand	19,204	15,865
	<u>7,150,055</u>	<u>10,822,601</u>
<b>20 OTHER RECEIVABLES</b>		
Due from defined contributions Scheme	11,212,475	17,785,706
Rent receivable	16,245,522	4,336,998
Prepaid insurance	862,803	498,785
Accrued investment income	112,941,400	92,092,374
	<u>141,262,200</u>	<u>114,713,863</u>
<b>21 OTHER PAYABLES AND ACCRUED EXPENSES</b>		
RBA levy (Note 21)	5,000,000	5,000,000
Accrued legal fees	739,500	662,600
VAT and PAYE payable	2,958,160	1,589,202
Management fees	2,875,072	4,335,108
Custody fees	1,595,580	1,527,730
Rent deposit refundable	10,581,321	10,103,981
Audit fees	1,175,834	921,390
Accrued security services	460,000	-
General creditors	-	613,500
Prepaid rent	985,147	27,730
Monthly pension	1,382,605	1,382,605
Actuarial fees payable	435,000	435,000
Returned pension	37,907	37,906
Lump sum benefits payable	10,247,970	5,890,754
Leave days	791,188	-
Service charge account	272,792	(2,120,536)
	<u>39,538,076</u>	<u>30,406,970</u>

KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2018 KShs	2017 KShs
22 RBA LEVY PROVISION		
Net Scheme balance as at 30 June	8,055,111,192	7,643,910,073
Add: RBA provision	5,000,000	5,000,000
	<u>8,060,111,192</u>	<u>7,648,910,073</u>
The levy is computed as follows:		
KShs 500,000,000 @ 0.2 %	1,000,000	1,000,000
KShs 500,000,000 @ 0.15 %	750,000	750,000
KShs 7,060,111,192 (2016:KShs 6,648,910,073) @ 0.1 %	7,060,111	6,648,910
	<u>8,810,111</u>	<u>8,398,910</u>
RBA levy payable for the year (Statutory limit KShs.5,000,000) - Payable by 30 <sup>th</sup> September	<u>5,000,000</u>	<u>5,000,000</u>

KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS (continued)

23 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprises of the following statement of net assets balances:

	2018 KShs	2017 KShs
Cash in hand and at bank (Note 19)	7,150,055	10,822,601
Call and fixed deposits (Note 18)	219,941,505	259,941,505
	<u>227,091,560</u>	<u>270,764,106</u>
Impairment provision on Imperial Bank Limited deposits	(22,441,505)	(22,441,505)
	<u>204,650,055</u>	<u>248,322,601</u>

24 INVESTMENTS MATURITY ANALYSIS

	Up to 3 Months KShs	4-12 Months KShs	1-5 Years KShs	Over 5 years KShs	Total KShs
Government securities	310,611,233	464,889,733	1,056,408,340	1,195,050,528	3,026,959,834
Corporate bonds	-	43,300,000	245,346,534	53,000,000	341,646,534
Call and term deposits	197,500,000	-	-	-	197,500,000
	<u>508,111,233</u>	<u>508,189,733</u>	<u>1,301,754,873</u>	<u>1,248,050,528</u>	<u>3,566,106,368</u>

KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS (continued)

25 CONCENTRATION OF INVESTMENTS

	No. of shares held at 30.06.2018	Value of holding at 30.06.2018	No. of shares held at 30.06.2017	Value of holding at 30.06.2017
<b>(a) UNQUOTED EQUITY INVESTMENTS</b>				
Lonrho Motors Limited	10,755	108	10,755	108
Anglo Africa Property Holdings	592,410	1,848,820	592,410	11,848,200
	<u>603,165</u>	<u>1,848,928</u>	<u>603,165</u>	<u>11,848,308</u>
<b>(b) QUOTED EQUITY INVESTMENTS:</b>				
Athi River Mining Limited	230,285	702,369	230,285	4,720,843
Bamburi Cement Limited	1,002,796	179,500,484	1,002,796	186,520,056
Barclays Bank Limited	2,462,712	28,198,052	2,462,712	24,503,984
British American Investment Limited	273,000	3,985,800	273,000	3,453,450
British American Tobacco Kenya Ltd	15,814	9,488,400	45,814	38,804,458
Centum Investment Company Limited	805,515	29,804,055	805,515	33,428,873
CFC Stanbic Bank Limited	224,000	20,496,000	224,000	15,904,000
Crystal	22,000	134,559	22,000	208,000
I & M Bank	26,000	2,990,000	26,000	2,678,000
Cooperative Bank	8,548,240	149,594,200	6,581,867	111,562,646
Diamond Trust of Kenya	176,485	35,120,515	376,485	60,237,600
East African Breweries Limited	644,700	140,544,600	644,700	166,977,300
Equity Bank	5,704,900	263,851,625	5,009,900	189,123,725
HFCK Company Limited	196,900	1,673,650	179,000	1,870,550
Kenya Commercial Bank Limited	5,078,353	234,873,826	4,828,353	182,270,326
Kenya Power and Lighting Company Limited	6,201,163	42,788,025	6,201,163	49,299,246
Nation Media Group Kenya Limited	235,809	21,222,810	235,809	25,467,372
National Industrial Credit Bank Limited	1,528,332	54,255,786	1,697,311	56,859,919
Safaricom Limited	25,648,300	756,624,850	25,248,300	574,398,825
Scan group Limited	1,062,400	16,520,320	1,062,400	21,513,600
Stanbic Uganda	6,095,000	5,082,194	6,095,000	4,760,734
Standard Chartered Bank Kenya Limited	324,422	64,235,556	376,977	78,411,216
Umeme Limited	1,289,795	10,834,278	1,289,795	16,186,927
Umeme Limited Uganda	280,000	2,188,805	879,200	10,815,404
	<u>68,076,921</u>	<u>2,074,710,759</u>	<u>65,798,382</u>	<u>1,859,977,054</u>

26. TAX

The Registered Scheme is registered under the Income Tax Act and its income is exempt from tax.

27. COMMENCEMENT DATE

The Scheme was established with effect from 1 January 1977.

KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS (continued)

28. CONTINGENT LIABILITIES

Other than the liability to pay benefits, there were no contingent liabilities of the Scheme as at 30 June 2018 and 30 June 2017.

29. FINANCIAL RISK MANAGEMENT

The Scheme generates revenues for the members by investing in various income generating activities, which involve trading in the stock exchange, trading in government securities and offshore investments. These activities expose the Scheme to a variety of financial risks, including credit risk and the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates.

The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the investment managers and the trustees under policies approved by the trustees. Investment managers review the market trends and information available to evaluate the potential exposures. They then arrive at strategies to mitigate against market risks.

The trustees provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquidity.

a) Market risk

(i) Foreign exchange risk

The Scheme invests internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from investment in offshore investments.

The Scheme's currency risk is evaluated as low because the foreign investments are long term and any currency losses are expected to be recouped through dividend income earned and which comprises the value of the Scheme. The Scheme manages foreign exchange risk by limiting offshore investments to the strategic range of 5% of total portfolio.

Since the above do not constitute trading activities, the Scheme does not manage foreign exchange risk arising from future commercial activity but only revalues the assets and liabilities at the prevailing exchange rates at the end of the year.

(ii) Price risk

The Scheme is exposed to equity securities price risk because of investments in quoted shares classified at fair value through the statement of changes in net assets. The Scheme is not exposed to commodity price risk. To manage its price risk arising from investments in equity and debt securities, the Scheme diversifies its portfolio. Diversification of the portfolio is done in accordance with statement of investment policy, which is reviewed every three years. Most quoted shares held by the Scheme are traded on the Nairobi Securities Exchange (NSE).

		2018 KShs'000	2017 KShs'000
Effect on returns from investment	5% appreciation	103,736	92,999
	5% depreciation	(103,736)	(92,999)
Effect on Scheme balance	5% appreciation	103,736	92,999
	5% depreciation	(103,736)	(92,999)

KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENT (continued)

29. FINANCIAL RISK MANAGEMENT (continued)

a) Market risk (Continued)

(iii) Interest rate risk

The Scheme's interest bearing assets are investments in treasury bonds, corporate bonds, treasury bills, commercial papers and fixed deposits, which bear a fixed coupon rate except for some corporate bonds which earn interest at a floating rate.

At 30 June 2018, an increase/decrease of 100 basis points would have resulted in an increase or decrease respectively in net returns on investments of approximately KShs 3,676,458 (2017: KShs 3,005,000).

b) Credit risk

Credit risk arises from cash and cash equivalents, fixed deposits, interest bearing investments, deposits with banks, and receivables. As part of the credit risk management system, the investment manager and the trustees monitor and review information on significant investments. Trustees have approved larger portfolio investments with the Government of Kenya which has a low credit rating and has the lowest default record.

The amount that best represents the Scheme's exposure to credit risk as at 30 June 2018 and 30 June 2017 is made up as follows:

At 30 June 2018	Fully performing KShs	Past due KShs	Impaired KShs	Total KShs
Government securities	3,026,959,898	-	-	3,026,959,898
Corporate bonds	341,646,534	-	14,000,000	355,646,534
Other receivables	141,262,200	-	-	141,262,200
Call and fixed deposits	197,500,000	-	22,441,505	219,941,505
	<u>3,707,368,632</u>	<u>-</u>	<u>36,441,505</u>	<u>3,743,810,137</u>
At 30 June 2017				
Government securities	2,691,007,142	-	-	2,691,007,142
Corporate bonds	453,108,359	-	14,000,000	467,108,359
Other receivables	114,713,863	-	-	114,713,863
Call and fixed deposits	237,500,000	-	22,441,505	259,941,505
	<u>3,496,329,364</u>	<u>-</u>	<u>36,441,505</u>	<u>3,532,770,869</u>



KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENT (continued)

29 FINANCIAL RISK MANAGEMENT (continued)

c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, and the availability of funding from an adequate amount of committed credit facilities.

The table below analyses the Scheme's financial assets and liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

**30 June 2018**

	Up to 3 Months KShs	4-12 Months KShs	1-5 Years KShs	Over 5 years KShs	Total KShs
<b>Financial assets</b>					
Government securities	310,611,297	464,889,733	1,056,408,340	1,195,050,528	3,026,959,898
Corporate bonds	-	43,300,000	245,346,534	53,000,000	341,646,534
Call and term deposits	82,500,000	115,000,000	237,500,000	50,500,000	485,500,000
Bank balance	39,964	-	-	-	39,964
	393,151,261	623,189,733	1,539,254,873	1,298,550,528	3,854,146,395
<b>Financial liabilities</b>					
Other payables	(34,299,973)	-	-	-	(34,406,968)
<b>NET LIQUIDITY GAP</b>	<u>358,851,288</u>	<u>623,189,733</u>	<u>1,539,254,873</u>	<u>1,298,550,528</u>	<u>3,823,739,427</u>

**30 June 2017**

<b>Financial assets</b>					
Government securities	234,972,700	277,956,235	944,344,701	1,233,733,506	2,691,007,142
Corporate bonds	27,000,000	50,500,000	375,608,359	-	453,108,359
Call and term deposits	237,500,000	-	-	-	237,500,000
Bank balance	10,822,601	-	-	-	10,822,601
	510,295,301	328,456,235	1,319,953,060	1,233,733,506	3,392,438,102
<b>Financial liabilities</b>					
Other payables	(30,406,968)	-	-	-	(30,406,968)
<b>NET LIQUIDITY GAP</b>	<u>479,888,333</u>	<u>328,456,235</u>	<u>1,319,953,060</u>	<u>1,233,733,506</u>	<u>3,362,031,134</u>

d) Fair Value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Scheme.

KENYA PIPELINE COMPANY RETIREMENT BENEFITS SCHEME  
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENT (continued)

29 FINANCIAL RISK MANAGEMENT (continued)

d) Fair value of financial assets and liabilities (Continued)

The table below shows an analysis of financial instruments at fair value by level of the fair value hierarchy. The financial instruments are grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices); and
- iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 KShs	Level 2 KShs	Level 3 KShs	Total KShs
<b>30-Jun-18</b>				
<i>Held for trading through profit or loss:</i>				
Local equity investments	2,056,470,923	-	-	2,056,470,923
Regional equity investments	18,239,836	-	-	18,239,836
Unquoted equity investments	-	1,184,928	-	1,184,928
Treasury bonds	-	2,663,384,864	-	2,663,384,864
Corporate bonds	-	341,646,534	-	341,646,534
Call and fixed deposits	-	197,500,000	-	197,500,000
	<u>2,074,710,759</u>	<u>3,203,716,326</u>	<u>-</u>	<u>5,278,427,085</u>

There were no transfers between levels 1, 2 and 3 in the year (2017: none).

	Level 1 KShs	Level 2 KShs	Level 3 KShs	Total KShs
<b>30 June 2017</b>				
<i>Held for trading through profit or loss:</i>				
Local equity investments	1,828,005,987	-	-	1,828,005,987
Regional equity investments	31,971,067	-	-	31,971,067
Unquoted equity investments	-	11,848,308	-	11,848,308
Treasury bonds	-	2,355,006,606	-	2,355,006,606
Corporate bonds	-	453,108,359	-	453,108,359
Call and fixed deposits	-	237,500,000	-	237,500,000
	<u>1,859,977,054</u>	<u>3,057,463,273</u>	<u>-</u>	<u>4,917,440,327</u>

There were no transfers between levels 1, 2 and 3 in the year (2016: none).